

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	:	

Second Revised Rebuttal Testimony of

DAVID J. LAZZARO

General Manager, District Field Operations
The Peoples Gas Light and Coke Company

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

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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 David J. Lazzaro. My business address is 1250 S. Kilbourn Ave., Chicago,
5 Illinois 60623.

6 **Q. Are you the same David J. Lazzaro who provided direct testimony on behalf of The**
7 **Peoples Gas Light and Coke Company (“Peoples Gas”) in these consolidated**
8 **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. I will be addressing issues in the direct testimony of Illinois Commerce Commission (the
13 “Commission” or “ICC”) Staff (“Staff”) witnesses Dianna Hathhorn (Staff Exhibit
14 (“Ex.”) 1.0) and Brett Seagle (Staff Ex. 5.0); Illinois Attorney General (“AG”) witnesses
15 David J. Effron (AG Ex. 1.0) and David Dismukes (AG Ex. 2.0); City of Chicago
16 (“City”), Citizens Utility Board (“CUB”), and Illinois Industrial Energy Consumers
17 (“IIEC”) (together, “City/CUB/IIEC” or “CCI”) witness Michael Gorman
18 (City/CUB/IIEC Joint Ex. 1.0); and IIEC witness Brian C. Collins (IIEC Ex. 1.0). In
19 particular, I will be addressing forecast additions to utility plant, capital expenditures
20 forecast for 2014 Qualified Infrastructure Plant (“QIP”), cost of removal, corrosion
21 related leaks, plastic pipefitting remediation project costs, test year employee levels, and
22 the allocation of the cost of mains smaller than four inches.

23 C. Summary of Conclusions

24 Q. Please summarize the conclusions of your rebuttal testimony.

25 A. In brief, I conclude as follows:

- 26 • The adjustments to Peoples Gas distribution plant by Messrs. Gorman and Effron
27 for 2014 and 2015 should be rejected. Peoples Gas' 2013 actual plant will be
28 reduced, however, to reflect actual ending balances, as addressed by the rebuttal
29 testimony of Utilities witness John Hengtgen (NS-PGL Ex. 22.0). Furthermore,
30 2014 forecasted additions to distribution plant for Peoples Gas will be reduced to
31 reflect the level of work currently scheduled for completion within historical
32 forecasting accuracy, as reflected by Mr. Hengtgen. The forecasted level of QIP
33 additions for 2014 will be reduced by \$67.5 million.
- 34 • The cost of removal in Peoples Gas' rate base is accurate based on actual data and
35 should not be reduced. Therefore, Mr. Effron's proposed adjustment on this
36 subject is not necessary.
- 37 • Dr. Dismukes' analysis of corrosion-related leaks is not an accurate measure of
38 the assessing the effectiveness of Peoples Gas' accelerated main replacement
39 program ("AMRP") and should not be used as a basis to develop leak reduction
40 metrics.
- 41 • As proposed by Mr. Seagle, Peoples Gas agrees that the plastic pipefitting
42 remediation project costs should be removed from operating expenses. This is
43 reflected in the rebuttal testimony of Utilities witness Sharon Moy (NS-PGL
44 Ex. 21.0)

- 45 • Peoples Gas' 2015 employee levels are supported by current and planned
46 employee staffing changes based on business needs.
- 47 • Mr. Collins' conclusions regarding smaller diameter mains are contrary to how
48 Peoples Gas designs and operates its integrated system.

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

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

51 A. Yes. I have five attachments to my testimony as follows:

- 52 • NS-PGL Ex. 23.1 is the actual cost of removal for 2013 and for the first 6 months of
53 2014.
- 54 • NS-PGL Ex. 23.2 is approvals to hire additional staff.
- 55 • NS-PGL Ex. 23.3 is the job profile for the utility worker classification.
- 56 • NS-PGL Ex. 23.4 is the job profile for the technician classification.
- 57 • NS-PGL Ex. 23.5 is the job profile for the supervisor classification.

58 **II. DISTRIBUTION PLANT**

59 **A. Adjustments to Distribution Plant**

60 **Q. CCI witness Mr. Gorman recommends an adjustment to reduce distribution plant
61 by 9% for the years 2013, 2014, and 2015. Gorman Dir., City/CUB/IIEC Joint Ex.
62 1.0, 52:1139-1145. Do you agree with his recommendation?**

63 A. No. Peoples Gas is proposing certain adjustments, as reflected in Mr. Hengtgen's
64 testimony, but Mr. Gorman's approach is flawed. Mr. Gorman used 2013 through May
65 2014 data to determine what he called a "normal level of annual plant additions." Using
66 these historical data is not a valid basis for 2014 and 2015 projections. For 2013, as

67 Mr. Gorman notes, actual data are available, and Peoples Gas will reduce the 2013
68 additions to plant to reflect the 2013 actual ending balance. As noted below,
69 expenditures for the first five months of 2014 do not provide a valid basis for estimating
70 2014 additions and, for the same reasons, ought not to be extended to the 2015 forecast.
71 However, as explained below, Peoples Gas proposes to reduce the 2014 additions to
72 reflect a lower level of plant additions based on current estimates, as also is reflected in
73 Mr. Hengtgen's testimony.

74 **B. 2014 Rider QIP Expenditures**

75 **Q. AG witness Mr. Effron is recommending that 2014 QIP plant additions related to**
76 **the AMRP be reduced from \$226,999,000 to \$54,348,000. Effron Dir., AG Ex. 1.0,**
77 **9:189-193. Do you agree?**

78 A. No, I do not agree with Mr. Effron's recommendation. Mr. Effron used the average
79 actual monthly expenditures between January and May of 2014 as a basis to forecast the
80 total annual expenditures for AMRP in 2014. This does not properly address forecasted
81 costs for a construction season.

82 **Q. Why is Mr. Effron's method an incorrect method to estimate annual cost?**

83 A. Construction expenditures typically start at a lower level in the early months of the year
84 and increase significantly in the summer months. Using a monthly average from January
85 through May would under-estimate the total actual expenditures, basically missing the
86 peak construction season and the associated costs. In addition, the start of the AMRP
87 was delayed in 2014 by the prolonged and unusually harsh winter weather. This resulted
88 in a reduction of AMRP expenditures compared to forecast for the beginning of the year.

89 **Q. What actions has Peoples Gas taken to get back on schedule?**

90 A. Peoples Gas required its contractors who were awarded construction contracts to submit
91 recovery schedules. Contractors brought on additional crews to help make up some of
92 the lost time.

93 **Q. Will Peoples Gas be able to fully recover from the delay in construction and**
94 **complete the forecasted level of work?**

95 A. No, not entirely. As a result, Peoples Gas has made adjustments to the total AMRP
96 forecast for 2014 based on the recovery schedules from contractors. The 2014 AMRP
97 additions are now forecasted to be \$215.9 million, a reduction of \$11.1 million, and are
98 reflected in Mr. Hengtgen's rebuttal testimony. Therefore, Mr. Effron's unsupported
99 methodology to estimate 2014 QIP should be rejected.

100 **Q. Are there other adjustments to 2014 QIP plant additions that Peoples Gas is**
101 **making?**

102 A. Yes, the 2014 expenditures for the Calumet Pipeline Project are being reduced from
103 \$43.1 million to \$36.3 million to reflect the updated cost of the work that will be
104 completed in 2014. Of this reduced amount, \$15.0 million will be in service in 2014 and
105 the remaining \$21.3 million will be accounted for as construction work in progress at
106 December 31, 2014.

107 **C. Cost of Removal**

108 **Q. AG witness Mr. Effron is recommending an adjustment to the cost of removal.**
109 **Effron Dir., AG Ex. 1.0, 11:237-246. Do you agree with his methodology?**

110 A. No. Mr. Effron's methodology applies a ratio to the book value retirement amount.
111 However, the actual cost of removal is not dependent on the book value (vintage) of the
112 pipe being removed. For example, the cost of removal for a 10-year old service is the
113 same as the cost of removal for a 40-year old service. Please see NS-PGL Ex. 23.1,
114 which provides actual cost of removal data.

115 **Q. What do you recommend?**

116 A. The cost of removal forecast should not be adjusted because it is in line with actual cost
117 experienced in the field.

118 **D. Corrosion Related Leaks**

119 **Q. AG witness Dr. Dismukes recommends that the Commission implement**
120 **performance metrics related to reducing corrosion related leaks. Do you agree with**
121 **the recommendation?**

122 A. No, Dr. Dismukes only discusses leaks with a cause code of "Corrosion" and does not
123 adequately address leaks with the seven other cause codes as defined by the Pipeline and
124 Hazardous Materials Safety Administration ("PHMSA"). In addition, Dr. Dismukes does
125 not prove that the level of leaks due to corrosion should be the primary metric in
126 evaluating AMRP.

127 **Q. What are the PHMSA leak cause codes?**

128 A. PHMSA defines eight cause codes that represent the most probable cause of a leak. The
129 eight codes are Corrosion, Natural Forces, Excavation Damage, Other Outside Force
130 Damage, Material / Welds, Equipment, Incorrect Operations and Other. The leak cause
131 codes have been in place for many years. However, guidelines were provided in 2011 to

132 clarify each cause code in support of the distribution integrity management program
133 (“DIMP”). PHMSA published the DIMP final rule establishing integrity management
134 requirements for gas distribution pipeline systems on December 4, 2009 (74 FR 63906).
135 The effective date of the rule was February 12, 2010. Operators were given until
136 August 2, 2011, to write and implement their programs. This regulation required
137 operators to develop, write and implement a DIMP with the following elements:

- 138 • Knowledge
- 139 • Identify Threats
- 140 • Evaluate and Rank Risks
- 141 • Identify and Implement Measures to Address Risks
- 142 • Measure Performance, Monitor Results, and Evaluate Effectiveness
- 143 • Periodically Evaluate and Improve Program
- 144 • Report Results

145 **Q. How did DIMP change the way Peoples Gas categorized the cause of a leak?**

146 A. One focus of DIMP is to have operators identify the conditions that can cause leaks,
147 address them before they occur, and better manage them if they do occur. PHMSA saw a
148 need to provide guidelines to operators regarding the categorization of leak causes in
149 order to ensure they were being uniformly applied by all system operators. Prior to
150 DIMP, operators did not follow a uniform categorization of leak cause codes. Peoples
151 Gas, for example, categorized most of its leaks on the cast iron and ductile iron systems
152 as either “Other” or “Natural Forces.” Since mid-2011, Peoples Gas has followed the
153 PHMSA guidelines. This can be seen by the increased level of leaks categorized with a
154 cause code of “Corrosion.”

155 **Q. What other leak cause codes should be considered when evaluating AMRP?**

156 A. Leaks caused by “Natural Forces” should be a major consideration. These leaks are
157 typically caused by frost heave and result in breaks or cracks on cast iron or ductile iron
158 main. This results in gas migration under the frost line to undesirable structures such as
159 sewers or basements. Breaks and cracks are an indication of the brittleness of a main
160 segment. Leaks with cause codes of “Other” should also be taken into consideration.
161 These are typically leaks on bell joints inherent with cast iron and ductile iron systems.

162 **Q. How does Peoples Gas take these cause codes into consideration when determining
163 what main to replace?**

164 A. As noted in my direct testimony, Peoples Gas’ Main Ranking Index (“MRI”) takes cause
165 codes of Natural Forces, Corrosion, and Other into account. A higher index ranking
166 results in a higher priority of replacement.

167 **Q. Does the MRI address the number of leaks per mile?**

168 A. Yes, it does so indirectly. The MRI is assigned to a main segment that can be of various
169 lengths. The segments are normalized to a defined length when the MRI is calculated.
170 This provides a better method to determine which main segments to replace first.
171 Replacing segments with higher MRIs results in driving down the number of leaks per
172 mile. Dr. Dismukes notes in his testimony that Peoples Gas has less than 0.1 leaks per
173 mile on its cast iron and ductile iron system while other Midwestern LDCs have leak
174 rates of over 1.2 leaks per mile. Dismukes Dir., AG Ex. 2.0, 15:318-322.

175 **Q. Would additional performance metrics addressing the reduction in corrosion
176 related leaks be an indicator of the main replacement program of Peoples Gas?**

177 A. No, for the reasons noted above, a metric focused on a reduction of leaks categorized to a
178 single cause code of corrosion is not a good measure of Peoples Gas' main replacement
179 program.

180 **III. TEST YEAR EMPLOYEES**

181 **Q. Both AG witness Mr. Effron and CCI witness Mr. Gorman propose adjustments to**
182 **reduce forecasted payroll costs included in Peoples Gas' test year operations and**
183 **maintenance expenses. Do you agree with these adjustments?**

184 A. No, I do not. AG witness Mr. Effron is recommending that Peoples Gas' 2015 test year
185 payroll expense be reduced to reflect a January 2014 through May 2014 average
186 employee count of 1,302 versus the test year number of 1,356. CCI witness Mr. Gorman
187 is recommending that Peoples Gas' 2015 test year payroll expense be reduced to reflect a
188 reduction of 60 employees. The employee count at any given moment is a snap shot in
189 time that does not reflect existing and future additions to employee count. Peoples Gas
190 has taken measures to fill the remaining positions that I listed in my initial testimony
191 rendering these adjustments moot.

192 **Q. Does Peoples Gas intend to hire additional people in 2014 and 2015?**

193 A. Yes, Peoples Gas is currently filling a number of positions noted in my direct testimony
194 as part of improved compliance with federal and state pipeline safety regulations and the
195 AMRP. Many of the open positions were being held for graduates from the training
196 school created by Peoples Gas in partnership with City Colleges of Chicago and the
197 UWUA Power for America Training Trust Fund at the Dawson Technical Institute of
198 Chicago. In April 2014, Peoples Gas hired twenty-one utility workers from the latest

199 graduating class. Additional classes are scheduled to begin and will be used to fill future
200 wage earner openings as they occur. As of July 1, 2014, Peoples Gas' employee count
201 was 1,323, which is thirty-three under the budgeted level of 1,356 for 2014 and 2015.

202 **Q. What positions will Peoples Gas fill in 2014?**

203 A. The thirty-three openings consist of twenty utility workers, seven technicians and six
204 supervisors. The twenty utility workers graduating from the Dawson Technical Institute
205 as noted above are expected to be hired in September 2014. The remaining thirteen
206 openings are in the process of being filled. The phone interviews are complete and the
207 in-person interviews are being scheduled. Peoples Gas is hiring additional supervisors to
208 fill three pending retirements scheduled before the end of 2014. Please see NS-PGL Ex.
209 23.2 for approvals of open positions.

210 **Q. What are the duties performed by these positions that were not previously**
211 **performed?**

212 A. The duties of the positions are listed in the job profiles. See NS-PGL Ex. 23.3 through
213 Ex. 23.5. All of the duties are currently being performed. The twenty utility worker
214 positions were added to support the increased number of service and meter transfers
215 under AMRP. The technician positions were added to cover an increase in the number of
216 contractor crews performing QIP projects for Peoples Gas. There was also one
217 technician that was promoted to another opening and one technician that resigned. The
218 open technician positions are currently being covered by contract employees. The
219 supervisor positions are to fill openings as a result of three retirements, three pending
220 retirements and three terminations. The job duties are currently being shared by existing
221 supervisors and engineers.

222 **Q. Why is the reduction of Peoples Gas’ forecasted payroll expense that is**
223 **recommended by AG witness Mr. Effron and CCI witness Mr. Gorman not**
224 **reasonable?**

225 A. With the additions indicated above, Peoples Gas’ employee headcount will be equivalent
226 to the employee headcount reflected in the filed test year operations and maintenance
227 expense.

228 **IV. PIPELINE-SAFETY RELATED TRAINING**

229 **Q. Staff witness Ms. Hathhorn recommended including a finding and ordering**
230 **paragraph that specifies, for Peoples Gas, the test year amounts of certain pipeline-**
231 **safety related training. Hathhorn Dir., Staff Ex. 1.0, 28:618-626. Does Peoples Gas**
232 **agree with her proposal?**

233 A. Yes. Peoples Gas agrees with the proposed language for inclusion in the findings and
234 ordering paragraphs of the Order.

235 **V. ALLOCATION OF COST OF MAINS SMALLER THAN FOUR INCHES**

236 **Q. IIEC witness Mr. Collins proposes that costs of mains smaller than four inches**
237 **should be allocated to all rate classes except Service Classification (“S.C.”) No. 4,**
238 **Large Volume Demand Service. Do smaller diameter mains support Peoples Gas’**
239 **service to S.C. No. 4 customers?**

240 A. Yes. Peoples Gas designs and operates its system in an integrated manner. The fact that
241 a customer is directly served by a main that is four-inches or greater does not mean that
242 smaller diameter pipe is not useful and, in some instances, necessary, in serving that
243 customer. Operating the system as an integrated whole enhances the reliability of

244 service to all customers. For example, smaller diameter mains may backfeed the larger
245 diameter main and support service to the S.C. No. 4 customer. A backfeed refers to an
246 alternate flow path for the gas. This may be important when an outage occurs, resulting
247 from, for example, required maintenance activity or third party damage to Peoples Gas'
248 facilities.

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

250 A. Yes.