

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

TRACY L. KUPSH

Director, Operations Accounting IBS
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 Tracy L. Kupsh. My business address is Integrys Energy Group, Inc.
5 (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay, Wisconsin 54307-
6 9001.

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

10 A. Yes.

11 **B. Purpose of Rebuttal Testimony**

12 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

13 A. The purpose of my rebuttal testimony is to discuss certain adjustments to Integrys
14 Business Support, LLC (“IBS”) intercompany direct charges and allocations for labor and
15 non-labor costs proposed by Illinois Attorney General’s Office (“AG”) witness David
16 Effron in his direct testimony. Other of his proposed adjustments to IBS direct charges
17 and allocations are addressed by the rebuttal testimony of Utilities witnesses Noreen
18 Cleary (NS-PGL Exhibit (“Ex.”) 24.0) and Christine Hans (NS-PGL Ex. 26.0).

19 **C. Summary of Conclusions**

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

21 A. As detailed below, the adjustments recommended by AG witness David Effron that I
22 address are not appropriate. Specifically, the following proposed adjustments are
23 inappropriate:

- 24 • IBS cross charged labor to Peoples Gas and North Shore. (Please note that in the
25 context of IBS costs going to a utility, when I refer to cross charges, I mean the
26 total amount of the applicable costs, without differentiating between whether they
27 were direct charged or allocated, unless the context indicates otherwise.)
- 28 • The percentage of IBS benefit expenses cross charged to Peoples Gas and North
29 Shore.
- 30 • IBS cross charged postage expense to Peoples Gas and North Shore.
- 31 • IBS cross charged legal expense to North Shore.
- 32 • Depreciation and return on assets (“ROA”) related to the IBS hardware and
33 software for the Integrys Customer Experience (“ICE”), the customer information
34 system under development that will be implemented in 2015.
- 35 • Other IBS non-labor ICE expenses.

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

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

38 A. Yes. I am sponsoring NS-PGL Ex. 27.1P and NS-PGL Ex. 27.1N¹, which illustrate the
39 variances causing the IBS cross charged labor changes, and NS-PGL Ex. 27.2P and
40 NS-PGL Ex. 27.2N, which illustrate the 2013 actual allocation percentage from IBS
41 calculation.

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.

42 **II. RESPONSES TO AG DIRECT TESTIMONY**

43 **Q. Please describe Mr. Effron's proposed adjustments to IBS cross charged labor.**

44 A. Mr. Effron's proposed adjustment as to Peoples Gas is based solely on a calculation of a
45 general wage increase ("GWI") multiplied by 2013 actual IBS operation and maintenance
46 cross charged labor for Peoples Gas. His proposed adjustment for North Shore uses a
47 similar calculation, but assumes 2013 and 2014 IBS operation and maintenance cross
48 charged labor to North Shore is equal. He then subtracted his calculated IBS operations
49 and maintenance labor amount from each company's 2015 test year amounts to arrive at
50 his proposed adjustments of \$4,963,000 for Peoples Gas and \$1,060,000 for North Shore.

51 **Q. Do you agree with Mr. Effron's proposed adjustments to IBS cross charged labor?**

52 A. No, I do not agree with Mr. Effron's adjustments for several reasons. Applying a GWI to
53 the 2013 IBS operations and maintenance cross charged labor is not taking into
54 consideration any other factors that impact labor between 2013 and the 2015 test year.
55 During this particular time frame, IBS had three primary reasons that the cross charged
56 labor increased. These reasons were supplied in data request responses PGL AG 1.61
57 Attach 01 and NS AG 1.53 Attach 01.

58 First, Mr. Effron's philosophy does not allow for increased services provided to
59 Peoples Gas and North Shore from IBS and the requisite increase in IBS labor charges
60 needed to provide those services. For Peoples Gas, the increased IBS labor comes
61 primarily from Manlove gas storage, the customer relations call center, and the Chief
62 Financial Officer ("CFO") services, while for North Shore it comes primarily from the
63 CFO services and legal services.

64 Second, increased full time equivalent employees (“FTEs”) at IBS have not been
65 considered by Mr. Effron in the IBS operations and maintenance cross charged labor
66 increases. FTE increases are an effort to support the additional workload at the utilities.
67 As an example, the largest increase in FTEs for the IBS cross charged labor comes from
68 Engineering Services. IBS Engineering Services performs numerous services directly for
69 Peoples Gas.

70 Last, a shift in the allocation percentages based on utility inputs has not been
71 considered in Mr. Effron’s labor increase philosophy. The *number of union employees*
72 and *total spend without generation fuel* 2015 IBS allocation percentages are two
73 instances of increases. The increased compliance work and Accelerated Main
74 Replacement Program activity at Peoples Gas is a key factor driving the increased
75 percentage in both of these allocators.

76 **Q. Can you provide details that support the three additional explanations for increases**
77 **to the IBS cross charged operations and maintenance labor?**

78 A. Please see NS-PGL Ex. 27.1P and NS-PGL Ex. 27.1N supporting the three reasons for
79 increased IBS cross charged labor explained above.

80 **Q. Do you agree with Mr. Effron’s proposed adjustment to the allocation percentages**
81 **of the IBS benefits cross charged to Peoples Gas and North Shore?**

82 A. No, I do not agree with Mr. Effron’s proposed method, which is to use the 2013 actual
83 allocation percentages. The IBS benefits are allocated to Peoples Gas and North Shore in
84 the same proportion that direct and cost causal labor costs were assigned for the same
85 timeframe. This is true for actual 2013 and for the 2015 test year. It is inappropriate to
86 use the 2013 allocation percentage because the weighting of the 2013 direct and cost

87 causal labor charges to Peoples Gas and North Shore would not be consistent with the
88 2015 test year weighting of the direct and cost causal labor charges. Therefore, using the
89 allocation percentage from 2013 would not match the 2015 test year proportion of direct
90 and cost causal labor cost.

91 The difference in 2013 actual percentages that Mr. Effron uses from data request
92 responses PGL AG 1.53 and PGL AG 1.56, as well as data request responses NS
93 AG 1.45 and NS AG 1.48, are driven by a difference in the denominator. Both
94 PGL AG 1.53 Attach 01 and NS AG 1.45 Attach 01 list the IBS benefit costs by Federal
95 Energy Regulatory Commission (“FERC”) sub-accounts. Included in this total is FERC
96 sub-account 926050, an amount of \$2,432,609. Sub-account 926050 includes costs that
97 are related to mark-to-market deferred compensation, which is not related to benefits.
98 This amount was included in the total denominator in PGL AG 1.53 Attach 01 and NS
99 AG 1.45 Attach 01, an amount of \$27,788,355, but excluded in the total denominator in
100 PGL AG 1.56 and NS AG 1.48. Please see NS-PGL Ex. 27.2P and NS-PGL Ex. 27.2N
101 that illustrate the two calculations. However, as I stated above, this 2013 actual
102 allocation percentage is not an acceptable method of allocation for the 2015 test year IBS
103 benefits.

104 **Q. Do you agree with Mr. Effron’s proposed adjustment for postage?**

105 A. No, I do not agree with Mr. Effron’s postage increase calculation. In computing his
106 adjustment, Mr. Effron considers only a flat postage rate increase. An allowance has not
107 been provided for an increase in volume. In addition to the rate increase, IBS is also
108 projecting an ICE related volume increase in billing in 2015. This volume increase
109 recognizes supplementary customer communications to introduce the new customer bills,

110 improved self service functions, system enhancements, etc. Therefore the 2015 test year
111 for postage must consider both a rate and volume in the calculations.

112 **Q. Do you agree with Mr. Effron's proposed adjustment for legal services?**

113 A. No, I do not agree with Mr. Effron's proposed adjustment. Historical legal expenses are
114 used to develop budgets for legal expense. However, the legal services budgets are also
115 based on consultation between the business team and the legal department regarding
116 North Shore's future requirements and demands for legal services. Therefore, it is not a
117 fair statement to say that costs in 2015 are only anticipated to increase because of higher
118 legal fees. Rather, the 2015 budget is based upon assumptions regarding the expected
119 demands and requirements of North Shore for legal services, as well as reasonable
120 forecasts of the costs of those services.

121 **Q. Do you agree with Mr. Effron's proposed adjustments for depreciation and ROA
122 related to the IBS hardware and software for ICE?**

123 A. No, I do not agree with Mr. Effron's proposed adjustments. In computing his
124 adjustments, Mr. Effron annualized the 2014 April year-to-date depreciation and ROA
125 amount using simple math, multiplying the actual April year-to-date amount by three. He
126 then subtracted his calculated 2014 amount from each company's 2015 test year amounts
127 to arrive at his proposed adjustment. Mr. Effron's calculation is not only inaccurate, it is
128 also inappropriate as it ignores forecasted expenditures and plant in service activity. IBS
129 only bills North Shore and Peoples Gas for assets that are in service. For 2013 and 2014,
130 only a small portion of the ICE assets are in service in preparation for the larger assets
131 that will be going in service in 2015. As a result, depreciation and ROA amounts from
132 2013 and 2014, without all the ICE assets, are simply not comparable to the amounts

133 included for 2015. Therefore, the only accurate measure for the ICE depreciation and
134 ROA is the forecasted 2015 test year.

135 **Q. Do you agree with Mr. Effron's proposed adjustments for IBS other non-labor ICE**
136 **expenses?**

137 A. No, I do not agree with Mr. Effron's adjustments. In computing his adjustments,
138 Mr. Effron annualized the 2014 April year-to-date non-labor ICE expenses using simple
139 math, multiplying the actual April year-to-date amount by three. He then subtracted his
140 calculated 2014 amount from each company's 2015 test year amounts to arrive at his
141 proposed adjustment. Mr. Effron's calculation is not only inaccurate, it is also
142 inappropriate as it ignores forecasted operations and maintenance expenditures for ICE.
143 Additionally, using the 2014 year-to-date actuals is flawed as the operations and
144 maintenance ICE project costs in 2012, 2013, and 2014 have been predominantly capital.
145 The majority of the non-labor operation and maintenance costs will begin in 2015 as the
146 software goes in service. Furthermore, with the unpredictability of how expenses might
147 be incurred during four months of one year, it would not be a solid method of
148 establishing precedence for future annual activity. Therefore, the only accurate measure
149 for the IBS non-labor ICE expense is the 2015 test year.

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

151 A. Yes.