ICC Docket No. 12-0512
The Peoples Gas Light and Coke Company's Response to
Attorney General Data Requests AG 15.01-15.20
Dated: December 20, 2012

REQUEST NO. AG 15.08:

Referring to NS-PGL Ex. 30, Page 17, lines 415-418, why was Revenue Ruling 2011-43 (dated 9-12-2011) not taken into account when the Utilities filed their direct cases on July 31, 2012?

RESPONSE:

Please note that Mr. Stabile inadvertently referred to Revenue Ruling 2011-43. The correct reference is Revenue Procedure 2011-43. An errata to Mr. Stabile's rebuttal testimony will be issued.

Revenue Procedure 2011-43 ("2011-43") was taken into account when the Utilities' direct cases were filed on July 31, 2012. However, the Utilities' understanding of how various terms contained in 2011-43 should be interpreted has evolved since that date.

2011-43 provides guidance and a safe harbor method of accounting for tax repairs to regulated electric transmission and distribution ("T&D") companies. Therefore, it does not provide a regulated gas distribution company with an authoritative source of competent authority upon which to rely. It does provide a framework or outline for what gas distribution companies might expect in a safe harbor method for tax repairs when a ruling is released to that industry group. Therefore, to develop their tax position with respect to tax repair deductions for 2013, the Utilities were also taking into account other applicable tax law and regulations, as well as updates from the American Gas Association ("AGA") on what the safe harbor guidance would likely say once released for gas distribution property.

At the time they were preparing their direct filing, the Utilities had a limited understanding of how specifically Accelerated Main Replacement Program ("AMRP") projects and expenditures would be identified, discussed, and approved in the instant case. This was because in prior rate cases these projects and expenditures were not specifically identified, discussed, and approved. Instead, these projects were addressed in prior cases on a fairly generic and general method under Peoples Gas' Rider ICR. Peoples Gas' Rider ICR was eliminated as part of the remand proceeding in Docket Nos. 09-0166/09-0167 (cons.) (Remand Order, June 27, 2012). See also the Utilities' response to data request AG 15.09.

In addition, affiliates of the Utilities that have electric transmission and distribution property had only begun the tax return preparation process. The Utilities did not have the benefits of outside experts' view of the guidance contained in 2011-43

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On July 31, 2012, the Utilities expected less than 40% of AMRP projects would qualify as a tax repair deduction, so the Utilities already believed 60% of AMRP projects would not qualify for a tax repair deduction.

Guidance from the Internal Revenue Service supporting or modifying the method of accounting the Utilities adopted for 2009 related to tax repairs and tax overheads has yet to be released. In fact, due to the uncertainty of not having guidance released, many regulated gas distribution companies still have not filed tax accounting method changes for tax repairs or overheads. Based on recent Edison Electric Institute ("EEI")/AGA tax committee meetings, less than 65% of the utilities have filed method changes for tax repairs, and less than 30% have filed method changes for tax overheads.

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REQUEST NO. AG 15.09:

Referring to NS-PGL Ex. 30, Page 18, lines 421-423, please explain all changes in circumstances between July 31, 2012 and November 18, 2012 that caused the Utilities to "no longer believe that it is reasonable to expect the Internal Revenue Service ("IRS") to allow repair deductions to be taken on AMRP projects." The response should describe the changes in circumstances and identify when the Utilities first became of aware of the changes.

RESPONSE:

While other facts and circumstances have changed or evolved and are elaborated on in the responses to data requests in this AG-15 series, the three most significant changes are:

- The Utilities did not have any actual experience implementing the safe harbor contained in Revenue Procedure[1] 2011-43 ("2011-43") with the help of outside consultants at the time the original estimates were provided. Until affiliates of the Utilities engaged outside experts with much broader experience and resources and actually implemented the guidance in real world situations, the Utilities had no real appreciation of certain aspects of the guidance, particularly how strict the view would be on the Per Se rules. Until that experience was gained the Utilities believed that the exceptions to the safe harbor in 2011-43 would apply on a much more infrequent basis than was observed by affiliates of the Utilities in preparing their analysis to support their 2011 tax return. The positions taken by Electric transmission and distribution ("T&D") affiliates and the supporting analysis being done by a consultant are still being finalized, are subject to amendment, and are subject to examination and adjustment by the Internal Revenue Service ("IRS"). Even with 2011-43, there is uncertainty and that uncertainty rose to a level such that Revenue Procedure 2012-39 ("2012-39") issued on September 4, 2012 delayed the implementation date for 2011-43 by one year. Specifically this was due to the difficulty Electric T&D companies were having implementing 2011-43, and reflecting the safe harbor method outlined as well as the fact that exceptions to the safe harbor outlined in 2011-43 need additional clarification.
- The evolution of the public record in the instant case from July 31, 2012 to the present has created an aggregate set of facts and circumstances related to the Accelerated Main Replacement Program ("AMRP") projects that would likely cause the AMRP spend being sought in the instant case to be defined by the IRS as a "plan of rehabilitation or modernization" (under existing rule), and/or "a regulatory

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commission decision that authorizes the replacements as part of an identified program aimed at a specific purpose" (per aggregation rule in Revenue Procedure 2011-43).

- Treasury and the IRS have yet to release guidance providing the gas transmission and distribution industry ("Gas T&D") with a safe harbor method of accounting for tax repairs. On July 31, 2012, the Utilities were operating with the understanding that guidance would be issued before the end of 2012, and would provide a safe harbor with exceptions consistent with what was provided to Electric T&D in 2011-43. The Utilities would have had time to adjust to the guidance in their rebuttal testimony had it been issued as the Utilities expected. In early November 2012, a joint Electric Edison Institute ("EEI")/American Gas Association ("AGA") tax committee meeting was held, and at that meeting IRS representatives informed attendees from the Gas T&D industry that they should not expect guidance until sometime in 2013 at the earliest. Electric T&D affiliates of the Utilities did file their 2011 tax returns implementing 2011-43 with the assistance of a third party consultant/advisor. The realization that applying 2011-43 required additional clarification and guidance, as well as the realization that taxpayers and the IRS were not aligned as far as how terms contained in 2011-43 are interpreted, combined with the fact that no guidance was to be issued for gas distribution property in a timely manner relative to this proceeding were significant issues occurring during the interim between original estimates and the rebuttal phase of this proceeding.

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REQUEST NO. AG 15.11:

Referring to NS-PGL Ex. 30, Page 18, lines 437-439, please identify each issue that arose during 2012 as electric T&D companies attempted to apply the safe harbor method and describe how each of these issues left "a great deal of uncertainty as to whether the safe harbor guidance should be applied to certain projects allowing for a repair deduction." The response should also state when the referenced issues arose and when the Utilities became aware of the issues.

RESPONSE:

June 2012 – Remand order in Docket Nos. 09-0166/09-0167 (cons.) that eliminated Peoples Gas' Rider ICR method in response to an Illinois Appellate Court decision; instead the Utilities would need to forecast gas main replacements, and seek recovery based on that estimate in future rates. Since that date, the record has evolved in the form of testimony. Further, data request responses have been served. This record and other related documents have provided the Internal Revenue Service ("IRS") with a road map for developing an argument that the Utilities requested Accelerated Main Replacement Program ("AMRP") spend prior to and during the forecasted test year has been approved under what the IRS would likely define as a "plan of rehabilitation, modernization, or improvement" (current law), and/or "a regulatory commission decision that authorizes the replacements as part of an identified program aimed at a specific purpose". This is as opposed to much more general and less specific manner that Utilities generally see or would have expected AMRP projects to be presented, discussed, or approved in a rate case using a forecasted test year.

June 2012 – The Edison Electric Institute ("EEI") tax committee meetings were attended by John Wilde, Vice President - Tax of Integrys Business Support ("IBS"). EEI updated members as to the progress of getting the requested Treasury Department/IRS guidance for a safe harbor method applicable to tax repairs of generation property, in addition to updating members on implementation of the Revenue Procedure 2011-43 ("2011-43")[1] tax repair safe harbor for electric transmission and distribution ("T&D") property, and Industry Director's Directive #5 tax overhead safe harbor for electric utilities. A few EEI members indicated that IRS field examiners doing Closing Agreement Program ("CAP") audits were interpreting the Per Se and aggregation rules contained in 2011-43 much differently than they had expected. However, the

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consensus was that those were isolated issues that would be clarified through forthcoming guidance from Treasury and/or the IRS.

Example: Taxpayer was retiring 40 poles on a 1,000 pole circuit, but replacing those retired poles with 41 poles to decrease the wire span at one point in the circuit. The 40 poles retired and the 41 poles added are less than 10% of the thousand poles, so the safe harbor should allow this project to be treated as a repair. However, IRS field personnel performing that taxpayer's CAP audits stated this project was instead capital in nature because the safe harbor does not apply due to number (4) of the Per Se rules.

June 2012 – American Gas Association ("AGA") tax committee meetings were attended by Utilities witness John Stabile. AGA updated members as to the progress of getting the requested Treasury/IRS guidance for a safe harbor method applicable to tax repairs for gas T&D property and IRS guidance for a safe harbor method applicable to tax overheads for gas T&D property. AGA members were told to expect guidance to be released for both tax repairs and tax overheads before the 2011 tax return was due or at the latest by the end of the third quarter of 2012. Problems being experienced by electric T&D companies implementing 2011-43 were discussed, but AGA counsel felt that those problems had already been worked through by the industry and the IRS in guidance being drafted for gas T&D companies.

August 2012 – IBS Tax contracted with Crowe, a consultant, to implement 2011-43 for its two regulated electric utilities with T&D property. In early August 2012, Crowe made IBS Tax aware of questions it and other CPA firms were having implementing 2011-43, specifically related to interpreting the Per Se exception and the aggregation rule.

Examples:

- [(4) of Per Se exception 2011-43] Same 41 poles added versus 40 poles retired discussion above. [(2) and (3) of Per Se Exception 2011-43] The line being replaced carries same voltage, but increases amperages to one or more customers; is this an increase in capacity under the Per Se rules. Because the line work is being done, another customer is able to hook up and takes electric service, even though that was not a planned event or a reason for the project.
- Relating the two above examples to AMRP, because cast iron is being replaced with newer materials, and because the pressure will change from low to medium or in some cases high, and based on other things IBS Tax has learned through testimony in the instant case, the Utilities cannot

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assume, absent specific guidance to the contrary, that this would not be scoped out of the safe-harbor as a Per Se capital expenditure.

August 2012 – Crowe issued a Form 3115 to the Utilities' electric T&D affiliates reflecting the implementation of safe harbor method outlined in 2011-43, as interpreted by affiliates of the Utilities and Crowe collectively.

September 2012 – Revenue Procedure 2012-39 was issued allowing electric utilities the ability to delay the implementation of 2011-43 by one year. This revenue procedure reflects IRS growing understanding that 2011-43 was insufficiently clear and additional guidance and clarity is needed by taxpayers.

September 2012 – Integrys filed its 2011 tax return implementing 2011-43, per the Form 3115 provided by Crowe. The delay issued by the IRS came too late and did not give Integrys enough time to eliminate what had been done to implement 2011-43.

September 2012 – The IRS field team auditing Integrys' 2009-2010 return notified the Utilities that they would hold off on examinations of tax repair deductions per 2009 method changes until safe harbor methods were adopted in future cases, but would continue to examine tax overhead deductions per 2009 method changes.

October 2012 – IBS Tax reviewed the Utilities' testimony related to estimates of capital expenditures related to gas main replacements. Subsequent to that review, multiple data requests by Staff and intervenors were made seeking specifics related to the Utilities' estimated AMRP expenditures. Based on this analysis, IBS Tax started looking at how AMRP would be viewed.

November 2012 – A joint EEI/AGA tax committee meeting was held. IRS Industry Director (NRC) Kathy Robbins indicated that guidance for Gas T&D utilities would be delayed until the first quarter of 2013 at the earliest. Members of both industries outlined their issues and concerns regarding tax repair positions.

November 2012 – Testimony was received in the instant case from Staff and intervenors addressing the Utilities' plans for main replacements, and seeking additional specific information from the Utilities, further outlining parameters for main replacements to which Peoples Gas should be subject.

December 2012 – IBS Tax received the first version of Crowe's draft analysis and report supporting the Form 3115 relevant to the Utilities' electric T&D affiliates.

December 2012 – The Utilities submit rebuttal testimony providing greater specifics about what is included in Peoples Gas' AMRP balances and in its 2013 AMRP spend request, attempting to address concerns and questions raised by ICC Staff and Intervenors.

ICC Docket No. 12-0512
The Peoples Gas Light and Coke Company's Response to Attorney General Data Requests AG 14.01-14.08
Dated: December 7, 2012

REQUEST NO. AG 14.07:

With regard to the AMRP included in CWIP as of the latest date available, please explain when the projects are expected to go into service as compared to the originally budgeted in service dates. The response should also explain the reason for any delays in the in service dates.

RESPONSE:

As explained in response AG 14.06, the budgeted balance of CWIP is zero as a result of how the amounts were budgeted and procedures within the Peoples Gas' forecasting system (Cognos).

With the Operations staff increase at the Peoples Gas shops, the timing of gassing the new mains will be improved over previous years. The later portion of 2012 saw a significant improvement in terms of timing from when a main was installed by the construction contractor to when the Peoples Gas crews were able to gas the main. Upon gassing the main, the work order can be placed in-service.

PGL AG 14.07 Attach 01 shows how over the past four months, AMRP Additions has increased and AMRP CWIP has decreased.

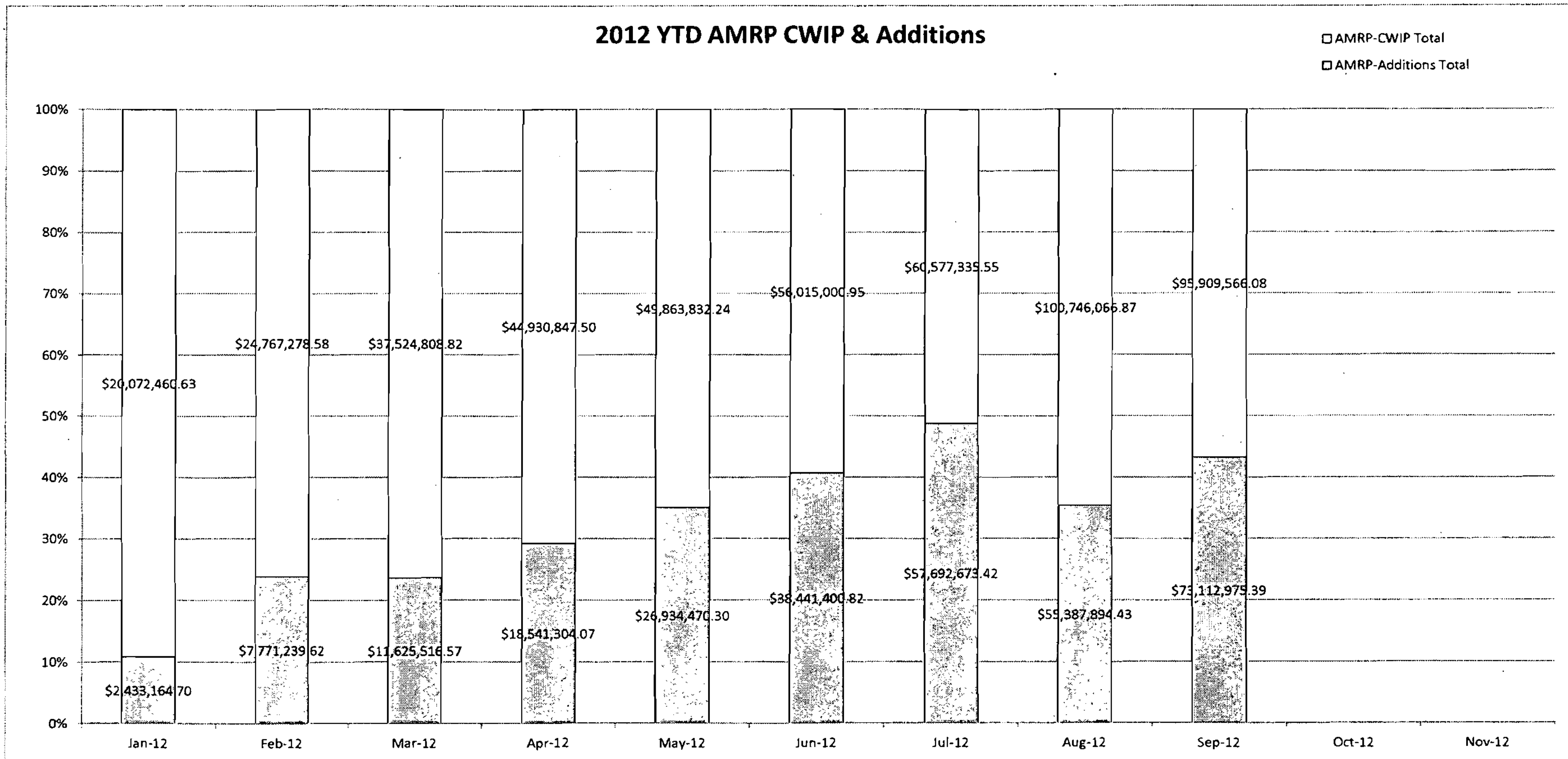
The Peoples Gas Light and Coke Company

Actual Gross Additions and Retirements
Compared to Original Budget (1)

Line No.	Plant Function	January through November, 2012 Gross Additions Actual	Budget (1)	Difference	Line No.
	[A]	[B]	[C]	[D]	
1	Distribution	[redacted]			1
2	Distribution - AMRP				
3	Distribution - Non AMRP				
4	Manufactured Gas Production				4
5	Underground Storage				5
6	Other Storage				6
7	Liquefied Natural Gas				7
8	Transmission - Not Leased				8
9	General				9
10	Intangible				10
11	Production				11
12	Total Account 101				12
13	Recoverable Natural Gas (Account 117)				13
14	Total Plant In Service				14
15	Construction Work in Progress (Account 107)				
16	Construction Work in Progress - AMRP				
17	Construction Work in Progress - non AMRP				
18	Total Utility Plant - With AMRP				

Note: (1) Reflects data consistent with Supplemental Direct Filing including increase of $15 million in AMRP capital spending/additions and $557,000 adjustment for Cushion Gas through November 30, 2012.

Work Order Type	Category	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12
PGL - 0771 Cast Iron Main Rpl-Main	AMRP-Additions	$1,666,507.93	$5,601,319.62	$8,561,447.11	$12,816,055.80	$19,955,477.67	$27,747,824.96	$42,691,932.07	$40,477,136.05	$54,567,427.01	[redacted]	
PGL - 0772 Cast Iron Main Rpl-Svcs	AMRP-Additions	$766,656.77	$2,169,920.00	$3,064,069.46	$5,725,248.27	$6,978,992.63	$10,693,575.86	$15,000,741.35	$14,910,758.38	$18,545,548.38		
	AMRP-Additions Total	**$2,433,164.70**	**$7,771,239.62**	**$11,625,516.57**	**$18,541,304.07**	**$26,934,470.30**	**$38,441,400.82**	**$57,692,673.42**	**$55,387,894.43**	**$73,112,975.39**		
PGL - 0771 Cast Iron Main Rpl-Main	AMRP-CWIP	$20,027,609.64	$24,696,030.01	$37,201,118.23	$44,647,989.23	$49,311,060.30	$54,188,529.15	$59,252,339.57	$99,785,066.56	$94,573,516.11		
PGL - 0772 Cast Iron Main Rpl-Svcs	AMRP-CWIP	$44,850.99	$71,248.57	$323,690.59	$282,858.27	$552,771.94	$1,826,471.80	$1,324,995.98	$961,000.31	$1,336,049.97		
	AMRP-CWIP Total	**$20,072,460.63**	**$24,767,278.58**	**$37,524,808.82**	**$44,930,847.50**	**$49,863,832.24**	**$56,015,000.95**	**$60,577,335.55**	**$100,746,066.87**	**$95,909,566.08**		
	AMRP-Grand Total	**$22,505,625.33**	**$32,538,518.20**	**$49,150,325.39**	**$63,472,151.57**	**$76,798,302.54**	**$94,456,401.77**	**$118,270,008.97**	**$156,133,961.30**	**$169,022,541.47**		



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REQUEST NO. AG 14.05:

Please update the response to PGL AG 9.22.

RESPONSE:

See PGL AG 14.05 Attach 01 for an update through November 30, 2012.

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The Peoples Gas Light and Coke Company's Response to
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Dated: December 7, 2012

REQUEST NO. AG 14.08:

With regard to the 2013 AMRP, please describe the extent to which expected in service dates of 2013 AMRP projects are impacted by the experience in 2012.

RESPONSE:

The 2012 experience related to AMRP projects has affected 2013 planned work in several respects. First, similar to 2012, where some of the 2011 planned AMRP construction projects were carried over into 2012, the construction projects not completed in 2012 will carry forward into 2013. Second, with respect to the high pressure steel main expansion project, the original 2013 plan to install 17 miles is being reduced to 7 miles. Third, the planned 2013 gas distribution construction projects will also be reduced. However, Peoples Gas is not increasing the AMRP capital budget of $220.75 million for 2013. As the 2013 construction season progresses, Peoples Gas will adjust the volume of work to maintain its capital budget of $220.75 million. See NS-PGL Ex. 34.5 for AMRP planned 2013 construction work. Also see the Rebuttal Testimony of Philip M. Hayes.

Since the 2012 gas distribution projects not completed in 2012 will be the first projects to be started in 2013, the start of the 2013 gas distribution projects will begin late spring or early summer of 2013. It is expected that the high pressure gas main projects will start late winter or early spring of 2013. With the Operations staff increase at the Peoples Gas shops, the timing of gassing the new mains will be improved over previous years. The later portion of 2012 saw a significant improvement in terms of timing from when a main was installed by the construction contractor to when the Peoples Gas crews were able to gas the main. It is expected that this improvement will be sustained, if not improved upon going forward. This will improve the timing of the in service dates of the gas mains. It is expected that the projects in CWIP between January and August 2013 will be in service by December 2013 or early 2014.

To provide some background, when a work order is created for the installation of a gas main segment and the initial charges of material are recorded to it, it can be several months before construction of that main commences. Upon completion of the installation of the gas main segment and the installation of the new service pipe to the customer facilities, Peoples Gas crews mobilize to gas the main. The time frame from when the main is ready to be gassed and when it actually is gassed may take several weeks. This time frame duration has been improved. Upon gassing the main, the work order can be placed in-service. Since there may be hundreds of work orders to accomplish the full scope of work in a year, new work orders are created over the course of the year. The installation of the gas mains is staggered over the course of the year to optimize both the construction contractors' work forces and the Peoples Gas crews. So as new work orders are created over the year, other work orders are closing as the gas main segments are gassed.