STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 12-____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of

SHARON MOY

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Integrys Business Support, LLC

On Behalf of
North Shore Gas Company

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I. INTRODUCTION AND BACKGROUND

A. Witness Introduction

Q. Please state your name and business address.

A. My name is Sharon Moy. My business address is Integrys Business Support, LLC ("IBS"), 130 East Randolph Street, Chicago, Illinois 60601.

Q. By whom are you employed and in what capacity?

A. I am employed by IBS. My present position is Rate Case Consultant in the Regulatory Affairs Division of IBS.

B. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support certain components of North Shore Gas Company's ("North Shore") request for a general increase in rates. The components that I will be addressing are as follows: the test year, the revenue requirement, operating income and expenses, the adjustments to operating income and expenses, and the Gross Revenue Conversion Factor. Other witnesses testifying on behalf of North Shore also support those components in various respects.

Q. How is your testimony organized?

A. My testimony is divided into the following areas:

(1) North Shore's selection of calendar year 2013 (January 1, 2013, through and including December 31, 2013) as a "future" test year, with certain appropriate adjustments for purposes of ratemaking in this proceeding;

(2) the appropriate amount of North Shore's revenue requirement, reflecting adjustments;

(3) North Shore's operating income and expenses for purposes of the revenue requirement; including the adjustments; and

(4) North Shore's Gross Revenue Conversion Factor ("GRCF"), which is the factor by which North Shore's cost increases must be "grossed up" by its provision for uncollectible accounts (its uncollectibles factor) and income taxes in order to convert to a revenue basis.

C. <u>Summary of Conclusions</u>

Q. Please summarize the conclusions of your direct testimony.

A. In brief, the conclusions of my direct testimony are as follows:

(1) North Shore's selection of calendar year 2013, as adjusted, as a "future" test year, is consistent with the Illinois Commerce Commission's (the "Commission" or "ICC") rules governing a future test year and reasonable.

(2) North Shore's proposed and appropriate revenue requirement, excluding various items recovered through charges under Rider 2-Gas Charge, Rider 11-Adjustment for Incremental Costs of Environmental Activities, Rider EOA-Energy Efficiency and On-Bill Financing Program, Rider UEA-Uncollectible Expense Adjustment, Rider VBA-Volume Balancing Adjustment, and Rider FCA-Franchise Cost Adjustment, and after reflecting other adjustments, is $87,455,000. Based on the information provided in the testimony of other North Shore witnesses and herein, the proposed revenue requirement is just and reasonable, and is the amount required for North Shore to provide safe, adequate, and reliable gas service to its

customers. Based on the foregoing, North Shore requires additional base rate ($9,711,000) and other revenues ($40,000) (over revenues forecasted under present rates) of $9,751,000. In other words, that is North Shore's cost recovery shortfall under current rates for the test year.

(3) North Shore's proposed and appropriate operating income, with certain appropriate adjustments, after reflecting income taxes, is $16,262,000.

(4) North Shore's properly and correctly calculated Gross Revenue Conversion Factor is 1.714671.

Q. What do you mean by the term "'future' test year"?

A. I use the term "'future' test year" in accordance with my understanding of that term, as a non-lawyer, as it is defined in Section 287.20 of Part 287 of the Commission's rules ("Part 287"), 83 Illinois Administrative ("Ill. Admin.") Code § 287.20.

D. <u>Itemized Attachments to Direct Testimony</u>

Q. Are you sponsoring any attachments to your direct testimony?

A. Yes. I am the sponsor of North Shore Exhibit ("NS Ex.") 6.1, which include copies of the following Schedules that have been filed by North Shore pursuant to Part 285 of the Commission's rules (83 Ill. Admin. Code Part 285), A-1, A-2, A-2.1, A-4, C-1, C-2, C-2.1, C-2.2, C-2.3, C-2.4, C-2.5, C-2.6, C-2.7, C-2.8, C-2.9, C-2.10, C-2.11, C-2.12, C-2.13, C-2.14, C-2.15, C-7 and C-10.

E. <u>Background and Experience</u>

Q. What are your responsibilities in your present position?

A. My responsibilities include managing and coordinating the preparation and review of testimonies and exhibits pertaining to rate case filings for The Peoples Gas Light and Coke Company ("Peoples Gas") and its sister utility North Shore pursuant to provisions of Parts 285, 286, and 287 of the Commission's rules (83 Ill. Admin. Code Parts 285, 286, and 287). In addition, I prepare and analyze the jurisdictional revenue requirement financial models for North Shore and Peoples Gas. I also oversee certain regulatory accounting and reporting requirements for environmental activities for both North Shore and Peoples Gas.

Q. Please outline your educational background and business experience.

A. In 1996, I received a Bachelor of Science degree, majoring in Accounting, from the University of Illinois at Urbana-Champaign. In 1997, I passed the Certified Public Accountant examination in the State of Illinois. In 2001, I received a Masters of Business Administration, with Distinction, from Keller Graduate School of Management. After graduating from the University of Illinois in 1996, I began my career with Peoples Gas in the General Accounting Department. In 1997, I transferred to Peoples Gas' State Regulatory Affairs Department and worked as a regulatory accountant through 2006. In 2007, Peoples Energy Corporation (now Peoples Energy, LLC), which is the parent company of North Shore and Peoples Gas, became a wholly-owned subsidiary of Integrys Energy Group, Inc. ("Integrys"). As a result of the merger and the subsequent ICC-approved formation of IBS, a wholly-owned subsidiary of Integrys, my title was changed to Rate Case Consultant in the Regulatory Affairs Division of IBS.

II. <u>TEST YEAR</u>

Q. What test year does North Shore propose in this proceeding?

A. North Shore proposes calendar year 2013, as its future test year, with appropriate adjustments.

Q. Is calendar year 2013, subject to applicable adjustments, an appropriate test year?

A. Yes. The twelve month period ending December 31, 2013, corresponds with North Shore's year for financial accounting and income tax purposes (its fiscal year). Calendar year 2013 is a "consecutive 12 month period of forecasted data beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed" consistent with 83 Ill. Admin. Code § 287.20(b). North Shore witness Christine Gregor (NS Ex. 5.0) sponsors exhibits that include a statement of operating income for the forecasted future test year and supporting detail. Later in my testimony, I will discuss ratemaking adjustments applicable to the forecasted future test year in calculating North Shore's operating income and expenses for the test year, as adjusted.

III. <u>REVENUE REQUIREMENT</u>

Q. What is North Shore's proposed revenue requirement?

A. North Shore's proposed revenue requirement, after reflecting certain adjustments as well as excluding various items recovered through charges under Rider 2, Rider 11, Rider EOA, Rider UEA, Rider VBA and Rider FCA, is $87,455,000. This amount is the sum of North Shore's proposed net operating income requirement of $16,262,000 plus its proposed operating expenses of $71,193,000, as shown on Schedule C-1 of NS Ex. 6.1 (column G, line 33 plus line 34).

Q. Do you have an opinion as to whether the proposed revenue requirement that North Shore seeks to recover through the base rates to be established in this proceeding is just and reasonable?

A. Yes, I do. The proposed revenue requirement sought to be recovered through base rates to be established in this proceeding is just and reasonable based on the information provided by the other witnesses testifying on behalf of North Shore and herein.

Q. What is the revenue deficiency under existing rates?

A. The current rates result in an estimated revenue deficiency (cost recovery shortfall) of $9,751,000.

Q. What are the factors driving the cost recovery shortfall?

A. North Shore witness James Schott's testimony (NS Ex. 1.0) provides a high level overview of the factors driving North Shore's cost recovery shortfall. In addition to my testimony, other witnesses testifying on behalf of North Shore also support components of its proposed rate base and its revenue requirement. North Shore witness Christine Gregor (NS Ex. 5.0) also addresses certain variances and items not reflected in the forecast under present rates. Such items will be updated in the revenue requirement at rebuttal during the rate case proceeding. I sponsor Schedule A-4 in NS Ex. 6.1, which sets forth comparative data between North Shore's current filing for rate relief and its previous rate Order, in ICC Docket Nos. 11-0280/11-0281 Consolidated, dated January 10, 2012 ("*2011 Rate Cases*").

Q. How was the amount of North Shore's revenue deficiency (cost under-recovery) determined?

A. Appropriate amounts for rate base, operating income and expenses, and overall rate of return on rate base for the test year were determined. Each of these calculations is explained or reflected in my testimony. North Shore witnesses Lisa Gast, Paul Moul, Christine Gregor, John Hengtgen, Kyle Hoops, Noreen Cleary, John Stabile, and Christine Phillips (NS Exs. 2.0, 3.0, 5.0, 7.0, 8.0, 9.0, 10.0, and 11.0, respectively) provide more detailed explanations of the various rate base, major projects, operating income, and rate of return components.

The overall rate of return is applied to rate base to arrive at North Shore's proposed operating income requirement for the test year. The difference between North Shore's proposed operating income requirement for the test year and its forecasted operating income under present rates, as adjusted, yields the operating income deficiency for the test year. The operating income deficiency is "grossed-up" for the effect of income taxes and the uncollectibles factor. This is accomplished by multiplying the operating income deficiency by the Gross Revenue Conversion Factor. That product results in North Shore's revenue deficiency.

These calculations are shown in Schedule A-2 of NS Ex. 6.1.

Q. What rate base is reflected in North Shore's revenue requirement?

A. North Shore's "year end" rate base[1] of $212,580,000 at December 31, 2013, as adjusted, is reflected in the calculation of the revenue requirement supporting the rates filed in this

[1] "Year end" rate base is based on the amount as of December 31, 2013, with exceptions for certain items that are calculated based on 13-month averages consistent with past Commission decisions, as discussed primarily in the testimony of Mr. Hengtgen and also that of Mr. Schott.

case. Mr. Hengtgen discusses the details of rate base in his testimony. Mr. Hoops and Mr. Stabile also support key components of the rate base in their testimony.

Q. What overall rate of return on rate base is reflected in North Shore's revenue requirement?

A. The overall rate of return on rate base allowed in this case should be North Shore's overall cost of capital (its overall weighted average cost of capital) based on its proposed capital structure.

North Shore's projected overall cost of capital for calendar year 2013 is shown in Schedule D-1 of NS Ex. 2.1, sponsored by Ms. Gast. Ms. Gast's testimony (NS Ex. 2.0) supports the capital structure, the embedded cost of long term debt ("ECLTD") and the embedded cost of short-term debt ("ECSTD") incorporated in the calculation of its overall cost of capital. Mr. Moul's testimony (NS Ex. 3.0) supports the rate of return on common equity ("ROE").

North Shore's overall cost of capital and thus its required rate of return on rate base is 7.65%, which is 22 basis points more than the current approved rate of return of 7.43% that was approved by the Commission in the *2011 Rate Cases*. The cost of capital and rate of return on rate base used in current calculations incorporates an ECLTD of 4.95% versus the ECLTD of 5.51% approved in the *2011 Rate Cases*. Incorporated is a ECSTD of 2.00% versus the ECSTD of 4.04% approved in the *2011 Rate Cases*. Details supporting the ECLTD and ECSTD are shown in Schedule D-2 and Schedule D-3 of NS Ex. 2.1, also sponsored by Ms. Gast. North Shore's cost of common equity (rate of return on common equity) used for purposes of calculations in this proceeding is 10.75% as recommended by Mr. Moul in NS Ex. 3.0. This cost of common equity compares to

the rate of return on common equity of 9.45% that was approved by the Commission in the *2011 Rate Cases* (the Commission approved 9.55% but then subtracted 10 basis points based on North Shore's uncollectible expense adjustment rider).

The overall cost of capital of 7.65% is based on a *pro-forma* capital structure for the test year consisting of 42.22% long-term debt, 7.47% short-term debt and 50.31% common equity, as shown in Schedule D-1 of NS Ex. 2.1, sponsored by Ms. Gast.

IV. OPERATING INCOME AND EXPENSES

A. Overall Operating Income Requirement

Q. What is North Shore's operating income requirement for the test year in order to recover its costs of capital?

A. NS Ex. 6.1, Schedule C-1, presents North Shore's Jurisdictional Operating Income Summary for Test Year Ending December 31, 2013, as adjusted. Schedule C-1 shows that North Shore's operating income requirement is $16,262,000 in order to recover its costs of capital (line 34, column G). The proposed operating income requirement and the underlying calculations in Schedule C-1 represent a reasonable assessment, developed using established Illinois ratemaking methodology, of the levels of expenses and revenues properly attributable to North Shore's applicable operations during the test year. This exhibit indicates that North Shore requires additional base rate revenues of $9,711,000 (line 1, column F) and additional other revenues of $40,000 (line 11, column F), in order to recover its operating expenses and earn a rate of return of 7.65% on its original cost rate base of $212,580,000, i.e., in order to recover its costs of service for the applicable services.

Q. Please explain Schedule C-1 of NS Ex. 6.1 in more detail.

A. North Shore's forecasted operating results under present rates for the test year are shown in column C of Schedule C-1. Under present rates, North Shore's forecasted operating income is $10,813,000 as shown on line 34 (column C)[2]. (Under present rates, reflecting ratemaking adjustments, North Shore's forecasted operating income is $10,575,000, as shown in Schedule C-1, line 34, column E, and also in Schedule A-2, line 3, column C, in NS Ex. 6.1.)

Column D shows the operating expense and operating income effects of the ratemaking adjustments North Shore is proposing in this proceeding. The amounts shown in column D were taken from Schedule C-2, Ratemaking Adjustments to Operating Income, Test Year Ending December 31, 2013, in NS Ex. 6.1, which I will discuss later in my testimony.

Column E is the arithmetic total of the amounts shown in columns C and D. Based on the operating income shown in column E, North Shore's overall rate of return at present rates for the test year is 4.97% on its adjusted original cost rate base which is also in Schedule A-2, line 5, column C in NS Ex. 6.1.

Column F sets forth the effects of the additional annual revenues (cost recovery) required in order for North Shore to recover its applicable costs of service. The additional revenues that would be generated under the rates filed in this case total $9,751,000, as shown on line 11 of column F. The filed rates would, after deducting the related income taxes and the provision for uncollectible accounts (which deduction is the same calculation as reversing the application of the Gross Revenue Conversion Factor), add $5,687,000 to operating income (line 34, column F).

[2] Column C of Schedule C-1 ties to Test Year Column C of Schedule C-4 Comparative Operating Income Statements for Prior Years and the Test Year.

Column G is a *pro forma* statement of North Shore's estimated operating income requirement, as adjusted for the test year under the proposed rates.

As shown in column G, the proposed rates would produce Operating Revenues of $87,455,000 (line 11), and operating income of $16,262,000 (line 34). The result would be a rate of return of 7.65% on North Shore's adjusted original cost rate base as of December 31, 2013, as adjusted. This return is equivalent to North Shore's overall cost of capital for calendar year 2013 as shown in Schedule D-1 of NS Ex. 2.1.

B. <u>Adjustments to Operating Income and Expenses</u>

Q. Please describe North Shore's ratemaking adjustments to operating income and expenses.

A. NS Ex. 6.1, Schedule C-2, summarizes North Shore's proposed ratemaking adjustments to operating income and expenses for the test year. Columns C through J indicate (1) the description of each adjustment, (2) how each adjustment affects the various categories of operating revenues and expenses, and (3) the effect of each adjustment on North Shore's operating income and expenses. Column K contains the arithmetic subtotals or total of the figures shown in columns C through J. Page 3, Column K of Schedule C-2 shows the total of all adjustments which corresponds to the information shown in column D of Schedule C-1.

Q. Are the adjustments summarized on Schedule C-2 appropriate and correct?

A. Yes. All of the adjustments shown on Schedule C-2 are both appropriate and correct. These items adjust the calendar year 2013 forecast in order to provide data for the test year that is appropriate for setting rates that will be in effect in 2013. Details of the

specific adjustments to Operating Income and Expenses are shown on Schedules C-2.1 through C-2.15 of NS Ex. 6.1.

Q. Please explain each of the adjustments.

A. The adjustment shown on Schedule C-2.1 is necessary to remove the non-base rate revenues and costs recovered under Rider 2 and Rider 11 from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $112,226,000, by reducing Cost of Gas by $109,947,000 and general Operations & Maintenance ("O&M") expenses by $2,716,000. This adjustment, after reflecting income taxes, decreases test year operating income by $8,000.

The adjustment shown on Schedule C-2.2 is necessary to remove non-base rate Rider EOA from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $3,800,000 and general O&M expenses by $3,800,000. This adjustment has no net effect on test year operating income.

The adjustment shown on Schedule C-2.3 is necessary to remove all non-base rate Uncollectible Expense Adjustment activity from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $433,000 and decreases general O&M expenses by $779,000. This adjustment, after reflecting income taxes, increases test year operating income by $203,000.

The adjustment shown on Schedule C-2.4 is necessary to remove non-base rate Rider VBA–Volume Balancing Adjustment Charges from the calculation of the revenue requirement. This adjustment increases Operating Revenues by $4,000 and, after reflecting income tax effects, increases test year operating income by $3,000.

The adjustment shown on Schedule C-2.5 is necessary to (a) remove non-base rate Rider FCA charges recovered in 2013 for 2012 activity and (b) remove 2013 costs in Account 927-Franchise Requirements from the calculation of the revenue requirement. This adjustment decreases Operating Revenues by $1,010,000 and decreases general O&M expenses by $775,000 and, after reflecting income tax effects, decreases test year operating income by $138,000.

The adjustment shown on Schedule C-2.6 amortizes the projected rate case expense of $2,269,000 to be incurred in this proceeding over two years for ratemaking purposes. North Shore, in order to seek to narrow the issues in this proceeding, has foregone a related rate base adjustment that would recover carrying costs for rate case expenses. A two-year amortization period was chosen based on what North Shore has experienced between its past rate cases and also is consistent with requirements of the Public Utilities Act relating to the timing of this and the next two general rate case filings for North Shore. This adjustment increases general O&M expense by $1,135,000 and, after reflecting income tax effects, decreases test year operating income by $668,000. The Commission has traditionally approved the amortization of rate case expenses as just and reasonable expenses for ratemaking purposes in numerous rate cases.

The adjustment shown on Schedule C-2.7 is necessary to amortize the rate case expenses of $115,000 incurred related to rehearing and appeal proceeding in ICC Docket Nos. 09-0166/09-0167 (Cons.) over a two-year amortization period as identified in the final Order issued by the Commission in the *2011 Rate Cases* as “appropriate” and “a common part of litigation of a general rate case” (pages 85-86). This adjustment

increases general O&M expenses by $58,000 and, after reflecting income taxes, decreases test year operating income by $34,000.

The adjustment shown on Schedule C-2.8 is necessary to amortize the rate case expenses of $9,000 incurred related to rehearing and appeal proceedings in the *2011 Rate Cases* over a two-year amortization period. This is similar to the treatment of the costs of prior rate case rehearing and appeal proceedings in ICC Docket Nos. 09-0166/0167 (Cons.). This adjustment increases general O&M expenses by $5,000 and, after reflecting income taxes, decreases test year operating income by $3,000.

The adjustment shown on Schedule C-2.9 is necessary in order to recognize, for ratemaking purposes, the amount of test year interest expense on customer deposits, thereby achieving consistency with North Shore's proposal to deduct the year-end balance of customer deposits from its original cost rate base for the test year. This adjustment increases general O&M expenses by $13,000 and, after reflecting income tax effects, decreases test year operating income by $8,000.

The adjustment shown on Schedule C-2.10 is necessary in order to recognize, for ratemaking purposes, the amount of test year interest expense on Budget Plan Balances, thereby achieving consistency with North Shore's proposal to include the 13-month average of net Budget Plan Balances in its original cost rate base for the test year. This adjustment increases general O&M expenses by $13,000 and, after reflecting income tax effects, decreases test year operating income by $8,000.

The adjustment shown on Schedule C-2.11 is necessary to recognize North Shore's charitable donations, which are recorded below-the-line in the cost of service, for accounting purposes in accordance with Commission requirements. Although the

Commission changed the Uniform System of Accounts in 2003 to require that donations be recorded below-the-line in Account 426.1-Donations rather than above-the-line in Account 930.2-Miscellaneous General Expenses, it is North Shore's understanding that this accounting change was not intended to change the treatment of donations for ratemaking purposes, consistent with rate case Orders since 2003. This adjustment increases general O&M Expenses by $125,000 and, after reflecting income tax effects, decreases test year operating income by $73,000. In accordance with Section 9-227 of the Public Utilities Act, North Shore provides charitable contributions to organizations whose objectives are "for the public welfare or for charitable scientific, religious or educational purposes" that serve and ensure the well-being and stability of the communities within its service territory and the customers that reside in those communities. The contributions help organizations work on specific objectives while providing stability to communities in need within North Shore's service territory. The Commission has traditionally allowed recovery of charitable donations in North Shore's rate case proceedings. Please note that the Schedule C-7 attached in NS Ex. 6.1 has a new "extra" column called "Benefits of Contribution" that is not required by Part 285 and that North Shore has added for the first time in this filing. That extra column provides additional information on the benefits of the charitable contributions.

The adjustment shown on Schedule C-2.12 is necessary to adjust the remaining unamortized 2009 and 2011 rate case expenses through the compliance filing phase approved over two-year amortization period to avoid over-recovery in rates effective 2013. This adjustment decreases general O&M expenses by $577,000 and after reflecting income taxes, increases test year operating income by $339,000.

The adjustment shown on Schedule C-2.13 is necessary in order to eliminate the forecasted income tax effects related to items which are not included in revenue requirement for ratemaking purposes. Interest expense items on customer refunds, line of credit fee, customer deposits, and budget accounts are below-the-line expense items for ratemaking purposes, which are not reflected in operating income; thus, it is appropriate to remove the associated income tax effects from net operating income. This adjustment increases income taxes and decreases test year operating income by $17,000.

The adjustment shown on Schedule C-2.14 is necessary in order to recognize the additional Illinois invested capital tax which North Shore will incur due to the proposed increase in operating income. An increase to operating income correspondingly results in an increase to North Shore's retained earnings and thus to its total capitalization, which is the variant factor in the invested capital tax calculation. This adjustment increases taxes other than income taxes by $45,000 and, after reflecting income taxes effects, decreases test year operating income by $27,000.

The adjustment shown on Schedule C-2.15 is necessary to increase North Shore's income taxes to reflect the synchronized levels of short term and long-term debt interest costs associated with test year original cost rate base. This adjustment decreases income taxes and increases test year operating income by $201,000.

C. <u>Section 9-229 of the Public Utilities Act</u>

Q. You discussed the adjustment for rate case expenses of this case. Section 9-229 of the Public Utilities Act requires the Commission to expressly address in its final Order the justness and reasonableness of amounts expended by a public utility to compensate attorneys and technical experts to prepare and litigate a general rate

case filing. What is North Shore's approach to incurring expenses for outside legal and technical experts in this general rate case filing to ensure that they are "just and reasonable"?

A. North Shore, in planning and budgeting for the preparation and prosecution of this rate case filing, sought to incur only prudent and reasonable rate case expenses and has taken several factors into consideration in determining that this standard has been met. Factors considered by North Shore include: (1) efficiencies resulting from the simultaneous preparation and anticipated consolidation of Peoples Gas' and North Shore's rate case filings; (2) selection of outside counsel and expert resources with extensive experience both in Illinois rate case and related proceedings generally and with North Shore specifically, (3) negotiations on appropriate estimated hours of work that will be reasonable for the scope of and matters reasonably expected to be involved in this rate case, as well as hourly rates that are just and reasonable in light of the market rates for experienced counsel and technical experts in Chicago generally and for practice before the Commission in Chicago specifically; (4) cost effective use of IBS to provide rate case support services; and (5) extensive procedures involved in prosecuting a rate case after filing which include: the discovery process, analysis of Staff and intervenor direct and rebuttal testimony, assistance with preparation of North Shore's rebuttal and surrebuttal testimonies, evidentiary hearing, post-hearing briefs and reply briefs, analysis of the Administrative Law Judges' Proposed Order, briefs and reply briefs on exception, preparation and participation in oral argument, analysis of the final Commission Order, and preparation of a compliance filing. Moreover, the rate case expense adjustment does

not include any estimated amount related to rehearing and appeals processes for this rate case, even though those are appropriate and common processes.

The amounts on North Shore's Part 285 Schedule C-10 of NS Ex. 6.2 reflect prudent, just and reasonable budgets for the work of the outside consultants, the outside legal counsel, and applicable IBS personnel on the preparation and prosecution of this rate case.

Q. Are there any other measures North Shore has taken and/or expects to take with respect to the costs for outside legal counsel and technical experts to ensure that they are just and reasonable?

A. Yes. North Shore negotiated agreements with its outside legal counsel that their bills would not exceed the estimated amounts budgeted for their work. Further, as is done for all invoices submitted to it by its outside legal counsel and consultants, North Shore will review the invoices submitted to it for this rate case by its outside legal counsel and consultants to ensure that they contain adequate descriptions of the work performed, no unreasonable amounts of time have been billed for particular tasks, and there has not been inappropriate redundancy whereby multiple counsel or consultants have unnecessarily billed time for performing the same task on the same project. With respect to amounts charged by IBS employees for work specifically done on this rate case, North Shore has been working to develop a means for better documentation of this work. Also, North Shore has and will continue to review this documentation to ensure that there has not and will not be any "double-counting" of expenses for rate case work performed by IBS personnel. Similarly, North Shore is seeking to have its outside consultants also submit more detailed invoices.

Q. Are you aware of the proceeding presently pending before the Commission to develop rules governing the review and approval of rate case expenses?

A. Yes. It is my understanding that ICC Docket No. 11-0711 is presently pending before the Commission for the purpose of developing rules to govern the review and approval of rate case expenses, including for purposes of ensuring compliance with Section 9-229 of the Public Utilities Act. At the time of filing this testimony, ICC Docket No. 11-0711 is still pending and it is unknown when it will be completed and when such rules will be approved and become effective. Accordingly, for purposes of this rate case filing, North Shore will comply with all rules currently in effect and directions by the Commission provided in its previous Orders concerning rate case expenses and the standard set forth in Section 9-229 of the Public Utilities Act. If any new rules concerning rate case expenses become effective during the pendency of this rate case proceeding, North Shore will comply with those rules, if any, as applicable.

V. <u>GROSS REVENUE CONVERSION FACTOR</u>

Q. What is the proposed Gross Revenue Conversion Factor for the test year?

A. Schedule A-2.1 of NS Ex. 6.1 sets forth the proper and correct calculations necessary to produce this factor. North Shore's GRCF is 1.714671, as shown on line 9 of Schedule A-2.1. As is reflected on the Schedule, the factors that influence the GRCF are the uncollectibles rate and federal and state income taxes.

Q. In the *2011 Rate Cases*, North Shore was ordered to use the net write-off method for uncollectible expense which affects the uncollectibles rate portion of the GRCF calculation. What is North Shore's proposed uncollectibles rate used in the GRCF for this filing?

A. North Shore proposes an uncollectibles rate of .8581%. This consists of total bad debt expense at .7% of revenues plus net write–off adjustment based on average of the actual write-offs for calendar years 2009-2011. North Shore witness Christine Gregor provides further explanation on the proposed rate and impact to uncollectible expense in her testimony.

Q. Does this conclude your direct testimony?

A. Yes.