

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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| NORTH SHORE GAS COMPANY | : | |
| | : | No. 11-0280 |
| Proposed general increase in rates for gas service. | : | |
| | : | (cons.) |
| THE PEOPLES GAS LIGHT AND COKE COMPANY | : | |
| | : | No. 11-0281 |
| Proposed general increase in rates for gas service. | : | |

Surrebuttal Testimony of

JAMES F. SCHOTT
Vice President – External Affairs,
IntegrYS Energy Group, Inc., North Shore
Gas Company and The Peoples Gas
Light and Coke Company

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Introduction**

3 Q. Please state your name.

4 A. My name is James F. Schott.

5 Q. Are you the same James F. Schott who submitted direct and rebuttal testimony on behalf
6 of each of North Shore Gas Company (“North Shore”) and The Peoples Gas Light and
7 Coke Company (“Peoples Gas”) (together, the “Utilities”) in these consolidated Dockets?

8 A. Yes.

9 Q. On whose behalf are you offering this surrebuttal testimony?

10 A. I am offering this surrebuttal testimony on behalf of the Utilities.

11 **B. Purpose of Testimony**

12 Q. What are the purposes of your surrebuttal testimony?

13 A. The purposes of my surrebuttal testimony are:

- 14 • to identify the other witnesses providing surrebuttal testimony on behalf of the
15 Utilities and to summarize briefly the subjects on which they are testifying; and
16 • to respond to a portion of the rebuttal testimony of Interstate Gas Supply of Illinois,
17 Inc. (“IGS”) relating to the merits of its withdrawn proposal that the Illinois
18 Commerce Commission (the “Commission” or “ICC”) require the Utilities to offer
19 purchase of receivables (“POR”) programs for residential account receivables of
20 certified alternate suppliers.

21 **C. Summary of Conclusions**

22 Q. Please summarize the conclusions of your surrebuttal testimony.

23 A. IGS rightly withdrew its POR programs proposal, but its rebuttal testimony relating to the
24 merits of the proposal is partly one-sided and erroneous.

25 **II. IDENTIFICATION OF OTHER WITNESSES**
26 **PROVIDING SURREBUTTAL TESTIMONY**

27 Q. Please identify the witnesses presenting surrebuttal testimony on behalf of North Shore
28 and Peoples Gas and the main topic or topics that each witness addresses.

29 A. The following witnesses are providing surrebuttal testimony on behalf of North Shore
30 and Peoples Gas:

- 31 • Lisa J. Gast, Manager, Financial Planning and Analysis for Integrys Business
32 Support, LLC (“IBS”) (NS PGL Ex. 35.0), addresses Staff’s rebuttal testimony on
33 North Shore’s and Peoples Gas’ capital structure, the Utilities’ embedded costs of
34 long-term debt, and Staff’s and Governmental and Consumer Intervenors’¹
35 (“GCI”) rebuttal testimony on overall costs of capital for test year 2012 expressed
36 as rates of return on the Utilities’ rate bases.
- 37 • Paul R. Moul, Managing Consultant, P. Moul & Associates (NS PGL Ex. 36.0),
38 responds to Staff's and GCI's rebuttal testimony on the market cost of common
39 equity for North Shore and Peoples Gas for test year 2012.
- 40 • Steven M. Fetter, President, Regulation UnFettered (NS-PGL Ex. 37.0), former
41 Group Head and Managing Director of Fitch, Inc.’s Global Power Group, and
42 former Chair of the Michigan Public Service Commission, responds to the
43 rebuttal testimony of Staff and GCI with respect to the Utilities' capital structure
44 and returns on equity.

¹ Governmental and Consumers Intervenors are comprised of the Illinois Attorney General’s Office, the Citizens Utility Board, and the City of Chicago.

- 45
- Christine M. Gregor, Director, Operations Accounting, North Shore and Peoples Gas (NS-PGL Ex. 38.0), discusses certain adjustments to the Utilities' revenues and operating expenses addressed by Staff and GCI in their respective rebuttal testimony.
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- Sharon Moy, Rate Case Consultant, IBS (NS-PGL Ex. 39.0), responds to certain adjustments to operating income (operating expense) addressed by Staff and GCI rebuttal, and presents the Utilities' revised revenue deficiency (operating income) Schedules.
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- John Hengtgen, Consultant, Stafflogix Corporation (NS-PGL Ex. 40.0), responds to various adjustments Staff and GCI continue to propose to rate base, including gas in storage, materials and supplies, and Cash Working Capital. Mr. Hengtgen also addresses risks associated with the tax accounting changes made by the Utilities.
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- Edward Doerk, Vice President Gas Standardization, North Shore and Peoples Gas (NS-PGL Ex. 41.0), testifies regarding proposed disallowances related to employee headcount. He also addresses the increase in capital expenditures resulting from the extension of incentives (bonus depreciation) as part of the American Recovery and Reinvestment Act of 2009.
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- Phillips M. Hayes, Director, Project Management, IBS (NS-PGL Ex. 42.0), testifies regarding GCI's continued disallowance of the capital expenditures forecast for the Accelerated Main Replacement Program.
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- Noreen E. Cleary, Assistant Vice President, Total Compensation, Integrys Energy Group, Inc. (NS-PGL Ex. 43.0), responds to Staff's and GCI's rebuttal testimony
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68 proposing disallowances in incentive compensation (executive, non-executive,
69 and stock plans). Ms. Cleary also addresses Staff's rebuttal testimony on
70 proposed reduction in the base wage increases.

71 • John P. Stabile, Tax Director, IBS (NS-PGL Ex. 44.0), addresses the risks
72 associated with the tax accounting changes made by the Utilities and deferred tax
73 issues related to Rider ICR.

74 • Valerie H. Grace, Manager, Gas Regulatory Services, IBS (NS-PGL Ex. 45.0),
75 addresses testimony opposing making the decoupling mechanism permanent and
76 Staff testimony on the relative merits of decoupling and straight fixed variable
77 rate design; Staff's proposed changes to the uncollectible expense riders; and
78 intervenor rate design testimony advocating changes to residential rates and to the
79 recovery of transportation administrative costs that are contrary to cost causation
80 principles.

81 • Thomas Connery, Supervisor, Gas Supply Trading, IBS (NS-PGL Ex. 46.0),
82 addresses Staff and intervenor testimony opposing changes to the large volume
83 transportation programs to effectuate unbundling in a way that accommodates the
84 capabilities of assets supporting the services.

85 • John McKendry, Senior Leader, Gas Transportation Services, IBS (NS-PGL
86 Ex. 47.0), addresses Staff and intervenor testimony on costs underlying certain
87 transportation program administrative charges; and intervenor testimony to
88 implement "super pooling" for the large volume transportation program.

89 • Kevin R. Kuse, Senior Load Forecaster, IBS (NS-PGL Ex. 48.0), addresses Staff's
90 rebuttal testimony regarding the impact that small residential customers moving

91 from non-heating to heating may have on the average use-per-customer of the
92 heating group.

93 **III. RESPONSE TO IGS' REBUTTAL**
94 **REGARDING PURCHASE OF RECEIVABLES**

95 Q. Has IGS in its rebuttal withdrawn its proposal that the Commission require the Utilities to
96 offer purchase of receivables ("POR") programs for residential account receivables of
97 certified alternate suppliers?

98 A. Yes, except I should add that IGS's rebuttal indicates that its direct testimony was not
99 intended to recommend that the Utilities should be required to offer POR programs for
100 residential account receivables of certified alternate suppliers if the Utilities did not
101 support such a program. (IGS Ex. 2.0, 2:25-36)

102 Q. The IGS rebuttal contains certain remarks about the grounds on which the Commission
103 rejected the Retail Gas Suppliers' ("RGS") POR proposal in the Order in the Utilities'
104 2007 rate case, and claims that reference to that Order is not appropriate here. (IGS
105 Ex. 2.0, 5:133 – 6:143, 7:156-162) Do you agree?

106 A. No. As I stated in my rebuttal, the Commission's Conclusion (on pp. 306-307) in the
107 2007 rate cases Order provides a thorough analysis of the Commission's multiple
108 grounds for rejecting the RGS proposal. The IGS rebuttal references and quotes only a
109 portion of that discussion. The applicability of the Commission's reasoning in that Order
110 to the current Dockets may be addressed further by the Utilities in briefing.

111 Q. The IGS rebuttal states in part that your rebuttal testimony implied "that the Companies
112 have an exclusive right to a customer relationship, to the exclusion of the ARGS

113 community". (IGS Ex. 2.0, 7:175) Does your rebuttal testimony contain any such
114 statement or implication?

115 A. No. Among other points, I discussed that the relationships of the Utilities with their
116 customers could be damaged by the IGS proposal that the Utilities disconnect customers
117 who are not in arrears on amounts owed to the Utilities. That point does not mean or
118 imply that alternate gas suppliers do not also have relationships with their customers.

119 Q. Are you responding to the remainder of IGS' rebuttal on the subject of POR?

120 A. No. As noted above, IGS has withdrawn their POR proposal. The Utilities had both cost
121 and "non-cost" reasons for opposing IGS' proposal (*see* Peoples Gas' response to IGS
122 data request 3.11, referencing my rebuttal and that of Mr. McKendry), but to address
123 them further does not seem productive, particularly in light of the additional points raised
124 on this subject by the rebuttal of Staff witness Dr. Rearden (Staff Ex. 19.0).

125 Q. Does this conclude your surrebuttal testimony?

126 A. Yes.