

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

PHILIP M. HAYES

Director, Project Management
Integrus Business Support, LLC

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

PUBLIC VERSION

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

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

4 **A.** My name is Philip M. Hayes. My business address is 130 E. Randolph Street, Chicago,
5 Illinois, 60601.

6 **Q. Are you the same Philip M. Hayes who submitted direct testimony, supplemental**
7 **direct testimony and rebuttal testimony on behalf of The Peoples Gas Light and**
8 **Coke Company (“Peoples Gas”) in these consolidated dockets?**

9 **A.** Yes.

10 **B. Purpose of Surrebuttal Testimony**

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

12 **A.** The purpose of my surrebuttal testimony is to address the rebuttal testimony of Illinois
13 Commerce Commission (“Commission” or “ICC”) Staff (“Staff”) witnesses Mr. Brett
14 Seagle (Staff Exhibit (“Ex.”) 16.0) and Mr. Phillip Roy Buxton (Staff Ex. 20.0) with
15 respect to the Accelerated Main Replacement Program (“AMRP”). I also address the
16 rebuttal testimony of Illinois Attorney General (“AG”) witness Mr. David Effron (AG
17 Ex. 5.0) concerning the level of AMRP costs in Constriction Work In Progress
18 (“CWIP”).

19 **C. Summary of Conclusions**

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

21 **A.** Staff witness Mr. Seagle’s disallowance of 2012 and 2013 AMRP costs should be
22 rejected as those costs are prudently incurred, reasonable in cost, and are or will be used

23 and useful in providing service to Peoples Gas' customers. Mr. Buxton's
24 recommendation of an investigation of AMRP under Section 8-102 of the Public Utilities
25 Act is equally without basis in fact and should be rejected. Finally, AG witness Mr.
26 Effron's reducing CWIP for AMRP related costs is unsupported by the evidence that
27 these facilities will be placed in service and serving customers during the test year.

28 **D. Attachments to Testimony**

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

30 A. I have ten attachments to my testimony:

- 31 • NS-PGL Ex. 49.1: the qualifications of Jacobs Consultancy and Jacobs Project
32 Management;
- 33 • NS-PGL Ex. 49.2: 2012 AMRP Project Listing
- 34 • NS-PGL Ex. 49.3: Examples of ICC Pipeline Inspection Reports
- 35 • NS-PGL Ex. 49.4: Jacobs Utilities Practice Interactions
- 36 • NS-PGL Ex. 49.5: Review and Meeting regarding management of the AMRP
37 schedule
- 38 • NS-PGL Ex. 49.6: Revised Budget Forecasts for 2012 and 2013;
- 39 • NS-PGL Ex. 49.7: Actual Contractor Award Amounts for each of the 2012
40 AMRP projects;
- 41 • NS-PGL Ex. 49.8: 2013-2014 AMRP Budget Forecasts;
- 42 • NS-PGL Ex. 49.9: 2012 AMRP Weekly Reports; and
- 43 • NS-PGL Ex. 49.10: AMRP Master Schedule dated January 4, 2013

44 **II. ACCELERATED MAIN REPLACEMENT PROGRAM**

45 A. **A Section 8-102 Investigation is Unnecessary and Should be Rejected**

46 **Q. Staff witness Mr. Buxton recommends "that the Commission's Order in this**
47 **proceeding direct Staff to: (1) design an investigation of Peoples' AMRP that has a**
48 **scope as described in my testimony below; (2) issue a request for proposals for the**
49 **investigation; (3) hire an engineering consulting firm to perform the investigation;**

50 **and (4) provide a project manager to oversee the engineering consulting firm's**
51 **work.” Staff Ex. 20.0, 3:46-50. How do you respond?**

52 A. Mr. Buxton's recommendation is not supported by fact and distorts the evidence in this
53 proceeding. As such, it should be rejected.

54 **Q. Please explain.**

55 A. For instance, Mr. Buxton argues that

56 Peoples first proposed its AMRP in its rate case filing in Docket No. 09-
57 0167 on February 25, 2009. It presented its case in favor of its AMRP and
58 convinced the Commission and Staff to support the program. Since that
59 time, Peoples' AMRP has not performed well. It started construction
60 behind schedule and has fallen farther behind schedule since that time,
61 while consuming its budget on what little work it does complete. Now,
62 four years after Peoples proposed it, the AMRP has accomplished little.
63 There is no reason for the Commission to believe that Peoples can
64 complete its AMRP in 20 years as it convinced the Commission it should
65 back in 2009 and no way for the Commission to know what the completed
66 AMRP will cost.

67 Staff Ex. 20.0, 8:154-163. The fact that Mr. Buxton would claim that “four years after
68 Peoples proposed it, the AMRP has accomplished little” demonstrates his unfamiliarity
69 with the facts and apparently construction management for a project on the scale of
70 AMRP.

71 **Q. Please provide a brief history and timeline of main replacement activities.**

72 A. As I explained in direct testimony, in fiscal year 1981, based on a study performed by
73 Zinder Engineering, Peoples Gas decided to replace its predominantly cast iron and
74 ductile iron main system with cathodically protected steel and plastic main; at that time
75 cast iron and ductile iron main represented 3,450 miles out of the total of 4,031 miles of
76 main in Peoples Gas' distribution system, or 86%. Updating its study in 1993 and again

77 in 2002, Zinder Engineering concluded that it would be reasonable and prudent to
78 complete main replacement by 2050. By the end of 2009, the percentage of cast iron and
79 ductile iron main in Peoples Gas’ distribution system had been reduced to 46%, or 1,870
80 miles of cast iron and ductile iron main out of a total 4,086 miles of mains. However,
81 given the importance of the project and the substantial investment required, Peoples Gas
82 proposed an accelerated main replacement program and a cost recovery mechanism in its
83 2009 rate case (Docket Nos. 09-0166/0167 (cons.)). Peoples Gas’ proposal was supported
84 by Salvatore D. Marano¹ of Jacobs Consultancy, Inc., whose experience includes leading
85 assignments in the area of cast iron, ductile iron, steel and plastic replacement programs
86 and risk model assessments and advising on policy decisions relating to the management
87 of those materials. Docket Nos. 09-0166/0167 (cons), Peoples Gas Exs. SDM-1.0 Rev.,
88 11:205-12:208. In fact, his experience included in part being “intimately involved with
89 the direct management of gas systems at both Con Edison and Elizabethtown Gas that
90 operated in very dense urban areas and contained large amounts of cast iron and ductile
91 iron materials.” Id. at 12:213-216. Mr. Marano concluded that Peoples Gas has been
92 proactive in addressing main replacement and “has undertaken reasonable and innovative
93 operations and management techniques to achieve compliance with all
94 recommendations” in the Zinder Engineering and the Kiefner and Associates reports.
95 (Kiefner and Associates conducted a study in 2007.) No party disputed this conclusion.
96 In its final order dated January 21, 2010, the Commission approved Rider ICR. Although
97 an appellate court later overturned the Commission’s approval, Peoples Gas is proceeding
98 with the AMRP.

¹ Docket 09-0166/0167 (cons)., Peoples Gas Exs. SDM-1.0 Rev., SDM-2.0, and SDM-3.0 Rev.

99 **Q. What were Peoples Gas' next steps once the Commission approved Rider ICR?**

100 A. Following the Commission's final Order in early 2010, Peoples Gas embarked upon the
101 overall program planning that included (1) system studies assessing the areas of the gas
102 distribution system to be targeted for replacement, partnering with Jacobs Consultancy as
103 the Project Management Office ("PMO") consultant, (2) identification of resource needs,
104 (3) development of staffing plans, and (4) engineering planning. By June 2010, the PMO
105 staff mobilization had begun, establishment of program execution plans were in
106 development, Engineering Design Consultants were selected and engaged, and
107 engineering plans were being completed. In early fall 2010, detailed engineering plans
108 were being submitted to the City of Chicago's Office of Underground Coordination
109 ("OUC") for review by its members, staffing levels were increasing, field construction
110 site staffing plans for inspection, quality, and safety were finalized, and Construction
111 Installation Contractors were being identified. At this time, a Project Labor Agreement
112 was also being developed between Peoples Gas and the labor trade unions. In January
113 2011, Peoples Gas prequalified Construction Installation Contractors. Then Requests For
114 Proposals were sent out to the prequalified contractors, pre-bid meetings were held, and
115 bids were received, evaluated, and awarded. Construction permits were being requested
116 from the City and received.

117 **Q. Following almost a year and a half of careful planning, when did construction work
118 for AMRP begin?**

119 A. In May 2011, the start of AMRP construction began. Four additional bids lettings
120 occurred in 2011 awarding additional construction projects. Detailed engineering of the
121 2012 projects was occurring during the summer and fall of 2011 to support the OUC

122 reviews and bid letting that occurred in late 2011 and early 2012 for the 2012 award
123 construction work. In February 2012, contracts were awarded to the construction
124 contractors and this would be the first full year of construction.

125 **Q. What is the scope of the AMRP 20 year plan?**

126 A. There are four main system upgrade goals for AMRP: (1) to retire 1,862 miles of cast
127 iron/ductile iron gas distribution mains; (2) to upgrade approximately 300,000 service
128 pipes; (3) to relocate gas meters from inside of customer facilities to outside; and (4) to
129 upgrade the gas distribution system from a low pressure to a medium pressure system.
130 The overarching goal of these four main construction goals will be to accomplish them in
131 a manner that delivers safety to the public and Peoples Gas employees, quality of
132 workmanship, and efficiency of cost to our customers and other stakeholders. To
133 accomplish the amount of work in 20 years, Peoples Gas will have to average
134 approximately 93 miles of cast iron/ductile iron retirement and upgrade approximately
135 15,000 service pipes annually. To achieve the conversion of the gas distribution system
136 to a medium pressure system, approximately 50 miles of new high pressure interstation
137 main will have to be installed in total. The rate of the interstation main installation will
138 be dependent on the distribution system retirements, pressure regulator station additions,
139 and the overall gas system needs as the low pressure system is converted over time.

140 **Q. Based on construction work that began in May 2011, what has Peoples Gas**
141 **accomplished?**

142 A. 287 miles of new polyethylene gas distribution main has been installed (155 miles in
143 2011 and 132 miles in 2012). 142 miles of cast iron/ductile iron gas distribution main
144 has been field retired (24 miles in 2011 and 118 miles in 2012). 227 miles have been

145 completely restored (85.3 miles in 2011 and 141.6 miles in 2012). 23,619 new service
 146 pipes have been installed (10,330 services in 2011 and 13,289 in 2012). 42,172 new
 147 meter regulator sets have been installed (14,004 in 2011 and 28,168 in 2012). Four miles
 148 of high pressure steel interstation main has been installed.

149 **Q. In 2011, how many miles of gas distribution mains and service upgrades were**
 150 **awarded to the construction contractors?**

151 A. 188 miles of new main (which would allow for retirement of 122 miles of cast
 152 iron/ductile iron mains) and 16,861 services were awarded.

153 **Q. In 2012, how many miles of gas distribution mains and service upgrades were**
 154 **awarded to the construction contractors?**

155 A. 165 miles of new main (which would allow for retirement of 116 miles of cast
 156 iron/ductile iron mains) and 14,575 services were awarded.

157 **Q. How does the work completed in 2011 and 2012 compare to work completed before**
 158 **the approval of Rider ICR?**

159 A. In 2009, 43 miles of new gas mains were installed and 27 miles of old gas mains were
 160 retired. In 2010, 33 miles of new gas mains were installed and 23 miles of old main were
 161 retired. The chart below demonstrates the progress made by AMRP:

	2009	2010	2011	2012
New Gas Mains Installed (miles)	43	33	155	132
Old Mains Retired (miles)	27	23	24	118
Miles Restored	Not Available	Not Available	85.3	141.6
New Service Pipes	Not Available	Not Available	10,330	13,289
New Meter Regulator Sets	Not Available	Not Available	14,004	28,168

High Pressure Steel Interstation Main Installed (miles)	Not Available	Not Available	0.7	3.5
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163 **Q. Do you agree with Mr. Buxton that Peoples Gas’ AMRP has “accomplished little”?**

164 A. Absolutely not.

165 **Q. As provided in testimony in Docket Nos. 09-0166/09167 (cons.), what were the**
 166 **expectations of the early years of AMRP?**

167 A. The testimony indicated that ramp up in the first five years of construction would be
 168 necessary to achieve the long term annual goals of the program. In Docket Nos. 09-
 169 0166/0167 (cons.), Peoples Gas Ex. SDM-1.0 Rev., 73:1391 – 1401, Mr. Marano testified
 170 that

171 This program will involve a need to hire both union and management
 172 company personnel and outside contractors. This was considered in
 173 selecting the replacement period. To effectively address the resourcing
 174 issues, we would expect that a program resource and skills assessment and
 175 staffing plan be developed prior to 2011. The accelerated replacement
 176 program will need to be ramped up. In our cost benefit analysis we have
 177 included a five-year ramp up period and two-year ramp down period. As
 178 stated previously in this testimony, incremental investment will be
 179 necessary. A portion of the incremental investment will take place during
 180 the initial two years, which should enable the transition to the peak main
 181 replacement level. PGL has recognized the need to address this issue.

182 I believe that AMRP has done extensive planning and development in 2010 and into 2011
 183 and construction production has increased during the first two years of construction
 184 during the period 2011 and 2012. AMRP touches almost every part of Peoples Gas’
 185 organization and implementing new procedure and guidelines, stretching individuals in
 186 their daily activities, moving employees into new roles, hiring of new employees and

187 training them, adapting to a new approaches, and instilling a new culture is not to be
188 understated. This part of the program development coupled with the willingness and
189 flexibility of our employees to do “whatever it takes” to support AMRP has been
190 outstanding. Efforts and contributions of employees, consultants, and contractors have
191 been significant to the program and hence I think AMRP aligns very well with the
192 expectations of the accelerated program discussed in the 2009 rate case proceedings. In
193 fact, in rejecting Staff’s witness Mr. Stoller’s recommendation that approval of Rider ICR
194 should be contingent on a separate docketed proceeding, the Commission concluded in its
195 Final Order in Docket Nos. 09-0166/0167 (cons.) that:

196 Thus, we remain unconvinced regarding Mr. Stoller’s assertion that
197 approval of the plan be contingent on a separate docketed proceeding.
198 Indeed, we note that Mr. Marano testified that Jacobs and PGL have
199 examined the initial actions needed to begin the accelerated program and
200 carry it through the ramp-up period. He further explained that the tasks
201 outlined in the implementation program are starting up.

202 It appears to me that the Commission was aware that planning activities were just
203 beginning at the time of its Order and that there would be a ramp up period. Staff is now
204 renewing its efforts to bring a docketed proceeding during the ramp up period. As such,
205 it should be rejected.

206 **Q. It would appear that the awarded volume of mains and services is greater than the**
207 **recent history at Peoples Gas. Why is that?**

208 A. It is Peoples Gas’ belief that establishing more aggressive installation goals in the first
209 two years of construction would set the program in momentum that is critical to success.
210 As experienced in the second year of AMRP construction, the number of field retired
211 miles of cast iron and ductile iron main, the number of service pipes, the number of meter

212 regulator sets, and the amount of final restoration have all increased over the first year of
213 AMRP construction.

214 **Q. Mr. Buxton complains of problems with AMRP, such as permitting. Have there**
215 **been issues that Peoples Gas has dealt with and resolved associated with this**
216 **aggressive ramp up of AMRP?**

217 A. Yes. As submitted in response to Staff data request ENG 2.09 and cited in Mr. Buxton’s
218 rebuttal testimony, AMRP experienced some issues in 2011, the first year of
219 construction, associated with the timely response from the OUC. We worked with the
220 OUC and refined our process where requests are submitted earlier and not in large
221 quantities. The 2012 projects reviewed by the OUC did not experience the type of
222 “delays” AMRP experienced in 2011. Similar to the OUC efforts, Peoples Gas worked
223 more closely with the Chicago Department of Transportation (“CDOT”) to levelize the
224 number of construction permit requests. This also resulted in an improvement of
225 permitting of the 2012 projects by the CDOT. Peoples Gas also worked directly with
226 CDOT’s Digger utility marking service provider Utility Resource Group, LLC (“URG”)
227 to engage them earlier in support of their planning to address the number and location of
228 future requests of AMRP. URG in turn has added staff and the issues experienced in
229 2011 *did not* occur in 2012.

230 Further, contrary to Mr. Buxton’s implications, there were no material delivery
231 issues in 2012. All material had timely lead time and delivery by all suppliers met the
232 needs of AMRP. Another area where improvement occurred was with gaining access to
233 the customer facilities. Peoples Gas initiated a process improvement to implement a
234 proactive letter writing campaign where letters were issued to customers well in advance

235 of mobilization to the project site by the construction contractor thereby all but
236 eliminating any customers that we had to “skip” commonly referred to as stragglers or
237 go-backs. By way of process improvements, the customer letter process, the material
238 delivery to the contractor, as well as the permitting process is now part of the scheduled
239 activities by project phase in the detailed logic based construction schedule. These type
240 of issues were contemplated when Peoples Gas sought approval of Rider ICR, which
241 described a ramp up in the first five years of construction that would be necessary to
242 achieve the long term annual goals of the program. Docket Nos. 09-0166/0167 (cons.),
243 Peoples Gas Ex. SDM-1.0 Rev., 73:1391 – 1401. Issues did arise in 2011, the *first* year
244 of AMRP construction, which have been resolved and have not re-occurred in 2012, the
245 *second* year and first full year of AMRP construction.

246 **Q. What have the AMRP costs been during 2011 and 2012?**

247 A. In 2011, the total AMRP costs were \$89.4 million. In 2012, the total *actual* AMRP costs
248 were \$ [REDACTED]

249 **Q. Have these expenditures been prudently incurred, reasonable in cost and are or will
250 be used and useful to serve utility customers?**

251 A. Yes. Staff has not demonstrated otherwise.

252 **Q. In Mr. Buxton’s rebuttal testimony, he raises concerns over the management of
253 AMRP and states “I believe that Peoples’ AMRP may be poorly organized and
254 managed.” (Staff Ex. 20.0, 14:302) Do you have any comments relative to these
255 statements?**

256 A. I do. In testimony supporting Rider ICR, Peoples Gas proposed development of a PMO
257 by engaging an outside consulting, professional, technical services firm in conjunction
258 with Peoples Gas and Integrys Business Support personnel and procedures. Peoples Gas
259 has engaged the services of Jacobs Consultancy and Jacobs Project Management
260 (“Jacobs”) to support the development of the PMO and the overall AMRP. Jacobs brings
261 the recognition and experience of a global consulting, engineering, and infrastructure
262 firm. See NS-PGL Ex. 49.1. The PMO has established numerous program and project
263 management guidelines and procedures. A sample listing of these include the overall
264 Program Execution Manual, Safety Guidelines, Risk Plan and Register, Communication
265 Plan, Work Process Flow Diagrams, Organizational Structure, Staffing Plans, Roles and
266 Responsibilities, Quality Plan, Training Plan, Project Controls, Project Scheduling,
267 Document Control, Reporting, General and Detailed Specifications, Construction
268 Contractor Bids and Awards, Contract Management, Construction Management, and
269 Construction Inspection. A Project Labor Agreement was developed and executed with
270 the union trades supporting AMRP. A new first class apprentice training program
271 partnership with Utility Workers Union of America and the City Colleges of Chicago was
272 developed and implemented. An executive Steering Committee oversees AMRP and
273 provides strategic input and guidance to the program. A Project Leadership team was
274 established early in 2010 (and continues today) with seven sub-teams chartered to focus
275 on development of the overall program. Weekly construction meetings are held at the
276 three shops (north, central and south) that include shop construction manager, operations
277 staff, construction engineers, construction contractors, construction inspectors, safety
278 manager, and quality managers.

279 Over the past two years, AMRP has experienced managed growth and expansion
280 of resources to meet the needs of AMRP. Staffing of the PMO has leveled off.
281 Engineering Consultants have been engaged on an increasing perspective over the past
282 two years to support the design and engineering efforts of AMRP. The number of
283 Construction Inspectors has increased over the first two years by hiring additional
284 Peoples Gas Inspectors and increasing the use of Jacobs Inspectors and other contracted
285 Inspectors to cover the peak time. Additional Peoples Gas exempt employees as well as
286 gas crew employees have been added in support of AMRP. These additions have been
287 made in the corporate office, the shops, and the field. In August of 2012, the number of
288 full-time equivalent employees inclusive of all construction workers working on AMRP
289 peaked at 1,508.

290 **Q. Does Peoples Gas lack the “expertise in every aspect of planning, designing,**
291 **constructing, maintaining, and replacing underground gas mains in Chicago” as**
292 **Mr. Buxton states? (Staff Ex. 20.0, 14:306-310)**

293 A. Based on the record in this proceeding, Mr. Buxton’s testimony on this point is at best
294 curious and at worst unsubstantiated. I also note that at no time in either the 2009 or
295 2011 rate cases has Staff questioned Peoples Gas’ ability to appropriately implement its
296 main replacement program which has been on-going since 1981. Further, based on the
297 results of AMRP 2011 and 2012 construction progress as I explain above and Peoples
298 Gas’ ability to respond quickly to increasing costs as I explain in my supplemental direct
299 testimony, Peoples Gas has demonstrated and continues to demonstrate its expertise.

300 **Q. Mr. Buxton states that AMRP is far behind schedule and that it does not have a**
301 **plan that covers the entire 20 year AMRP. (Staff Ex. 20.0, 8:154-9:163) How do**
302 **you respond?**

303 A. Mr. Buxton is simply in error and misrepresents the 2011-2012 AMRP Construction
304 Strategy – White Paper, which he attaches to his testimony (Staff Ex. 20.0, Attachment
305 20.03, Appendix B) and included in response to data request ENG 11.01. As articulated
306 in the 2011-2012 AMRP Construction Strategy – White Paper, the areas of focus of
307 AMRP in the first two years of construction are discussed in great detail. This White
308 Paper serves to document the various inputs analyzed and accounted for in selecting the
309 areas of the gas distribution system to be upgraded. These targeted areas essentially were
310 the high leak and high maintenance areas, the vulnerable services committed to be
311 upgraded via the Liberty Audit, and other commitments made to the Commission by
312 Peoples Gas. On page 9 of the White Paper, a table is presented showing the volume of
313 work for 2011. It lists in detail the individual 2011 project locations, the number of
314 vulnerable services, footage of new main to be installed, footage of cast iron and ductile
315 iron to be retired, number of services, and number of meter sets. This volume of work is
316 the work that was designed, permitted, and awarded to the construction contractors. NS-
317 PGL Ex 49.2 shows the same data for the 2012 projects. As shown in the White Paper,
318 this work was scattered throughout Peoples Gas’ service territory. As explained by
319 Peoples Gas in Docket Nos. 09-0166/0167 (cons.), the goal is to get to a “zonal”
320 approach as opposed to the scattered approach of upgrading the distribution system. See
321 Docket Nos. 09-0166/0167 (cons.), Peoples Gas Ex. SDM-1.0 Rev., 60:1101-62:1135.
322 The zonal approach targets geographic areas (neighborhoods) which allow for

323 efficiencies to the design, permitting, and construction while minimizing disruption to the
324 impacted customers and improved coordination with the City of Chicago. The Five Year
325 Construction Plan – White Paper documents the assumptions, attributes and inputs into
326 analyzing and ultimately ranking the zones in terms of prioritizing for system upgrades.
327 The time frame for upgrades (or Target Period as it is called in the White Paper) is
328 broken down over the time frame of 2013 to 2030. The first five year target period is
329 2013 to 2017 and the forecasted volume of work for each year is delineated on page 18 of
330 the White Paper. For each year, the table on page 18 identifies the neighborhood, total
331 main to be retired, total number of services, and the number of vulnerable services. The
332 intent of this Five Year Plan is to provide the roadmap of completing AMRP in the
333 remaining 18 years of the planned 20 year program. It should be noted that the five year
334 plan is frontend loaded with higher level of main retirements and new services
335 installations in the first ten year target period with significant reductions in the final eight
336 years. This scheduling approach allows for schedule contingency. Note that the five year
337 plan is to be updated and re-issued annually to keep it current with system upgrades
338 completed, new leaks and or maintenance activities completed or required, and to
339 reforecast work into future years. The updates will also take into account any known
340 external infrastructure plans that we are made aware of by entities such as CDOT, City
341 Water, Sewer, Electrical, or other economic development activities. Hence it is a rolling
342 five year plan and provides the visibility and transparency of the forecasted planned work
343 for AMRP.

344 **Q. Mr. Buxton also questions what the costs of AMRP will be. (Staff Ex. 20.0, 9:160-**
345 **163) How do you respond?**

346 A. His concerns are misplaced. As provided in Mr. Marano's testimony Peoples Gas Exs.
347 SDM-1.16 Rev. and SDM-1.19 Rev., the full 20 year cost estimate of \$2.63 billion in
348 2010 dollars was presented and discussed. The detailed cost estimating model is
349 currently being reviewed to assess and refresh as necessary the assumptions used in 2009
350 when the model was created. Further, the unit costs used in 2009 are also being updated
351 to actual costs experienced on AMRP to date. The cost model is still being updated and
352 is not yet finalized at this time. Furthermore, Peoples Gas adheres to its budgets as
353 demonstrated in my supplemental direct testimony and makes adjustments accordingly.

354 **Q. In his rebuttal testimony, Mr. Buxton is recommending an investigation of AMRP to**
355 **avoid construction delays and cost overruns. How do you respond?**

356 A. Mr. Buxton's recommendation is unsupported and should be rejected. As discussed
357 above, AMRP has taken an aggressive approach in designing and awarding construction
358 work in the first two years of construction. The amount of new mains installed has
359 equaled 287 miles. That is a significant accomplishment. 142 miles of cast iron and
360 ductile iron main has been field retired to date with additional miles that can be retired as
361 soon as the new mains are gassed and the customers are connected to the new main and
362 removed from the old main. 227 miles of final restoration has been completed to date.
363 42,172 new meter regulator sets have been installed associated with the 23,619 new
364 services that have been installed. Again, these are significant accomplishments,
365 especially when compared to 2009 and 2010. The construction delays cited by Staff
366 witnesses Mr. Seagle and Mr. Buxton that occurred in 2011 have been addressed and did
367 not re-occur in 2012. In 2012, AMRP did experience some unforeseen and non-budgeted
368 cost impacts. These were addressed in my supplemental direct testimony and my rebuttal

369 testimony. We have taken action to investigate the cause of these cost impacts and as
370 stated in my rebuttal testimony (NS-PGL Ex. 34.0, 11:243 – 260) have developed
371 mitigating action plans to eliminate or reduce these impacts.

372 **Q. Mr. Buxton provides pages of items that should be part of the recommended**
373 **“investigation”. (Staff Ex. 20.0, 4:62-8:151) How do you respond to the scope of**
374 **such an investigation?**

375 A. The scope of Mr. Buxton’s recommended investigation is impressive but unnecessary. It
376 only demonstrates his unfamiliarity with AMRP. Without taking the time to address each
377 and every investigation criteria that Mr. Buxton has listed as the scope of the
378 investigation, I offer the following: Peoples Gas has a complete and comprehensive
379 understanding of its gas delivery infrastructure. Record keeping of materials, operating
380 pressures, maintenance activities, leaks, replacement and upgrades, etc. are known and
381 used as the basis of AMRP. Peoples Gas has a complete history of previous cast iron and
382 ductile iron main replacements. The Main Ranking Index captures and prioritizes the
383 main segments for replacement. As mentioned earlier in my testimony, the 2011 – 2012
384 AMRP Construction Strategy White Paper along with the Five Year Construction Plan
385 White Paper delineates the gas mains replacement for the full 20 year plan. This is
386 broken into a yearly quantity forecast and is the base document for planning of work,
387 schedule and budgets. We have resolved the 2011 construction delays and in 2012 have
388 received timely construction permits and material deliveries. The PMO is in place and
389 management practices and procedures along with overall program execution plan have
390 been developed. Master Construction Agreements along with general and detailed

391 specifications have been developed and utilized to competitively bid and award the
392 construction work (see Peoples Gas' response to data request ENG 2.15).

393 Further, the construction contractors were pre-qualified, ensuring they meet all
394 requirements, inclusive of the Operator Qualification Plan. AMRP has robust process
395 and procedures for management and administration of the construction contracts.
396 Systems deployments are used for documenting, managing, and controlling all aspects of
397 AMRP. These systems include Primavera P6 and Contract Manager, Arc GIS, Stoner
398 Dynamic Model, PeopleSoft, C-First, Work and Asset Management System, SharePoint
399 Document Management System, plus many more. The overall safety plan is robust and
400 safety performance year over year has improved. In 2011, AMRP experienced one
401 recordable injury for every 76,806 hours worked. In 2012, the rate was one recordable
402 injury for every 118,079 hours worked. The frequency of quality inspection and
403 surveillances has increased over historical practices with significant improvements.
404 Adherences to work standards, Peoples Gas General Work Orders, contract
405 specifications, and Pipeline Safety requirements have increased.

406 The ICC Pipeline Safety Program Analyst (Inspector) performed inspections of
407 Peoples Gas AMRP approximately once per month during the 2012 construction season.
408 The AMRP construction site inspections are typically 2 – 4 days, documented by various
409 ICC Checklists and Field Trip Reports. At the conclusion of each field inspection trip,
410 results are reviewed at an "Exit Meeting" with the responsible Peoples Gas shop
411 representative. Several examples of these reports are included in NS-PGL Ex. 49.3.
412 Many of the Exit Meeting Forms issued for the AMRP visits indicate NO Issues Found,
413 NO Notice of Amendment Found, and NO Notice of Probable Violations, although there

414 were a few. The reported items are promptly addressed. As an example, a Notice of
415 Amendment (NOA) was issued April 13, 2012 regarding Service Pipe Order 1.000
416 relative purging. The applicable procedures were revised, personnel trained, and the
417 NOA closed by ICC Staff on July 27, 2012.

418 AMRP has also increased the number of Inspectors and the number of internally
419 generated non-conformance reports (not complying with specification) reduced from 45
420 in 2011 to 12 in 2012. To help reduce the frequency of unforeseen obstacles in the
421 selected line of lay for the new main, Peoples Gas has engaged a consultant along with
422 some of the experienced Peoples Gas employees to perform greater site due diligence
423 relative to the line of lay selection. Document discovery along with site walking of each
424 block and when necessitated potholing (vacuum excavating) to verify a clear path has
425 been selected will result in fewer field design changes and cost impacts. Customer
426 communication via the letter writing initiative has resulted in timelier customer responses
427 in support of construction.

428 For AMRP, all materials are designed, engineered, and procured to meet system
429 requirements and the established quality standards. Gas Engineering and Supply Chain
430 Services have policies and procedures in place to facilitate this. Peoples Gas has
431 increased the coordination with the various City of Chicago departments. Peoples Gas
432 has developed and staffed a Construction Planning group and a portion of that staff's
433 primary role is to coordinate with CDOT for acquisition of construction permits and to
434 coordinate CDOT conflicts. The proactive approach taken on permits in 2012 helped
435 smooth out the issues experienced in 2011. Coordination of the 2013 CDOT conflicts
436 has already begun, and the detailed construction schedule that is currently under

437 development for 2013 work will incorporate these CDOT conflicts to the extent practical
438 or possible. This should greatly reduce the costs to AMRP that were experienced in 2012
439 relative to the CDOT conflicts.

440 As you can see, as discussed throughout this testimony, Peoples Gas has AMRP
441 management processes and procedures in place and has implemented several items to
442 address the impacts experienced on AMRP to-date. Mr. Buxton's assertion that AMRP is
443 not properly managed and has not performed well is not based upon facts. To claim
444 (Staff Ex. 20.0, 8:154 – 9:159) that a full investigation of AMRP is required because
445 Peoples Gas' AMRP has not performed well, it started behind schedule and has fallen
446 farther behind schedule while consuming its budget on what little work it does complete
447 is unfounded and a complete distortion of the evidence.

448 **Q. Do you have any comments relative to the estimated cost that Mr. Buxton is**
449 **proposing?**

450 A. I do. Mr. Buxton has estimated the cost of his proposed investigation to be \$2.5 million
451 dollars. He has estimated this cost based upon estimated labor hours times estimated
452 hourly rates that a third party engineering consultant would charge. What he fails to
453 included are the associated expenses for this third party to perform the investigation.
454 Over his proposed three year investigation period and dependent upon where the
455 consultant is based, these expenses for travel, meals, hotels, and other miscellaneous
456 expenses need to be accounted for. For staff of seven employees performing the
457 investigation over three years, these expenses could easily total \$250,000. Also not
458 included in the cost estimate would be the direct costs of Peoples Gas employees and
459 consultant employees supporting AMRP who would be tasked with supporting the

460 investigators. Depending upon level of engagement required, these direct labor costs
461 could be significant. At a 50% participation ratio of Peoples Gas employees to the
462 investigator employees, that would equate to approximately 5,000 labor hours of Peoples
463 Gas employees' time. At an average fully labor loaded rate of \$150 an hour that would
464 equate to \$750,000 of additional costs. Adding the above expenses and labor to Mr.
465 Buxton's cost estimate would increase the total cost of the investigation to \$3.5 million.

466 **Q. In summary, what do you conclude concerning Mr. Buxton's proposed**
467 **investigation?**

468 Mr. Buxton's recommendation should be rejected as unfounded and unnecessary. As
469 Peoples Gas explained in the 2009 rate case, it was our intent to engage a leading national
470 consulting engineering firm to help Peoples Gas set up AMRP for success. As mentioned
471 earlier in this testimony, Peoples Gas has engaged Jacobs to help develop and execute
472 AMRP consistent with our proposals in that proceeding and with the expectations of best
473 in class program and project management approaches. I believe that this has been
474 accomplished. A program of this magnitude is a challenge for any organization. Peoples
475 Gas is committing the resources to plan, staff, and manage this program utilizing industry
476 recognized professional service firms. With the lessons learned to-date, I believe that
477 Peoples Gas is changing its approach in the way it delivers projects in terms of safety,
478 quality, and cost control. As a point of discussion, a firm that Mr. Buxton would have to
479 consider to lead this investigation would be Jacobs (if they were currently not under
480 contract with Peoples Gas and not part of AMRP management team). Jacobs has led
481 these types of investigations both on a national basis and a global basis (see NS-PGL Ex.
482 49.4 Jacobs Utilities Practice Interactions). It was with this information that I believe that

483 Jacobs have brought to AMRP the very things that Mr. Buxton is claiming that AMRP
484 needs to be investigated for. Further, I am not opposed to project assessments as these
485 are best in class practices. On most of the major projects that I have been associated
486 with, we do conduct Independent Self Assessments and readiness reviews. We assemble
487 subject matter experts within the area of the project to be assessed and, bring them in to
488 conduct the assessment and to make observations and recommendations for overall
489 improvement. These subject matter experts come from either external organizations or
490 are internal employees not part of the project being assessed. This is a powerful
491 management tool and has yielded positive results on those projects where they have been
492 performed. As one final point, I want to mention that Jacobs does perform regular
493 program assessments on AMRP. This is standard management practice in their
494 organization. The assessments are conducted on a monthly basis and typically include
495 experienced executives from across their organization.

496 **B. Response to Staff Witness Seagle**

497 **Q. Staff witness Mr. Seagle asks for further demonstration of how Peoples Gas**
498 **developed its schedule for AMRP and how it derived its cost estimate for 2012 and**
499 **2013. Staff Ex. 16.0, 24:464-469. How do you respond?**

500 A. I will first address Mr. Seagle’s concerns regarding the development of the AMRP
501 schedule. Relative to how Peoples Gas developed its schedule for AMRP, the base
502 documents to start the process is the 2011 – 2012 AMRP Construction Strategy – White
503 paper, NS-PGL Ex 49.2, and the Five Year Construction Plan - White Paper. These
504 documents delineate by the three shops within the Peoples Gas service territory a
505 breakdown by AMRP project in each shop. They identify the project for replacement

506 inclusive of the estimated amount of new mains to be installed, amount of old cast
507 iron/ductile iron mains to be retired, estimated number of services to be installed,
508 estimated number meters to be installed, and the estimated number of vulnerable services
509 to be replaced. Meetings are conducted with the PMO and shop construction and
510 operations staff to review the amount of work in each project and then to assess the
511 available Peoples Gas craft resources and then match the resource to the work. This
512 analysis is then used to determine the time frame (days, weeks or months) each project
513 will be scheduled for based upon the resource plan developed.

514 Any known project drivers, such as system needs, public improvement
515 opportunities, community events, and street resurfacing projects, are considered in this
516 effort to establish starting and ending dates of each project. This is systematically done
517 for each project in all three shops. The effort is then entered into the scheduling software
518 Primavera P6 (“P6”) which will show all of the projects across all three shops. If any
519 adjustments are needed to further spread the work over the calendar year, it is done at this
520 time. The resulting product is commonly referred to as the milestone schedule. The
521 milestone schedule is included in the contract bid documents so the contractor can bid to
522 our start and end dates for each project. The contractor will bid either in accordance with
523 the milestone dates or take exceptions with appropriate notations stating the basis of its
524 exceptions. The bids are then evaluated, exceptions negotiated, and subsequent contract
525 awards are made. Upon award to the contractor, the contractor is given the specific street
526 sequencing as mutually developed by engineering and shop operations staff.

527 This sequencing takes into account system operating parameters, current
528 configurations of the distribution system, efficient installation approach, and retirement

529 of the existing cast iron and ductile iron mains. The street sequencing in conjunction
530 with the P6 milestone schedule is the basis to which the contractor is held. To get a more
531 detailed schedule developed, best practice has the installation contractor in turn develop a
532 block by block approach as to when the work is planned as they are the ones supplying
533 and directly overseeing the contractors labor and equipment resources. This is common
534 among major projects where the installation contractor develops the detailed schedule
535 around the owner's (such as Peoples Gas) milestones schedule provided in the contract
536 documents.

537 Once the AMRP contractor submits the detailed block by block schedule, Peoples
538 Gas will review it to ensure it aligns within the milestone schedule. If it does, it is then
539 accepted. If not, it will be rejected or negotiated to adjust the owner's milestone P6
540 schedule to accommodate the contractor's detailed schedule. Once the detailed schedule
541 has been accepted, it is then adopted as part of the overall master schedule. Additional
542 owner activities are then entered into the master schedule to reflect items such as issuing
543 letters to the impacted customers, delivery of materials to the construction contractor, and
544 acquisition of the construction permits. The resulting integrated master schedule contains
545 all of the projects, broken down by each phase on a block by block basis for each
546 contractor. This schedule then is used to monitor and report out on the construction
547 activities.

548 Each contractor submits weekly updates to the PMO progressing all of the
549 activities on their portion of the detailed schedule. The PMO then does a schedule
550 analysis on each contractor to see if the milestone dates will be impacted. With this type
551 of detailed involvement associated with the schedule development for each year of

552 construction, AMRP would not be able to develop a detailed 20 year schedule. The two
553 referenced White-Papers identify the plan of the work to be accomplished in future years.
554 Each year that the construction work is bid and awarded, the same efforts will be repeated
555 to develop the annual integrated master schedule. NS-PGL Ex. 49.5 contains several
556 documents to demonstrate management of the AMRP schedule through the process
557 mentioned above. Included are examples of the Contractor Baseline Schedule Review,
558 Bi-Weekly Contractor Update Schedule Review, Weekly Progress Meeting-Shop Level,
559 Weekly Integrated Schedule Review – Engineering, and Schedule Basic Training.

560 **Q. How do you address Staff witness Mr. Seagle’s request for additional information**
561 **on the AMRP cost estimate for 2012 and 2013?**

562 A. I provided 2012 and 2013 budgets and explanation of variances in rebuttal testimony.
563 NS-PGL Ex. 34.2 sets forth how Peoples Gas derived its cost estimate for 2012 and 2013
564 and also includes the budgets for each year. NS-PGL Ex. 34.2 shows the original 2012
565 and 2013 budget and the revised 2012 budget and provides an explanation for each line
566 item. The 2013 planned work supporting the revised 2013 budget is provided in greater
567 detail NS-PGL Ex. 34.5. Allow me to provide a brief overview to help establish the
568 timeline of the 2012 and 2013 budgets. Prior to January 2012, the “original” 2012 and
569 2013 AMRP capital budgets were established by the Engineering group and the Director
570 of Accounting working with Rates and Budgets. The original 2012 and 2013 capital
571 budgets were \$142.4 million and \$167.3 million respectively. In January 2012, the
572 AMRP team was asked by the Director of Accounting to update the 2012 and 2013
573 AMRP budget forecasts. New budget categories and estimates were developed based on
574 the actual costs experienced in the first eight months (2011) of the program. The revised

575 budget forecasts for 2012 and 2013 were \$215.35 million and \$205.35 million
576 respectively as shown on attachment NS-PGL Ex 49.6. The AMRP team submitted these
577 budget forecasts to the Director of Accounting on January 31, 2012. On March 3, 2012,
578 the Director of Accounting informed the AMRP team that in order to fit within the capital
579 expenditures and the rate cases, the budgets would need to be \$200 million and \$220.75
580 million for 2012 and 2013 respectively as shown on the same attachment.

581 **Q. Do you have any further comment on the 2012 and 2013 budget?**

582 A. Yes. The 2011 – 2012 AMRP Construction Strategy – White Paper contains a table that
583 shows the 2011 and 2012 AMRP Budget. The 2012 budget amount is stated as
584 \$142,365,000. As previously discussed in this testimony, AMRP expenditures in 2011
585 totaled \$89.4 million, under running the 2011 Budget of \$126,320,000 which is also
586 shown on this table. Since the work not completed in 2011 was carried forward into
587 2012, the under run of \$37 million was also carried forward and added to the \$142
588 million 2012 budget amount. This carry over would put the 2012 budget estimate at \$179
589 million. AMRP also planned to increase the mileage of mains reflected in the White
590 Paper from 150 miles 165 miles. These adjustments plus a few others as shown on NS-
591 PGL Ex 49.6 in total placed the 2012 reforecast budget at \$215.35 million. As stated
592 above, this increase was submitted to Rates and Budgets to see if Peoples Gas total
593 capital expenditures and rate case would support this type of increase. The response was
594 that it needed to be adjusted downward to \$200 million which was 2012 AMRP budget.
595 Exhibit NS-PGL 34.2 provides a further listing of the budget line items that makes up the
596 \$200 million and the estimating basis behind each line item.

597 During the same time frame of the 2012 AMRP budget reforecast outlined above,
598 the 2013 AMRP original budget of \$167.3 million was also being reforecast.
599 Subsequently, the 2013 AMRP budget went through the same analysis and review and
600 was ultimately established at \$220.75 million. In September of 2012, the 2013 budget
601 was once again reviewed to assess the impacts due to the actual costs being experienced
602 on AMRP. This effort included using the recent cost data captured through August of
603 2012.

604 **Q.** Can you further explain how the 2013 AMRP budget was developed?

605 **A.** Yes. NS-PGL Ex. 49.7 contains an excel spreadsheet showing the actual contractor
606 award amounts for each of the 2012 projects. These contractor costs were averaged to
607 help establish a unit cost estimating basis for distribution main installation, distribution
608 main restoration, distribution main retirement, service installation, and service
609 restoration. NS-PGL Ex. 49.8 is an excel workbook that contains a cost analysis on the
610 change orders processed on the 2011 distribution projects to arrive at an average cost or
611 expected percent increase to the base contract price, see tab labeled “2011 Extra Work
612 Percent.” An analysis was performed to be able to forecast the Peoples Gas costs as a
613 percentage of the construction contractor costs of mains and services. This was done for
614 Invoices, Labor, Materials/Supplies, and Other Costs. To refresh the unit cost for the
615 high pressure interstation main, the costs experienced on the Palmer high pressure
616 extension was analyzed to arrive at a revised unit cost, which is also included in this
617 attachment as tab labeled “HP Costs”. This effort to develop revised unit prices based on
618 actual costs was conducted in the fall of 2012 for purposes of re-evaluating what our
619 projected costs would be assuming the amount of forecasted work in 2013.

620 Contained in the workbook under the tab labeled “2013” is a spreadsheet
621 incorporating the unit prices that were determined from above and then used to estimate
622 the expenditures assuming 200 miles of distribution main, 154 miles of retirement and
623 15,000 services, and 9 miles of high pressure main installation. The forecasted total
624 expenditures for this volume of work are \$275 million exceeding the 2013 budget of
625 \$220.75 million. With this type of forecasted expenditures to complete this volume of
626 work, Rates and Budgets were engaged to assess the impacts to the capital expenditure
627 and the rate case. Based upon their assessment, the decision was made to adjust the
628 volume of work to stay within \$220.75 million budget for AMRP. These adjustments to
629 the work are further delineated in my rebuttal testimony (NS-PGL Ex. 34.0, 11:228 –
630 237).

631 **Q. Is this budget development normal for a project like AMRP?**

632 A. I believe that the budget development that took place for the AMRP 20 year program is
633 typical and was performed with estimating practices and techniques coupled with known
634 and assumed costs applied to an estimated quantity of work in a challenging location 20
635 years into the future. This 20 year estimate is to provide for a range of cost estimates that
636 allow for financial impacts to be understood, assessments to be performed, and business
637 decisions to be made. The iterative process of forecasting near term budgets, say three to
638 five years out, is typical for top down budget setting and rate case making and is not
639 necessarily tied to actual quantities of work, rather it is typically tied to forecasted
640 quantities. The annual bottom up budget setting process is typically tied to a discrete set
641 of work with known quantities, as in the case of AMRP. As discussed above, we have
642 been accumulating and analyzing our actual costs and developing a solid cost estimating

643 basis for future application. Refinement of these unit prices will allow for an enhanced
644 accuracy of our budgets and forecasts. Also, we are building flexibility into AMRP such
645 that we can scale up or down as may be necessitated be it due to internal or external
646 factors.

647 **Q. Staff witness Mr. Seagle is seeking information to demonstrate that AMRP is**
648 **making better progress towards AMRP construction and restoration goals**
649 **compared to the current rate of completion of AMRP construction and restoration**
650 **goals. How do you respond to this?**

651 A. As discussed earlier in this testimony, AMRP's construction and restoration
652 accomplishments have been presented and shown that production in the second year of
653 AMRP has been better than the first year. Unfortunately, I believe that Mr. Seagle
654 wanted Peoples Gas to demonstrate how AMRP was making better progress towards
655 AMRP construction and restoration in the last couple of month of 2012 as compared to
656 the earlier months of 2012. As discussed in my supplemental direct testimony and
657 rebuttal testimony, AMRP had to curtail construction work in the last couple of months
658 of AMRP to minimize the budget overrun. In terms of actual work completed on a week
659 to week basis, please see NS-PGL Ex. 49.9 which contains the 2012 weekly AMRP
660 construction reports that show the production for the current week and the running total
661 for the year.

662 **Q. Staff witness Mr. Seagle concludes that Peoples Gas failed to provide sufficient**
663 **information to demonstrate that it will incur the costs it projected for 2012 and the**
664 **test year 2013 and recommends a disallowance of \$95.8 million in 2012 and \$122.8**
665 **million. How do you respond to this disallowance?**

666 A. In 2012, AMRP actual expenditures were \$ [REDACTED] and were spent on design,
667 engineering, materials, construction, restoration, and management of the total program. It
668 is my understanding the \$220 million 2012 AMRP budget (the initial \$200 million plus
669 the \$20 million contained in my supplemental direct testimony) contains approximately
670 3.35% or \$7.4 million for Cost of Removal. Reducing the \$220 million by the \$7.4 Cost
671 of Removal leaves net Plant Additions of \$212.6 million. Analysis of the 2012 AMRP
672 \$ [REDACTED] expenditure results in approximately \$18.5 million for Cost of Removal.
673 Therefore the actual net Plant Additions is \$210.0 million.

674 Disallowing any portion of these costs is unreasonable and unjustified as the
675 premise of Mr. Seagle's adjustment is flawed. Though the AMRP did not install all of
676 the work it had planned due to reasons previously cited in my supplemental direct
677 testimony and my rebuttal testimony, the total volume of work completed (and in-
678 progress) was significant and the costs to install the work that was completed and in-
679 progress has been substantiated. Thus, Mr. Seagle's adjustment to 2012 would disallow
680 AMRP costs that were prudently incurred, reasonable in cost and is or will be (in the test
681 year, 2013) used and useful serving customers. For 2013, the budget has been
682 established and the planned work has been set. To unilaterally apply an adjustment from
683 2012 to the 2013 test year has no basis and therefore should not be allowed.

684 **III. AMRP and CWIP**

685 **Q. AG witness Efron is proposing to reduce CWIP for AMRP projects that he believes**
686 **will not be placed into service in the test year. How do you respond?**

687 A. Mr. Efron's reasoning is flawed and as such his adjustment should be rejected.
688 Referencing Peoples Gas' response to data request AG 14.08, the anticipated in-service

689 dates of the 2012 carry over projects is expected to occur in the first half of 2013. The
690 construction contractors have been authorized to commence work on the 2012 carry over
691 projects and field construction has begun for 2013. NS-PGL Ex. 49.10 is the current
692 AMRP Master Schedule (dated January 4, 2013) that is sorted to show the 2012 carry
693 over projects. This schedule shows the 2012 construction projects that had construction
694 started in 2012 and have carried into 2013. It also shows the 2012 projects that were
695 curtailed in 2012 and will start construction in 2013. The start date and finish date for
696 each project is shown. As noted in the border of the schedule, the finish date for each
697 project is the activity referred to as Initial Restoration. When Initial Restoration is
698 complete, the main would have previously been gassed and the project would have been
699 placed in-service. As you can see, the schedule indicates that only three of the carry over
700 projects will not have their Initial Restoration completed by June 30, 2013.

701 For the new construction projects to be awarded in 2013, the detailed schedule has
702 not yet been developed. The current plan calls for these projects to be bid in early
703 February 2013. Since these projects are now part of the zonal approach, meaning they
704 are contiguous to a geographic region, the execution of the installation and follow-on
705 gassing process will be easier to manage and facilitate. The gassing of the main work by
706 Peoples Gas crews after the construction contractor has completed main and service pipe
707 installation improved during the latter part of 2012 and the AMRP team will be focused
708 in placing the assets in-service as soon as practical.

709 The amount of CWIP as of December 31, 2012 for Peoples Gas is \$52.9 million
710 and AMRP's contribution to that balance is \$38.1 million. The CWIP balance has been

711 reducing over the last several months of 2012 as discussed in the response to data request

712 AG 17.05.

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

714 A. Yes.