

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	No. 09-____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of

**JOHN HENGTGEN**

Rate Case Consultant, Regulatory Affairs  
IntegrYS Business Support, LLC

On Behalf of

The Peoples Gas Light and Coke Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Introduction**

3 Q. Please state your name and business address.

4 A. My name is John Hengtgen. My business address is 130 East Randolph Drive, Chicago,  
5 IL 60601.

6 Q. By whom are you employed and in what capacity?

7 A. I am employed by Integrys Business Support, LLC (“IBS”). My present position is Rate  
8 Case Consultant in the Regulatory Affairs Division of IBS.

9 **B. Purpose of Testimony**

10 Q. What is the purpose of your testimony?

11 A. The purpose of my testimony is to explain and support certain components of The  
12 Peoples Gas Light and Coke Company’s (“Peoples Gas” or “PGL”) request for a general  
13 increase in rates. In particular, I address the following: overall rate base, the adjustments  
14 to rate base, and a cash working capital requirement, which is supported by a lead-lag  
15 study. I also address the following specific components of Gross Utility Plant, Intangible  
16 Plant, Production Plant and Construction Work in Progress. PGL witnesses Mr. Edward  
17 Doerk (Peoples Gas Exhibit (“Ex.”) ED-1.0) and Mr. Thomas Puracchio (Peoples Gas  
18 Ex. TP-1.0) also support components of rate base in various respects.

19 Q. How is your testimony organized?

20 A. My testimony is divided into two parts. First, I discuss Peoples Gas’ appropriate rate  
21 base for purposes of the revenue requirement, reflecting adjustments. Second, I address  
22 Peoples Gas’ cash working capital requirement that is included in rate base.

23 **C. Summary of Conclusions**

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

25 A. In brief, I conclude:

26 (1) Peoples Gas' proposed and appropriate rate base, including certain appropriate  
27 adjustments, is \$1,396,058,000. Based on my testimony and the information  
28 provided in the testimony of other Peoples Gas witnesses and herein, the proposed  
29 rate base is just and reasonable. The Commission should approve \$2,525,147,000  
30 as Peoples Gas' original cost of plant.

31 (2) Peoples Gas' appropriate level of cash working capital is \$47,260,000. I  
32 recommend that this amount be included in Peoples Gas' rate base.

33 **D. Itemized Attachments to Direct Testimony**

34 Q. Are you sponsoring any attachments to your direct testimony?

35 A. Yes. I am sponsoring Peoples Gas Exhibit ("Ex.") JH-1.1, which includes the following  
36 Schedules filed pursuant to Part 285 of the Illinois Commerce Commission's  
37 ("Commission") rules (83 Ill. Admin. Code Part 285): B-1, B-1.1, B-1.2, B-1.3, B-1.4,  
38 B-2, B-2.1, B-2.2, B-5, B-6, B-8, B-8.1, B-9, B-13, and B-14.

39 **E. Background and Experience**

40 Q. What are your responsibilities as a Rate Case Consultant?

41 A. My responsibilities include managing and coordinating general rate increase filings for  
42 Peoples Gas and North Shore Gas Company ("North Shore") including the preparation of  
43 testimony, exhibits and other requirements pursuant to Part 285 of the Commission's  
44 rules (83 Ill. Admin. Code Part 285).

45 Q. Does the title “consultant” mean that you are not an employee of IBS?

46 A. Not at all; that is just a descriptive title.

47 Q. Please outline your educational background and business experience.

48 A. I graduated from Northern Illinois University in 1978 and received a Bachelor of Science  
49 degree in Accounting. Also, in 1978, I passed the Certified Public Accounting  
50 Examination. In 1985, I received a Masters of Business Administration with a  
51 concentration in Finance from Loyola University. Immediately after graduation from  
52 Northern Illinois University, I began my career with Peoples Gas, in the State Regulatory  
53 Affairs Department, where I held various accounting positions. In 1985, I transferred to  
54 the Tax Administration Department as a Senior Tax Accountant. In 1987, I was  
55 promoted to Tax Supervisor and, in 1990, I transferred to the Budget Department as a  
56 Budget Supervisor. In March 1993, I was promoted to Superintendent of the State  
57 Regulatory Affairs Department. In November 1994, I returned to Tax Administration as  
58 the Manger of Tax Administration. In August of 1995, I became the Chief Auditor of  
59 Peoples Energy Corporation (“PEC”). In April, 2000, I became Director of Accounting  
60 at Peoples Energy Resources Corp. In 2005, I became Director of Business Services at  
61 PEC where my primary responsibilities were managing and coordinating the 2007  
62 general rate case filings for PGL and North Shore (ICC Docket Nos. 07-0241/07-0242  
63 (cons.)). After the February 2007 merger between WPS Resources Corporation and PEC,  
64 I took the position of Manager, Performance Analysis and Business Administration, until  
65 I transferred to my current position as Rate Case Consultant in the Regulatory Affairs  
66 group in September 2007. I have been employed by Peoples Gas or affiliated companies  
67 for my entire business career.

68 Q. Have you previously testified before the Commission?

69 A. Yes, I testified on behalf of Peoples Gas and North Shore as a rebuttal witness in PGL's  
70 and North Shore's general rate proceedings in ICC Dockets No. 95-0032 and 95-0031,  
71 respectively.

72 **II. RATE BASE**

73 **A. Overall Rate Base**

74 Q. Please describe Schedule B-1 in Peoples Gas Ex. JH-1.1.

75 A. Schedule B-1 shows the components of Peoples Gas' "average" test year 2010 rate base,  
76 as adjusted, of \$1,396,058,000. That figure is derived from Gross Utility Plant of  
77 \$2,665,856,000, less Accumulated Reserve for Depreciation and Amortization of  
78 \$1,070,104,000, plus additions to rate base of \$183,920,000, less subtractions from rate  
79 base of \$383,614,000. Peoples Gas' rate base includes the investment made by Peoples  
80 Gas in utility facilities in order to provide safe, adequate, and reliable service to its  
81 customers.

82 By "average" rate base I mean that the figures, in general (i.e., except where  
83 noted), are based on the average of the figure as of December 31, 2009, and as of  
84 December 31, 2010. The exceptions are certain items that are calculated based on  
85 13-month averages consistent with past Commission decisions, as discussed further  
86 below.

87 Q. Why have you proposed an average rate base for the test year?

88 A. I am proposing an "average" rate base (except for the items based on 13-month averages)  
89 for the test year, calendar year 2010, because that is consistent with the Commission's  
90 ruling in the 2004 Nicor Gas rate case when a forecasted test year is used.

91 Q. How does the rate base for fiscal year 2006, the test year in Peoples Gas' last rate case,  
92 ICC Docket No. 07-0242, compare to Peoples Gas' rate base for 2010, the test year in  
93 this proceeding?

94 A. Peoples Gas' rate base has increased by approximately \$195 million since fiscal year  
95 2006. The primary reasons for this increase are Peoples Gas' additional capital  
96 investment in its utility infrastructure and facilities (\$237 million increase in gross utility  
97 plant), inclusion of Peoples Gas' pension asset (\$141 million), offset in part by an  
98 increase in Peoples Gas' accrued post-retirement health and welfare benefit costs  
99 (\$30 million) and an increase in the accumulated depreciation reserve (\$136 million).  
100 Peoples Gas witnesses Mr. Doerk and Mr. Puracchio provide testimony with respect to  
101 Peoples Gas' major capital projects shown on Schedule F-4 that have been placed in  
102 service since fiscal year 2006.

103 Q. What is the basis for the data presented on Schedule B-1?

104 A. The amounts in Columns D and E are the projected book balances at December 31, 2009  
105 and December 31, 2010, respectively except for Cash Working Capital, Materials and  
106 Supplies, Net of Accounts Payable, Gas in Storage, Net of Accounts Payable and Budget  
107 Plan Balances. For Cash Working Capital, the amounts in both Columns D and E  
108 represent identical amounts that are supported by Peoples Gas' lead-lag study. The  
109 amounts for the other three items are 13 month averages for each year. The amounts in  
110 Column F are simple averages of the amounts in Columns D and E in all cases.

111 Q. Please discuss the calculation of Net Utility Plant.

112 A. Lines 1 through 3 of Schedule B-1 summarize Net Utility Plant as of December 31, 2009  
113 (column D) and December 31, 2010 (column E). Gross Utility Plant consists of the

114 original cost of Gas Plant in Service (ICC Account 101), Completed Construction Not  
115 Classified (ICC Account 106), Construction Work in Progress (ICC Account 107) (this  
116 figure does not include CWIP accruing AFUDC) and Gas Stored Underground -  
117 Noncurrent (ICC Account 117, Recoverable Natural Gas), shown on line 1. Line 2  
118 includes the Accumulated Provision for Depreciation of Gas Utility Plant (ICC  
119 Account 108), and Accumulated Provision for Amortization and Depletion of Gas Utility  
120 Plant (ICC Account 111) which is deducted from Line 1 to yield Net Utility Plant on  
121 Line 3. (References to Accounts herein are the Uniform System of Accounts as  
122 established by the Federal Energy Regulatory Commission (“FERC”) and modified by  
123 the Commission for Gas Utilities Operating in Illinois.)

- 124 Q. Please discuss the rate base components on lines 4 through 6 of Schedule B-1.
- 125 A. The amount of Peoples Gas’ Investment in Cash Working Capital is shown on line 4. I  
126 describe the development of Company’s Cash Working Capital requirement later in  
127 Section III of my testimony and the amount is supported by Schedule B-8 of Peoples Gas  
128 Ex. JH-1.1.

129 Line 5 includes Materials and Supplies (“M & S”) offset by the related Accounts  
130 Payable. Peoples Gas has offset M & S with related Accounts Payable based on  
131 Commission treatment established in other rate cases. This component of rate base is  
132 discussed later in my testimony and is supported by Schedule B-8.1 of Peoples Gas Ex.  
133 JH-1.1.

134 Line 6 sets forth Gas in Storage offset by the related Accounts Payable. Peoples  
135 Gas has offset Gas in Storage with related Accounts Payable based on Commission

136 treatment established in other rate cases. This component of rate base is discussed later  
137 in my testimony and is supported by Schedule B-1.1 of Peoples Gas Ex. JH-1.1.

138 Q. Please describe the amounts shown on line 7 of Schedule B-1.

139 A. The amounts shown on line 7 for Retirement Benefits, Net are based on projected  
140 balances of Peoples Gas' gross pension asset net of its accrued gross post-retirement  
141 health and welfare costs. Deferred taxes associated with these items are recorded in the  
142 Accumulated Deferred Income Taxes shown on line 10. This component of rate base is  
143 discussed later in my testimony and is supported by Schedule B-1.2 of Peoples Gas Ex.  
144 JH-1.1.

145 Q. Please describe the amounts shown on line 10 of Schedule B-1.

146 A. The amounts shown on line 10 are the balances of Accumulated Deferred Income Taxes  
147 and projected in a manner consistent with the requirements of the Internal Revenue Code  
148 for a utility following the normalization method of accounting. This component of rate  
149 base is discussed later in my testimony and is supported by Schedule B-9 of Peoples Gas  
150 Ex. JH-1.1.

151 Q. Please describe the other rate base components shown on lines 8 and 11 through 13 of  
152 Schedule B-1.

153 A. The amounts shown on lines 8, 11, 12, and 13 for Budget Plan Balances, Customer  
154 Deposits, Customer Advances for Construction, and Reserve for Injuries and Damages,  
155 respectively, are normal rate base components that have been approved in past  
156 Commission rate case proceedings. Accordingly, Peoples Gas has included the balances  
157 of these items in its Schedule B-1, the proposed rate base in this proceeding. Each of

158 these items will be discussed in more detail later in my testimony when I discuss the  
159 exhibits that I am sponsoring that support each of these components.

160 **B. Intangible Plant**

161 Q. Are you familiar with the Intangible Plant that is included in rate base?

162 A. Yes, Peoples Gas' Intangible Plant that is being included in rate base is \$104,197,000  
163 which is the average of the projected balances at December 31, 2009 (\$104,089,000) and  
164 at December 31, 2010 (\$104,306,000). Intangible Plant consists primarily of software for  
165 computer systems that support multiple business functions, and are necessary for its  
166 business operations.

167 **C. Production Plant**

168 Q. Are you familiar with the Production Plant that is included in rate base?

169 A. Yes, Peoples Gas' Production Plant being included in rate base is \$3,000,000 which is the  
170 average of the projected balances at December 31, 2009 (\$2,000,000) and at  
171 December 31, 2010 (\$4,000,000). The Production Plant is comprised of land and land  
172 rights on former manufactured gas production ("MGP") plants projected to be purchased  
173 by Peoples Gas from current owners of the sites.

174 Q. Do the Production Plant balances included in rate base represent assets that were  
175 prudently acquired at a reasonable cost?

176 A. Yes. Manufactured Gas was the primary source of gas sold to Peoples Gas customers  
177 until natural gas became the sole base source in 1956 and manufactured gas production  
178 ceased in 1963. The MGP plant facilities were dismantled and the holders containing the  
179 coaltar residues were removed off-site to mitigate land contaminations. Over time,

180 Peoples Gas had to comply with federal and state environmental laws and regulations  
181 which require a variety of activities to be performed on each MGP site (investigation  
182 studies, remediation and litigation work). In the Commission’s order in Peoples Gas’  
183 rate case, ICC Docket No. 91-0586, the Order acknowledged approval of Peoples Gas’  
184 Rider 11 non-base rate mechanism to defer costs incurred for such environmental  
185 activities and recover from Peoples Gas ratepayers. Such activities include the  
186 acquisition of MGP property to enable Peoples Gas to better control the timing and extent  
187 of remediation work and to reduce the potential for various types of claims associated  
188 with the property. The Rider 11 recovery for MGP property acquisitions was allowed  
189 through September 30, 2004. In the Commission’s order in Peoples Gas’ ICC Docket  
190 No. 04-0112, the Order acknowledged that any costs associated with land acquisitions for  
191 environmental remediation purposes incurred after October 1, 2005 would properly be  
192 treated as a rate base asset.

193 Q. Describe the changes in Production Plant between Peoples Gas’ last rate case and the  
194 proposed amount in this case.

195 A. There are decreases in Production Plant related to retirements of Liquefied Petroleum Gas  
196 Equipment (\$496,000) and a reclassification to the Distribution Plant function  
197 (\$465,000). Consistent with the ICC’s Order in Docket No. 04-0112, Peoples Gas has  
198 projected \$2,000,000 in 2009 and \$2,000,000 in 2010 for the acquisition of various MGP  
199 properties (land and land rights) to enable Peoples Gas to better control the timing and  
200 extent of costs related to remediation and litigation work.

201 **D. Construction Work In Progress**

202 Q. What is Construction Work in Progress, or “CWIP”?

203 A. At any given point in time, Peoples Gas has ongoing construction activities, which have  
204 not been completed and put in service but will be completed and cleared to utility plant in  
205 service. Examples of this construction activity are distribution system projects like the  
206 construction of mains and services and can also include construction related projects for  
207 Peoples Gas' other facilities.

208 Q. Are you familiar with the balances of Construction Work in Progress ("CWIP") that are  
209 included in rate base?

210 A. Yes, Peoples Gas' CWIP being included in rate base is \$8,797,000, which is the average  
211 of the projected balances at December 31, 2009 (\$11,404,000) and at December 31, 2010  
212 (\$6,190,000). The ongoing distribution system work is typically in the \$3 - \$4 million  
213 range at any projected December 31st time period. The projected year-end balances of  
214 CWIP include these amounts, plus CWIP related to other specific projects that Peoples  
215 Gas will be working on during those years.

216 **E. Exhibits Supporting Rate Base**

217 Q. Please describe Schedule B-5 of Peoples Gas Ex. JH-1.1.

218 A. This schedule shows Peoples Gas' Gross Additions, Retirements and Transfers to Gross  
219 Utility Plant for calendar year 2007 through 2010 and supports the amounts included on  
220 line 1 of Schedule B-1.

221 The schedule begins with the Gross Utility Plant balance of \$2,372,569,000 at  
222 December 31, 2006, and ends with a projected balance of Gross Utility Plant of  
223 \$2,848,625,000 at December 31, 2010. The amount shown through December 31, 2007  
224 agrees with the amount recorded on Peoples Gas' books of account and the remaining  
225 periods are projected balances. All transactions are reported in a manner consistent with

226 that used in Peoples Gas' annual reports submitted to the Commission on a calendar year  
227 basis. I have excluded from rate base the projected amount of \$101,775,000 at both  
228 December 31, 2009 and 2010, which represents the asset retirement obligation balance on  
229 those two dates.

230 Q. Please explain the accounting procedures which Peoples Gas uses in recording property  
231 additions.

232 A. To account for property additions, Peoples Gas records all expenditures in construction  
233 work orders in Account 107 - Construction Work in Progress. These costs include the  
234 elements of material, Peoples Gas' labor, transportation, contractor fees, fees to open  
235 public rights of way, and construction overheads. Completed work orders are then  
236 cleared to Account 106 – Completed Construction Not Classified with the appropriate gas  
237 plant accounts. Each completed work order is then analyzed and the costs are allocated  
238 to retirement units of property and then cleared to Account 101 – Utility Plant in Service  
239 setting out the year installed, units, cost, and other pertinent data.

240 Q. How does Peoples Gas determine the amount to record for retirements of Utility Plant in  
241 Service?

242 A. “Specific plant,” such as structures and improvements, equipment for gas storage,  
243 liquefaction and transmission, and land, is retired at the original cost recorded in the fixed  
244 property record. “Mass plant,” such as mains, services, diaphragm and line-mounted  
245 rotary meters, and all meter and house regulator installations, is retired at the average cost  
246 per unit by size and kind. “Mass Plant” retirements are priced at the average cost for the  
247 year of installation of the property retired.

248 Q. Please explain Schedule B-6 of Peoples Gas Ex. JH-1.1.

249 A. Schedule B-6 shows an analysis, by Plant Function, of Peoples Gas' Depreciation  
250 Reserve, and sets forth actual per book balances of Accumulated Provision for  
251 Depreciation of Gas Utility Plant (ICC Account 108) and Accumulated Provision for  
252 Amortization and Depletion of Gas Utility Plant (ICC Account 111) for calendar year  
253 2007 (page 1), and projected balances for calendar years 2008 through 2010 (pages 2-4).  
254 This exhibit supports the amounts included in line 2 of Schedule B-1, columns D and E.

255 The schedule begins with a Reserve Balance of \$951,658,000 at December 31,  
256 2006, and includes actual reserve balances of \$981,731,000 at December 31, 2007 and  
257 projected balances of, \$1,015,993,000, \$1,058,585,000, and \$1,108,743,000 at December  
258 31, 2008, 2009, and 2010, respectively. Because the corresponding gross plant amounts  
259 are not included, rate base also does not include the projected balances of the reserve  
260 associated with the Asset Retirement Obligation in the amount of \$14,987,000 and  
261 \$19,938,000 at December 31, 2009 and December 31, 2010, respectively.

262 The provisions for depreciation for calendar years 2007 through 2010 are shown  
263 as increases to the Reserve. Retirements of depreciable property, at original cost, for  
264 calendar years 2007 through 2010 are shown as decreases to the Reserve. Retirement  
265 amounts are also reflected in Schedule B-5.

266 Q. Please describe Schedule B-8.1, M & S, in Peoples Gas Ex. JH-1.1.

267 A. This Schedule details the calculation of the actual 13-month average balances of M & S  
268 based on actual per book data for calendar year 2007, and projected data for calendar  
269 years 2008, 2009, and 2010. The amounts on line 30, column D (\$9,677,000) and on  
270 line 30, column G (\$10,064,000), are shown on line 5, columns D and E of Schedule B-1.

271 Included in the balances shown on this exhibit are plant materials and operating supplies,  
272 net of accounts payable. These items represent continuing, permanent investments in  
273 materials and supplies that Peoples Gas must maintain in order to provide service to its  
274 customers, and therefore, upon which it should be allowed to earn a return. The accounts  
275 payable offset amount associated with these balances is the net increase in the monthly  
276 balance which is consistent with past Commission decisions.

277 Q. What kinds of materials and supplies are included in Materials & Supplies balances  
278 shown in Columns B and E of Schedule B-8.1?

279 A. The amounts shown in these columns represent the cost of pipe, fittings, station supplies,  
280 meter supplies, electrical supplies, auto supplies, tools and work equipment and  
281 replacement parts for Peoples Gas' facilities which are recorded in Account 154, Plant  
282 Materials and Operating Supplies. All of these items are an integral part of the  
283 continuing operation, maintenance, and construction programs, which enable Peoples Gas  
284 to provide safe, adequate, and reliable utility service to its customers.

285 Q. Please describe Schedule B-1.1, Gas in Storage in Peoples Gas Ex. JH-1.1.

286 A. This schedule details the calculation of the actual 13-month average balances of Gas in  
287 Storage based on actual per book data for calendar year 2007, and projected data for  
288 calendar years 2008, 2009, and 2010. The amounts on line 30, column D (\$54,166,000)  
289 and on line 30 column G (\$61,693,000), are shown on line 6, columns D and E of  
290 Schedule B-1. Included in the balances shown on this schedule are the investments PGL  
291 has made in inventory gas including prepaid gas that is stored by PGL's pipeline  
292 suppliers in connection with storage services supplied to Peoples Gas under the pipeline  
293 suppliers' rate schedules on file with the FERC. These items represent continuing,

294 permanent investments in natural gas stored that Peoples Gas must maintain in order to  
295 provide service to its customers, and therefore upon which it should be allowed to earn a  
296 return. The accounts payable offset amount associated with these balances is the net  
297 increase in the monthly balance which is consistent with past Commission decisions.

298 Q. Please describe Schedule B-1.2, Retirement Benefits, Net.

299 A. This schedule details the average balances for PGL's gross pension asset net of its gross  
300 welfare liability. The amounts in column B represent the projected balances at December  
301 31, 2009 and the amounts in Column C represent the projected balances as December 31,  
302 2010. The amounts shown on line 17, column B (\$66,853,000) and on line 17, column C  
303 (\$43,538,000) are shown on line 7, columns D and E of Schedule B-1. Deferred taxes  
304 associated with the pension asset and the welfare liability are not deducted from these  
305 amounts and are shown separately as a component of the amounts in line 10,  
306 Accumulated Deferred Income Taxes.

307 Q. Why has Peoples Gas included the pension asset of \$141,131,000 in its proposed rate  
308 base?

309 A. The pension asset reflects investments made by Peoples Gas in a pension trust in  
310 compliance with its obligations under its defined benefit pension plans and in accordance  
311 with various accounting pronouncements (Statement of Financial Accounting Standards  
312 Nos. 87, 106 and 158) of the Financial Accounting Standards Board. Peoples Gas  
313 acknowledges that the Commission did not rule that its pension asset should be included  
314 in its last general rate case (ICC Docket No. 07-0241/07-0242 (cons.)). However, it is  
315 my understanding that the Commission also did not permit Commonwealth Edison  
316 Company ("ComEd") to include its pension asset in rate base in ICC Docket

317 Nos. 05-0597 and 07-0566 and that ComEd has appealed this ruling from the 2005  
318 Docket, which is still pending. It is also my understanding that this issue is currently  
319 being litigated in Northern Illinois Gas Company's ("Nicor Gas") current rate case (ICC  
320 Docket No. 08-0363). PGL believes that inclusion of its pension asset in rate base is  
321 warranted and therefore is proposing inclusion in this proceeding. A court decision in the  
322 pending ComEd appeal might resolve this issue. In order to preserve its rights in light of  
323 these pending proceedings, Peoples Gas proposes that its pension asset be included in rate  
324 base.

325 Q. Please describe Schedule B-14, Budget Payment Plan Balances, of Peoples Gas  
326 Ex. JH-1.1.

327 A. This schedule details the calculation of the actual 13-month average balances of Budget  
328 Plan Balances based on actual per book data for calendar year 2007, and projected data  
329 for calendar years 2008, 2009, and 2010. The amounts on line 30, column B  
330 (\$12,605,000) and on line 30 column D (\$12,605,000), are shown on line 8, columns D  
331 and E of Schedule B-1. Note that the projected balances for 2009 and 2010 are each a  
332 positive number, meaning that customer Budget Plan payments are projected to be less  
333 than the accrued customer obligations for service. This result is similar to that which  
334 Peoples Gas experienced during its last test year, the 12 months ended September 30,  
335 2006 and is consistent with its most recent actual 13-month period ended December 31,  
336 2007.

337 Q. Please describe Schedule B-9, Accumulated Deferred Income Taxes, of Peoples Gas Ex.  
338 JH-1.1.

339 A. This schedule shows the projected balances of Accumulated Deferred Income Taxes by  
340 component and ICC account at December 31, 2009 and December 31, 2010 and the  
341 average amount for the test year. The amounts on line 46, column E (\$344,741,000) and  
342 on line 46, column F (\$343,157,000) are shown on line 10, columns D and E,  
343 respectively of Schedule B-1.

344 Q. Please describe Schedule B-13, Customer Deposits, of Peoples Gas Ex. JH-1.1.

345 A. This schedule shows the balances of Customer Deposits based on actual per book data for  
346 calendar year 2007, and projected data for calendar years 2008, 2009, and 2010. The  
347 amounts on line 24, column B (\$32,088,000) and on line 24, column D (\$32,088,000) are  
348 shown on line 11, columns D and E of Schedule B-1.

349 Q. Please describe Schedule B-1.3, Customer Advances for Construction, of Peoples Gas  
350 Ex. JH-1.1.

351 A. This schedule details the amount for Customer Advances for Construction. The credit  
352 balance of \$392,000 is the projected balance at December 31, 2009 and December 31,  
353 2010. This amount is shown on line 12, columns D and E of Schedule B-1.

354 Q. Please describe Schedule B-1.4, Reserve for Injuries and Damages, of Peoples Gas  
355 Ex. JH-1.1.

356 A. This schedule details the amount for Reserve for Injuries and Damages. The credit  
357 balance of \$8,007,000 is the projected balance at December 31, 2009 and the credit  
358 balance of \$8,607, 000 is the projected balance at December 31, 2010. These amounts  
359 are shown on line 13, columns D and E of Schedule B-1.

360 **F. Adjustments to Rate Base**

361 Q. Please describe Schedule B-2, Summary of Utility Adjustments to Rate Base, of Peoples  
362 Gas Ex. JH-1.1.

363 A. This schedule provides a summary of the ratemaking adjustments shown in Column G of  
364 Schedule B-1 of Peoples Gas Ex. JH-1.1. There are two adjustments, which are  
365 described below. Supporting details for these adjustments are shown in Peoples Gas Ex.  
366 JH-1.1, Schedule B-2.1 and Schedule B-2.2.

367 Q. Please describe Schedule B-2.1 of Peoples Gas Ex. JH-1.1.

368 A. Schedule B-2.1 shows the rate base impact of the proposed adjustment to record Net  
369 Dismantling (cost of removal, net of salvage) on an accrual basis as compared to Peoples  
370 Gas' current cash basis method. Please see the testimony of Company witnesses Gregor,  
371 Moy and Spanos for details regarding the proposed adjustment.

372 Q. Please describe Schedule B-2.2 of Peoples Gas Ex. JH-1.1.

373 A. This schedule details the impact on rate base of the adjustment which PGL is proposing  
374 to reclassify a portion of its regulatory assets and regulatory liabilities related to its  
375 pension and other postretirement benefit plans into a separate regulatory asset and  
376 regulatory liability. Please see the testimony of Peoples Gas witnesses Gregor and Moy  
377 for the details of this proposed adjustment.

378 **G. Original Cost Determination**

379 Q. Is Peoples Gas requesting an original cost determination?

380 A. Yes.

381 Q. Why?

382 A. Peoples Gas is required to maintain and preserve certain records, such as journal  
383 vouchers and journal entries based on the date of the more recent original cost  
384 determination. We are therefore asking that the Commission approve the amount shown  
385 on Schedule B-5, Page 1 of 2, Line 14, Column F, as the original cost of plant as of  
386 December 31, 2007.

387 Q. What is Peoples Gas asking that the Commission order?

388 A. Consistent with Part 510 of the Commission's rules, we ask that the order state as  
389 follows:

390 It is further ordered that the \$2,525,147,000 original cost of plant for Peoples Gas  
391 at December 31, 2007, reflected on Peoples Gas' Schedule B-5, Page 1 of 2,  
392 Line 14, Column F, is unconditionally approved as the original cost of plant.

393 **III. CASH WORKING CAPITAL**

394 Q. Have you performed a study to determine the level of cash working capital ("CWC")  
395 Peoples Gas requires to finance its day-to-day operations?

396 A. Yes, a lead-lag study was completed which included analyzing Peoples Gas' cash  
397 transactions and invoice data for the twelve months ended December 31, 2007, where  
398 appropriate. Calendar year 2007 was the last actual calendar year period available.

399 Q. Please explain what you mean by "where appropriate"?

400 A. Generally, in order to perform a lead-lag study, it is necessary to analyze historical cash  
401 transactions. The revenue lags and the expense leads are calculated based on the  
402 historical data and then applied to projected test year cash transactions. At times,  
403 however, if certain events occur or if payment or receipt processes change, using

404 historical transactions and/or data may not produce the best lead lag study. Therefore,  
405 analyzing historical data may not be an appropriate method for determining a particular  
406 lag or lead.

407 Q. Have you determined that it was appropriate to deviate from use of historical data in  
408 certain cases in your analysis of the proper lead-lag study for Peoples Gas?

409 A. Yes, I determined that as a result of the merger, various process changes have and are  
410 occurring that impact the way Peoples Gas pays for some of its expenses. I will explain  
411 these process changes and how they impacted the calculation of the cash working capital  
412 requirement in the appropriate sections of my testimony below.

413 Q. Please define what you mean by the phrase “cash working capital”.

414 A. Cash working capital is the amount of funds required to finance the day-to-day operations  
415 of Peoples Gas.

416 Q. How should the results of the cash working capital analysis be treated for ratemaking  
417 purposes?

418 A. The cash working capital requirement should be included as part of Peoples Gas’ rate  
419 base for ratemaking purposes.

420 Q. What is a lead-lag study?

421 A. A lead-lag study is an analysis of the differences between the revenue lags and the  
422 expense leads of a utility. For purposes of this study, I employed what is commonly  
423 referred to as a gross lag approach to determine Peoples Gas’ cash working capital  
424 requirements.

425 Q. What are the various leads and lags that should be considered in a cash working capital  
426 analysis?

427 A. Three broad categories of leads and lags should be considered: 1) lag times associated  
428 with the collection of revenues owed to the utility; 2) lead times associated with the  
429 payment of what are commonly referred to as “pass-through” taxes and “energy  
430 assistance charges” and 3) lead times associated with the payments for goods and  
431 services received by the utility.

432 Q. What information did you use to determine the leads and lags in your cash working  
433 capital analysis for PGL?

434 A. Data from Peoples Gas’ Accounts Payable, Customer Service, Payroll, General Ledger  
435 and Tax Systems as well as records from Peoples Gas’ bank accounts were utilized. The  
436 information derived from these sources, together with analyses of specific invoice data,  
437 led to the determination of the appropriate number of lead-lag days for Peoples Gas.

438 **A. Net Lag Versus Gross Lag Methodologies**

439 Q. You have utilized the Gross Lag methodology to determine Peoples Gas’ cash working  
440 capital requirements. Is that correct and why?

441 A. Yes. Either method is correct and, if done properly, should produce identical results. In  
442 PGL’s last case, ICC Docket No. 07-0241/07-0242 (cons.), Peoples Gas’ witness  
443 prepared a lead-lag study using a net lag methodology. The Commission Staff used the  
444 gross lag methodology to determine the CWC requirements, Peoples Gas accepted that  
445 method, and the Commission approved that approach. Therefore I have made the CWC  
446 calculations using that methodology.

447 Q. Please explain what is meant by the Gross Lag methodology.

448 A. Under the Gross Lag methodology, the revenue lag is divided by 365 days to calculate a  
449 CWC factor for revenues. This factor is then applied to total cash working capital  
450 revenues to determine the CWC requirement for revenues. Total company revenues are  
451 adjusted to remove various non-cash and non-base rate revenues to arrive at the proper  
452 level of revenues to be used for the cash working capital analysis.

453 Pass-through tax leads and expense leads are also divided by 365 days to calculate  
454 a CWC factor associated with each pass-through tax and expense lead. These resulting  
455 factors are applied to the appropriate pass-through taxes and cash expense amounts to  
456 determine the CWC requirement for these items.

457 The revenue, pass-through tax and expense CWC requirements are then summed  
458 to determine the overall CWC requirement which then is included in rate base.

459 **B. Revenue Lags**

460 Q. What is a revenue lag and how is it determined?

461 A. The revenue lag measures the number of days from the date service was rendered by  
462 Peoples Gas until the date payment was received from customers and such funds become  
463 available to Peoples Gas. In the study, the revenue lag was divided into four distinct  
464 components: 1) service lag; 2) billing lag; 3) collections lag; and 4) bank float on  
465 collections from customers. Considered together, these four components of retail  
466 revenue lag totaled a weighted average of 50.22 lag days. An explanation of each  
467 component of the base revenue lag follows.

468 Q. What is meant by service lag?

469 A. The service lag refers to the period of time from when service is rendered to the time the  
470 customer's meter is read. Using the mid-point methodology, the average service lag  
471 associated with meter reading was 15.21 days (365 days in the year divided by 12 months  
472 divided by 2). Twelve months was appropriate to use for purposes of determining the  
473 service lag because Peoples Gas bills its customers monthly.

474 Q. What is the mid-point methodology?

475 A. To determine the service lead or lag, I have assumed that the service was provided (or  
476 received) evenly over a given period (i.e., a month). For example with the revenue lag, I  
477 assume that a customer receives gas service from Peoples Gas evenly over an entire  
478 month and not just at the end of a month. Adding the one-half month to the derivation of  
479 the lead or lag is referred to as the mid-point methodology.

480 Q. What is meant by billing lag?

481 A. Billing lag refers to the average number of days from the date on which the meter was  
482 read until the date a customer is billed. On average, 75 percent of bills are sent on the  
483 first day after meter reading data is available; about 10 percent are sent on day 2. The  
484 remainder of the bills are sent after day 2. Based on a review of Peoples Gas' daily cycle  
485 meter reading and billing schedule, I determined that, on average, Peoples Gas' date for  
486 customer billing occurred 2.75 days from the date of meter read. This amount of time  
487 was applied to bills that left were sent day 2. Based upon the percentage weighted  
488 distribution of the mailing of the bills, I determined the billing lag to be 1.36 days.

489 Q. What is meant by collections lag?

490 A. The collections lag refers to the average amount of time from the date when Peoples Gas  
491 mailed a bill to the date that it received payment from its customers. Based on data from  
492 Peoples Gas' Customer Service Department and by considering customer receipts by  
493 days aged, the average collections lag at Peoples Gas was determined to be 32.72 days.

494 Q. What is meant by bank float?

495 A. Bank float is the time between Peoples Gas' deposit of the customer's check and the time  
496 Peoples Gas has access to the cash. Examination of a sample of Peoples Gas' bank  
497 records and cash availability summaries indicated that there was a float time of about  
498 0.93 days between aggregate deposits of customer checks into Peoples Gas' bank account  
499 and its access to the cash.

500 Q. Please summarize the calculation of revenue lag days.

501 A. The calculation of the overall revenue lag, by lag component is summarized as follows:

<b>Service Lag</b>	<b>15.21</b>
<b>Billing Lag</b>	<b>1.36</b>
<b>Collections Lag</b>	<b>32.72</b>
<b>Bank Float</b>	<b>0.93</b>
<b>Total Lag Days</b>	<b>50.22</b>

502

503 C. **Leads for "Pass-Through" Taxes and Energy Assistance Charges**

504 Q. Please explain what you mean by "pass-through" taxes and "energy assistance charges"?

505 A. "Pass-through" taxes and "energy assistance charges" are taxes and charges that Peoples  
506 Gas adds to customer bills and then is required to remit to various governmental

507 agencies. The pass-through taxes and energy assistance charges are not recorded as  
508 revenue or expense on the income statement but the collection and payment of these  
509 amounts causes a timing difference in Peoples Gas' cash flow and should be accounted  
510 for in a utility's cash working capital requirement.

511 Q. What "pass-through" taxes and energy assistance charges were considered in your lead-  
512 lag study?

513 A. Lead times associated with the following pass-through taxes and energy assistance  
514 charges were considered in the study: 1) Illinois Commerce Commission Gas Revenue  
515 Tax; 2) Municipal Utility (Gross Receipts) Tax; 3) Energy Assistance Charges; 4) Illinois  
516 Gas Revenue Tax; and 5) City of Chicago Gas Use Tax.

517 Q. Explain the lead effects associated with each type of "pass-through" tax and the energy  
518 assistance charge in the analysis.

519 A. The treatment of each category of these taxes and the energy assistance charges are  
520 described below:

521 1. Commission Gas Revenue Tax: This tax is paid in four equal installments  
522 on payment dates specified by the taxing authority with a true-up payment  
523 due on March 15th of the year following. Taking this information into  
524 account and using actual payment dates and amounts, a weighted lead time  
525 of negative 31.27 days was determined.

526 2. Gross Receipts/Municipal Utility Taxes: Gross receipts taxes are payable  
527 to municipalities and are estimated as a percent of billings to customers  
528 within the municipality. Peoples Gas pays these taxes, by check, to the

529 City of Chicago monthly. Based on the dates on which taxes are due and  
530 payments are made, a dollar-weighted lead time of 50.30 days was  
531 determined including float time of 7.77 days. The float of 7.77 days is  
532 discussed below.

533 3. Energy Assistance Charges: Peoples Gas pays into a fund managed by the  
534 State of Illinois to assist low income customers in paying their utility bills.  
535 By statute, Peoples Gas is required to pay monthly into the fund, on the  
536 20th day of the following month. Based on the statutory due dates, an  
537 expense lead time of 42.98 days was determined including 7.77 days of  
538 float time because payments were made by check.

539 4. Gas Revenue Tax & Illinois Gas Use Tax: These taxes are due and paid  
540 together on an estimated basis on the 7<sup>th</sup>, 14<sup>th</sup>, 21<sup>st</sup>, and 28<sup>th</sup> of the month.  
541 A true-up payment is due on the 15<sup>th</sup> of the following month. Peoples Gas  
542 pays the estimated amounts by wire transfer and the true-up amounts by  
543 check. Taking this information into account and using actual payments  
544 made in calendar year 2007, a weighted expense lead time of 9.26 days  
545 was determined.

546 5. City of Chicago Gas Use Tax: This tax is paid monthly on the last day of  
547 the following month. Payments are made by check. Taking this  
548 information into account, a weighted average expense lead time of 50.32  
549 days was determined including 7.77 days of float time.

550 **D. Expense Leads**

551 Q. What expense-related leads were considered in the lead-lag analysis?

552 A. Lead times associated with the following expense categories were considered in the  
553 study: a) Cost of Gas b) Payroll; c) Inter-Company Billings; d) Taxes Other Than  
554 Income Taxes; e) Other Operations and Maintenance Expenses; f) Income taxes; and  
555 g) Interest on Long-term Debt.

556 Q. Were you able to use historical data to compute the cost of gas lead?

557 A. No. In the past, Peoples Gas contracted for procurement of its natural gas primarily by  
558 using Master Firm Natural Gas Contracts. Billing and payment terms in those contracts  
559 can be negotiated individually from contract to contract; therefore, Peoples Gas had no  
560 standard terms in place for the billing and payment of its invoices for natural gas. As a  
561 result of the merger, and for consistency purposes, Peoples Gas has made the decision to  
562 begin to contract for its natural gas purchases by using the standard North American  
563 Energy Standard Board (“NAESB”) type contract which is used by many utility  
564 companies in the industry including the other Integrys utility subsidiaries. Peoples Gas  
565 has already begun to replace its Master Agreements with the NAESB contract.

566 Q. Please explain how this changed the data you used in the analysis for this lead.

567 A. Since the terms of the contract underlying the billing and payment procedures would  
568 most likely be the NAESB terms during the test year, instead of using historical payment  
569 data, I used forecasted test year data and projected due dates to prepare the lead for this  
570 expense.

571 Q. Please explain in more detail how you developed the expense lead associated with  
572 Peoples Gas' purchases of natural gas, including pipeline services.

573 A. The NAESB contract contains a default payment provision to be the latter of the 25<sup>th</sup> of  
574 the month following the month the service was provided or 10 days after the buyer's  
575 receipt of the seller's invoice. Peoples Gas is using the default in its NAESB contract  
576 negotiations. Within the industry, it is common practice that commodity suppliers fax  
577 invoices to their customers for payment on or before the 10<sup>th</sup> of the month. Therefore, by  
578 using the default provision, Peoples Gas would be required to pay for its commodity  
579 costs by the 25<sup>th</sup> of the month. The NAESB contract also stipulates if the due date is not  
580 a business day then payment is due on the next business day. In addition to commodity  
581 costs, the cost of gas amounts reflected on the income statement also include charges for  
582 pipeline services (storage services and transportation services). The billing and payment  
583 provisions for these types of services are contained within the pipeline tariffs. The  
584 pipelines that Peoples Gas procures its services from all have tariff billing and payment  
585 provisions that indicate that the pipelines are to issue their invoices on or before the 9<sup>th</sup>  
586 business day and payment is due 10 days after receipt. This timing is a FERC  
587 requirement applicable to all pipelines. Most pipeline tariffs do not specify a payment  
588 due date when it falls on a day that is not a business day, but typical industry practice is  
589 to pay on the next business day in these situations. Payments to both pipelines and  
590 commodity suppliers are made by wire transfer; therefore, I have not considered bank  
591 float for this lead. Using this information and considering the weighted forecasted  
592 commodity and pipeline costs for the 2010 test year, I have calculated the expense lead  
593 time associated with payments for Peoples Gas' cost of gas, including pipeline storage

594 and transportation services to be 25.30 days. Consistent with the mid-point methodology,  
595 I assume that the gas is received by Peoples Gas evenly over the service month, so I have  
596 also included an average service lead of 15.21 days for a total lead of 40.51 days.

597 Q. Please provide an explanation of the leads associated with Peoples Gas' payroll and  
598 withholding expenses.

599 A. Peoples Gas' payroll records were analyzed to measure the number of lead days between  
600 its receipt of services from its employees and the payment for those services. Payroll  
601 lead days were calculated by: a) calculating the unweighted (or nominal) lead time by  
602 pay day and pay-cycle including a mid-point of the pay period as indicative of a service  
603 lead time; b) adding to the estimate of this expense lead time an amount to cover the float  
604 time where checks, rather than direct deposits, were used as the basis for compensating  
605 employees; and c) weighting the resulting lead days by the amounts paid out by Peoples  
606 Gas to cover its payroll obligations. To the extent that employees were reimbursed for  
607 their services by check, an additional payroll specific float time of 10.83 days was added.  
608 The resulting total payroll expense lead time on a dollar-weighted basis, including float  
609 time, was 13.21 days. In addition, I estimated the incremental and total lead times  
610 associated with federal and state withholdings using the next business day after pay day  
611 remittance rule for federal withholdings and the 3<sup>rd</sup> business day following the 7<sup>th</sup>, 15<sup>th</sup>,  
612 22<sup>nd</sup>, and last day of the month rule for state withholding taxes. Using the respective  
613 remittance rules, I determined an incremental federal withholding expense lead time of  
614 2.83 days for federal withholdings and 7.30 days for state withholdings or, when added to  
615 the payroll expense lead time, a total of 16.04 days for federal withholdings and 20.51  
616 days for state withholdings. Taken together therefore, the dollar-weighted expense lead

617 time associated with payroll and withholdings was 14.18 days. Actual net payroll and  
618 withholding amounts for the twelve months ended December 31, 2007, was used as the  
619 basis for dollar-weighting.

620 Q. Please explain how the expense lead time associated with inter-company billings was  
621 determined.

622 A. I was not able to use historical data to compute the expense lead for inter-company  
623 billings. The merger and the subsequent formation of IBS on January 1, 2008 impacted  
624 the billing and payment process related to the expenses categorized as inter-company  
625 billing. Various services are performed and managed for Peoples Gas by IBS in  
626 accordance with the Master Regulated Affiliated Interest Agreement, as modified, as  
627 approved by the Commission in ICC Docket No. 07-0361. After the end of the month,  
628 Peoples Gas is rendered a bill for services for the month just ended and the amount is due  
629 for payment within 10 business days. I reviewed billing and payment data for the period  
630 January 2008 through September 2008 to determine the payment lead associated with the  
631 inter-company billing process. I also discussed the payment process with Company  
632 accounting personnel and found that it was Peoples Gas' practice to pay the bill by the  
633 20<sup>th</sup> of the month following service. For that nine month period that I analyzed, the data  
634 largely confirmed that on average Peoples Gas was paying its inter-company bill around  
635 the 20<sup>th</sup> of the month with one exception, that being the first month this new process was  
636 used. For January 2008 services, the bill was issued on February 25, 2008 and not paid  
637 until March 12, 2008. I have excluded that month from my analysis due to it being an  
638 aberration and not likely the norm for this process in the future. Taking the data for the  
639 period of February 2008 through September 2008 and including a weighted service lead

640 of 15.03 days, a dollar weighted expense lead time of 36.02 days was determined for  
641 inter-company billings.

642 Q. What are the lead times associated with other operations and maintenance expenses?

643 A. Peoples Gas engages in transactions with other vendors (not associated with payroll,  
644 natural gas and pipeline services, or taxes) for a variety of purposes including facility and  
645 system maintenance, security, staffing, customer service, etc. Invoice data from the  
646 providers of such services were analyzed in order to estimate a lead time associated with  
647 payment for services related to other operations and maintenance activities. The analysis  
648 indicates that on average, invoices were paid by Peoples Gas 46.30 days after receipt.  
649 The estimate of lead time relating to Peoples Gas' other operations and maintenance  
650 expenses included 15.21 days of service lead time, and 7.77 days of bank float because  
651 most of these other operations and maintenance related expense payments were made by  
652 check.

653 Q. What does bank float mean in the context of Peoples Gas' accounts payables?

654 A. Bank float is the difference in time between the date Peoples Gas mailed a check to one  
655 of its vendors and the date the cash left its bank account.

656 Q. Why is it necessary to consider the bank float on Peoples Gas' accounts payables in a  
657 lead-lag study?

658 A. In order to present a comprehensive analysis of Peoples Gas' cash working capital  
659 requirements in this proceeding, the estimate of the bank float (or bank processing) time  
660 was considered on both the receivables (lags) and payables (leads) side of the cash  
661 working capital equation.

662 Q. How was the bank float on Peoples Gas' accounts payables estimated?

663 A. The float time was estimated using data from Peoples Gas' Accounts Payable system.  
664 Using a sample of transactions for the twelve months ended December 31, 2007, the  
665 analysis indicated that the average float time was 7.77 days, on a dollar weighted basis.

666 Q. What are the taxes other than income taxes you considered in the analysis of expense  
667 leads?

668 A. The following taxes were considered in the study: (1) Federal Insurance Contribution Act  
669 ("FICA"); (2) Federal Unemployment Taxes; (3) State Unemployment Taxes; (4) Illinois  
670 Invested Capital Tax; (5) Federal Excise Tax; (6) Corporation Franchise Taxes;  
671 (7) Illinois Sales & Use Tax; and (8) Real Estate and Property taxes.

672 Q. Explain the lead effects associated with each type of taxes other than income you  
673 considered in the analysis.

674 A. The treatment of each category of general taxes in the study is described below:

675 1. FICA: Peoples Gas electronically transfers the dollar amounts associated with the  
676 employee and employer share of Federal Insurance Contributions to the  
677 appropriate federal authorities on the due date, which is the next business day  
678 after payday (Friday). Taking this payment schedule into account, an incremental  
679 lead time of 2.83 days was determined for social security and Medicare or  
680 FICA-related transactions. This lead time is "incremental" because it should be  
681 added to the lead time on base payroll to derive the total amount of lead time  
682 associated with Peoples Gas' FICA contribution. When added to the base payroll  
683 lead time, the expense lead time for Employer- and Employee-related FICA

684 remittances to the federal government is 16.04 days. Because FICA is remitted to  
685 the federal government via wire transfer, no additional bank float time was  
686 included in the analysis.

687 2. Federal Unemployment Taxes: Federal Unemployment Tax Act taxes are paid  
688 quarterly by Peoples Gas based on a schedule established by the Internal Revenue  
689 Service. Using a mid-point approach, a weighted lead time of 76.38 days was  
690 determined. Since payments were made by wire transfer, no bank float time was  
691 included.

692 3. State Unemployment Taxes: Peoples Gas pays unemployment taxes on behalf of  
693 its employees who reside in the State of Illinois. Based on the statutory schedule  
694 of payments to the State of Illinois, a dollar-weighted lead of 76.38 days was  
695 determined.

696 4. Illinois Invested Capital Tax: This tax is paid on a schedule similar to the  
697 Commission Gas Revenue Tax except that the actual payment dates for this tax  
698 are different. The payment is made via wire transfer. Taking this information  
699 into account, a weighted lead time of 30.13 days was determined.

700 5. Federal Excise Tax: This tax is paid quarterly via wire transfer. Taking this  
701 information into account and using actual payments made during the twelve  
702 months ended December 31, 2007, a weighted lead time of 76.32 days was  
703 determined.

704 6. Corporation Franchise Taxes: Peoples Gas pays a corporation franchise tax to the  
705 State of Illinois. These taxes are paid once a year by check. For the statutory  
706 12 month period ending January 31, 2008, Peoples Gas made its payment on

707 January 23, 2008, by check. Including a float time of 7.77 days, the expense lead  
708 time associated with Corporation Franchise Taxes is 182.27 days.

709 7. Illinois Sales & Use Tax: These taxes are due monthly on the 20<sup>th</sup> of the  
710 following month and are paid by check. Taking this information into account and  
711 using actual payments made in calendar year 2007, a weighted expense lead time  
712 of 42.98 days was determined, including float time of 7.77 days.

713 8. Real Estate & Property Taxes: Peoples Gas pays real property taxes to Cook,  
714 Champaign, and Will counties in the State of Illinois. Using data on Peoples Gas'  
715 payments made during the calendar year 2007, a dollar-weighted expense lead  
716 time of 385.13 days was determined. Because payments were made by check to  
717 Champaign and Will counties, an additional float time of 7.77 days was included  
718 in the calculation for those counties.

719 Q. How did you analyze income taxes for the lead-lag study?

720 A. Using statutory due dates and statutory amounts due, weighted expense lead times of  
721 37.88 days were determined for both Federal and State Income Taxes. This lead time did  
722 not include bank float because payments are made electronically.

723 Q. Provide a description of how lead times associated with Peoples Gas' interest expense on  
724 long-term debt were analyzed for the study.

725 A. With the exception of two series of bonds on which interest payments are due each 30  
726 and 35 days, Peoples Gas generally makes interest payments on its long-term debt twice a  
727 year at varying times. PGL recently issued new debt in November 2008 and is  
728 forecasting to issue additional debt in March 2010. Since these two new issues will  
729 impact the timing of interest payments in the test year, I have included their impact in my

730 calculations. Using due dates and amounts of interest payments for the existing and the  
731 new issues, a dollar-weighted lead of 79.17 days for interest payments was determined.  
732 Because interest payments are made electronically, no additional lead time was included  
733 for float.

734 Q. Have you prepared an exhibit that summarizes the results of your analysis of Peoples  
735 Gas' cash working capital requirements?

736 A. Yes. The results of the cash working capital study are presented in Schedule B-8, page 1  
737 of 2, of Peoples Gas Ex. JH -1.1 and indicate that the appropriate level of cash working  
738 capital required by Peoples Gas is \$47,260,000. I have included this amount in Peoples  
739 Gas' rate base.

740 Q. How does this amount of cash working capital compare to the amount in Peoples  
741 Gas' last rate case, ICC Docket Nos. 07-0241/07-0242 (cons.)?

742 A. In Peoples Gas' last rate order the Commission allowed Peoples Gas an amount of  
743 \$25,585,000 for cash working capital. A comparison between the cash working capital  
744 claim being proposed in this case to that allowed in Peoples Gas' last rate case is shown  
745 on Schedule B-8, page 2 of 2, of Peoples Gas Ex. JH – 1.1.

746 Q. Does this complete your direct testimony?

747 A. Yes.