

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	:	
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	No. 14-0224
	:	and
	:	No. 14-0225
The Peoples Gas Light and Coke Company	:	Consol.
	:	
Proposed General Increase	:	
In Rates For Gas Service	:	

Rebuttal Testimony of

SHARON MOY

Rate Case Consultant, Regulatory Affairs
Integrys Business Support, 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 Sharon Moy. My business address is Integrys Business Support, LLC
5 (IBS”), 200 East Randolph Street, Chicago, Illinois 60601.

6 **Q. Are you the same Sharon Moy who provided direct testimony on behalf of The
7 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
8 Company (“North Shore”) (together, “the Utilities”) in these consolidated dockets?**

9 A. Yes.

10 **B. Purposes of Rebuttal Testimony**

11 **Q. What are the purposes of your rebuttal testimony in this proceeding?**

12 A. The purposes of my rebuttal testimony are:

13 1. to respond to certain direct testimony of the Illinois Commerce Commission’s
14 (the “Commission”) Staff (“Staff”), accepting several adjustments and responding
15 to certain other proposed adjustments to operating income (operating expense)
16 items;

17 2. to respond to the direct testimony of the Illinois Attorney General’s Office
18 (“AG”) witness David J. Effron and the City of Chicago/Citizens Utility
19 Board/Illinois Industrial Energy Consumers (“City-CUB-IIEC” or “CCI”) witness
20 Michael P. Gorman regarding proposed derivative adjustments to depreciation
21 expense from their proposed adjustments to Utility Plant in Service (operating
22 expense);

- 23 3. to discuss adjustments to update certain costs for Peoples Gas and North Shore
24 relating to (a) depreciation expense from capitalized benefits; (b) Operations and
25 Maintenance (“O&M”) pension and benefits expense; (c) rate case expenses;
26 (d) depreciation expense on updated capital expenditures; (e) invested capital
27 taxes; and (f) income tax impacts on changes in interest expense from debt (for all
28 updates, I am reflecting the derivative impacts as well);
- 29 4. to discuss the justness and reasonableness of rate case expenses expended and
30 supported by Peoples Gas and North Shore in light of Section 9-229 of the Public
31 Utilities Act (“PUA”);
- 32 5. to sponsor revised revenue deficiency (operating income) Schedules to reflect
33 uncontested adjustments and the above-referenced updated adjustments; and
- 34 6. to provide, as ordered in the final Order in the Utilities’ 2012 rate cases, ICC
35 Docket Nos. 12-0511/12-0512 (cons.) (“2012 Rate Cases”), a narrative
36 description to calculate the impact of the Utilities’ Net Operating Losses
37 (“NOLs”) on current and accumulated deferred income taxes associated with each
38 pending adjustment related to this current rate case proceeding.

39 **C. Summary of Conclusions**

40 **Q. Please summarize the conclusions of your rebuttal testimony.**

41 A. In brief, the conclusions of my rebuttal testimony are:

- 42 1. The Utilities agree with or will not contest a number of Staff’s and intervenors’
43 respective proposed adjustments, without waiver of their right to contest such
44 adjustments in future rate cases or other proceedings, in order to narrow the
45 contested issues in these proceedings.

- 46 2. The Commission should not accept certain proposed adjustments from Staff' and
47 intervenors witnesses with respect to operating expenses because they are
48 incorrect and inappropriate.
- 49 3. Certain updated adjustments relating to impacts from (a) depreciation expense
50 from capitalized benefits; (b) O&M pension and benefits expense; (c) rate case
51 expenses; (d) depreciation expense on updated capital expenditures; (e) impacts
52 on invested capital tax; and (f) income tax impacts on changes in interest expense
53 from debt are proper and should be included in the cost of service calculations.
- 54 4. Rate case expenses expended and supported by Peoples Gas and North Shore in
55 these proceedings are just and reasonable in accordance with Section 9-229 of the
56 PUA.
- 57 5. The Utilities' revised requests for general rate increases reflecting revenue
58 deficiencies (cost under-recoveries under existing rates) of \$102,250,000 for
59 Peoples Gas and \$6,524,000 for North Shore, and revised revenue requirements of
60 \$699,116,000 for Peoples Gas and \$89,778,000 for North Shore (these figures
61 include the applicable Other Revenues amounts), are just and reasonable, and
62 should be approved by the Commission, based on the information herein and the
63 testimony of the other witnesses on behalf of the Utilities.
- 64 6. Peoples Gas' and North Shore's narrative descriptions to calculate the impact of
65 the NOLs on current and accumulated deferred income taxes associated with each
66 pending adjustment related to this current rate case proceeding are proper and
67 accurate.

68 **D. Itemized Attachments to Rebuttal Testimony**

69 **Q. Are there any attachments to your rebuttal testimony?**

70 A. Yes. I am submitting:

- 71 1. Revised Schedules C-1: Jurisdictional Operating Income Summary (NS-PGL
72 Exs. 21.1N and 21.1P).¹
- 73 2. Revised Schedules C-2: Ratemaking Adjustments to Operating Income (NS-PGL
74 Exs. 21.2N and 21.2P).
- 75 3. Adjustments for Invested Capital Tax (NS-PGL Exs. 21.2N and 21.2P).
- 76 4. Adjustments for Interest Synchronization (NS-PGL Exs. 21.2N and 21.2P).
- 77 5. Updated Schedules C-10 on Rate Case Expenses (NS-PGL Exs. 21.3N and
78 21.3P).
- 79 6. Data request responses supporting recovery for allowable advertising (NS-PGL
80 Exs. 21.4N and 21.4P) and institutional events (NS-PGL Ex. 21.5N and 21.5P).
- 81 7. Data request responses supporting rate case expenses per Staff witness Mr.
82 Kahle's recommendation (NS-PGL Exs. 21.6 through 21.25).

83 **II. UNCONTESTED ISSUES**

84 **Q. Do the Utilities agree with or accept any Staff- and/or intervenor-proposed**
85 **adjustments to rate base and operating expenses?**

86 A. Yes. The Utilities accept or do not contest certain adjustments proposed by Staff and
87 intervenors, in order to narrow the contested issues (without waiving any rights to contest

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.

88 issues in future proceedings) and make corrections. These adjustments are listed below
89 and apply to both Peoples Gas and North Shore unless noted otherwise:

90 Staff Witness Dianna Hathhorn (Staff Ex. 1.0):

- 91 • Interest expense on Budget Payment Plan (operating expenses)
- 92 • Interest expense on Customer Deposits (operating expenses)
- 93 • Interest synchronization (methodology on derivative adjustments)

94 Staff Witness Daniel Kahle (Staff Ex. 2.0):

- 95 • Lobbying expenses (operating expenses)
- 96 • Incentive Compensation (operating expenses)
- 97 • Fines and Penalties (operating expenses)

98 Staff Witness Brett Seagle (Staff Ex. 5.0):

- 99 • Plastic Pipefitting Remediation Project – Peoples Gas (operating expenses)
- 100 • Liquefied Natural Gas (LNG) Truck Loading Facility – depreciation expense –
101 Peoples Gas (operating expenses)

102 AG Witness David J. Efron (AG Ex. 1.0):

- 103 • Interest synchronization (methodology on derivative adjustments)

104 **III. CONTESTED ISSUES**

105 **A. Advertising Expenses and Sponsorships**

106 **Q. Do you agree with Staff witness Mr. Kahle’s adjustment that disallows certain**
107 **advertising expenses that he considered to be “of a promotional or goodwill nature”**
108 **under Section 9-225 of the PUA and, therefore, not allowable for rate recovery?**
109 **Kahle Dir., Staff Ex. 2.0, 5:104-6:120.**

110 A. I agree in part. The Utilities do not contest the adjustments in the amounts of \$15,000 for
111 Peoples Gas and \$10,000 for North Shore proposed by Mr. Kahle on advertising
112 expenses related to events.² However, I disagree with Mr. Kahle’s proposed adjustments
113 for certain sponsorships. Mr. Kahle used the Utilities’ responses to Staff data requests
114 DGK 23.01 and DGK 23.03 to identify sponsorships that he concluded were promotional
115 and goodwill in nature and not recoverable as advertising expenses. I included these as
116 attachments under NS-PGL Ex. 21.4N and NS-PGL Ex. 21.4P. Regardless of whether
117 allowable advertising or charitable in nature, the sponsorships at issue promote awareness
118 about special events and projects that serve the customers in communities in the Utilities’
119 service territories and should be recoverable.

120 **Q. Mr. Kahle indicated in his testimony that the Commission’s instruction for the**
121 **Utilities to be more careful in distinguishing sponsorship and institutional**
122 **expenditures that are allowable for charitable purposes and those that are allowable**
123 **advertising expenses “appears to have gone unheeded” Kahle Dir., Staff Ex. 2.0,**
124 **9:206-10:212. What is your response?**

125 A. The Utilities did not ignore the Commission’s instruction to distinguish sponsorships that
126 are allowable for charitable purposes and those that are allowable advertising expenses.
127 The Utilities, in light of the Commission’s instruction, have modified their processes for
128 noting the particulars of sponsorships, institutional spending, rate recoverable advertising
129 and charitable contributions to determine if those expenses are recoverable under either
130 Section 9-225 or Section 9-227 of the PUA, as I discussed in my direct testimony.³
131 However, the Utilities expect the process will change further pending the outcome of the

² See Staff Ex. 2.0, Schedule 2.02N, page 2, line 1; Schedule 2.02P, page 2, line 1.

³ Moy Dir., NS Ex. 6.0, 16:356-17:372, 18:385-19:404; Moy Dir., PGL Ex. 6.0, 17:374-18:390, 19:403-421.

132 ongoing Commission docket regarding the development and adoption of rules concerning
133 rate case treatment of charitable contributions, ICC Docket No. 12-0457. This
134 rulemaking, rather than a rate case proceeding, would be a better forum in which to
135 address the particulars of accounting for sponsorships and institutional events that have
136 charitable purposes. In the meantime, the Utilities reference the Commission's decision
137 in the 2012 Rate Cases as a guiding principle as to the classification of advertising that is
138 rate recoverable versus advertising that is not rate recoverable. The decision states in part
139 that "the nature of the expense is more important..." in determining recovery than those
140 expenses' initial accounting categorization. 2012 Rate Cases, final Order at 164.

141 **Q. What changes have the Utilities implemented to distinguish sponsorship and**
142 **institutional expenditures that are allowable for charitable purposes?**

143 A. The Utilities have recorded sponsorships to Account 909- Informational and instructional
144 advertising expenses which (a) are allowable advertising to inform and educate customers
145 and the community on safety, energy efficiency/assistance and billing/payment options
146 and (b) enhance or benefit community services for charitable purposes. The enhanced
147 descriptions, produced as data responses (NS-PGL Ex. 21.4N and NS-PGL Ex. 21.4P),
148 clearly indicate what particular spending is recoverable under Section 9-225 or
149 Section 9-227 of the PUA.

150 **Q. Do you agree with Staff witness Mr. Kahle's contention that reclassifying**
151 **expenditures under Section 9-225 of the PUA would "...give no meaning to the**
152 **prohibition of promotional, goodwill and/or institutional advertising..."? Kahle**
153 **Dir., Staff Ex. 2.0, 7:153-155.**

154 A. No. As discussed above, for purposes of accounting, sponsorships and institutional
155 spending are recorded under Account 909- Informational and instructional advertising
156 expenses. The accounting label does not mean that those expenditures are for non-
157 recoverable promotional or goodwill purposes. Also, in response to the Order in the 2012
158 Rate Cases, the Utilities have changed their processes to distinguish recoverable and non-
159 recoverable items, as I discussed in my direct testimony and above. The substantive
160 purpose of the expenditure should be determinative whether an expense goes towards
161 goodwill or the Utilities' promotion or towards either providing information regarding
162 the Utilities' services (its billing, safety procedures, energy efficiency programs, etc.) or
163 their community-oriented charitable activities.

164 **B. Institutional Events**

165 **Q. Do you agree with Staff witness Mr. Kahle on his proposed adjustments for**
166 **institutional events? Kahle Dir., Staff Ex. 2.0, 12:251-271.**

167 A. No, I do not agree. His proposal is based on the contentions that institutional events are
168 (a) similar in nature to "goodwill, promotional advertising" on the grounds that the
169 Utilities received recognition in promotional materials and acknowledgement at the
170 events; and (b) Utilities' employees receive tangible benefits at events, including food
171 and entertainment.

172 Mr. Kahle referred to the Utilities' response to data request DGK 24.03 in his
173 testimony (Kahle Dir., Staff Ex. 2.0, 13:272-276) that the Utilities' support goes toward
174 purchasing tickets or a table for company representation to be present at the annual fund-
175 raising events in return for promotional advertising, food, and entertainment. However,
176 the Utilities' response in DGK 24.03 (attached as NS-PGL Ex. 21.5N and 21.5P) further

177 states that these events allow dialogue, networking, and cross-collaboration between the
178 Utilities and community organizations so that the Utilities may find ways to better serve
179 the needs of customers within their service territory. For instance, from Peoples Gas’
180 response to Staff data request DGK 15.05 (attached as NS-PGL Ex. 21.5P), one
181 institutional event that Mr. Kahle proposed to disallow is “The Chicago Police Memorial
182 Foundation.” The mission of The Chicago Police Memorial fund is to provide support to
183 families of fallen or critically injured Chicago Police officers. The Chicago Police
184 Memorial Foundation is a charitable institution. Peoples Gas supports The Chicago
185 Police Memorial Foundation through that organization’s annual recognition event.
186 Another example is the Chicago Urban League. The Chicago Urban League provides
187 community services to the residents of the City of Chicago. The Chicago Urban
188 League’s annual event not only helps the organization draw further contributions to
189 support the community services it provides but also allows dialogue, networking and
190 cross-collaboration between Peoples Gas and community organizations in the City of
191 Chicago. The blanket dismissal of all institutional events as simply a means of building
192 goodwill ignores that these institutional events help those charitable organizations fulfill
193 their missions of public welfare and education. Similarly, institutional events supporting
194 organizations such as the Adler Planetarium, the Chicago Children’s Choir, the Chicago
195 Public Library Foundation, Connections for Abused Women and their Children, and the
196 Chicago Sinfonietta all provide important funding for those organizations’ community
197 outreach and program delivery. In all cases where an “institutional event” expense is
198 present, the charitable organizations serve the Utilities’ service territories, providing

199 public welfare and educational benefits. The particulars of each charitable organization's
200 institutional event are provided in attached NS-PGL Exs. 21.5N and 21.5P.

201 **C. Charitable Contributions**

202 **Q. Do you agree with Staff witness Mr. Kahle's proposed disallowances of certain**
203 **charitable contributions for the Utilities on the grounds that they were made to**
204 **organizations outside of the Utilities' service territories? Kahle Dir., Staff Ex. 2.0,**
205 **14:310-15:317.**

206 A. I disagree in part with Mr. Kahle's proposal based on the sole criterion that the
207 contributions made to these organizations are outside the Utilities' service territories. In
208 the 2012 Rate Cases, the Commission stated in part: "The Commission notes that a utility
209 is not precluded from recovering expenses for charitable contributions simply because the
210 organization receiving the donation is outside of the utility's service territory. However,
211 the utility must show that the donation will provide a benefit to customers in its service
212 territory in order to recover these expenses." 2012 Rate Cases, final Order at 167.⁴
213 Under these criteria, the contributions to North Central College, MorningStar Mission
214 and Target HOPE should be allowed (see Staff Ex. 2.0, Schedule 2.05P, p. 2). North
215 Central College is an Illinois educational institution. The other organizations are located
216 in communities (Joliet and Matteson) where Peoples Gas has facilities and staff.

⁴ The Utilities anticipate that the legal aspects of recoverability of charitable costs will be addressed further in briefing.

217 **D. Social and Service Club Membership Dues**

218 **Q. Do you agree with Staff witness Mr. Kahle’s proposed disallowances of certain**
219 **social and service membership club dues for the Utilities on the grounds that they**
220 **are “promotional and goodwill”? Kahle Dir., Staff Ex. 2.0, 17:366-18:378.**

221 **A.** I disagree with Mr. Kahle’s proposal for the following reasons. Overall, the social and
222 service club membership dues are an indirect way for the Utilities to participate in
223 developing contacts, exchanging ideas, coordinating projects, and networking with
224 business and governmental entities and leaders in their service territories to help ensure
225 safe, reliable, and cost-effective infrastructure and operations, and should be recoverable
226 costs. Peoples Gas and North Shore are providing vital services and infrastructure in
227 their service territories. The Utilities’ construction programs and daily operations affect
228 the businesses’ and municipalities’ infrastructure and operations. These daily
229 interactions with other business and governmental entities are facilitated by social and
230 service club memberships.

231 For example, one of Staff’s proposed adjustments to Social and Service Club
232 Membership expense is for Peoples Gas’ membership in the Metropolitan Planning
233 Council. Staff Ex. 2.0, Schedule 2.07P. The Metropolitan Planning Council is
234 composed of business, governmental, academic, and community leaders from across
235 Chicago and northern Illinois. The Metropolitan Planning Council’s goals include
236 improving collaboration between various stakeholder groups to address challenging
237 problems of economic development, resources use, planning and infrastructure
238 development. The networking and collaboration opportunities available through the

239 Metropolitan Planning Council can assist Peoples Gas' managers in better serving its
240 customers.

241 Notably, Peoples Gas' membership in the City Club of Chicago is also proposed
242 for disallowance. Staff Ex. 2.0, Schedule 2.07P. The City Club of Chicago routinely
243 hosts presenters representing governmental, business and the non-profit community that
244 are involved in Peoples Gas' service territory. Presenters have included Illinois
245 governors, Illinois senators and representatives, mayors and aldermen from the City of
246 Chicago, the Chairman of the Illinois Commerce Commission, and various business
247 leaders of companies headquartered in Chicago. Further, those present at these
248 presentations include governmental and businesses personnel within the City of Chicago.
249 Participation at the City Club of Chicago allows Peoples Gas' leaders to routinely interact
250 with their peers in government and business, creating networking and collaboration
251 opportunities. Further these interactions with governmental authorities allow Peoples
252 Gas to better plan for regulatory and legislative changes.

253 The Utilities' position that social and service club membership expense is
254 allowable for recovery seems to be further supported by Mr. Kahle's inconsistency on
255 certain memberships. Mr. Kahle proposed to allow recovery of North Shore's
256 expenditures for the US Chamber of Commerce and for the Republican Governors
257 Association (Staff Ex. 2.0, Schedule 2.07N), but to disallow Peoples Gas' expenditures
258 for those same organizations (Staff Ex. 2.0, Schedule 2.07P). The Utilities propose that
259 all of their social and service club membership dues be recoverable.

260 **E. Peoples Gas' Test Year 2015 Depreciation Expense Proposed by Intervenors**

261 **Q. Do you agree with the proposed adjustments recommended by AG witness Effron**
262 **and CCI witness Gorman on Peoples Gas' 2015 test year depreciation expense?**

263 A. No, for various reasons. As indicated by Utilities' witness John Hengtgen (NS-PGL
264 Ex. 22.0), Mr. Gorman's proposed derivative adjustments to Peoples Gas' depreciation
265 expense should be calculated using the applicable depreciation rates filed by the Utilities.
266 CCI witness Mr. Gorman attempted to calculate a test year 2015 depreciation expense
267 adjustment by taking the difference between his proposed 2014 and 2015 cumulative
268 depreciation reduction.⁵ However, as Mr. Hengtgen addresses in his testimony, Mr.
269 Gorman only applied his adjustments to Distribution Plant using a composite function
270 group depreciation rate instead of the applicable depreciation rates at detail gas plant
271 level. Thus, the same would apply for O&M depreciation expense. Also, Mr. Hengtgen
272 indicates that Peoples Gas (as well as North Shore) are providing updates to reflect the
273 proper utility plant in service adjustments along with the proper levels of accumulated
274 depreciation.

275 **F. Executive Perquisites**

276 **Q. Staff witness Mr. Kahle proposed disallowance for executive perquisites in the**
277 **Utilities' Test Year 2015 revenue requirement. Do the Utilities contest this**
278 **disallowance?**

279 A. As Utilities' witness Noreen Cleary indicates in her rebuttal testimony (NS-PGL
280 Ex. 24.0), the Utilities will make the adjustments related to this subject but with the

⁵ City/CUB/IEEC Joint Ex. 1.15, page 2: Line 11 Forecast 2014 of \$5,146,852 less Line 11 Forecast 2015 of \$9,967,563 to derive Line 14 depreciation expense reduction of \$4,820,699.

281 correct test year 2015 amounts of \$44,000 for Peoples Gas and \$7,000 for North Shore,
282 as provided in responses to Staff data request DGK 3.06. Those adjustments are reflected
283 in NS-PGL Exs. 21.2 N and 21.2 P, –Revised Schedules C-2.

284 **IV. UPDATED ADJUSTMENTS**

285 **A. Updated Depreciation Expense from Capitalized Benefits**

286 **Q. Please explain the adjustments for depreciation expense on capital expenditures**
287 **related to pension and benefits.**

288 A. The adjustments reflect depreciation expense derived from updated pension and benefits
289 expenses, of which a portion is capitalized. Utilities witness Christine Hans provides
290 further explanation of the updated pension and benefits amounts in her rebuttal testimony
291 (NS-PGL Ex. 26.0). Utilities witness Mr. Hengtgen reflected the updated adjustments to
292 capital expenditures in NS-PGL Ex. 22.6N and Ex. 22.6P.

293 **B. Updated O&M Pension & Benefits Expense**

294 **Q. Please explain the adjustments for O&M Pension & Benefits Expense.**

295 A. The adjustments reflect updated O&M Pension and Employee Benefits expenses.
296 Utilities witness Ms. Hans provides further explanation in her rebuttal testimony
297 (NS-PGL Ex. 26.0).

298 **C. Updated Rate Case Expenses**

299 **Q. Please explain the adjustments to rate case expenses.**

300 A. The adjustments to rate case expenses in this proceeding reflect (a) costs to date as of
301 May 2014 disclosed in NS-PGL responses to Staff data requests DGK 13.05, 13.13,
302 13.14, 13.16, 13.17, and 13.20; (b) removal of costs for outside rebuttal witnesses that

303 have not been spent; and (c) costs to date as of May 2014 on 2012 Rate Cases rehearing
304 and appeal costs. I have attached updated Schedule C-10s (NS-PGL Exs. 21.3N and
305 21.3P) reflecting these adjustments to rate case expenses.

306 **D. Depreciation Expense on Updated Capital Expenditures-LNG Truck**
307 **Loading Facility and 2014 AMRP/Calumet-Peoples Gas only**

308 **Q. Please explain the adjustments related to Depreciation Expense on Updated Capital**
309 **Expenditures for LNG Truck Loading Facility and AMRP/Calumet.**

310 A. These derivative adjustments show the reduction to depreciation expense for (a)
311 withdrawal of the LNG Truck Loading Facility further explained in Utilities witness
312 Thomas Puracchio's rebuttal testimony (NS-PGL Ex. 30.0) and (b) updated 2014 AMRP
313 and Calumet Pipeline Project expenditures further explained in Utilities witness David
314 Lazzaro's rebuttal testimony (NS-PGL Ex. 23.0).

315 For the depreciation expense adjustment related to LNG Truck Loading Facility, I
316 am using the appropriate depreciation rate related to this project as opposed to Staff
317 witness Ms. Hathhorn's proposed adjustment (Staff Ex. 1.0, Schedule 1.12P), which used
318 a composite group depreciation rate to derive her calculation.

319 **E. Depreciation Expense on Updated Capital Expenditures-Locker Room**
320 **Replacement Project ("Locker Room")-North Shore only**

321 **Q. Please explain the adjustments related to Depreciation Expense on Updated Capital**
322 **Expenditures for the Locker Room.**

323 A. This derivative adjustment show the reduction to depreciation expense for the withdrawal
324 of the Locker Room further explained in Utilities witness Mark Kinzle's rebuttal
325 testimony (NS-PGL Ex. 31.0)

326 For the depreciation expense adjustment related to the Locker Room , I am using
327 the appropriate depreciation rate related to this project as opposed to Staff witness
328 Ms. Hathhorn's proposed adjustment (Staff Ex. 1.0, Schedule 1.12N), which used a
329 composite group depreciation rate to derive her calculation

330 **F. Depreciation Expense from Updated 2013 Utility Plant in Service Balances**

331 **Q. Please explain the adjustments related to Depreciation Expense on Updated 2013**
332 **Utility Plant Balances.**

333 A. These derivative adjustments reflect the impact to test year 2015 depreciation expense for
334 2013 updated Utility Plant in Service balances. Utilities witness Mr. Hengtgen explains
335 the 2013 updates to Utility Plant in Service in his testimony.

336 **G. Updated Impacts to Invested Capital Tax**

337 **Q. Please explain the adjustments to Invested Capital Tax.**

338 A. The adjustments to invested capital tax are derivative. They result from changes to the
339 test year 2015 forecasts on Utility Plant in Service and other operating income items.

340 **H. Income Tax Impacts from Changes in Interest Expense on Debt Financing**

341 **Q. Please explain the adjustments on income taxes related to changes in interest**
342 **expense on debt financing**

343 A. The adjustments to income taxes are derivative. They relate to changes in interest
344 expense on debt financing that result from Staff and intervenor adjustments accepted by
345 the Utilities as well as changes to the forecasted interest rates on short-term and
346 long-term debt. The interest rate adjustments impact the capital structure and cost of

347 capital, which are discussed by Utilities witness Lisa Gast in her rebuttal testimony
348 (NS-PGL Ex. 18.0).

349 **I. Income Tax Impacts of Change to Net Operating Loss**

350 **Q. Please explain the adjustments on income taxes related to changes in the Net**
351 **Operating Loss (“NOL”)**

352 A. As Utilities witness John Stabile indicates in his rebuttal testimony (NS-PGL Ex. 25.0),
353 the stand-alone NOLs for both Peoples Gas and North Shore in test year 2015 are
354 forecasted to be zero at December 31, 2014, and December 31, 2015. Therefore the
355 income tax activity in 2015 that reflected usage of the NOL during 2015 is being
356 eliminated with this adjustment.

357 **V. SECTION 9-229 OF THE PUBLIC UTILITIES ACT**

358 **Q. Has any witness recommended disallowances of any of the Utilities’ rate case**
359 **expenses?**

360 A. No. However, I will provide information available to date concerning the services
361 performed, by whom they were performed, the time expended and the hourly rates
362 charged, as well as information concerning the reasonableness of those rates, with respect
363 to the Utilities’ rate case expenses, to enable the Commission to have a comprehensive
364 record for its determination that these expenses are just and reasonable under
365 Section 9-229 of the PUA. I will also provide updates to this information in my
366 surrebuttal testimony.

367 **Q. What is the status of the rate case expense rulemaking and are there any rules**
368 **applicable here from that proceeding?**

369 A. On June 11, 2014, the Commission issued a First Notice Order in ICC Docket
370 No. 11-0711 for a proposed rule that would, among other things, require certain
371 information to be provided by utilities concerning costs claimed as rate case expense,
372 require the production of additional information if requested during discovery, and
373 provide a non-exclusive list of factors for the Commission to consider when conducting
374 its analysis to determine whether rate case expenses are just and reasonable as required
375 under Section 9-229 of the PUA. This proposed rule has not yet gone into effect, and is
376 subject to revision based upon comments submitted to the Commission during the First
377 Notice period. At this time, it is uncertain not only when the rule on rate case expense
378 will go into effect, but what its final form may be. If any new rules concerning rate case
379 expenses become effective during the pendency of this rate case proceeding, the Utilities
380 will comply with those rules, if any, as applicable. The Utilities, however, believe that
381 the information they have provided in response to data requests in this proceeding, which
382 are discussed in the following sections of my rebuttal testimony and attached as exhibits
383 hereto, would comply with the requirements concerning the production of information as
384 they are stated in the First Notice rate case expense rule issued by the Commission on
385 June 11, 2014.

386 **Outside Legal Services**

387 **Q. Please discuss the support for the justness and reasonableness of the Utilities’**
388 **outside legal services costs for which they seek recovery as part of their rate case**
389 **expenses.**

390 A. Peoples Gas and North Shore retained the services of two law firms – Foley & Lardner
391 LLP and Rooney Rippie & Ratnaswamy LLP – to assist in the preparation and

392 prosecution of the present rate cases. The primary attorneys from these firms working on
393 these rate cases are the same attorneys who worked on the 2009, 2011, and 2012 North
394 Shore and Peoples Gas rate cases. The Utilities negotiated an appropriate estimate of
395 hours of work that would be reasonable for the scope of and matters expected to be
396 involved in these rate cases. Further, the hourly rates negotiated with both firms are just
397 and reasonable in light of discounts obtained from the firms, as well as the market rates
398 for experienced counsel in Chicago generally and for practice before the Commission in
399 Chicago specifically. Confidential information concerning the terms of the Utilities'
400 engagements with the law firms, including details regarding discounts, estimated hours,
401 estimated fees and hourly rates for individual attorneys, are contained in the Utilities'
402 responses to Staff data requests PGL DGK 4.01 Attach 06 CONFIDENTIAL, PGL DGK
403 4.01 Attach 07 CONFIDENTIAL, PGL DGK 13.06 CONFIDENTIAL, PGL 13.06
404 Attach 01, PGL DGK 13.07 CONFIDENTIAL, PGL DGK 13.07 Attach 01, PGL DGK
405 13.07 Attach 02 CONFIDENTIAL, NS DGK 13.06 and NS DGK 13.07, which are
406 attached hereto as a group exhibit NS-PGL Ex. 21.6.

407 Detailed invoices received by the Utilities and summaries of services performed
408 for fees received to date by Foley & Lardner LLP that show services performed, by
409 whom, the amount of time expended and the hourly rate charged have been provided in
410 the Utilities' responses to Staff data requests PGL DGK 13.16, PGL DGK 13.16 Attach
411 01 CONFIDENTIAL, NS DGK 13.16, NS DGK 13.16 Attach 01 CONFIDENTIAL,
412 PGL DGK 13.16 SUPP, PGL DGK 13.16 SUPP Attach 01 CONFIDENTIAL, NS DGK
413 13.16 SUPP, NS DGK 13.16 SUPP Attach 01 CONFIDENTIAL, PGL DGK 13.16 2nd
414 SUPP, PGL DGK 13.16 2nd SUPP Attach 01 CONFIDENTIAL, NS DGK 13.16 2nd

415 SUPP, NS DGK 13.16 2nd SUPP Attach 01 CONFIDENTIAL, PGL DGK 27.06, and
416 PGL DGK 27.06 Attach 01, which are attached hereto as a group exhibit NS-PGL
417 Ex. 21.7.

418 Detailed invoices received by the Utilities and summaries of services performed
419 for fees received to date by Rooney Rippie and Ratnaswamy LLP that show services
420 performed, by whom, the amount of time expended and the hourly rate charged have
421 been provided in the Utilities' responses to Staff data requests PGL DGK 13.17, PGL
422 DGK 13.17 Attach 01 CONFIDENTIAL, NS DGK 13.17, NS DGK 13.17 Attach 01
423 CONFIDENTIAL, PGL DGK 13.17 SUPP, PGL DGK 13.17 SUPP Attach 01
424 CONFIDENTIAL, NS DGK 13.17 SUPP, NS DGK 13.17 SUPP Attach 01
425 CONFIDENTIAL, PGL DGK 13.17 2nd SUPP, PGL DGK 13.17 2nd SUPP Attach 01
426 CONFIDENTIAL, NS DGK 13.17 2nd SUPP, NS DGK 13.17 2nd SUPP Attach 01
427 CONFIDENTIAL, PGL DGK 27.07, and PGL DGK 27.07 Attach 01, which are attached
428 hereto as a group exhibit NS-PGL Ex. 21.8.

429 **Outside Consultants and Witnesses**

430 **Q. Please discuss the support for the justness and reasonableness of the Utilities' costs**
431 **for outside consultants and witnesses for which they seek recovery as part of their**
432 **rate case expenses.**

433 A. The Utilities are seeking recovery of rate case expenses for costs incurred by the several
434 outside consultants and/or witnesses who have provided, are providing or will provide
435 assistance in the preparation and prosecution of the present rate cases. My following
436 testimony will describe the information that supports the justness and reasonableness of
437 their rates and overall fees.

438 **Stafflogix/ProUnlimited (“Stafflogix”)**

439 **Q. What information have the Utilities provided as to the justness and reasonableness**
440 **of the fees for Stafflogix which they seek to recover as part of their rate case**
441 **expenses?**

442 A. Stafflogix provided witnesses and other support to assist in the preparation and
443 prosecution of the present rate cases. Mr. Hengtgen worked on working capital issues
444 prior to creating his company, Hengtgen Consulting, LLC (see section Hengtgen
445 Consulting, LLC). Mr. Allan Ikoma provided support in preparing the Utilities’ cost of
446 service studies. Stafflogix’s rates are reasonable based on their long experience working
447 in the utility industry generally and with the Utilities specifically. Further, both
448 Mr. Hengtgen and Mr. Ikoma spent many years working at the Utilities, allowing them to
449 provide their particular knowledge and expertise of the Utilities to their testimony and
450 support of other witnesses. Further information regarding the terms of engagement,
451 particular fees, services and qualifications of Stafflogix were provided in the Utilities’
452 responses to Staff data requests PGL DGK 4.01 Attach 02 (a) CONFIDENTIAL, PGL
453 DGK 4.01 Attach 02 (b) CONFIDENTIAL, PGL DGK 13.02, PGL DGK 13.02
454 Attach 01 CONFIDENTIAL and NS DGK 13.02, which are attached hereto as a group
455 exhibit NS-PGL Ex. 21.9.

456 Detailed invoices received by the Utilities and summaries of services performed
457 for fees received to date by Stafflogix that show services performed, by whom, the
458 amount of time expended and the hourly rate charged have been provided in the Utilities’
459 responses to Staff data requests PGL DGK 13.13, PGL DGK 13.13 Attach 01
460 CONFIDENTIAL, NS DGK 13.13, NS DGK 13.13 Attach 01 CONFIDENTIAL, PGL

461 DGK 13.13 SUPP, PGL DGK 13.13 SUPP Attach 01 CONFIDENTIAL, NS DGK 13.13
462 SUPP, NS DGK 13.13 SUPP Attach 01 CONFIDENTIAL, PGL DGK 13.13 2nd SUPP,
463 PGL DGK 13.13 2nd SUPP Attach 01 CONFIDENTIAL, NS DGK 13.13 2nd SUPP, NS
464 DGK 13.13 2nd SUPP Attach 01 CONFIDENTIAL, PGL DGK 27.02, and PGL DGK
465 27.02 Attach 01, which are attached hereto as a group exhibit NS-PGL Ex. 21.10.⁶

466 **Centric Consulting (“Centric”)**

467 **Q. What information have the Utilities provided as to the justness and reasonableness**
468 **of the fees for Centric which they seek to recover as part of their rate case expenses?**

469 A. Centric will provide support on information technology support necessary to prepare, test
470 and implement the new tariffs approved in the rate cases. Centric’s rates are reasonable
471 based on its consultants’ long experience working in the utility industry generally and
472 with the Utilities specifically. Further information regarding the terms of engagement,
473 particular fees, services and qualifications of Centric were provided in the Utilities’
474 responses to Staff data requests PGL DGK 4.01 Attach 01(a) CONFIDENTIAL, PGL
475 DGK 4.01 Attach 01(b) CONFIDENTIAL, PGL DGK 13.01, PGL DGK 13.01 Attach 01
476 CONFIDENTIAL and NS DGK 13.01, which are attached hereto as a group exhibit
477 NS-PGL Ex. 21.11.

478 Detailed invoices received by the Utilities and summaries of services performed
479 for fees received to date by Centric that show services performed, by whom, the amount
480 of time expended and the hourly rate charged have been provided in the Utilities’
481 responses to Staff data requests PGL DGK 13.12, PGL DGK 13.12 Attach 01, NS DGK
482 13.12, NS DGK 13.12 Attach 01, PGL DGK 13.12 SUPP, PGL DGK 13.12 SUPP Attach

⁶ See NS-PGL Ex. 21.14 for Hengtgen Consulting, LLC for invoices related to Stafflogix.

483 01, NS DGK 13.12 SUPP, NS DGK 13.12 SUPP Attach 01, PGL DGK 13.12 2nd SUPP,
484 PGL DGK 13.12 2nd SUPP Attach 01, NS DGK 13.12 2nd SUPP, NS DGK 13.12 2nd
485 SUPP Attach 01, and PGL DGK 27.01, which are attached hereto as a group exhibit
486 NS-PGL Ex. 21.12.

487 **Hengtgen Consulting, LLC**

488 **Q. What information have the Utilities provided as to the justness and reasonableness**
489 **of the fees for Hengtgen Consulting, LLC, which they seek to recover as part of**
490 **their rate case expenses?**

491 A. Mr. Hengtgen appears as a witness for the Utilities, providing testimony on rate base and
492 cash working capital issues, as well as overseeing the filing and process management of
493 the rate cases. Mr. Hengtgen's rates are reasonable based on his long experience working
494 in the utility industry generally and with the Utilities specifically. Further, Mr. Hengtgen
495 spent many years working at the Utilities, allowing him to provide particular knowledge
496 and expertise of the Utilities to their testimony. Further information regarding the terms
497 of engagement, particular fees, services and qualifications of Hengtgen Consulting, LLC
498 were provided in the Utilities' responses to Staff data requests PGL DGK 4.01 Attach 04
499 CONFIDENTIAL, PGL DGK 13.04, PGL DGK 13.04 Attach 01 CONFIDENTIAL and
500 NS DGK 13.04, which are attached hereto as a group exhibit NS-PGL Ex. 21.13.

501 Detailed invoices received by the Utilities and summaries of services performed
502 for fees received to date by Hengtgen Consulting, LLC that show services performed, by
503 whom, the amount of time expended and the hourly rate charged have been provided in
504 the Utilities' responses to Staff data requests PGL DGK 13.15, PGL DGK 13.15 Attach
505 01 CONFIDENTIAL, NS DGK 13.15, NS DGK 13.15 Attach 01 CONFIDENTIAL,

506 PGL DGK 13.15 SUPP, PGL DGK 13.15 SUPP Attach 01 CONFIDENTIAL, NS DGK
507 13.15 SUPP, NS DGK 13.15 SUPP Attach 01 CONFIDENTIAL, PGL DGK 13.15 2nd
508 SUPP, PGL DGK 13.15 2nd SUPP Attach 01 CONFIDENTIAL, NS DGK 13.15 2nd
509 SUPP, NS DGK 13.15 2nd SUPP Attach 01 CONFIDENTIAL, PGL DGK 27.04, PGL
510 DGK 27.04 Attach 01A and PGL DGK 27.04 Attach 01B, which are attached hereto as a
511 group exhibit NS-PGL Ex. 21.14.

512 **S.FIO Consulting**

513 **Q. What information have the Utilities provided as to the justness and reasonableness**
514 **of the fees for S.FIO Consulting which they seek to recover as part of their rate case**
515 **expenses?**

516 A. S.FIO Consulting provides strategic consulting and advice on the development and
517 presentation of particular rate case issues based on consultant Mr. Salvatore Fiorella's
518 history and experience in and knowledge of the Illinois natural gas industry in general
519 and the Utilities in particular. Mr. Fiorella was a long-time employee of the Utilities and
520 has particular knowledge of matters related to the Utilities' rate bases, capital
521 expenditures, revenue requirement and capital structure. Mr. Fiorella uses his knowledge
522 and experience to provide assistance to the Utilities in the preparation and prosecution of
523 their rate cases, as further detailed in responses to Staff data requests attached hereto.
524 S.FIO's services are necessary because the employees of the Utilities, their affiliates
525 and/or other consultants have assignments and obligations with respect to the present rate
526 cases as well as other matters that do not allow them the time to perform the work that
527 Mr. Fiorella performs for the Utilities with respect to the present rate cases. Further, as
528 described in the responses to Staff data requests attached hereto, Mr. Fiorella brings

529 knowledge, experience and perspective that is different than and thus non-duplicative of
530 the employees of the Utilities and their affiliates or other consultants involved in these
531 rate cases.

532 Specific information regarding the terms of engagement, particular fees, services
533 and qualifications of S.FIO Consulting were provided in the Utilities' responses to Staff
534 data requests PGL DGK 4.01 Attach 10(a) CONFIDENTIAL, PGL DGK 4.01 Attach
535 10(b) CONFIDENTIAL, PGL DGK 13.10, PGL DGK 13.10 Attach 01
536 CONFIDENTIAL and NS DGK 13.10, which are attached hereto as a group exhibit
537 NS-PGL Ex. 21.15.

538 Detailed invoices received by the Utilities and summaries of services performed
539 for fees received to date by S.FIO Consulting that show services performed, the amount
540 of time expended and the hourly rate charged have been provided in the Utilities'
541 responses to Staff data requests PGL DGK 13.19, PGL DGK 13.19 Attach 01
542 CONFIDENTIAL, NS DGK 13.19, NS DGK 13.19 Attach 01 CONFIDENTIAL, PGL
543 DGK 13.19 SUPP, PGL DGK 13.19 SUPP Attach 01 CONFIDENTIAL, NS DGK 13.19
544 SUPP, NS DGK 13.19 SUPP Attach 01 CONFIDENTIAL, PGL DGK 13.19 2nd SUPP,
545 PGL DGK 13.19 2nd SUPP Attach 01 CONFIDENTIAL, NS DGK 13.19 2nd SUPP, NS
546 DGK 13.19 2nd SUPP Attach 01 CONFIDENTIAL, and PGL DGK 27.10, which are
547 attached hereto as a group exhibit NS-PGL Ex. 21.16.

548 **Deloitte & Touche**

549 **Q. What information have the Utilities provided as to the justness and reasonableness**
550 **of the fees for Deloitte & Touche which they seek to recover as part of their rate**
551 **case expenses?**

552 A. Deloitte & Touche provided services as independent accountants to examine the
553 forecasted statements of financial position – regulatory basis for the Utilities, and the
554 related forecasted statement of operations – regulatory basis and forecasted statements of
555 cash flows – regulatory basis, to comply with Section 285.7010 Schedule G-2 of Part 285
556 of the Commission’s filing and information requirements in connection with the filing of
557 these rate cases. Further information regarding the terms of engagement, particular fees,
558 services, and qualifications of Deloitte & Touche were provided in the Utilities’
559 responses to Staff data requests PGL DGK 4.01 Attach 05 CONFIDENTIAL, PGL DGK
560 13.05, and NS DGK 13.05, which are attached hereto as a group exhibit NS-PGL
561 Ex. 21.17.

562 Detailed invoices received by the Utilities for fees received to date by Deloitte &
563 Touche that show services performed, by whom, the amount of time expended and the
564 hourly rates charged have been provided in Staff data request response PGL DGK 27.05,
565 PGL DGK 27.05 Attach 01, and NS DGK 27.05 which is attached hereto as exhibit
566 NS-PGL Ex. 21.18.

567 **P. Moul & Associates**

568 **Q. What information have the Utilities provided as to the justness and reasonableness**
569 **of the fees for P. Moul & Associates that they seek to recover as part of their rate**
570 **case expenses?**

571 A. P. Moul & Associates provides expert analysis and testimony concerning return on
572 equity. Mr. Paul Moul has appeared as a witness for the Utilities in this capacity in their
573 last several rate cases, and is able to apply his existing knowledge and expertise with
574 respect to his analysis of and testimony on the Utilities’ return on equity. Further

575 information regarding the terms of engagement, particular fees, services and
576 qualifications of Mr. Moul were provided in data request responses PGL DGK 4.01
577 Attach 03 CONFIDENTIAL, PGL DGK 13.03, and NS DGK 13.03, which are attached
578 hereto as a group exhibit NS-PGL Ex. 21.19.

579 Detailed invoices received by the Utilities for fees received to date by P. Moul &
580 Associates that show services performed, by whom, the amount of time expended and the
581 hourly rate charged have been provided in the Utilities' responses to Staff data requests
582 PGL DGK 13.14, PGL DGK 13.14 Attach 01 CONFIDENTIAL, NS DGK 13.14, NS
583 DGK 13.14 Attach 01 CONFIDENTIAL, PGL DGK 13.14 SUPP, PGL DGK 13.14
584 SUPP Attach 01 CONFIDENTIAL, NS DGK 13.14 SUPP, NS DGK 13.14 SUPP Attach
585 01 CONFIDENTIAL, PGL DGK 13.14 2nd SUPP, PGL DGK 13.14 2nd SUPP Attach 01
586 CONFIDENTIAL, NS DGK 13.14 2nd SUPP, NS DGK 13.14 2nd SUPP Attach 01
587 CONFIDENTIAL, PGL DGK 27.03, and PGL DGK 27.03 Attach 01, which are attached
588 hereto as group exhibit NS-PGL Ex. 21.20.

589 **Gannett Fleming, Inc.**

590 **Q. What information have the Utilities provided as to the justness and reasonableness**
591 **of the fees for Gannett Fleming that they seek to recover as part of their rate case**
592 **expenses?**

593 A. Gannett Fleming provides expert analysis and testimony on the Utilities' request to the
594 Commission for approval of change in depreciation rates to incorporate new service lines
595 and net salvage components. Mr. Spanos has appeared as a witness on behalf of Gannett
596 Fleming for the Utilities in this capacity in their last several Commission depreciation
597 study filings, the most recent filed in the 2009 rate cases. Further information regarding

598 the terms of engagement, particular fees, services and qualifications of Gannett Fleming
599 were provided in data request responses PGL DGK 4.01 Attach 08 CONFIDENTIAL,
600 PGL DGK 13.08, and NS DGK 13.08, which are attached hereto as a group exhibit
601 NS-PGL Ex. 21.21.

602 Detailed invoices received by the Utilities for fees received to date by Gannett
603 Fleming that show services performed, by whom, the amount of time expended and the
604 hourly rate charged have been provided in the Utilities' responses to Staff data requests
605 PGL DGK 13.18, PGL DGK 13.18 Attach 01 CONFIDENTIAL, NS DGK 13.18
606 REVISED, NS DGK 13.18 REVISED Attach 01 CONFIDENTIAL, PGL DGK 13.18
607 SUPP, PGL DGK 13.18 SUPP Attach 01 CONFIDENTIAL, NS DGK 13.18 SUPP, NS
608 DGK 13.18 SUPP Attach 01 CONFIDENTIAL, PGL DGK 13.18 2nd SUPP, PGL DGK
609 13.18 2nd SUPP Attach 01 CONFIDENTIAL, NS DGK 13.18 2nd SUPP, NS DGK 13.18
610 2nd SUPP Attach 01 CONFIDENTIAL, PGL DGK 27.08, and PGL DGK 27.08 Attach
611 01, which are attached hereto as group exhibit NS-PGL Ex. 21.22.

612 **Towers Watson**

613 **Q. What information have the Utilities provided as to the justness and reasonableness**
614 **of the fees for Towers Watson that they seek to recover as part of their rate case**
615 **expenses?**

616 A. Towers Watson provided actuarial services in support of Utilities witness Ms. Hans'
617 rebuttal testimony regarding items related to Pensions and Benefits, as well as support
618 during the discovery process. Further information supporting the justness and
619 reasonableness of Towers Watson's fees are contained in Staff data request responses
620 PGL 4.01 Attach 09 CONFIDENTIAL, PGL DGK 13.09 and NS DGK 13.09 along with

621 invoices in Staff data request response PGL DGK 27.09 and PGL DGK 27.09 Attach 01,
622 attached hereto as group exhibit NS-PGL Ex. 21.23.

623 **Intercompany Billings from IBS**

624 **Q. What information have the Utilities provided as to the justness and reasonableness**
625 **of the costs for intercompany billings from IBS that they seek to recover as part of**
626 **their rate case expenses?**

627 A. The Utilities rely upon IBS to provide cost-effective rate case support, and ensure that the
628 IBS costs for which they seek recovery as rate case expense are not also included
629 elsewhere in their O&M costs. Further, the Utilities have required IBS to provide more
630 detailed documentation that shows what services were performed, by whom, the amount
631 of time expended and the hourly cost charged. Information regarding the nature, costs
632 and loadings, services provided, identification of by whom and the amount of time spent
633 by IBS as well as invoices were provided in the Utilities' responses to Staff data requests
634 PGL DGK 4.02, PGL DGK 13.11, PGL DGK 13.11 Attach 01, NS DGK 13.11, PGL
635 DGK 13.20, PGL DGK 13.20 Attach 01, NS DGK 13.20, NS DGK 13.20 Attach 01,
636 PGL DGK 13.20 SUPP, PGL DGK 13.20 SUPP Attach 01, NS DGK 13.20 SUPP, NS
637 DGK 13.20 SUPP Attach 01, PGL DGK 13.20 2nd SUPP, PGL DGK 13.20 2nd SUPP
638 Attach 01, NS DGK 13.20 2nd SUPP, NS DGK 13.20 2nd SUPP Attach 01, PGL DGK
639 27.11, and PGL DGK 27.11 Attach 01 through Attach 08, which are attached hereto as a
640 group exhibit NS-PGL Ex. 21.24.

641 **Rehearings and Appeals from 2012 Rate Cases**

642 **Q. What information have the Utilities provided as to the justness and reasonableness**
643 **of the costs for rehearings and appeals in their 2012 Rate Cases as part of their rate**
644 **case expenses?**

645 A. Detailed invoices received by the Utilities that show services performed, by whom, the
646 amount of time expended and the hourly rate charged in connection with the rehearing
647 and appeals of their 2012 Rate Cases have been provided in the Utilities' responses to
648 Staff data requests PGL DGK 4.04 and PGL DGK 4.04 Attach 01 through Attach 06,
649 which are attached hereto as a group exhibit NS-PGL Ex. 21.25. I note that in the
650 appeals from the 2012 Rate Cases, the Utilities are only defending the appeals (although
651 it is the Utilities' position that their expenses spent on pursuing appeals also are
652 recoverable).

653 **VI. UPDATED REVENUE DEFICIENCIES**

654 **Q. Please describe NS-PGL Exs. 21.1N and 21.1P, revised Schedules C-1.**

655 A. As earlier indicated in my testimony, the Utilities have agreed to or accepted a number of
656 Staff and intervenor adjustments (in some instances solely in order to narrow the
657 contested issues) and have provided additional evidence concerning other adjustments.

658 The Utilities have revised each of their Schedule C-1s to reflect the
659 above-mentioned changes. As a result, Peoples Gas' revenue deficiency (cost
660 under-recovery under existing rates) is \$102,250,000 and North Shore's revenue
661 deficiency is \$6,524,000 (these figures include the Other Revenues under-recoveries).
662 (The base rate amounts excluding Other Revenues also are shown on the Schedules.)

663 I also have attached the following related revised operating expense schedules
664 that provide and support data incorporated in the revised Schedule C-1s: NS-PGL
665 Exs. 21.1N and 21.1P (revised Schedule C-1s) and NS-PGL Exs. 21.2N and 21.2P
666 (revised Schedule C-2s), reflecting adjustments including all applicable derivative items.
667 The related calculations regarding invested capital tax and interest synchronization (both
668 are derivative items) are found and supported in NS-PGL Exs. 21.2N and 21.2P. The
669 applicable data in the other Schedules attached to my rebuttal testimony also has been
670 incorporated in the updated revenue deficiency calculations.

671 **Q. What overall return on rate base have you applied in the determination of the**
672 **Utilities' updated revenue deficiencies?**

673 A. I utilized the overall rates of return on rate base of 7.27 % and 6.89 %, respectively, for
674 Peoples Gas and North Shore. These rates of return are supported by the rebuttal
675 testimony of Utilities witnesses Ms. Gast (NS-PGL Ex. 18.0), and Mr. Moul (NS-PGL
676 Ex. 19.0).

677 **VII. PENDING ADJUSTMENTS RELATED TO NOLS**

678 **Q. In the Order on Rehearing in the 2012 Rate Cases, the Commission agreed that the**
679 **Utilities provide a narrative description with illustrative calculations that would**
680 **provide instructions for the Commission to calculate the impact of the Utilities'**
681 **NOLs on current and accumulated deferred income taxes associated with each**
682 **pending adjustment during the rate case proceeding process. What is the Utilities'**
683 **response to this?**

684 A. As Utilities witness Mr. Stabile indicates in his rebuttal testimony (NS-PGL Ex. 25.0),
685 the stand-alone federal NOLs for both Peoples Gas and North Shore in test year 2015 are
686 forecasted to be zero at December 31, 2014, and December 31, 2015; therefore the
687 federal income tax NOLs are no longer included in rate base. Because the Utilities are no
688 longer including a deferred tax asset for a federal NOL in rate base, there are no pending
689 adjustments to identify which require further instructions to calculate the impact of
690 federal NOL on current and deferred income taxes at this stage in the proceeding.

691 **Q. Does this conclude your rebuttal testimony?**

692 A. Yes.