

NORTHERN ILLINOIS GAS COMPANY
d/b/a NICOR GAS COMPANY
SUPPLEMENTAL RESPONSE TO
ILLINOIS COMMERCE COMMISSION
DATA REQUEST GEG 1.07

DOCKET NO. 01-0635

- GEG 1.07 Q. a. Assume the Company owned land and an office building which it purchased thirty five years ago for \$100,000. Assume the property is now worth \$3,000,000 and is sold for that amount. The Company now buys another building for \$3,000,000 in another locality. Given that all requirements for a tax free exchange were fulfilled and tax law requirements met, would the tax gain on the property be deferred and would the \$100,000 amount in rate base now go up to the \$3,000,000 amount reflecting the new purchase price of a similar building? Assume all of the property was utility property.
- b. Has a like kind exchange for tax purposes been planned with the purchase of the property under consideration here and the previous property sold?

GEG 1.07 A. The response to this question filed on January 23, 2002 is as follows:

- a. Under the hypothetical case presented, and assuming that the transaction was a like kind exchange for tax purposes, but not for financial reporting purposes, then 1) the tax gain on the property would be deferred and 2) rate base would decrease by the amount of the \$3 million sales proceeds allocated to the building sold and increase by the \$3 million purchase price of the acquired property.

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0635

MCDC Exhibit No. 3.00

Witness JEMSON

Date 2-6-02 Reporter CK

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Per staff's request via our phone conversation, attached is the supplemental information requested. The journal entries to record the hypothetical case presented are:

Prime			
Account	Description	Amount	
101	Gas plant in service (Land)	\$ 50,000.00	
101	Gas plant in service (Building)	\$ 50,000.00	
131	Cash		\$ 100,000.00
	(Purchase of land and building thirty-five years ago- assume purchase price allocated equally to land and building)		
403	Depreciation expense	\$ 50,000.00	
108	Accumulated provision for depreciation of gas utility plant		\$ 50,000.00
	(Assume building fully depreciated)		
131	Cash	\$1,500,000.00	
101	Gas plant in service (Land)		\$ 50,000.00
421.1	Gain on disposition of property		\$1,450,000.00
	(Sale of land- assume half of \$3 million sale price allocated to land)		
131	Cash	\$1,500,000.00	
108	Accumulated provision for depreciation of gas utility plant- salvage		\$1,500,000.00
108	Accumulated provision for depreciation of gas utility plant- original building cost	\$ 50,000.00	
101	Gas plant in service (Building)		\$ 50,000.00
	(Sale of building- assume other half of \$3 million sale price allocated to building)		
101	Gas plant in service (Land)	\$1,500,000.00	
101	Gas plant in service (Building)	\$1,500,000.00	
131	Cash		\$3,000,000.00
	(Purchase of another building in another location for \$3 million- assume equal allocation of purchase price to land and building)		
410	Deferred income tax expense	\$ 580,000.00	
282	Deferred income tax payable		\$ 580,000.00
	(To record deferred tax expense on sale of the land due to like kind exchange treatment for income tax purposes.)		
	(\$1,450,000 book gain times 40% assumed tax rate)		

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It is important to note that the actual purchase of the Sycamore property is driven by the Company's shifting real estate needs. However, under Staff's hypothetical, the impact on rate base would be:

	Rate Base Prior to Sale*	Rate Base After Purchase of Property
101 Gas plant in service	\$ 100,000.00	\$ 3,000,000.00
108 Accumulated provision for depreciation of gas utility plant	\$ (50,000.00)	\$ (1,500,000.00)
282 Deferred income tax payable	<u>\$ -</u>	<u>\$ (580,000.00)</u>
Rate Base	<u>\$ 50,000.00</u>	<u>\$ 920,000.00</u>

*Assumes initial building is fully depreciated for book and tax purposes.

- b. Yes. The Sycamore property has been identified as a replacement property for a like kind exchange transaction.

Response prepared under the supervision of Joe R. Johnson, Manager Real Estate, 630-983-8676, ext. 2971, who will also be responsible for cross-examination questions.