

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	No. 12-0511
	:	and
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	No. 12-0512
	:	Consol.
	:	
Proposed General Increase In Rates For Gas Service.	:	

Rebuttal Testimony of

CHRISTINE M. GREGOR

Director,
Operations Accounting PGL/NSG
Integrys Business Support, LLC

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

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND BACKGROUND	1
A. Identification of Witness	1
B. Purpose of Rebuttal Testimony	1
C. Summary of Conclusions	1
D. Itemized Attachments to Rebuttal Testimony	2
II. RESPONSES TO STAFF AND GCI DIRECT TESTIMONY	2
A. Proposed Adjustments of Staff Witness Ms. Pearce	2
B. Proposed Adjustments of AG Witness Mr. Brosch	4

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 **Q. Please state your name and business address.**

4 A. My name is Christine M. Gregor. My business address is 130 E. Randolph Street,
5 Chicago, Illinois 60601.

6 **Q. Are you the same Christine M. Gregor who submitted direct testimony and**
7 **supplemental direct testimony on behalf of The Peoples Gas Light and Coke**
8 **Company (“Peoples Gas”) and North Shore Gas Company (“North Shore”)**
9 **(together, “the Utilities”) in these consolidated dockets?**

10 A. Yes.

11 **B. Purpose of Rebuttal Testimony**

12 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

13 A. The purpose of my rebuttal testimony is to discuss certain adjustments to the Utilities’
14 operating expenses proposed by Illinois Commerce Commission (the “Commission”)
15 Staff (“Staff”) and the Illinois Attorney General’s Office (“AG”) in their respective direct
16 testimony. Specifically, I will discuss certain adjustments proposed by Staff witness
17 Bonita Pearce and AG witness Michael Brosch.

18 **C. Summary of Conclusions**

19 **Q. Please summarize the conclusions of your rebuttal testimony.**

20 A. As detailed below, certain adjustments recommended by Staff witness Ms. Pearce and
21 AG witness Mr. Brosch are not appropriate. Specifically:

- 22 • Ms. Pearce’s proposed adjustments to Integrys Business Support (“IBS”) costs are
23 inappropriate;
- 24 • Mr. Brosch’s proposed adjustments to IBS costs are inappropriate; and
- 25 • Mr. Brosch’s proposed adjustments for productivity gains are inappropriate.

26 **D. Itemized Attachments to Rebuttal Testimony**

27 **Q. Are there any attachments to your rebuttal testimony?**

28 A. Yes, I am attaching and sponsoring the following exhibits:

- 29 • NS-PGL Exhibit (“Ex.”) 25.1P – IBS Billed Costs
- 30 • NS-PGL Ex. 25.2P – Peoples Gas Injuries and Damages
- 31 • NS-PGL Ex. 25.3N - Responses to AG 12.01-12.09
- 32 • NS-PGL Ex. 25.3P – Responses to AG 12.12-12-20
- 33 • NS-PGL Ex. 25.4 – AB2 Consulting Costs
- 34 • NS-PGL Ex. 25.5 – A59 Software Maintenance Costs
- 35 • NS-PGL Ex. 25.6N – North Shore Productivity Adjustment
- 36 • NS-PGL Ex. 25.6P – Peoples Gas Productivity Adjustment

37 **II. RESPONSES TO STAFF AND GCI DIRECT TESTIMONY**

38 A. **Proposed Adjustments of Staff Witness Ms. Pearce**

39 **Q. Did you review the testimony of Staff witness Ms. Pearce (Staff Ex. 4.0)?**

40 A. Yes.

41 **Q. What aspects of Ms. Pearce’s testimony will you be addressing?**

42 A. I will be addressing Ms. Pearce’s proposed adjustments to IBS costs.

43 **Q. Please describe Ms. Pearce's proposed adjustments to IBS costs.**

44 A. Ms. Pearce proposes to disallow what she says are unsupported increases in the IBS costs
45 charged to Peoples Gas. (See Staff Ex. 4.0, Schedule 4.02P)

46 **Q. Do you agree with Ms. Pearce's proposed adjustments to IBS costs?**

47 A. No, I do not agree with Ms. Pearce's proposed adjustments. I do agree that the increases
48 were not clearly explained in narrative testimony. In addition, some of the data request
49 responses asked for explanations at the resource type level as opposed to the account
50 level and at the resource type level, it was harder to identify the specific increases in the
51 IBS costs. However, the increases are legitimate. The \$8,123,000 that Ms. Pearce is
52 proposing to disallow consists mainly of increases in benefit costs and injuries and
53 damages expenses. The increase in benefit costs for 2013 over the four-year average is
54 \$5,353,000. It is made up of \$3,924,000 of increased active medical benefit costs,
55 \$673,000 of increased Employee Stock Ownership Plan ("ESOP") costs, \$145,000 of
56 increased IBS benefits billed and the remaining increase is made up of multiple accounts,
57 which are shown on NS-PGL Ex. 25.1P. See NS-PGL Ex 25.1P for support for the
58 numbers. See Ms. Phillips direct and rebuttal testimony (NS-PGL Ex 11.0 and NS-PGL
59 Ex 31.0) for detail on why the benefit costs are increasing. The increase in injuries and
60 damages of \$3,018,000 is due to two reasons. First, in 2008 the injuries and damages
61 costs were not managed by IBS and therefore were not included in the four-year average
62 of intercompany charges from IBS. As a result the four-year average is understated.
63 Second, even though the injuries and damages costs are now managed by IBS, some of
64 these costs have been paid by Peoples Gas directly and therefore those costs would not
65 show up in the four-year average of IBS intercompany bills. However, the 2013 test year

66 amount assumes IBS pays for all the bills. A comparison of the total injuries and
67 damages costs from 2008-2013 shows that the costs are in line and should not be
68 adjusted. *See* NS-PGL Ex. 25.1P and NS-PGL Ex. 25.2P for detailed analyses.

69 **Q. Setting aside its merits, is Ms. Pearce's adjustments to IBS costs correctly**
70 **calculated?**

71 A. No. Her 5-year average includes an annualized 2012 number which includes 9 months of
72 actual data. However, the last three months of the year, based on 2008-2011 actuals are
73 months with relatively large amounts of IBS services rendered. By not including an
74 average of historical October through December numbers and, instead, annualizing 2012
75 data, her average of 2008-2012 is understated and as a result her adjustment is overstated.
76 Using an average of the October through December 2008-2011 numbers for October
77 through December 2012 would result in a \$1,022,000 decrease in the adjustment. A
78 properly calculated test year figure should not be displaced by an average that is
79 unrepresentative or when choosing different averaging periods yields very disparate
80 results.

81 **B. Proposed Adjustments of AG Witness Mr. Brosch**

82 **Q. Did you review the testimony of AG witness Mr. Brosch (AG Ex. 1.0)?**

83 A. Yes.

84 **Q. What aspects of Mr. Brosch's testimony will you be addressing?**

85 A. I will be addressing Mr. Brosch's proposed adjustments to IBS costs and his proposed
86 productivity gain adjustments.

87 **Q. Please describe Mr. Brosch's proposed adjustments to IBS costs.**

88 A. Mr. Brosch proposes to disallow eight specific IBS home centers costs and IBS
89 depreciation for amounts that he says are unexplained increases to both Peoples Gas and
90 North Shore. (See AG Ex. 1.3, Schedule C-8, and AG Ex, 1.4, Schedule C-8).

91 **Q. Do you agree with Mr. Brosch’s proposed adjustments to IBS costs?**

92 A. No, I do not agree with Mr. Brosch’s proposed adjustments to IBS costs, except for two
93 minor adjustments. Mr. Brosch calls these “unexplained variances” although he states in
94 his testimony that this was a “caption the Companies used in responding to” certain data
95 requests. That is exactly what it was – a heading for a column for variances *not*
96 *explained by either the general wage increase or inflation*. To the right of that column
97 were high level variance explanations for those amounts. In addition, in Peoples Gas’
98 responses to AG data requests 12.12 through 12.20 and North Shore’s responses to AG
99 data requests 12.1 through 12.9, additional information explaining the increases in each
100 of the home centers was provided. These explanations show that these costs are
101 reasonable other than the two minor adjustments. *See* NS-PGL Ex 25.3P and NS-PGL
102 Ex. 25.3N.

103 **Q. What two minor adjustments are appropriate?**

104 A. For home center AB2 – Utility Group Executive Office, \$250,000 of consulting fees
105 should be removed from the test year. Since the original budget, it has been determined
106 that these consulting services will not be required. For home center A59 – IBS IT CVS
107 Development C-First, in doing the analysis for one of the data request, it was determined
108 that \$165,000 for MDSI software maintenance had been double booked. The \$250,000
109 and \$165,000 are the total costs for IBS. These have been allocated to Peoples Gas and
110 North Shore based on the appropriate allocation percentages. *See* NS-PGL Ex. 25.4 and

111 NS-PGL Ex. 25.5 – these exhibits include both Peoples Gas and North Shore
112 adjustments.

113 **Q. Please describe Mr. Brosch’s proposed productivity gain adjustments.**

114 A. Mr. Brosch proposes a one half percent per year productivity adjustment to test year
115 non-fuel Operations and Maintenance (“O&M”) expenses and because both 2012 and
116 2013 were forecasted, he is proposing a one percent adjustment. (See AG Ex. 1.3,
117 Schedule C-4, and AG Ex, 1.4, Schedule C-4).

118 **Q. Do you agree with Mr. Brosch’s proposed productivity gain adjustments?**

119 A. No, I do not agree with Mr. Brosch’s proposed productivity adjustments for several
120 reasons. First, he has given no support for the percentage that he is proposing. Second,
121 he does not take into account that the workload for Peoples Gas and North Shore is
122 increasing. *See* Mr. Hoops’ direct testimony for detail on the workload increases. Also,
123 as seasoned employees retire and are replaced with new employees, the productivity
124 would be more likely to stay the same or decrease slightly until those employees have
125 gained additional experience. Third, the Utilities’ budgets and forecasts reflect the
126 overall labor and other non-fuel O&M costs that are expected, based on past experience
127 and other available information. Thus, changes in productivity inherently are taken
128 account and are not and do not need to be broken out as a separate factor, which would be
129 redundant. Finally, he himself states that this is a subjective adjustment.

130 **Q. Setting aside its merits, are Mr. Brosch’s productivity adjustments correctly**
131 **calculated?**

132 A. No. His proposed adjustments are based on company proposed Adjusted O&M expenses
133 for the test year. This amount includes benefit costs, injuries and damages, insurance
134 expense, and material costs for which a productivity adjustment is not applicable.
135 Eliminating these costs would lower his adjustment by \$741,000 for Peoples Gas and
136 \$101,000 for North Shore, setting aside that no adjustment is correct. *See* NS-PGL Ex.
137 25.6N and NS-PGL Ex. 25.6P for details.

138 **Q. Does this complete your rebuttal testimony?**

139 A. Yes.