STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
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The Peoples Gas Light and Coke Company Investigation of the cost, scope, schedule and other issues related to the Peoples Gas Light and Coke Company's natural gas system modernization program and the establishment of Program policies and practices pursuant to Sections 8-501.	)	Docket No. 16-0376
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REBUTTAL TESTIMONY OF DEBRA E. EGELHOFF

ON BEHALF OF THE PEOPLES GAS LIGHT AND COKE COMPANY

PGL EXHIBIT 3.0

OCTOBER 24, 2016

Q. What is your name and position?

A. My name is Debra E. Egelhoff. I am Manager, Gas Regulatory Policy, for WEC Business Services LLC ("WBS").

Q. What are your responsibilities in that position?

A. As Manager, Gas Regulatory Policy, I am responsible for performing and managing activities related to rate research, rate design, rate and tariff administration, and for developing recommendations regarding rate policies for The Peoples Gas Light and Coke Company ("Peoples Gas" or the "Company") and North Shore Gas Company, affiliated companies of WBS.

Q. Please summarize your education and relevant experience.

A. In 1991, I graduated from the University of Illinois with a Bachelor of Arts degree in Liberal Arts and Sciences (Economics). In 1998, I received a Masters degree in Business Administration from DePaul University. From June 1991 until September 1999, I worked at Northern Indiana Public Service Company ("NIPSCO"). At NIPSCO, I held various positions in Gas Supply and Marketing where I coordinated the daily operations of NIPSCO's customer choice program and acted as a liaison with suppliers. From September 1999 to September 2004, I worked at Peoples Gas, initially in the Rates Department, where I participated in the initial development and support of its small volume customer choice program. I subsequently became Supervisor, Quality Control in the Customer Service Department. I held various positions outside of the energy industry from September 2004 through August 2010. In August 2010, I began my employment at WBS (then known as Integrys Business Support, LLC) in the Gas Supply department. In July 2012, I was promoted to Manager, Gas Regulatory Policy.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to Attorney General ("AG") witness Sebastian Coppola's direct testimony concerning the customer bill impacts of Peoples Gas' System Modernization Program ("SMP") and AG witness Allen R. Neale's direct testimony regarding concerns of double recovery of qualifying infrastructure investment costs through Rider QIP, Qualifying Infrastructure Plant, and base rates.

Q. Please summarize your rebuttal testimony.

A. Peoples Gas has appropriately framed the bill impact analysis in order to provide the Commission, Staff and other stakeholders with the insights necessary to evaluate the SMP, including the balance among its safety, reliability and bill impact objectives.

Q. Did Peoples Gas calculate the projected bill impacts of the SMP?

A. Yes. As shown in PGL Ex. 1.3, Peoples Gas presented bill impacts for the average Service Classification No. 1, Small Residential Service, heating customer for three scenarios: (1) three-year plan (2016-2018), (2) 2030 target case model, and (3) 2040 target case model. The presentation for the three-year plan reflects all Rider QIP eligible work, while the 2030 and 2040 target case models reflect what Peoples Gas witness Andrew Hesselbach is calling Staff Proposed SMP[1] work. These results are shown below and are the same as presented in the workshops and in Mr. Hesselbach's Direct Testimony.

[1] In his rebuttal testimony, Mr. Hesselbach responds to testimony about the scope of the SMP and defines the term "Staff Proposed SMP." Staff Proposed SMP covers the following categories of work: 1) replacement of leak-prone cast iron and ductile iron pipe; 2) increasing system pressure from low to medium; and 3) relocation of meters from inside to outside of customers' residences. To the extent I am referring to the broader scope of SMP as Mr. Hesselbach had defined it in his direct testimony, I will label it, as Mr. Hesselbach does in his rebuttal testimony, "Full SMP."

Residential Heating Customer Impacts[2]			
	Three-year Plan	**2030 Model**	**2040 Model**
Total Capital Investment	$800 million	$6.83 billion	$7.81 billion
Average Annual Investment	$250-280 million	$342 million	$260 million
Residential Heating Average Impact over 2015	$2.39/month $28.70/year **2.8% total bill/year**	$2.78/month $33.40/year **2.7% total bill/year**	$1.67/month $20.00/year **1.6% total bill/year**

Q. What assumptions did the Company include in its bill impact analysis?

A. Peoples Gas presented an analysis that showed the impact the capital spending, as defined in my preceding answer, would have on an average residential heating customer bill, assuming all other components of the bill were held to 2015 levels. Although we know that these other components will, in fact, change over time, we held those components constant for three reasons: (1) any other assumptions would inevitably be inaccurate over the long term; (2) the scope of this docket is limited to the SMP; and (3) many of the other costs that go into customer rates are not controlled by Peoples Gas, particularly

[2] Key assumptions underlying these impacts include rates based on Commission orders and filings in effect December 2015. The analyses did not include the extension of federal tax policy changes adopted in December 2015 (specifically changes to bonus depreciation). PGL Ex. 1.3 lists other assumptions.

over the long term. Mr. Coppola agrees with this last point, stating that "gas commodity costs and perhaps other cost increases may be outside of PGL's control." (*See* AG Ex. 2.0 at 35:578-579.)

Q. Has the Illinois legislature addressed the issue of SMP affordability?

A. Yes. Section 9-220.3 of the Public Utilities Act, which authorized Rider QIP, describes the Illinois General Assembly's policy to limit the annual rate impacts of a program such as the Full SMP, and mandated that the annual increase relative to a utility's base rate revenues shall not exceed 4% on average or 5.5% in any given year.

Q. Has Peoples Gas exceeded the rate caps since Rider QIP's inception in 2014?

A. No. As reflected in supporting material that Peoples Gas filed to initiate the annual Rider QIP reconciliation dockets for 2014 and 2015 (ICC Docket Nos. 15-0209 and 16-0197, respectively), average annual increases billed under Rider QIP as a percentage of base rate revenues established in the last rate case[3] were 0.72% in 2014 and 2.17% in 2015.

Q. Did any of the intervenors present an alternative view of customer bill impacts?

A. Yes. Mr. Coppola performed his own bill impact analyses, relying in part on information provided by Peoples Gas.

Q. Do you have any concerns with the analyses performed by Mr. Coppola?

A. Yes. Mr. Coppola's bill impact analyses are results-oriented and are based on a forecast of Peoples Gas' <u>total revenue requirement</u> for almost four decades, including not only distribution costs but natural gas supply costs which are clearly beyond the control of

[3] 2014 Annual Base Rate Revenues reflect Rehearing Final Order Base Rate Revenues per Docket Nos. 12-0511/12-0512 (cons). 2015 Annual Base Rate Revenues are a proration reflecting 29 days of Final Order Base Rate Revenues (effective January 28, 2015 – February 25, 2015) and 309 days of Second Amendatory Order Base Rate Revenues (effective February 26, 2015) per Docket Nos. 14-0224/14-0225 (cons.).

Peoples Gas and cannot be forecast for such a long time period with any degree of confidence by the most knowledgeable experts. His framework also depends on a forecast of all elements of base rates and rate riders that are not attributable to the Staff Proposed SMP or Full SMP. These unsupported elements are as equally irrelevant as his natural gas price forecast for purposes of assessing rate impacts. Because this docket focuses on the impacts of the SMP and estimates of all other bill components are speculative, the analysis does not improve accuracy or add useful information to this proceeding.

Additionally, Mr. Coppola extended the bill impact analysis to 2053, effectively extending the SMP by over a decade. This (of course) reduced the average annual rate increase. However, Mr. Coppola implicitly assumes that this can be accomplished with a minimal increase to the total costs of the construction program and without adversely impacting safety and reliability, the two primary objectives of the program. Mr. Coppola offers no support for these assumptions, which defy logic and common sense. Construction costs will escalate over time, so construction ending in 2053 will be more expensive than construction ending in 2035-2040. And the Full SMP is an accelerated project precisely because there is an urgent need to protect the safety and reliability of the system. Slowing the project down will undermine those goals as discussed in the rebuttal testimony of Mr. Hesselbach. There are other consequences associated with the AG witnesses' redesign of the SMP that are addressed in the rebuttal testimony of Mr. Hesselbach and Mr. Mark Kinzle.

Q. What do you mean that Mr. Coppola implicitly assumes that the end date of the SMP can be extended with a minimal increase to total costs?

A. Mr. Coppola created a new scenario "$130 million Capital Budget Case". He escalated the average AMRP capital spend from a case presented by Mr. Salvatore D. Marano in Peoples Gas' test year 2010 rate case (Docket No. 09-0167) by 3% annually from 2016 through 2053. (*See* AG Exhibit 2.0 at 39:627-628.) This results in a total cost of $9.69 billion. He asserts that the Company can extend the end date by 13 years beyond the 2040 Target Case but spend only $1.88 billion more by achieving cost savings through unidentified efficiencies. Again, the analysis is built on speculation, and is not useful.

Q. Mr. Coppola states, on line 747 of his direct testimony, that 34% of Peoples Gas' customers live below 150% of federal poverty level. Please comment.

A. Mr. Coppola's statement appears to be based on data for the City of Chicago. Peoples Gas notes that not all residents in the City are Peoples Gas customers, and the data for the City may not accurately depict Peoples Gas' customers. The percentage of customers living at or below any given amount of the federal poverty level could be higher or lower. Neither Mr. Coppola nor Peoples Gas has income data for Peoples Gas customers and, thus, can only speculate about the customer base.

Q. Mr. Coppola also addressed cost information that was before the Illinois General Assembly when it passed the bill that included Section 9-220.3 of the Public Utilities Act. Please comment on this cost information.

A. In Table 6 of AG Exhibit 2.0, page 29, Mr. Coppola's comparison of the "Expected IL House of Representatives" costs to the "PGL Current Best Case" (New management 2030 Target Case) is flawed. The costs presented to the Illinois House of Representatives

were not for the entire duration of the program but rather a ten-year estimate of the program costs until 2023, the sunset date of the legislation. As stated above, the cost data and bill impact analyses in this case were not limited to the rider period. Therefore, the assessment that Rider QIP has not and will not protect customers is unfounded.

Q. Mr. Neale recommends that the Company "be required to use the same criteria for unit of property classification for SMP cost accounting as it used in the test year of its last base rate case." AG Exhibit 1.0, page 40, lines 1048-1049. Please comment.

A. It appears that Mr. Neale is concerned that Peoples Gas could double recover costs if work previously classified as operations and maintenance) in the test year of a rate case is reclassified as capital and is eligible for recovery under Rider QIP. This is not an issue because Rider QIP requires the Company to submit an annual internal audit which includes a test that "internal controls are effectively preventing the double recovery of costs through the QIP Surcharge and other approved tariffs." The audit ensures that costs are not recovered through both base rates and the Rider QIP surcharge.

Q. Does that conclude your rebuttal testimony?

A. Yes.