

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.	:	On Rehearing
	:	

Direct Testimony on Rehearing of

JOHN HENGTGEN

Consultant
Hengtgen Consulting LLC

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

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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 John Hengtgen. My business address is 1708 Freedom Court, Mount
5 Prospect, Illinois 60056.

6 **Q. Are you the same John Hengtgen who submitted testimony on behalf of The Peoples
7 Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas Company
8 (“North Shore”) (together, “the Utilities”) in the original phase of these consolidated
9 dockets, i.e., ICC Docket Nos. 12-0511/12-0512 (cons.)?**

10 **A.** Yes.

11 **Q. Has your employment changed since you filed surrebuttal testimony in the original
12 phase of these consolidated proceedings?**

13 **A.** Yes, I am now employed by Hengtgen Consulting LLC as a consultant providing
14 regulatory consulting services to the Utilities.

15 **B. Purpose of Direct Testimony on Rehearing**

16 **Q. What are the purposes of your direct testimony on rehearing in this proceeding?**

17 **A.** The purposes of my direct testimony on rehearing are:

18 (1) to discuss and describe the mathematical corrections needed to correct the Illinois
19 Commerce Commission’s (“Commission”) final Order dated June 18, 2013, in the
20 original phase of this proceeding that are related to the 2012 and 2013 net
21 operating loss deferred tax assets (“NOLs”) that are reflected in the rate base; and

22 (2) to provide exhibits on the necessary NOLs and cash working capital (“CWC”)
23 corrections to rate base.

24 **C. Summary of Conclusions**

25 **Q. Please summarize the conclusions of your direct testimony on rehearing.**

26 A. In brief, I conclude that to properly reflect the 2012 and 2013 NOLs in rate base, the
27 Commission should correct its final Order in this proceeding as indicated in the
28 attachments to my direct testimony on rehearing along with the CWC derivative
29 adjustments. Because the mathematical corrections related to the 2012 and 2013 NOLs
30 change rate base and the operating income amounts (revenue requirement), there is a
31 required derivative change to CWC for each utility, which should be based on the final
32 revenue requirements approved by the Commission.

33 **D. Attachments to Testimony**

34 **Q. Are you sponsoring any attachments to your direct testimony on rehearing?**

35 A. Yes. I am sponsoring the following attachments to my direct testimony on rehearing
36 which are certain updated pages of Appendix A and Appendix B of the Commission’s
37 final order in the original phase of this proceeding:

- 38 (1) Rate Base (NS-PGL Ex. 53.1N and NS-PGL 53.1P)¹.
39 (2) Adjustments to Rate Base (NS-PGL Ex. 53.2N and NS-PGL Ex. 53.2P).
40 (3) Adjustment For Revenue Increase Impact on Net Operating Loss (NS-PGL
41 Ex. 53.3N and NS-PGL Ex. 53.3P).
42 (4) Cash Working Capital Adjustments (NS-PGL Ex. 53.4N and NS-PGL Ex. 53.4P).

¹ An “N” or a “P” at the end of the name of an exhibit means that it applies to North Shore or Peoples Gas, respectively.

43 **II. MATHEMATICAL CORRECTIONS NEEDED TO PROPERLY**
44 **REFLECT 2012 AND 2013 NOL DEFERRED TAX ASSETS IN RATE BASE**

45 **A. 2012 and 2013 NOLs**

46 **Q. You indicated that the Commission’s final Order in the original phase of this**
47 **proceeding contained mathematical errors. Can you explain further?**

48 A. Yes. The Commission, in the body of its June 18, 2013, final Order, correctly concluded
49 that both the 2012 and 2013 NOLs should be reflected in rate base. Order at
50 pages 99-100. However, the Appendices attached to the final Order did not correctly
51 compute the effect of the NOLs in rate base (Order at Appendix A, p. 11; Appendix B, p.
52 12) and therefore did not carry through the correct NOLs to the Adjustments to Rate Base
53 pages (Order at Appendix A, p. 6; Appendix B, pp. 6 and 7), the summary Rate Base
54 pages (Order at Appendix A, p. 5; Appendix B, p. 5), or the Statement of Operating
55 Income with Adjustments pages (Order at Appendix A, p. 1; Appendix B at p. 1). As
56 explained earlier, because the final revenue requirement of each utility is changed due to
57 the correct calculation of the NOLs in rate base, derivative adjustments to CWC also
58 were required (Order at Appendix A, p. 12; Appendix B, p. 13). The incorrect
59 calculations were also carried over to the body of the final Order. As a result, the
60 amounts of the approved rate bases and rate increases in Paragraphs 7, 8, 18, and 19 of
61 the Finding and Ordering Paragraphs in the final Order are incorrect.

62 **Q. Why are corrections needed to page 11 of Appendix A of the June 18, 2013, final**
63 **Order to properly reflect North Shore’s 2012 and 2013 NOLs?**

64 A. A correction is needed because the amount of North Shore’s effect of revenue increase on
65 line two of page 11 of Appendix A was not averaged to reflect the Commission’s
66 approval of an average rate base (Order at 38).

67 **Q. As a result, what corrections are needed to page 11 of Appendix A?**

68 A. The effect of the revenue increase (Line 2, Column D) should be reduced by 50% or
69 \$1,050,000. See corrected Column D of NS-PGL Ex. 53.3N.

70 **Q. Why are corrections needed to page 12 of Appendix B of the final Order to properly**
71 **reflect Peoples Gas' 2012 and 2013 NOLs?**

72 A. Just as with North Shore, a correction is needed because the amount of Peoples Gas'
73 effect of revenue increase on line two of page 12 of Appendix B was not averaged to
74 reflect the Commission's approval of an average rate base (Order at 38). Additionally,
75 Line 5 of Column D should represent the difference between Line 1 and Line 3 of
76 Column D. In page 12 of Appendix B of the final Order, Line 5 of Column D is
77 incorrectly shown as the difference between Line 1 of Column C and Line 3 of
78 Column D.

79 **Q. As a result, what corrections are needed to page 12 of Appendix B?**

80 A. The effect of the revenue increase (Line 2, Column D) should be reduced by 50% or
81 \$9,690,000. Further, Line 5 of Column D should be \$9,690,000, which is the difference
82 between Line 1 of Column D (\$52,469,000) and Line 3 of the corrected Column D
83 (\$42,779,000). See corrected Column D of NS-PGL Ex. 53.3P.

84 **B. Derivative Adjustments**

85 **Q. Do the Appendices of the June 18, 2013 final Order properly carry through all the**
86 **derivative adjustments related to the 2012 and 2013 NOLs?**

87 A. No. As mentioned earlier, the changes to the NOLs need to be properly carried through
88 to the rate base and revenue requirement schedules. As a result of these corrections,
89 derivative adjustments are needed to correct the CWC calculation.

90 **Q. What corrections are needed to the calculation of CWC on page 12 of Appendix A**
91 **of the June 18, 2013 final Order?**

92 A. Because CWC is based on the final revenue requirement, various derivative impacts are
93 also required to align the CWC amounts in Column C of NS-PGL Ex. 53.4N with the
94 final revenue requirement. The lines that changed are lines 1 (Revenues), 27 (Interest
95 Expense), 28 (Federal Income Tax) and 29 (State Income Tax).

96 **Q. What corrections are needed to the calculation of CWC on page 13 of Appendix B of**
97 **the June 18, 2013 final Order?**

98 A. Because CWC is based on the final revenue requirement, various derivative impacts are
99 also required to align the CWC amounts in Column C of NS-PGL Ex. 53.4P with the
100 final revenue requirement. The lines that changed are lines 1 (Revenues), 16 (Invested
101 Capital Tax), 27 (Interest Expense), 28 (Federal Income Tax) and 29 (State Income Tax).

102 **C. Impacts on Final Rate Bases**

103 **Q. As a result of these corrections, what is the final rate base for North Shore in order**
104 **to reflect the rulings in the June 18, 2013, final Order?**

105 A. To reflect correctly the rulings in the June 18, 2013 final Order, the final rate base for
106 North Shore is \$201,046,000, as shown on NS-PGL Ex. 53.1N and NS-PGL Ex. 53.2N.

107 **Q. As a result of these corrections, what is the final rate base for Peoples Gas in order**
108 **to reflect the rulings in the June 18, 2013, final Order?**

109 A. To reflect correctly the rulings in the June 18, 2013 final Order, the final rate base for
110 Peoples Gas is \$1,495,035,000, as shown on NS-PGL Ex. 53.1P and NS-PGL Ex. 53.2P.

111 **Q. Does this complete your direct testimony on rehearing?**

112 A. Yes.