

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	ICC No.: 17-0095
)	
North Shore Gas Company)	
)	
Reconciliation of revenues collected under)	
Coal Tar riders with prudent costs associated)	
with Coal Tar clean up expenditures)	

**DIRECT TESTIMONY OF
BRIAN F. BARTOSZEK**

- 1 Q. Please state your name.
- 2 A. My name is Brian F. Bartoszek
- 3 Q. Please describe your educational background and employment history.
- 4 A. I received a Bachelor of Science degree in Environmental Engineering
- 5 from Michigan Technological University in 1994. I began my career as a Staff
- 6 Engineer in 1994 with an environmental consulting firm where I remained
- 7 employed until 2004, leaving with the title of Senior Engineer. In August 2004 I
- 8 began employment with Wisconsin Public Service Corporation (“WPSC”), now an
- 9 affiliate of the Company, North Shore Gas Company (“North Shore” or the
- 10 “Company”) as an Environmental Consultant. I became the Manager of
- 11 Remediation and Solid Waste in 2007. On February 21, 2007, WPSC’s then
- 12 parent company, Integrys Energy Group, Inc.; (“Integrys”), acquired The Peoples
- 13 Gas Light and Coke Company (“Peoples”) and its affiliates including North Shore

14 Gas y and then formed Integrys Business Support, LLC (“IBS”) Peoples’ affiliate
15 service provider company. I then became the Manager of Remediation and Solid
16 Waste for IBS. When WEC Energy Group, Inc. (“WEC”) acquired Integrys and its
17 subsidiaries on June 29, 2015, WEC changed IBS’ name to WEC Business
18 Services LLC (“WBS”). I am currently WBS’ Manager of Remediation. In my
19 prior position with IBS I have overseen, and in my current position with WBS I
20 continue to oversee, certain environmental activities for both Peoples and North
21 Shore along with former Integrys’ and now WEC’s other utility subsidiaries.

22 Q. What are your responsibilities as the Manager of Remediation?

23 A. As Manager, I have responsibility for the management of environmental
24 activities conducted for Company by the Environmental Department. I managed
25 these responsibilities exclusively beginning in July 2009 and am therefore
26 familiar with all such activities that took place during the four quarters beginning
27 January 1, 2016 and ending December 31, 2016, the reconciliation year for
28 purposes of this proceeding (“Fiscal Year 2016”).

29 Q. Please describe the environmental activities and responsibilities of the
30 Environmental Department as they relate to the Company's former manufactured
31 gas operations.

32 A. The Environmental Department has the primary responsibility for the
33 oversight of the environmental operations of the Company. Personnel from the
34 Environmental Department review and comment upon documents and technical
35 materials that are prepared by the Company's environmental consultants and
36 also review the invoices that those consultants submit to the Company for the
37 work that they perform. In addition, personnel from the Environmental

38 Department oversee and assist the Company's environmental consultants in
39 conducting field investigations.

40 Q. What is the purpose of your testimony?

41 A. My testimony is given for the purpose of describing the environmental
42 activities that have given rise to the incremental costs that were recorded by
43 North Shore under its Rider 11, "Adjustment for Incremental Costs of
44 Environmental Activities," during Fiscal Year 2016.

45 Q. What is the nature of the incremental costs that Company records under
46 Rider 11?

47 A. The incremental costs that North Shore records under its Rider 11 are the
48 costs that it incurs in connection with the environmental activities that are
49 required in order to comply with environmental laws and regulations. These
50 incremental costs relate to manufactured gas operations that were formerly
51 conducted by North Shore's corporate predecessors and affiliates.

52 Q. What is Company's policy on complying with environmental laws and
53 regulations?

54 A. It is North Shore's policy to comply fully with environmental laws and
55 regulations.

56 Q. What is North Shore's policy regarding the costs that are incurred as a
57 result of its policy to fully comply with environmental laws and regulations?

58 A. It is the policy of North Shore to control such costs to the fullest possible
59 extent. Because of this policy to control costs, North Shore will make
60 expenditures only when it is determined to be prudent to do so.

61 Q. What standard does Company use in determining the prudence of the

62 expenditures that it makes in complying with environmental laws and
63 regulations?

64 A. In determining whether or not to make expenditures in complying with
65 environmental laws and regulations, the Company uses the following standards:
66 1) reasonable and appropriate business standards; 2) the requirements of other
67 relevant state and/or federal authorities; 3) the minimization of costs to
68 ratepayers in a manner that is consistent with safety, reliability and quality
69 assurance; and 4) the facts that are known to the Company at the time that the
70 expenditures are made.

71 Q. How does North Shore control the costs it incurs in connection with
72 complying with environmental laws and regulations?

73 A. The most effective way for North Shore to control those costs is to be
74 actively involved in the determinations that are made regarding the timing, choice
75 and scope of environmental activities. This participation is necessary because of
76 North Shore's desire to keep the cost of its service competitive.

77 Q. When did North Shore's corporate predecessors and affiliates conduct
78 manufactured gas operations?

79 A. In North Shore's territory, gas was first manufactured in the 1880's. The
80 changeover to natural gas began in 1947, when natural gas was made available
81 through the interstate pipeline system.

82 Q. Does North Shore currently conduct any manufactured gas operations?

83 A. No. The gas supply that North Shore currently distributes to its customers
84 is the natural gas obtained from the gas producing regions of the United States
85 and Canada that is transported to North Shore's service territory through the

86 intrastate and interstate pipeline systems.

87 Q. Please describe the process by which North Shore's corporate
88 predecessors and affiliates previously manufactured and stored gas.

89 A. Coal, coke (an energy rich material converted from coal) and oil were the
90 primary raw materials in the manufacturing processes. Depending upon the type
91 of manufacturing process, coal or coke was loaded into ovens and heated,
92 thereby producing a low-Btu gas. Oil was then added to enrich the heating value
93 of the gas to the required level, which was approximately half the heating value
94 of the natural gas that is distributed today. At this point in the manufacturing
95 process, the gas stream passed through a variety of purifying processes in order
96 to make the gas suitable for distribution. The manufactured gas was then stored
97 in vessels, called holders, until it was distributed.

98 Q. Do the costs that are recovered through Rider 11 arise because of a
99 failure to comply with laws in effect at the time the manufactured gas operations
100 were conducted?

101 A. No. The incremental costs that North Shore incurs are the result of
102 various duties and obligations that are imposed by laws and regulations enacted
103 long after North Shore discontinued manufactured gas operations. The
104 manufactured gas operations of North Shore's corporate predecessors and
105 affiliates were conducted in accordance with then-existing industry standards.
106 We have found no indication that those operations violated any laws in existence
107 at that time.

108 Q. Please describe the types of costs that North Shore has typically incurred
109 during the course of its environmental activities.

110 A. Costs have been incurred, and continue to be incurred, in connection with
111 a variety of environmental activities that are related to former manufactured gas
112 operations. These activities can generally be divided into four phases.

113 First, there are those activities, which are conducted before the actual
114 study of a site begins. These activities may include negotiations with the United
115 States Environmental Protection Agency ("USEPA") or the Illinois Environmental
116 Protection Agency ("IEPA"), as well as with other potentially responsible parties
117 ("PRPs"). A PRP is a party that is potentially liable for any contamination, or
118 portion of any contamination that might be present at a site. Therefore, a PRP is
119 potentially liable for the cost of any necessary investigative and remedial work at
120 the site. Costs which are associated with the negotiation of a consent decree or
121 of any other formal agreement may also be incurred during the first phase.

122 Second, an actual study of the site is conducted in order to determine the
123 nature and extent of the contamination that is present and to identify and develop
124 alternative remediation strategies.

125 Third, a remediation strategy is chosen which may entail public hearings
126 conducted by the USEPA or the IEPA.

127 Fourth, the remediation strategy is implemented and monitored.

128 The activities that are conducted during each of these phases require a
129 highly technical and specialized level of experience and expertise that is obtained
130 from carefully chosen environmental engineers and consultants, laboratory and
131 testing services, law firms, and contractors who perform field work during the
132 investigative and remedial phases. Substantial costs are incurred by the
133 Company as a result of the work that is performed by these vendors.

134 The Company may also incur costs because of the issuance of a
135 judgment, or of an order entered by a court, or of a state or federal regulatory
136 agency. In addition, costs may arise from activities related to the identification of
137 PRPs and insurance carriers and in connection with cost recovery litigation
138 against them.

139 Q. What is Company's policy with regard to PRPs and insurance carriers?

140 A. It is the Company's policy to make all reasonable efforts necessary to
141 vigorously pursue recovery of incremental costs from PRPs and insurance
142 carriers that are incurred as a result of environmental activity.

143 Q. Does the Company incur any other types of costs in connection with
144 environmental activities at its sites?

145 A. Yes. With respect to property acquired before October 1, 2005, the
146 Company has incurred and will continue to incur costs in connection with the
147 acquisition and subsequent ownership of all or a portion of a site. The purpose of
148 such an acquisition is to enable the Company to better control the timing and
149 extent of remediation of the property which it acquires and to eliminate or reduce
150 the potential for various types of claims associated with the property. The
151 Company bases its decision to purchase the property after evaluating some or all
152 of the following factors: (1) information about market value of the property without
153 consideration for environmental factors; (2) nature and extent of contamination;
154 (3) range of remedial levels and associated costs; (4) litigation costs and
155 potential litigation outcomes; (5) timing of remedial expenditures; (6) claims for
156 reimbursement of technical and legal fees associated with the review of
157 environmental reports; (7) claims for lease payments or access payments during

158 remediation; (8) claims for reimbursement of business interruption and relocation
159 costs; and (9) claims for reimbursement of costs associated with the
160 management of contaminated soil and groundwater remaining on the property
161 after remediation.

162 Q. What does the Company do with any income which it realizes in
163 connection with a property which it has acquired under the circumstances
164 described above?

165 A. In the event that the Company realizes income on a property which it has
166 acquired (through sale, lease or otherwise), it credits the income back to the
167 ratepayer under Rider 11.

168 Q. Does Company incur costs in connection with environmental activities that
169 it does not recover under Rider 11?

170 A. Yes. The in-house environmental engineers, attorneys and regulatory
171 personnel of WBS, North Shore's corporate affiliate, are actively involved in the
172 Company's environmental activities. The Company incurs costs for wages or
173 salaries of these employees in connection with their environmental-related
174 activities. These costs are not "incremental costs" under Rider 11, and therefore
175 are not recoverable by the Company under Rider 11.

176 Q. Please describe Company's Exhibit 1.

177 A. Company's Exhibit 1 includes North Shore's verified report regarding its
178 Incremental Costs of Environmental Activities, which was filed with the Illinois
179 Commerce Commission on February 13, 2017 pursuant to the Commission's
180 Order dated November 8, 1991 in Docket 91-0010 and Section D of Rider 11 of
181 the Company's Schedule of Rates. Company's Exhibit 1 details the incremental

182 costs of environmental activities that Company incurred during the quarter ended
183 December 31, 2016, during Fiscal Year 2016, and cumulative through December
184 31, 2016. Also included in Company's Exhibit 1 is the related certification by
185 North Shore's independent public accountant, Deloitte & Touche, LLP, as
186 required by the Company's Rider 11.

187 Page 5 of Company's Exhibit 1 consists of a "Statement of Activity in
188 Account 182.3, Other Regulatory Assets, Quarter Ended December 31, 2016,
189 Fiscal Year 2016, and Cumulative Through December 31, 2016." Line 1 of
190 Column C shows that Company had a balance at the beginning of Fiscal Year
191 2016 in Account 182.3 of \$1,837,821.96 which represents environmental costs
192 incurred prior to Fiscal Year 2016 and which had yet to be recovered. Line 4 of
193 Column C represents increase of \$829,953.76 which was incurred during Fiscal
194 Year 2016 as explained later in my testimony. Line 7 of Column C represents a
195 decrease to the account of \$1,635,543.48 that was recovered from ratepayers
196 during Fiscal Year 2016 through operation of Rider 11. Line 10 of Column C
197 represents a credit (decrease) of \$56,368.95 for recoveries through the
198 settlement fund, which I will discuss later in my testimony. Line 17 of Column C
199 represents the Fiscal 2016 Year-end balance in the account of \$975,863.29.
200 This balance will remain in the account until offset by future Settlement Fund
201 recoveries or until recovered through rates.

202 Page 6 of Company's Exhibit 1 consists of a "Statement of Activity in the
203 Settlement Fund, Quarter Ended December 31, 2016, Fiscal Year 2016 and
204 Cumulative Through December 31, 2016."

205 Page 7 consists of a "Summary of Incremental Costs, Quarter Ended

206 December 31, 2016, Fiscal Year 2016, and Cumulative through December 31,
207 2016." Column D shows the Fiscal Year 2016 a total of \$829,953.76 shown in
208 Line 11, broken down by site credits and costs, or by other category for those
209 costs and credits that are not attributable to a specific site.

210 Q. Please describe the Settlement Fund.

211 A. On February 26, 1999, the Commission, in Docket R-18957, granted
212 North Shore's Request for Special Permission to revise Rider 11 to add
213 provisions relating to amounts received from insurance carriers or other entities
214 in settlement of the Company's claims where the payments apply to future costs.
215 The occasion for the Company's filing was the receipt of a substantial payment
216 by an insurance carrier in settlement of claims made in a pending lawsuit. The
217 Commission approved North Shore's proposal to establish a settlement fund to
218 identify and track the amounts arising from settlements with insurance carriers or
219 other entities that are available to pay costs otherwise recoverable under Rider
220 11. Beginning with incremental costs incurred in December 1998, 50% of such
221 costs are recovered through the settlement fund and 50% through Rider 11.

222 Q. Did any Settlement Fund recoveries occur during Fiscal Year 2016?

223 A. Yes. Company recovered pretax of \$56,368.95 from the Settlement
224 Fund during Fiscal Year 2016 as shown on page 6 of Exhibit 1.

225 Q. Company's Exhibit 1 shows that during Fiscal Year 2016, Company
226 incurred a total of \$457,900.06 in incremental costs for environmental activities
227 related to the North Plant. Please describe the activities that resulted in North
228 Shore incurring incremental costs related to the North Plant during Fiscal Year
229 2016.

230 A. These incremental costs are primarily attributable to investigation and
231 remediation activities performed by the Company's outside environmental
232 consultants and for professional services provided by outside legal counsel.
233 Costs were incurred for real estate taxes accrued on the property previously
234 purchased under the Rider prior to October 1, 2005, for disposal of
235 environmental waste material by an outside waste disposal company, for
236 professional services supervised under the USEPA and grounds maintenance.

237 Q. Company's Exhibit 1 shows that during Fiscal Year 2016, Company had
238 credit activity of \$38,146.38 associated with environmental activities related to
239 the Waukegan Coke Plant. Please describe the activities that resulted in North
240 Shore incurring incremental costs related to the Waukegan Coke Plant during
241 Fiscal Year 2016.

242 A. These incremental costs were primarily incurred for remediation activities
243 performed by the Company's outside environmental consultants and for
244 professional services provided by outside legal counsel. Costs were also
245 incurred for disposal of environmental waste materials. Because the Company
246 must first pay GM's half share of environmental costs before the Company
247 receives reimbursement through the bond from the surety, the Company incurred
248 certain costs for GM's half share for which the Company continues to expect to
249 be reimbursed for GM's half share from the surety bond funds. Offsetting costs
250 was a reimbursement from a surety bond related to a previously agreed Consent
251 Decree with General Motors.

252 Q. Company's Exhibit 1 shows that during Fiscal Year 2016, Company
253 incurred a total of \$413,108.67 in incremental costs for environmental activities

254 related to the South Plant. Please describe the activities that resulted in North
255 Shore incurring incremental costs related to the South Plant during Fiscal Year
256 2016.

257 A. Costs were incurred primarily in connection with investigation and
258 remediation activities performed by the Company's outside environmental
259 consultants. Additional costs were incurred for real estate taxes accrued on the
260 property previously purchased under the Rider prior to October 1, 2005,
261 professional services provided by outside legal counsel, disposal of
262 environmental waste material by an outside waste disposal company and
263 grounds maintenance.

264 Q. Were there any Insurance-Related Costs and Recoveries during Fiscal
265 Year 2016?

266 A. Yes. The Company received a payment from an insurance carrier related
267 to a negotiated settlement claim which \$107,249.57 was applied to costs
268 previously paid by the Company for manufactured gas plant remediation.

269 Q. Company's Exhibit 1 shows that during Fiscal Year 2016, Company
270 incurred \$28,495.56 in General and Unallocated Costs under Rider 11 for
271 environmental activities. Please describe the activities that gave the General and
272 Unallocated Costs.

273 A. The General and Unallocated Costs reflected in Exhibit 1 were primarily
274 incurred for professional services by outside legal counsel, outside environmental
275 consultants, and other miscellaneous charges.

276 Q. According to Company's Exhibit 1, Company incurred \$75,845.42 in
277 Carrying Charges. Please explain.

278 A. Pursuant to Company's Rider 11 and the Commission's Order on Remand
279 in Consolidated Dockets 91-0080, *et al.*, Company is entitled to recover carrying
280 charges on its unrecovered balance of incremental costs of environmental
281 activities. The amount represents the cost of carrying amounts in the deferred
282 account before recovery through the Settlement Fund and application of the
283 adjustments determined under Rider 11. The \$75,845.42 was calculated and
284 recorded pursuant to Rider 11.

285 Q. In the Initiating Order for this proceeding, the Commission ordered the
286 Company to include as part of its filing cumulative totals of recoveries by
287 customer class. Has the Company provided this data?

288 A. Yes. Company's Exhibit 2 presents by customer class the cumulative total
289 of recoveries through rates of \$73,515,195.73 as detailed in Line 7, Column D,
290 Page 5 of Exhibit 1.

291 Q. In Ordering Paragraph No. (8) in the Final Order entered in Docket No. 04-
292 0111, the Commission directed the Company to provide information in its direct
293 testimony regarding the status of all properties for which purchase costs were
294 previously recovered through Rider 11. Has the Company provided this data?

295 A. Yes. Company's Exhibit 3 presents all land acquisitions for environmental
296 remediation purposes that were made prior to October 1, 2005 and for which
297 recovery was allowed under Rider 11.

298 Q. Once again, since October 1, 2005, has the Company made any
299 additional land acquisitions for environmental remediation purposes?

300 A. No.

301 Q. How does the Company plan to treat any costs associated with land

302 acquisitions for environmental remediation purposes incurred after October 1,
303 2005?

304 A. Pursuant to the Commission's Order, as outlined in Ordering Paragraph
305 No. 6 in the Final Order entered in Docket 04-0111, if any land purchases are
306 made, any costs associated with land acquisitions for environmental remediation
307 purposes shall be treated as a rate base asset in a rate case.

308 Q. In the Initiating Order for this proceeding the Commission ordered the
309 Company to provide notice of its filing in the manner that notice be made for a
310 general rate increase prescribed under Part 255 of the Illinois Administrative
311 Code. Will the Company comply with those filing requirements?

312 A. Yes.

313 Q. Does this conclude your direct testimony?

314 A. Yes, it does.

February 13, 2017

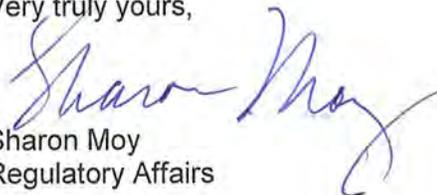
Ms. Elizabeth Rolando
Chief Clerk
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, Illinois 62701

Dear Ms. Rolando:

Pursuant to the Commission's Order dated November 8, 1991 in Docket 91-0010, Special Permission No. R-18957 dated February 26, 1999 and Section D of Rider 11 of the Company's Schedule of Rates (Ill. C. C. No. 17) for Gas Service, the Company hereby files the enclosed verified report regarding its Incremental Costs of Environmental Activities for the quarter ended December 31, 2016.

Enclosed is an additional copy of this letter for your convenience in acknowledging receipt.

Very truly yours,


Sharon Moy
Regulatory Affairs

Enclosure

North Shore Gas Company
Report To Illinois Commerce Commission
With Respect To Operation Of Rider 11, Adjustment
For Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2016
And Fiscal Year 2016

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2016 And Fiscal Year 2016

This report addresses the operation of the Company's Rider 11, Adjustment For Incremental Costs of Environmental Activities, during the quarter ended December 31, 2016, and during Fiscal Year 2016.

Fourth quarter of Fiscal 2016 reflects activity from October 2016 through December 2016 to recognize calendar year reporting made pursuant to the Order of Illinois Commerce Commission entered on February 7, 2007 in Docket #06-0540.

Section D of the Company's Rider 11, Adjustment for Incremental Costs of Environmental Activities, requires that the Company file quarterly reports with the Commission. Rider 11 further requires that each such report contain: a statement of activity in the Deferred Account for the quarter and for the fiscal year through the quarter; a statement of activity in the Settlement Fund for the quarter and for the fiscal year through the quarter; a statement of adjustments that were terminated during the quarter; a summary of the incremental costs incurred during the quarter and for the fiscal year through the quarter; and a description of the environmental activities in which the Company was involved during the quarter. Cumulative incremental costs and recoveries through December 31, 2016 are also included in these reports.

Statement Of Activity In The Deferred Account

Under its Rider 11, the Company recorded \$212,195.87 in the Deferred Account during the quarter ended December 31, 2016, the fourth quarter of fiscal 2016. This amount represents the incremental costs that were incurred in connection with the environmental activities that were conducted by the Company during the quarter ended December 31, 2016. This amount is offset by a pre-tax credit of \$36,741.46 representing a portion of net incremental costs for the quarter, excluding carrying costs, which were recovered through the Settlement Fund.

During the quarter ended December 31, 2016, the Company recognized \$493,637.44 in revenues arising from the application of the adjustments determined under Rider 11.

Page 5 of this report presents the "Statement Of Activity In Account 182.3, Other Regulatory Assets, Quarter Ended December 31, 2016, Fiscal Year 2016 And Cumulative Through December 31, 2016".

Statement of Activity in Settlement Fund

On February 26, 1999, the Commission approved the changes in Rider 11, including the establishment of the Settlement Fund, by Special Permission No. R-18957. The revision to the rider provides that the lesser of 50% of the incremental costs incurred or the Settlement Fund balance are recovered monthly through the Settlement Fund. At December 31, 2015 the Settlement Fund balance was \$0.00. At the beginning of the fourth

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2016 And Fiscal Year 2016

quarter 2016, the net after-tax balance of \$21,944.12 remained in the Settlement Fund. All settlement funds were completely depleted during the fourth quarter, which resulted from a deduction of \$22,031.10 during the fourth quarter 2016, a portion of the quarter's net incremental costs less income tax benefits, and the addition of interest of \$86.99. All transactions were recorded after income taxes. At December 31, 2016 the Settlement Fund balance was \$0.00.

Page 6 of this report presents the "Statement of Activity in the Settlement Fund, Quarter Ended December 31, 2016, Fiscal Year 2016 And Cumulative Through December 31, 2016".

Summary Of Incremental Costs

The Company experienced \$212,195.87 in incremental costs relative to the environmental activities that were conducted during the quarter ended December 31, 2016. Of this amount, \$58,745.23 is attributable to North Plant; \$30,604.38 is attributable to the former Waukegan Coke Plant; \$91,841.18 is attributable to South Plant; \$14,866.55 is attributable to General and Unallocated Costs; and \$16,138.53 is attributable to Carrying Charges. A pre-tax credit of \$36,741.46 representing recovery from the Settlement Fund is also shown on this summary.

Page 7 of this report presents the "Summary Of Incremental Costs, Quarter Ended December 31, 2016, Fiscal Year 2016 And Cumulative Through December 31, 2016".

Description Of Environmental Activities

North Plant:

During the quarter ended December 31, 2016, the Company incurred \$58,745.23 in incremental costs associated with the environmental activities that were conducted relative to North Plant. Costs were primarily incurred for investigation and remediation activities performed by the Company's outside environmental consultants. Costs were also incurred for real estate taxes accrued on the property previously purchased under the Rider prior to October 1, 2005, and transportation and disposal of environmental waste material by an outside waste disposal company.

Waukegan Coke Plant:

During the quarter ended December 31, 2016, the Company incurred \$30,604.38 in incremental costs associated with the environmental activities that were conducted relative to the Waukegan Coke Plant. Costs were primarily incurred for investigation and remediation activities performed by the Company's outside environmental consultants. The Company continues to expect to be reimbursed for GM's ½ share from the surety bond funds.

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2016 And Fiscal Year 2016

South Plant:

During the quarter ended December 31, 2016, the Company incurred \$91,841.18 in incremental costs associated with the environmental activities that were conducted relative to South Plant. Costs incurred were primarily attributable to investigation and remediation activities performed by the Company's outside environmental consultants. Also contributing were costs for real estate taxes accrued on the property previously purchased under the Rider prior to October 1, 2005, disposal of environmental waste material, grounds maintenance and professional services provided by outside legal counsel.

General and Unallocated Costs:

During the quarter ended December 31, 2016, the Company incurred \$14,866.55 in general and unallocated incremental costs which are not associated with any one particular site. The costs were primarily incurred for professional services by outside legal counsel, outside environmental consultants and other miscellaneous charges.

Carrying Charges:

During the quarter ended December 31, 2016, the Company incurred \$16,138.53 in carrying charges. This amount represents the cost of carrying amounts in the deferred account before recovery through the Settlement Fund and application of adjustments determined under Rider 11.

Cost Recoveries from Settlement Fund:

During the quarter ended December 31, 2016, the Company recovered pre-tax \$36,741.46 through the Settlement Fund. This amount represents a portion (less than 50%) of the net incremental costs, excluding carrying charges, incurred by the Company for the quarter ended December 31, 2016.

Adjustments:

Page 8 of this report presents the "Adjustments Under Rider 11 Terminated During Quarter Ended December 31, 2016". Three adjustments were terminated during the quarter ended December 31, 2016.

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
STATEMENT OF ACTIVITY IN ACCOUNT 182.3, OTHER REGULATORY ASSETS
QUARTER ENDED DECEMBER 31, 2016, FISCAL YEAR 2016, AND
CUMULATIVE THROUGH DECEMBER 31, 2016

Line No.	Description (A)	Quarter Ended 12/31/2016 (B)	Fiscal Year 2016 (C)	Cumulative Through 12/31/2016 (D)
1	Balance at Beginning of Period	\$ 1,294,046.32	\$ 1,837,821.96	\$ -
2	Plus Costs Incurred:			
3	Quarter (Page 8, Line 11, Col. C)	212,195.87	-	-
4	Fiscal Year (Page 8, Line 11, Col. D)	-	829,953.76	-
5	Cumulative (Page 8, Line 11, Col. E)	-	-	83,027,637.36
6	Sub-total	\$ 1,506,242.19	\$ 2,667,775.72	\$ 83,027,637.36
7	Less Costs Recovered Through Rates	493,637.44	1,635,543.48	73,515,195.73
8	Less Recovery Through Settlement Fund:			
9	Quarter (Page 8, Line 13, Col. C)	36,741.46	-	-
10	Fiscal Year (Page 8, Line 13, Col. D)	-	56,368.95	-
11	Cumulative (Page 8, Line 13, Col. E)	-	-	8,539,991.84
12	Add Settlement Fund Adjustment			
13	to Incremental Costs: (1)			
14	Quarter (Page 8, Line 15, Col. C)	-	-	-
15	Fiscal Year (Page 8, Line 15, Col. D)	-	-	-
16	Cumulative (Page 8, Line 15, Col. E)	-	-	3,413.50
17	Balance at End of Period	\$ 975,863.29	\$ 975,863.29	\$ 975,863.29

(1) Adjustments reflect correction to November 2006 filing on Deferred Account for Incremental Costs of Environmental Activities.

NORTH SHORE GAS COMPANY
STATEMENT OF ACTIVITY IN THE SETTLEMENT FUND
QUARTER ENDED DECEMBER 31, 2016, FISCAL YEAR 2016, AND
CUMULATIVE THROUGH DECEMBER 31, 2016

Line No.		Quarter Ended 12/31/2016	Fiscal Year 2016	Cumulative Through 12/31/2016
1	Balance at Beginning of Period	\$ 21,944.12	\$ -	\$ -
2	Add: Settlements with insurance carriers			
3	Or other entities (after tax)	-	33,683.20	4,115,916.13
4	Deduct: 50% of the amount available for net			
5	incremental costs, Less income tax benefit (See note)	22,031.10	33,800.23	5,147,940.55
6	Add: Interest (after-tax)	86.99	117.04	1,032,024.43
7	Balance at end of period	\$ 0.00	\$ (0.00)	\$ (0.00)
Note:	Incremental costs, excluding carrying charges	\$ 196,057.34	\$ 974,091.68	\$ 80,111,436.34
	Less: Incremental costs recovered from			
	insurance carriers or other entities for past costs	-	219,983.35	8,467,548.46
	Net incremental costs	\$ 196,057.34	\$ 754,108.33	\$ 71,643,887.88
	50% of net incremental costs	\$ 98,028.67	\$ 377,054.17	\$ 35,821,943.95
	Less: Amount not available from fund	61,287.21	320,685.22	27,281,952.11
	Amount to recover through settlement fund	36,741.46	56,368.95	8,539,991.84
	Less: Income tax benefit calculated at State and Federal Rate of 39.667% through 12-31-04	-	-	2,251,501.03
	Less: Income tax benefit calculated at State and Federal Rate of 39.745% through 12-31-10	-	-	1,057,689.82
	Less: Income tax benefit calculated at State and Federal Rate of 41.175% through 12-31-14	-	-	60,291.72
	Less: Income tax benefit calculated at an Effective State and Federal Rate of 40.0375% **	14,710.36	22,568.72	22,568.72
	Total	\$ 22,031.10	\$ 33,800.23	\$ 5,147,940.55

**Effective January 1, 2015 @ 40.0375%

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
SUMMARY OF INCREMENTAL COSTS (1)
QUARTER ENDED DECEMBER 31, 2016, FISCAL YEAR 2016 AND
CUMULATIVE THROUGH DECEMBER 31, 2016

Line No.	Site or Other Category of Costs (A)	Recorded in GL Account (B)	Quarter Ended 12/31/2016 (C)	Fiscal Year 2016 (D)	Cumulative Through 12/31/2016 (E)
1	Deerfield Station	182024	\$ -	\$ -	\$ 410.00
2	North Plant	182024	58,745.23	457,900.06	35,626,137.46
3	Waukegan Coke Plant	182024	30,604.38	(38,146.38)	30,179,974.49
4	South Plant	182024	91,841.18	413,108.67	9,341,393.01
5	Spring Street	182024	-	-	29,382.00
6	Waukegan Tar Pit	182024	-	-	1,745,092.98
7	Community Relations Program	182024	-	-	147,722.62
8	Insurance-Related Costs and Recoveries	182024	-	(107,249.57)	1,637,586.39
9	General and Unallocated Costs	182024	14,866.55	28,495.56	1,007,498.78
10	Carrying Charges	182020	<u>16,138.53</u>	<u>75,845.42</u>	<u>3,312,439.63</u>
11	Total		\$ 212,195.87	\$ 829,953.76	\$ 83,027,637.36
12	Less: Recovery from				
13	Settlement Fund (Page 6, Note)	182024	36,741.46	56,368.95	8,539,991.84
14	Add: Settlement Fund Adjustment				
15	to Incremental Costs (2)	182024	<u>-</u>	<u>-</u>	<u>3,413.50</u>
16	Net Total after Settlement				
17	Fund recovery		<u>\$ 175,454.41</u>	<u>\$ 773,584.81</u>	<u>74,491,059.02</u>

(1) Recorded in Account 182.3, Other Regulatory Assets

(2) Adjustments reflect correction to November 2006 filing on Deferred Account for Incremental Costs of Environmental Activities.

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
ADJUSTMENTS UNDER RIDER 11 TERMINATED
DURING QUARTER ENDED DECEMBER 31, 2016

<u>Adjustments Effective Beginning:</u> (A)	<u>Amount Reflected in Determination of Adjustment</u> (B)	<u>Amount Recovered Through Rates</u> (C)	<u>Difference (1)</u> (D)
October 1, 2015	\$54,629.24	\$29,511.76	\$25,117.48
November 1, 2015	\$268,677.81	\$209,390.64	\$59,287.17
December 1, 2015	\$632,047.96	\$523,807.21	\$108,240.75

(1) Maintained in deferred account for inclusion in subsequent determination of an adjustment.

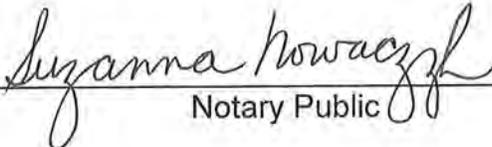
STATE OF ILLINOIS)
)
COUNTY OF COOK) SS

Charles R. Matthews, being first duly sworn, deposes and says that he is President; that he has read the foregoing Report to the Illinois Commerce Commission with respect to Operation of Rider 11, Adjustment for Incremental Costs of Environmental Activities, for the Quarter ended December 31, 2016 and knows the contents thereof; and that the facts therein stated are true to the best of his knowledge, information and belief.



Charles R. Matthews

SUBSCRIBED and SWORN TO before me this 9th day of February, 2017.



Notary Public

My Commission Expires:

4/27/2020



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Shore Gas Company
Chicago, Illinois

We have audited the accompanying Report to the Illinois Commerce Commission on Incremental Costs of Environmental Activities - Statement of Activity in Account 182.3, Other Regulatory Assets and Report to the Illinois Commerce Commission on Incremental Costs of Environmental Activities - Statement of Activity in Settlement Fund (collectively, the "Statements") of North Shore Gas Company (the "Company") for the year ended December 31, 2016, pursuant to the financial reporting provisions in Section D of the Company's Rider 11, in effect and on file with the Illinois Commerce Commission.

Management's Responsibility for the Statements

Management is responsible for the preparation and fair presentation of the Statements in accordance with the financial reporting provisions in Section D of the Company's Rider 11, in effect and on file with the Illinois Commerce Commission. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statements that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statements referred to above, present fairly, in all material respects, the information set forth therein of the Company for the year ended December 31, 2016, in accordance with the financial reporting provisions in Section D of the Company's Rider 11, in effect and on file with the Illinois Commerce Commission.

Basis of Accounting

The Statements were prepared by the Company on the basis of the financial reporting provisions in Section D of the Company's Rider 11, in effect and on file with the Illinois Commerce Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Illinois Commerce Commission referred to above. Our opinion is not modified with respect to this matter.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Company as of and for the year ended December 31, 2016, and our report thereon, dated March 17, 2017, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the Board of Directors and the Illinois Commerce Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

March 31, 2017

NS Exhibit 2. 17-0095 North Shore Gas Company
Rider 11 Recoveries by Customer Class

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Total</u>
1992*	*	*	*	\$ 956,618.10
1993	\$ 1,282,820.57	\$ 520,192.97	\$ 364,106.51	2,167,120.05
1994	299,109.89	126,095.69	95,615.96	520,821.54
1995	123,542.80	52,345.34	44,950.94	220,839.08
1996	958,269.31	331,261.11	300,527.92	1,590,058.34
1997	743,062.64	226,488.21	188,312.77	1,157,863.62
1998	313,348.16	143,357.79	111,817.03	568,522.98
1999	622,909.61	265,879.75	134,276.44	1,023,065.80
2000	324,760.56	141,893.43	76,543.00	543,196.99
2001	558,422.52	209,746.82	106,872.82	875,042.16
2002	459,531.44	194,433.32	78,774.52	732,739.28
2003	501,797.63	208,355.24	93,451.40	803,604.27
2004	720,937.61	335,091.52	122,394.29	1,178,423.42
2005	1,101,550.70	544,639.21	216,824.66	1,863,014.57
2006	1,227,311.57	624,514.86	213,450.29	2,065,276.72
2007	1,167,108.43	592,805.30	183,947.60	1,943,861.33
2008	2,824,845.19	1,474,805.58	515,571.29	4,815,222.06
2009	3,598,662.31	1,819,515.77	562,401.99	5,980,580.07
2010	4,729,010.76	2,462,880.04	787,295.96	7,979,186.76
2011	3,552,176.84	1,814,878.14	577,418.87	5,944,473.85
2012	(238,641.87)	(167,415.92)	(63,826.97)	(469,884.76)
2013	1,211,314.44	544,018.10	269,292.33	2,024,624.87
2014	9,550,377.41	4,594,460.42	2,660,409.99	16,805,247.82
2015	6,019,785.98	2,904,204.69	1,666,142.66	10,590,133.33
2016	<u>890,528.66</u>	<u>443,747.14</u>	<u>301,267.68</u>	<u>1,635,543.48</u>
Total	<u>\$ 42,542,543.16</u>	<u>\$ 20,408,194.52</u>	<u>\$ 9,607,839.95</u>	<u>\$ 73,515,195.73</u>

North Shore Gas Company Property Purchased Prior to October 1, 2005
for which Purchase Costs were Recovered through Rider 11

Property Acquired in Fiscal Year	Property Description	PIN's	Current Ownership/Lease	Current Property Use
2002	South Plant - Alloy Parcel	08-21-421-030	NSG Owns	Vacant (see note 1)
2003	North Plant	08-15-300-024	NSG Owns	Vacant (see note 1)
2003	South Plant - McKinney	08-21-421-027-0000	NSG Owns	Vacant (see note 1)

Note 1, SAS RI - USEPA Superfund Alternative Sites
Program Remedial Investigation

NS Exhibit 3 17-0095

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)
On Its Own Motion)
)
)
v.)
)
North Shore Gas Company)
)
Reconciliation of revenues collected)
under Coal Tar Riders with prudent)
costs associated with coal tar clean up)
expenditures)

Docket No.: 17-0095

NOTICE OF FILING

To: Attached Service List

PLEASE TAKE NOTICE that on this date Respondent in the above-captioned case sent by Electronic Filing for filing with the Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois 62701, Respondent's **Direct Testimony, Exhibits A, 1, 2 and 3** to all parties on the Service List.

Dated: March 31, 2017

By: /S/Koby Bailey

Koby Bailey
An Attorney for North Shore Gas Company

CERTIFICATE OF SERVICE

I, Koby Bailey, attorney, on oath state: I served a copy of this Notice and foregoing **Direct Testimony, Exhibits A, 1, 2 and 3** served by filing the same electronically and electronically serving the same on the parties listed below on March 31, 2017.

By: /S/KOBY BAILEY

SERVICE LIST

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Illinois Commerce Commission
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