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.	:	

Surrebuttal 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

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. Please state your name and business address.

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

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

A. Yes.

B. Purpose of Surrebuttal Testimony

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony is to discuss certain adjustments to the Utilities' operating expenses proposed by Illinois Commerce Commission (the "Commission") Staff ("Staff") and the Illinois Attorney General's Office ("AG") in their respective rebuttal testimony. Specifically, I will discuss certain adjustments proposed by Staff witness Bonita Pearce and AG witness Michael Brosch.

C. Summary of Conclusions

Q. Please summarize the conclusions of your surrebuttal testimony.

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

- Ms. Pearce's proposed adjustments to Integrys Business Support ("IBS") costs are inappropriate;
- Mr. Brosch's proposed adjustments to IBS costs are inappropriate; and
- Mr. Brosch's proposed adjustments for productivity gains are inappropriate.

D. Attachments to Testimony

Q. Are there any attachments to your surrebuttal testimony?

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

1. NS-PGL Exhibit ("Ex.") 41.1P – Total IBS Costs
2. NS-PGL EX. 41.2P – IBS Benefit Costs
3. NS-PGL Ex. 41.3P - IBS Billed Costs
4. NS-PGL Ex 41.4N – North Shore WAM GAP Adjustment
5. NS-PGL Ex 41.4P – Peoples Gas WAM GAP Adjustment
6. NS-PGL Ex 41.5 – Response to AG 13.11
7. NS-PGL Ex 41.6 – IBS Legal Costs

II. RESPONSES TO STAFF AND AG REBUTTAL TESTIMONY

A. Proposed Adjustments of Staff Witness Ms. Pearce

Q. Did you review the rebuttal testimony of Staff witness Ms. Pearce (Staff Ex. 14.0)?

A. Yes.

Q. What aspects of Ms. Pearce's testimony will you be addressing?

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

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

A. Ms. Pearce proposes to disallow what she says are unsupported increases in the IBS costs charged to Peoples Gas. (*See* Staff Ex. 14.0, Schedule 14.02P)

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

A. No, I do not agree with her adjustments for several reasons. First, as was explained in my rebuttal testimony, Ms. Pearce's Schedule 14.02P for years 2008-2012 is based on the intercompany bills between Peoples Gas and IBS. These bills represent the cost of IBS labor for services provided and the cost of invoices paid by IBS, all or a portion of which are appropriately a Peoples Gas cost. In addition to these intercompany payments, during actual periods, Peoples Gas also directly paid invoices for costs that are managed by IBS. Under these circumstances, even though paid directly by Peoples Gas, an IBS home center would be identified with the cost as IBS would be managing the cost. For ease of forecasting, 2013 assumes IBS pays all the bills because it is not known which bills Peoples Gas will pay and which bills IBS will pay. So the 2008-2012 average that Ms. Pearce is comparing to the 2013 test year is not an accurate comparison. If the 2008-2012 IBS costs that were paid by Peoples Gas were included in the average, then the forecast for 2013 is actually $10,454,000 lower than the five year average. *See* NS-PGL Ex. 41.1P.

Second, in her rebuttal testimony, Ms. Pearce is only allowing an inflationary increase over the average. This does not take into account legitimate increases in 2013 costs compared to the five year average. As mentioned in my rebuttal testimony, part of the increase is due to higher benefit costs.

Q. **Are the benefit costs increases included in Schedule 14.02P included in the benefit costs that Utilities witness Ms. Phillips has presented in PGL Ex. 11.1?**

A. Yes.

Q. **Has Ms. Pearce or any other Staff witness in either their direct or rebuttal testimony proposed to disallow any of the benefit costs proposed by Ms. Phillips?**

A. No.

Q. **Should the increase in benefit costs billed from IBS for 2013 be allowed even if they are over the 2008-2012 average inflated by 2.2%?**

A. Yes, the total increase in benefit costs should be allowed because they have been fully supported by Ms. Phillips and no reason has been given to disallow them. This amounts to $5,194,000 over the 2008-2012 average on Schedule 14.02P. *See* NS-PGL Ex. 41.2P.

Q. Setting aside its merits, are Ms. Pearce's adjustments to IBS costs correctly calculated?

A. No. Her 5-year average includes an annualized 2012 number, which includes 11 months of actual data. However, the last month of the year, based on 2008-2011 actuals, is a month with relatively large amounts of IBS services rendered. By not including an average of historical December numbers and, instead, annualizing 2012 data, her average of 2008-2012 is understated and, as a result, her adjustment is overstated. The December IBS bill is now available and should be used instead of the annualized amount. Using this number would reduce her adjustment by $3,383,000. *See* NS-PGL Ex. 41.3P.

B. <u>Proposed Adjustments of AG Witness Michael Brosch</u>

Q. Did you review the testimony of AG witness Mr. Brosch (AG Ex. 4.0)?

A. Yes.

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

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

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

A. Mr. Brosch proposes to disallow two specific IBS home centers costs and IBS depreciation for amounts that he says are unexplained increases to both Peoples Gas and North Shore. (*See* AG Ex. 4.1, Schedule C-8, and AG Ex, 4.2, Schedule C-8).

Q. Do you agree with Mr. Brosch's proposed adjustment to IBS depreciation?

A. While I agree in theory with his adjustment, I believe there is an error in his calculation and I do not agree with using the updated rate of return proposed by the AG. The Utilities' proposed adjustments for IBS depreciation are reflected in NS-PGL Ex. 42.2N and 42.2P.

Q. What is the error in the calculation?

A. Mr. Brosch's adjustment assumes only six months of depreciation. If the WAM GAP project (Work Asset Management project to enhance functionality that missing in the first release) goes into service in June 2013, there will be seven months of depreciation. This will result in a slightly lower adjustment. *See* NS-PGL Ex. 41.4P and 41.4N for details.

Q. Do you agree with Mr. Brosch's proposed rate of return?

A. While I agree the rate of return needs to be updated, it should be the rate of return that is approved in the Commission's order, not the rate of return proposed by the AG. Moreover, the Utilities do not agree with the AG's proposed rate of return, as discussed

in the surrebuttal of Utilities witnesses Ms. Gast and Mr. Moul (NS-PGL Exs. 38.0 and 39.0, respectively).

Q. Do you agree with Mr. Brosch's proposed adjustments to the two IBS home centers?

A. No, I do not. His adjustment to the Corporate Controller home center is mainly due to the increased outside services related to convergence standards and International Financial Reporting Standards ("IFRS"). A list of convergence standards being implemented in 2013 to support those increases was included in response to data request AG 13.11. *See* NS-PGL Ex. 41.5. While it is not known whether or not IFRS will have to be implemented yet, those that are not effective in 2013 will still require analysis and consultation in 2013 as is anticipated when the Financial Accounting Standards Board determines the time period between the final standard and implementation dates. For instance the anticipated implementation date for the lease standard is 2016. This is due to the anticipated workload that companies will face in implementing the standard. If a decision is made this year, these costs should be recoverable.

His other adjustment is to the Legal home center, which he states has been overstated in the 2013 forecast period. In data response AG 12.19 (*See* NS-PGL Ex. 25.3P), total non-IBS legal amounts were given for 2010-2013. Annualizing 2012 would result in a 2010-2012 average of $7,421,000. Applying a 2.2% inflation rate would result in a 2013 number of $7,585,000 compared to the 2013 forecast of $7,537,000, not a material difference. *See* NS-PGL Ex. 41.6. However total IBS legal amounts have increased due to a forecasted increase in external legal fees since they have held steady since 2008.

Q. Please describe Mr. Brosch's proposed productivity gain adjustments.

A. Mr. Brosch proposes a one half percent per year productivity adjustment to test year non-fuel Operations and Maintenance ("O&M") expenses and, because both 2012 and 2013 were forecasted in the rate case filings, he is proposing a one percent adjustment. (See AG Ex. 4.1, Schedule C-4, and AG Ex, 4.2, Schedule C-4).

Q. Do you agree with Mr. Brosch's proposed productivity gain adjustments?

A. No, I do not agree with Mr. Brosch's proposed productivity gain adjustments for several reasons. First, he has not given support for the percentages he is proposing. He just states that the Utilities should be expected to strive to achieve targets that have been found to be applicable to other utilities in the industry. He then cites New York and California as examples but provides no evidence about the factors applied in those states, their derivation, or why they would be applicable to the Utilities. Second, for Hawaiian Electric Company, he provides a link to a tariff that appears to include a productivity adjustment among several other, formulaic rate adjustments and a revenue sharing mechanism associated with earnings above the allowed return on equity. That ratemaking approach is not comparable to this proceeding, and it is not apparent that the level of the productivity adjustment is reasonable outside of that context. I also note that Staff witness Mr. Ostrander found the proposal deficient.

Q. Does this complete your surrebuttal testimony?

A. Yes.