

**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

**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 Surrebuttal Testimony	1
C. Summary of Conclusions	1
D. Attachments to Testimony	2
II. UNCONTESTED ISSUES	2
III. STAFF’S ADJUSTMENT TO NORTH SHORE’S RATE BASE IS NOT NECESSARY	2
IV. STAFF AND INTERVENOR ADJUSTMENTS TO PROPOSED PROJECTS	3
A. Legacy Sewer Lateral Cross Bore Program	3
B. Plastic Pipefitting Remediation Project	5
C. New Chicago Department of Transportation Regulations	7
D. Calumet System Upgrade	8
V. FORECASTED LABOR EXPENSES	10

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, supplemental direct**  
7 **testimony and rebuttal 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 Surrebuttal Testimony**

12 **Q. What is the purpose of your surrebuttal 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, Seagle, Burk, and  
15 Sackett, Illinois Attorney General (“AG”) witness Mr. Brosch, and the Citizens Utility  
16 Board and City of Chicago (“CUB-City”) witness Mr. Smith relating to adjustments to  
17 forecast additions to utility plant, specific Utilities’ projects, and employee headcount.

18 **C. Summary of Conclusions**

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

20 **A.** I conclude as follows:

- 21 • Even though it continues to disagree with the following adjustment, in order to  
22 narrow the issues, Peoples Gas no longer objects to the removal of the CNG  
23 fueling station from rate base.

- 24 • 2013 forecasted utility plant additions for North Shore are justified based on our  
25 historical forecasting accuracy and actual expenditures allowing for unforeseen  
26 external changes that cause both positive and negative variances.
- 27 • The forecast for 2013 capital expenditures is accurate with updated values for the  
28 Calumet Upgrade Project and non-AMRP Gas Services. The Operating &  
29 Maintenance (“O&M”) expenses are prudent and reasonable and the capital costs  
30 are prudently undertaken, are reasonable in cost, and will be used and useful in  
31 providing utility service.
- 32 • Peoples Gas’ 2013 headcount forecast is appropriate and supported by current and  
33 planned employee staffing changes based on business need.

34 **D. Attachments to Testimony**

35 **Q. Please describe the attachments to your surrebuttal testimony.**

36 A. I have three attachments to my surrebuttal testimony:

- 37 • NS-PGL Exhibit (“Ex.”) 44.1 is data request response NS DGK 4.04 SUPP;  
38 • NS-PGL Ex. 44.2 is the Pipeline and Hazardous Materials Safety Administration  
39 (“PHMSA”) waiver granted to Enstar; and  
40 • NS-PGL Ex. 44.3 is the approved business case for the Calumet Upgrade Project.

41 **II. UNCONTESTED ISSUES**

42 **Q. Staff witnesses Messrs. Seagle and Sackett propose adjustments to remove the CNG  
43 fueling station addition to Peoples Gas’ rate base for the year ending December 31,  
44 2013. (Staff Ex. 16.0, 13:254-378; Staff Ex. 21.0) Do you agree with Staff’s  
45 adjustment?**

46 A. Even though it continues to disagree with Staff’s adjustment, in order to narrow the  
47 issues, Peoples Gas no longer objects to the adjustment.

48 **III. STAFF’S ADJUSTMENT TO NORTH SHORE’S  
49 RATE BASE IS NOT NECESSARY**

50 **Q. Staff witness Mr. Kahle continues to recommend an adjustment to reduce  
51 forecasted additions to North Shore’s plant-in-service for the year ending December**

52 **31, 2013, based on the historical spending pattern for budgeted capital expenditures**  
53 **for 2009, 2010, and 2011. (ICC Staff Ex. 12.0, 12:246-323) Do you agree with Mr.**  
54 **Kahle's adjustments?**

55 A. No, I do not. For all the reasons stated in my rebuttal testimony, the adjustment should  
56 be rejected as North Shore has spent more than budget for plant-in-service in three of the  
57 last six years. As acknowledged by Mr. Kahle, external factors have influenced North  
58 Shore's plant-in-service and these variances have been both high and low. If the  
59 Commission determines that an adjustment is appropriate and a historical spending  
60 pattern is to be used, the last five years (2008-2012) would be more appropriate as it is  
61 reflective of current spending patterns, particularly public improvement projects, and it is  
62 a long enough period that it does not inappropriately skew the average high or low based  
63 on an unusual year. Please see NS-PGL Ex. 44.1, North Shore's supplemental response  
64 to Staff data request DGK 4.04, for 2012 data.

65 **IV. STAFF AND INTERVENOR ADJUSTMENTS TO PROPOSED PROJECTS**

66 **A. Legacy Sewer Lateral Cross Bore Program**

67 **Q. Staff witnesses Messrs. Seagle and Burk and AG witness Mr. Brosch propose**  
68 **adjustments to reduce the Utilities' O&M expenses for the legacy sewer lateral cross**  
69 **bore program in the 2013 test year. (Staff Ex. 16.0, 11:164-198 and 19.0, 4:44-79**  
70 **and AG Ex. 4.0, 49:1079-1100). Do you agree with the Staff and AG adjustments?**

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

72 **Q. Mr. Seagle's adjustment is based on Staff witness Mr. Burk's testimony which**  
73 **provides "It is my opinion that the fact that PGL has identified locations where gas**  
74 **pipelines have been bored through sewers (NS-PGL Ex. 28.0 Rev., pp. 6-7)**

75 **establishes that the PGL procedures were either inadequate or not followed.” Staff**  
76 **Ex. 19.0, 5:77-79. How do you respond?**

77 A. Peoples Gas’ horizontal directional drilling (“HDD”) procedures are well-developed and  
78 consistent with industry standards and the Gas Pipeline Technology Committee  
79 (“GPTC”) guidelines. For example, Peoples Gas’ HDD procedures focus on safety, with  
80 a specific emphasis on not striking underground utilities. Furthermore, through our  
81 Technical Training Department, Peoples Gas provides detailed training to all affected  
82 employees, as the operation of HDD equipment is an operator qualified (“OQ”) task. The  
83 OQ training includes, but is not limited to, one-half day in the classroom, one-half day in  
84 the field, and ten days of on-the-job-training. Peoples Gas also supervises its crews and  
85 conducts regular safety inspections. Despite Peoples Gas’ best and reasonable efforts,  
86 there is still a possibility during HDD that gas lines may intersect into sewer lines, known  
87 as cross-bores. The GPTC guidelines indicate that the gas operator may be unable to  
88 locate sewer lines, and state, among other things, that “Damage may not be readily  
89 apparent when a sewer, particularly a gravity flow system, is pierced by a boring  
90 machine” (GPTC Guide for Gas Transmission and Distribution Piping Systems, section  
91 192.321, guide material 6 (d) (3)). Over time, Peoples Gas has learned and continues to  
92 learn about the complexity of the City of Chicago’s underground sewer system,  
93 including, as an example, that sewer laterals do not always run on a straight angle from a  
94 structure to the sewer main line and can have localized dramatic changes in elevations.  
95 Mr. Burk’s assertion that Peoples Gas’ procedures were inadequate or not followed is  
96 wholly conclusory and unsubstantiated. To the contrary, Peoples Gas has adopted  
97 extremely detailed procedures consistent with industry standards, and Peoples Gas trains

98 and supervises its employees regarding these procedures. Thus, the costs related to the  
99 legacy sewer lateral cross bore program are prudent and reasonable, and Staff's  
100 adjustment as proposed by Mr. Seagle for the Utilities is without merit and should be  
101 rejected.

102 **Q. AG witness Mr. Brosch also proposes an adjustment to remove costs included in the**  
103 **Utilities' test year operations and maintenance expenses for cross bore investigation**  
104 **because work has not started on the legacy cross bore program at this time. (AG Ex.**  
105 **4.0, 49:1079-1100). Do you agree with Mr. Brosch's adjustment?**

106 A. No, I do not. While the Utilities have not started the legacy program, a 2013 test year  
107 project, it has been investigating for cross bores as part of the Accelerated Main  
108 Replacement Program ("AMRP") follow ups, which is investigating AMRP services  
109 installed in 2012. Resources for the project are temporarily assigned from other work.  
110 Permanent assignments will be made when the program begins in 2013 and then  
111 backfilled as appropriate. Therefore, contractors are already in the field performing  
112 inspections for the 2012 AMRP work as described above. At this point it is only a matter  
113 of sending out a request for bids, and selecting a contractor to begin the 2013 legacy  
114 inspection program. This is planned for the first quarter of 2013, the test year.

115 **B. Plastic Pipefitting Remediation Project**

116 **Q. On the subject of plastic pipe fittings, Mr. Seagle recommends disallowance of the**  
117 **costs associated with the plastic pipe fitting remediation by relying on Mr. Burk's**  
118 **testimony that Peoples Gas did not qualify for a Special Permit. Do you have any**  
119 **response?**

120 A. Yes, I disagree with Mr. Burk’s conclusion. Notably, Mr. Burk does not deny or rebut  
121 that an industry-recognized expert concluded that the plastic fittings, as installed, were  
122 safe. Mr. Burk identifies only one violation of Part 192, specifically, that the plastic  
123 fittings were not properly marked in accordance with section 192.63. This violation,  
124 however, does not relate to the safety or integrity of the plastic fittings that were  
125 installed. Nonetheless, Mr. Burk states that PHMSA would not have granted Peoples  
126 Gas a Special Permit because it installed the unmarked plastic fittings prior to applying  
127 for a Special Permit. In support of his assertion, Mr. Burk incorrectly relies on sub-  
128 section 190.341(b), which requires that the operator submit the application for the Special  
129 Permit at least 120 days prior to the effective date of the granting of the Special Permit.  
130 Sub-section 190.341(b) does not state that the operator must apply for the Special Permit  
131 prior to installing non-compliant equipment. The reason for this 120-day period is  
132 because sub-section 190.341(d) requires PHMSA to allow for public notice and  
133 comment, before granting the Special Permit.

134 The terms and contents of the application for the Special Permit are set forth in  
135 sub-section 190.341(c), and the grounds to grant or deny an application for a Special  
136 Permit are set forth in sub-section 190.341(d)(2). These sub-sections do not require that  
137 an operator submit an application prior to installing the equipment. To the contrary, the  
138 standard is specifically that the application for a Special Permit may be granted if the  
139 request is not inconsistent with pipeline safety. (49 CFR 190.341(d)(2)). Indeed, in the  
140 Pipeline Inspection, Protection, Enforcement and Safety Act of 2006 (“PIPES Act”; an  
141 amendment to the Natural Gas Pipeline Safety Act), Congress confirmed PHMSA’s  
142 longstanding practice to grant waivers for compliance with regulatory requirements so

143 long as the operator's request is not inconsistent with pipeline safety and the public has  
144 an opportunity for notice and comment. Thus, in 2008, pursuant to the PIPES Act,  
145 PHMSA promulgated section 190.341, in which PHMSA confirmed the procedures to  
146 apply for Special Permits and Emergency Special Permits.

147 In fact, PHMSA has entertained and granted applications for Special Permits after  
148 non-compliant equipment had been installed. For example, on December 5, 2005,  
149 PHMSA granted a waiver to Enstar Natural Gas Company ("Enstar") with regard to  
150 compliance with section 192.321(e) regarding the installation of plastic pipe. In that  
151 case, Enstar had already installed the non-compliant plastic pipe and then sought a  
152 waiver, which PHMSA granted, on the ground that the request was not inconsistent with  
153 pipeline safety. (See NS-PGL Ex. 44.2). Similarly, Peoples Gas installed certain plastic  
154 pipe fittings that were not compliant with Section 192.63 because they were not properly  
155 marked. Peoples Gas was diligent in investigating the issue and made a full disclosure to  
156 the Commission's Pipeline Safety Section. As part of its investigation, Peoples Gas  
157 retained an industry-recognized expert to evaluate the fittings that were installed. The  
158 expert opined, and Mr. Burk did not testify otherwise, that even though the fittings were  
159 not marked, they were safe. As a result, Peoples Gas would qualify for a Special Permit.

160 **C. New Chicago Department of Transportation Regulations**

161 **Q. AG witness Mr. Brosch and CUB-City witness Mr. Smith propose reductions for**  
162 **these expenses based on Peoples Gas' costs in the fourth quarter of 2012 (AG Ex.**  
163 **4.0, 45:999-1078 and CUB-City Ex. 2.0, 49:1080-1165). Do you agree with Messrs.**  
164 **Brosch's and Smith's adjustments?**

165 A. No, I do not. As described in the Peoples Gas response to data request PGL AG 16.25,  
166 the expenses from nearly all of these new regulations are starting to occur in January  
167 2013 (some initial degradation fees were starting to occur in 2012). Therefore, the use of  
168 the fourth quarter of 2012 to predict 2013 costs is flawed as it does not reflect the actual  
169 costs that Peoples Gas will experience starting in 2013. In addition, while Peoples Gas  
170 continues to work with the City on understanding and implementing these new  
171 regulations, the costs from many of the new regulations (e.g., trench backfill, new cross  
172 walks, joint sealant, etc.) are entirely within the control of Peoples Gas, which allows the  
173 accurate estimation of the costs and timing of the costs. In the case of the regulation fees  
174 issued by the City (i.e., degradation fee and parking fee), Peoples Gas is already seeing  
175 these fees issued by the City. I note that Staff witness Mr. Seagle has withdrawn his  
176 adjustment for these costs.

177 **D. Calumet System Upgrade**

178 **Q. Staff witness Mr. Seagle proposes adjustments to reduce Peoples Gas' rate base**  
179 **related to the Calumet System Upgrade in the 2013 test year. (Staff Ex. 16.0,**  
180 **10:199-253) Do you agree with Mr. Seagle's adjustment?**

181 A. No, I do not. Mr. Seagle expressed concerns with the lack of a firm cost estimate and  
182 subsequent executive approval. Actually, significant progress continues to be made  
183 which, as described in previous responses to data requests, has allowed for the finalizing  
184 of the scope of the work in 2013 and its cost. This 2013 scope of work is described in the  
185 approved business case and includes the replacement of the northern portion of Calumet  
186 #2, key station work, and crossing design work (NS-PGL Ex. 44.3). This business case  
187 has received executive approval and will be presented for approval at the February

188 Integrys Board of Directors meeting. As part of the numerous internal reviews for a  
189 project of this importance and magnitude, revisions have been made to the project plan.  
190 As one can see in the attached business case, 2013 costs are planned to be \$38,285,500.  
191 The change in work in 2013 (from \$50,000,000 to \$38,285,500) is a result of prioritizing  
192 the most important improvements and including their construction in 2013 and  
193 subsequently moving other aspects of the upgrade to 2014 and 2015. Significant progress  
194 on this project includes the line-of-lay feasibility studies for Calumet #3, coordination  
195 with Chicago Department of Transportation (CDOT) on the Calumet #3 schedule,  
196 wetlands surveys for the entire system, and the awarding of \$1.0 million in engineering  
197 costs for the most critical upgrades for the 2013 scope of construction. This engineering  
198 work is already underway with the completion of heater and regulator sizing. In addition,  
199 bids have been received and the engineering for the remaining 2013 work and significant  
200 portions of the 2014 and 2015 work will be awarded in February 2013. Also, very  
201 significant to the construction schedule is the fact that the 24" steel pipe (a long lead time  
202 item) necessary for the 2013 Calumet #2 upgrade is already on hand. I believe it is  
203 important to note that Mr. Seagle did not question the importance of this project. The  
204 Calumet System Upgrade will improve the safety and reliability of a high risk  
205 transmission line located in the high consequence area of the City of Chicago. Peoples  
206 Gas considers this a vital project and has committed significant resources to the project  
207 with the backing of senior executive management.

208 **Q. As part of a detailed analysis of all aspects of 2013 capital costs for Peoples Gas**  
209 **following the update to the Calumet System Upgrade project, did Peoples Gas**  
210 **discover an item was understated?**

211 A. Yes. Based upon our review, it was discovered that Non-AMRP Gas Services was  
212 significantly under-estimated. Non-AMRP Gas Services includes the capital work on  
213 Peoples Gas' system that adds new services for customers outside of the AMRP projects  
214 as well as other capital replacements to existing services. Non-AMRP Gas Services was  
215 estimated at \$4,359,396 for 2013. However, for 2010, 2011 and 2012, Non-AMRP Gas  
216 Services was \$26.0 million, \$18.5 million, and \$24.5 million, respectively, for an average  
217 of \$23.0 million. Therefore, Non-AMRP Gas Services will be increased by the amount  
218 of the reduction of the Calumet System Upgrade from \$4,359,396 to \$16,073,896.

219 **V. FORECASTED LABOR EXPENSES**

220 **Q. AG witness Mr. Brosch proposes an adjustment to reduce forecasted payroll costs**  
221 **included in the Utilities' test year operations and maintenance expenses. (AG Ex.**  
222 **4.0, 14:301-448) Do you agree with Mr. Brosch's adjustment?**

223 A. No, I do not. For all the reasons stated in my rebuttal testimony, the adjustment should  
224 be rejected as Peoples Gas has aggressively worked to fill these positions and will  
225 continue to fill these positions as part of improved compliance with federal and state  
226 pipeline safety regulations and the accelerated main replacement project.

227 **Q. Do you have any further comment?**

228 A. Mr. Brosch appears to have misunderstood the information regarding the utility worker  
229 school created by Peoples Gas in partnership with the City Colleges of Chicago and the  
230 UWUA Power for America Training Trust Fund at the Dawson Technical Institute in  
231 Chicago. This school has been very successful, providing highly qualified employees for  
232 Peoples Gas. However, the length of time to establish the school with the number of  
233 parties involved did result in utility workers being added later than originally anticipated.

234 As a result, the headcount for Peoples Gas did track behind its budgeted number in this  
235 area. With the school now in place, Peoples Gas has been able to add utility workers to  
236 its work force and the ability to add utility workers in the future has been greatly  
237 enhanced and can happen very quickly.

238 **Q. Does this complete your surrebuttal testimony?**

239 **A. Yes.**