

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

KYLE HOOPS

General Manager, District Field Operations
The Peoples Gas Light and Coke Company

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 Testimony	2
II. UTILITY PLANT IN-SERVICE	2
A. Staff's Adjustment to Plan In-Service Based on Historical Data	2
B. Staff and Intervenor Adjustment to Proposed Projects	5
1. Legacy Sewer Lateral Cross Bore Program	5
2. New Chicago Department of Transportation Regulations	8
3. Advanced Metering Infrastructure Project	8
4. Calumet System Upgrade	9
5. CNG Fueling Station at Division Street Shop	10
6. Plastic Pipfitting Remediation Project	12
III. FORECASTED LABOR EXPENSES	13

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

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

4 A. My name is Kyle Hoops. My business address is 3955 N. Kilpatrick Ave., Chicago, IL
5 60641.

6 **Q. Are you the same Kyle Hoops who submitted direct testimony and supplemental
7 direct testimony on behalf of The Peoples Gas Light and Coke Company (“Peoples
8 Gas”) and North Shore Gas Company (“North Shore”) (together, “the Utilities”) in
9 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. I will be addressing three issues raised by Illinois Commerce Commission (the
14 “Commission” or “ICC”) Staff (“Staff”) witnesses Messrs. Kahle and Seagle and Illinois
15 Attorney General (“AG”) witness Mr. Brosch relating to adjustments to forecast additions
16 to utility plant, specific Schedule F-4 projects, and employee headcount.

17 **C. Summary of Conclusions**

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

19 A. I conclude as follows:

- 20 • 2012 and 2013 forecasted utility plant additions for both Peoples Gas and North
21 Shore are justified based on our historical forecasting accuracy and actual
22 expenditures allowing for unforeseen external changes that cause both positive
23 and negative variances.

24 • The forecast for 2013 capital expenditures is accurate. The O&M expenses are
25 prudent and reasonable and the capital costs are prudently undertaken, are
26 reasonable in cost, and will be used and useful in providing utility service.

27 • Peoples Gas' 2013 headcount forecast is appropriate and supported by current and
28 planned employee staffing changes based on business needs.

29 **D. Itemized Attachments to Testimony**

30 **Q. Please describe the attachments to your rebuttal testimony.**

31 A. I have four attachments to my rebuttal testimony:

32 • NS-PGL Ex. 28.1 is data request responses PGL AG 10.29 and 10.30 and PGL
33 CUB 05.06.

34 • NS-PGL Ex. 28.2 is data request responses PGL ENG 2.21 and PGL ENG 8.01
35 and 8.02.

36 • NS-PGL Ex. 28.3 is the revised, approved business case for the Advanced
37 Metering Infrastructure ("AMI") Project.

38 • NS-PGL Ex. 28.4 is data request responses PGL ENG 6.02 to 6.05 and PGL ENG
39 9.01 to 9.06.

40 **II. UTILITY PLANT IN-SERVICE**

41 **A. Staff's Adjustment to Plant In-Service Based on Historical Data**

42 **Q. Staff witness Mr. Kahle proposes adjustments to reduce forecasted additions to the**
43 **Utilities' plant-in-service for the years ending December 31, 2012, and December 31,**
44 **2013, based on the historical spending pattern for budgeted capital expenditures for**
45 **2009, 2010, and 2011. (ICC Staff Ex. 2.0, 11:229-232) Do you agree with Mr.**
46 **Kahle's adjustments?**

47 A. No, I do not for several reasons. I will address my reasoning separately for Peoples Gas
48 and North Shore.

49 **Q. Why is Staff's 11.21% reduction of Peoples Gas' plant-in-service not proper?**

50 A. A reduction of plant-in-service based on a simple average of the three most recent
51 historical years (2009-2011) is not proper without investigation of what may have caused
52 such a budget variance. Further, the selection of a three year period is subjective. If
53 Mr. Kahle had used a 4 year period including 2008 data the percentage variance would be
54 reduced to 7.6% and had he chosen to include the 2007 and 2008 data, the percentage
55 variance would be reduced to 5.6%.

56 **Q. Can you explain why there was a variance between Peoples Gas' budgeted and**
57 **actual expenditures when the data for the three most recent historical years are**
58 **compared?**

59 A. Yes, I'd like to point out two significant reasons. First, the data used by Mr. Kahle
60 includes calendar year 2011 which was the first year of the Accelerated Main
61 Replacement Program ("AMRP"). Use of calendar year 2011 data significantly distorts
62 Mr. Kahle's three-year average. In his direct testimony, Peoples Gas witness Mr. Hayes
63 (PGL Ex. 14.0) explained the various reasons why Peoples Gas was not able to meet its
64 construction budget in 2011. Furthermore, in supplemental direct testimony, Mr. Hayes
65 explained that Peoples Gas is forecasting a need for additional funding for the AMRP
66 project in calendar year 2012 based on a non-budgeted and unforeseen increase in costs.
67 It is apparent that due to the AMRP project, calendar year 2011 was an anomaly. Based
68 on historical data, if you factor out calendar year 2011 and take a four year average (2007
69 to 2010) of the same type of data used by Mr. Kahle, the percentage variance would be
70 .06% over. Second, Peoples Gas' plant-in-service includes cushion gas at its Manlove
71 Field gas storage field. For 2009, 2010, and 2011, the actual price of natural gas, a factor
72 outside Peoples Gas' control, was below the forecasts Peoples Gas used for budgeting

73 purposes. The Cushion Gas budget is prepared using the estimated LIFO price for the
74 upcoming year. The estimated LIFO price is based upon forward NYMEX futures
75 contract prices and other assumptions. As I stated, the actual price of natural gas
76 decreased below the forecast prices that were used for preparing the budget. Therefore,
77 this caused a lower-than-budgeted expenditure for Cushion Gas. The table below
78 summarizes the cushion gas price assumptions and actual gas prices for the period 2009-
79 2011.

Cushion Gas Prices (\$/MMBtu)		
<u>Year</u>	<u>Actual</u>	<u>Budget</u>
2009	\$5.57	\$7.17
2010	\$5.02	\$6.32
2011	\$5.07	\$7.30

80 **Q. Based on these facts, is Staff’s adjustment to Peoples Gas’ plant-in-service proper?**

81 A. No, it is not.

82 **Q. Turning to North Shore, why is Staff’s 10.79% reduction of plant-in-service not**
83 **proper?**

84 A. Again, as I stated earlier, a reduction of plant-in-service based on a simple average of the
85 three most recent historical years (2009-2011) is not proper without investigation of what
86 may have caused such a variance.

87 **Q. Can you explain why there was a variance between North Shore’s budgeted and**
88 **actual expenditures when the data for the three most recent historical years are**
89 **compared?**

90 A. Yes. North Shore’s variance is primarily due to public improvement projects. During
91 this three year period some of these public improvement projects were rescheduled or

92 delayed, which is outside of North Shore's control. The table below compares the budget
93 and actual amounts for plant-in-service for the period 2006 through 2011.

Table Comparing North Shore's Budget and Actual Plant-In-Service Including Planned for and Actual Public Improvement Projects for 2006 -2011		
<u>Year</u>	<u>Plant-In-Service</u>	
	<u>Budget (000's)</u>	<u>Actual (000's)</u>
2006	9,958	11,885
2007	8,040	10,523
2008	9,453	10,828
2009	9,627	14,490
2010	19,019	10,260
2011	12,982	8,929

94 Again, Staff's use of a three year period seems arbitrary and subjective. For the
95 period 2006 through 2011, North Shore has actually over-expended in all years but 2010
96 and 2011. Thus, Staff's adjustment penalizes North Shore despite its careful budgeting
97 and for circumstances beyond its control.

98 **Q. Based on these facts, is Staff's adjustment to North Shore's plant-in-service proper?**

99 A. No, it is not.

100 **B. Staff and Intervenor Adjustment to Proposed Projects**

101 **1. Legacy Sewer Lateral Cross Bore Program**

102 **Q. Staff witness Mr. Seagle proposes adjustments to reduce the Utilities' O&M**
103 **expenses for legacy sewer lateral cross bore programs in the 2013 test year. (Staff**
104 **Ex. 6.0, 11:273-335). AG witness Mr. Brosch proposes reductions pending further**

105 **review of the Utilities' support for these expenses (AG Ex. 1.0, 47:1066-1091). Do**
106 **you agree with Messrs. Seagle's and Brosch's adjustments?**

107 A. No, I do not. These costs are prudent and reasonable.

108 **Q. Staff indicated that it did not have sufficient time to review this project and**
109 **requested that the Utilities explain why the requested reimbursement is a**
110 **reasonable calculation of all the costs associated with the Cross Bore Program. Staff**
111 **Ex. 6.0, 13:321-322. How do you respond?**

112 A. As provided in my supplemental direct testimony (NS-PGL Ex. 20.0) as well as in the
113 responses to various data requests, including PGL ENG 5.08, NS ENG 5.08, PGL AG
114 10.33, PGL AG 10.34, NS AG 10.02, NS AG 10.03, PGL AG 12.21, PGL AG 12.22, NS
115 AG 12.10, and NS AG 12.11, these expenses are a reasonable calculation of Peoples Gas
116 and North Shore's costs associated with this program. As provided in the data responses,
117 these costs were based on actual experience in 2012, bid documents from qualified
118 vendors, as well as data collected from the 2012 work.

119 **Q. How were the costs developed?**

120 A. Costs were developed by first gathering the miles of plastic main installed since 1990 and
121 associated service pipes. Our query concluded that 700 miles of plastic main were
122 involved. Based on the number of service pipes per mile of main for Peoples Gas (130)
123 and North Shore (65), we estimated that approximately 91,000 service pipes for Peoples
124 Gas and 52,000 service pipes for North Shore were also involved. Since for every
125 service pipe installed there is naturally at least one sewer lateral, the remaining
126 calculations were based on the service pipe numbers. We used a cost of \$250 to camera
127 inspect each of the Utilities' sewer laterals. Our history has also been that we are

128 excavating over 25% of the sewer laterals to investigate blockages where the camera
129 cannot get through (22,750 at \$500 per excavation for Peoples Gas and 13,000 at \$500
130 per excavation for North Shore), and we conservatively used 25% in the cost calculation.
131 For Peoples Gas, permit costs are also associated with the camera work (5,600 blocks at
132 \$400 per block) and required for any excavations (22,750 openings at \$175 each). All
133 excavations will also require restoration (\$80 per opening). Finally, an estimated cross
134 bore rate of 3% indicates that approximately 2,730 sewer laterals will require remediation
135 with a cost of \$500 each. Additionally, staffing requirements were considered of 8
136 internal headcounts to oversee and manage the program for both Peoples Gas and North
137 Shore. A contingency of approximately 10% was added to the total cost.

138 **Q. Mr. Seagle also states that in rebuttal testimony, Peoples Gas should “provide the**
139 **rationale for Peoples Gas customers paying for the costs associated with facilities**
140 **that Peoples Gas personnel improperly installed initially.” Staff Ex. 6.0, 13:322-**
141 **14:324. How do you respond?**

142 A. Mr. Seagle’s premise is flawed. When these facilities were originally installed, the
143 Utilities followed standard industry best practices and procedures used by most gas
144 utilities to avoid cross bores. However, recent findings and incidents across the country
145 have indicated these standard industry practices and procedures may not have prevented
146 all cross bores. This is certainly a circumstance beyond the Utilities’ control. Further,
147 the Utilities are not alone as other utility companies in Minnesota, Arizona and Nevada
148 have undertaken efforts to investigate for cross bores.

149 **Q. Based on these facts, is an adjustment to O&M expenses for Peoples Gas and North**
150 **Shore proper?**

151 A. No, it is not.

152 **2. New Chicago Department of Transportation Regulations**

153 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' O&M**
154 **expenses due to new Chicago Department of Transportation ("CDOT") regulations**
155 **in the 2013 test year. (Staff Ex. 6.0, 14:336-369) AG witness Mr. Brosch proposes**
156 **reductions pending further review of Company support for these expenses (AG Ex.**
157 **1.0, 46:1037-1065). Do you agree with Messrs. Seagle's and Brosch's adjustments?**

158 A. No, I do not. These costs are prudent and reasonable.

159 **Q. Mr. Seagle states that he has had insufficient time to review these costs and**
160 **recommended that Peoples Gas provide documentation in rebuttal testimony that its**
161 **cost calculation is just and reasonable. How do you respond?**

162 A. As provided in my supplemental direct testimony (NS-PGL Ex. 20.0) as well as in the
163 responses to data requests PGL AG 10.29 and 10.30 and PGL CUB 05.06 (NS-PGL Ex.
164 28.1), Peoples Gas' forecast costs are just and reasonable and will be incurred as a result
165 of the new CDOT regulations. Each new regulation was reviewed in order to determine
166 its impact on Peoples Gas' operation and the subsequent impact on O&M expenses.

167 **Q. Based on these facts, is an adjustment to O&M expenses for Peoples Gas proper?**

168 A. No, it is not.

169 **3. Advanced Metering Infrastructure Project**

170 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' rate base**
171 **related to the AMI Project in the 2013 test year. (Staff Ex. 6.0, 16:370-449) Do you**
172 **agree with Mr. Seagle's adjustments?**

173 A. No, I do not. The AMI Project is prudently undertaken, is reasonable in cost, and will be
174 used and useful in providing utility service.

175 **Q. Mr. Seagle states that he has only recently received the AMI business case and that**
176 **executive approval for this project has not yet been received. How do you respond?**

177 A. As provided in the responses to data requests PGL ENG 2.21 and PGL ENG 8.01 and
178 8.02 (NS-PGL Ex. 28.2), Peoples Gas has continued with the validation process of the
179 available technologies. As a result of that work, a revised business case has been
180 attached as NS-PGL Ex. 28.3. The cost of the project has been adjusted based on what
181 has been learned from the validation process and the project cost is expected to be \$1.8
182 million of which \$1,392,000 is capital expense, \$110,000 is a prepaid asset, and \$376,000
183 is O&M expense. Furthermore, the Project has received executive approval. See NS-
184 PGL Ex. 28.3.

185 **Q. Based on these facts, is an adjustment proper?**

186 A. No, it is not.

187 **4. Calumet System Upgrade**

188 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' rate base**
189 **related to the Calumet System Upgrade in the 2013 test year. (Staff Ex. 6.0, 24:544-**
190 **642) Do you agree with Mr. Seagle's adjustment?**

191 A. No, I do not. This project is prudently undertaken, is reasonable in cost, and will be used
192 and useful in providing utility service.

193 **Q. Mr. Seagle states that Peoples Gas has not provided sufficient information**
194 **regarding this project, specifically that Peoples Gas has not initiated the competitive**

195 **bidding process and executive approval for the project has not been received. How**
196 **do you respond?**

197 A. The competitive bidding process has been initiated for the engineering associated with
198 this major project. Formal bids have been received from qualified engineering vendors
199 and vendor selection is nearing completion. In addition, significant progress has been
200 accomplished on several important parts of this project. For example, the line of lay
201 selection is 90% complete for the Calumet #3 pipeline. Wetland surveys are complete for
202 both the Calumet #2 and #3 pipelines. Station land surveys have been completed. The
203 easement needs evaluation has started. Material availability has been examined and
204 importantly, we have the piping in stock that would supply from Calumet Station #2 to
205 112th Street. In addition, following standard business processes, this project has been
206 going through internal review in preparation for formal executive approval in the first
207 quarter of 2013. Executive approval has been given for engineering services associated
208 with the project. Therefore, this project is underway, significant progress has been made,
209 and the project is on track for approvals in early 2013.

210 **Q. Based on these facts, is Staff's adjustment proper?**

211 A. No, it is not.

212 **5. CNG Fueling Station at Division Street Shop**

213 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' rate base**
214 **related to the compressed natural gas ("CNG") fueling station at the Division Street**
215 **shop in the 2013 test year. (Staff Ex. 6.0, 31:682-784) Do you agree with Mr.**
216 **Seagle's adjustments?**

217 A. No, I do not. This project is prudently undertaken, is reasonable in cost, and will be used
218 and useful in providing utility service.

219 **Q. Mr. Seagle testified that Peoples Gas did not provide sufficient documentation**
220 **supporting this project, namely, that the company with which Peoples Gas**
221 **contracted to construct the plant became an affiliate and no analysis was performed**
222 **regarding the prudence and used and usefulness of the project. How do you**
223 **respond?**

224 A. This project was competitively bid and bids were received from two vendors. However,
225 the bid from one vendor was not complete as it did not provide for the required operation
226 and maintenance support of the installed product. The other bid was complete and was
227 otherwise satisfactory. Therefore, the selected vendor was based on the only complete
228 bid. The fact that the company that was selected, then became an affiliate, does not
229 change these facts. Peoples Gas followed all business processes as with any other project
230 in bidding for this project. Also, as provided in responses to data requests PGL ENG
231 6.02 to 6.05 and PGL ENG 9.01 to 9.06 (NS-PGL Ex. 28.4). CNG vehicles offer
232 significant fuel savings compared to gasoline vehicles. The expansion of the CNG
233 vehicles is in proportion to the Peoples Gas fleet and accomplished by optionally
234 choosing CNG equipped vehicles for regular cycle replacement of aged vehicles. The
235 conservative analysis estimates each CNG service van will reduce fuel costs by \$2,727
236 in 2012 relative to gasoline.

237 **Q. What are the benefits of the new CNG fueling station at the Division Street shop?**

238 A. The new CNG fueling station has a larger capacity than the previous fueling station and
239 provides for quick fill on CNG vehicles which was not an option for the old CNG station.

240 As a result, additional CNG vehicles can be added to the Peoples Gas fleet which has a
241 direct impact on our operational costs. In addition, the quick fill option is a significant
242 time saver for our staff which reduces the time spent at the fueling station.

243 **Q. Based on these facts, is Staff's adjustment proper?**

244 A. No, it is not.

245 **6. Plastic Pipefitting Remediation Project**

246 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' O&M**
247 **expenses relating to the plastic pipefitting remediation project in the 2013 test year.**
248 **(Staff Ex. 6.0, 6:148-272) Do you agree with Mr. Seagle's adjustments?**

249 A. No, I do not. These costs are prudent and reasonable.

250 **Q. Mr. Seagle states "If Peoples Gas had initially complied with the Commission's**
251 **Rules, in particular Part 590, the Company would not have incurred the costs**
252 **associated with the PPRP" (Staff Ex. 6.0, 9:226:228). How do you respond?**

253 A. Peoples Gas arranged for extensive analysis of the fittings in question. An external and
254 industry-recognized expert concluded that the fittings as installed were safe and Peoples
255 Gas could have sought a special permit as allowed by Title 49 of the applicable federal
256 rules. The Company determined that the most reasonable and safest approach was to
257 replace the fittings at this time given its ability to coordinate some of the replacement
258 with other planned construction and maintenance by Peoples Gas and by the City of
259 Chicago.

260 **Q. Based on these facts, is Staff's adjustment proper?**

261 A. No, it is not.

262 **III. FORECASTED LABOR EXPENSES**

263 **Q. AG witness Mr. Brosch proposes an adjustment to reduce forecasted payroll costs**
264 **included in the Utilities' test year operations and maintenance expenses. Do you**
265 **agree with Mr. Brosch's adjustments?**

266 A. No, I do not. Mr. Brosch is recommending that the Utilities' 2013 test year payroll
267 expense be reduced to reflect what he calls an average vacancy factor. The employee
268 count at any given moment is a snap shot in time that does not reflect existing and future
269 additions to employee count.

270 **Q. Do the Utilities intend to hire additional people in 2012 and 2013?**

271 A. Yes, Peoples Gas is currently filling a number of positions as described in my initial
272 testimony as part of improved compliance with federal and state pipeline safety
273 regulations and the accelerated main replacement project. As part of this hiring process,
274 40 Utility Worker positions are being filled from the school created by Peoples Gas in
275 partnership with the City Colleges of Chicago and the UWUA Power for America
276 Training Trust Fund at the Dawson Technical Institute in Chicago. North Shore is
277 literally two positions below its budgeted headcount as of November 24, 2012 and is in
278 the process of hiring for both of those positions.

279 **Q. What is the utility worker school?**

280 A. This school was created with a curriculum intended to develop future Peoples Gas
281 workers that would enter the workforce with extensive training in gas work, processes
282 and safety. The school's initial focus has been a Utility Workers Military Assistance
283 Program. In regards to timing, the school was initially planned for early 2012 but was
284 delayed to allow proper coordination with all the entities involved. At this time, the first

285 set of graduates are working as full-time Peoples Gas employees and will be shown in the
286 December head count numbers and the next two sets of students will be joining Peoples
287 Gas in December and January.

288 **Q. Why is the AG's proposed reduction of the Utilities forecasted payroll expense not**
289 **proper?**

290 A. With the additions indicated above, the Utilities' employee headcount will be equivalent
291 to the employee headcount reflected in the filed test year operations and maintenance
292 expense.

293 **Q. Does this conclude your rebuttal testimony?**

294 A. Yes it does.