

Direct Testimony and Schedules  
Michael E. Gerth

Before the Minnesota Public Utilities Commission  
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to  
Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-13-617

Exhibit \_\_\_\_\_

**Test Year Revenue Requirements**

September 30, 2013

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Michael E. Gerth. My business address is Integrys Business Support LLC  
4 (“IBS”), 130 East Randolph Drive, 18<sup>th</sup> Floor, Chicago, Illinois 60101.  
5

6 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

7 A. My position with IBS is Director of Finance – Gas Utility Group. Both IBS and  
8 Minnesota Energy Resources Corporation (“MERC”) are wholly-owned subsidiaries of  
9 Integrys Energy Group, Inc (“Integrys”).  
10

11 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

12 A. I graduated from the University of Cincinnati with a Bachelor of Business Administration  
13 degree in Accounting and Finance. I began my career with Peoples Energy Corporation  
14 in 2004 as Manager – Financial Reporting & Compliance. After the merger with Integrys  
15 in 2007, I assumed my current role as Director of Finance – Gas Utility Group.  
16

17 Q. FOR WHOM ARE YOU PROVIDING TESTIMONY?

18 A. I am providing testimony on behalf of MERC.  
19

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

21 A. The purpose of my pre-filed direct testimony is to present the results of the economic  
22 analysis used to evaluate the Integrys Customer Information System (“CIS”) initiative  
23 known as ICE 2016 Project (“ICE”). ICE is an acronym for “Integrys Customer

1 Experience” and the project is more fully described in the pre-filed direct testimony of  
2 Mr. Brian E. Kage.

3  
4 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR  
5 TESTIMONY IN THIS PROCEEDING?

6 A. Yes, I am. I am sponsoring Exhibit\_\_\_\_\_(MEG-1), consisting of 1 page.

7  
8 Q. WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION AND  
9 SUPERVISION?

10 A. Yes, it was.

11  
12 Q. PLEASE PROVIDE A HIGH LEVEL EXPLANATION OF YOUR EXHIBIT.

13 A. Exhibit\_\_\_\_\_(MEG-1) is a summary of the financial assumptions,  
14 inputs and results for various options considered for the ICE project.

15  
16 Q. WHAT ECONOMIC ANALYSIS METHOD WAS USED TO EVALUATE THE ICE  
17 PROJECT?

18 A. A net present value of revenue requirements (“PVR” analysis for all of Integrys’  
19 regulated utility customers, discounted to 2012, was developed taking into account the  
20 applicable projected costs, projected savings, accounting treatment, and recovery period.  
21 Three options for the ICE project were examined.

22

1 Option 1 assumed Integrys would consolidate from the current three CIS platforms and  
2 associated business operating models to one enhanced Open-C platform that will support  
3 standardized business processes for all six regulated utilities by 2016. Open-C is the CIS  
4 currently used by Integrys affiliates Wisconsin Public Service Corporation (“WPSC”)  
5 and Upper Peninsula Power Company (“UPPCO”).

6  
7 Option 2 assumed Integrys would consolidate from three to two CIS platforms: Open-C  
8 for all Integrys utilities except The Peoples Gas Light & Coke Company (“PGL”) and  
9 North Shore Gas Company (“NSG”), which would remain on their currently existing CIS  
10 known as C-First. Option 2 was assumed to be completed by 2015.

11  
12 Option 3 assumed Integrys would first consolidate from three to two CIS platforms (same  
13 as Option 2) by 2015, and then move to one CIS platform (Open-C) by 2018.

14  
15 The impact of ICE under all three options was considered through the year 2026,  
16 representing a 15-year horizon starting in 2012.

1 **II. PVRR ANALYSIS**

2 Q. WHY WAS A PVRR ANALYSIS SELECTED?

3 A. A PVRR analysis was selected because a PVRR analysis best models the cost and  
4 savings impacts to Integrys' regulated utility customers over the 15-year period.  
5

6 Q. WHAT WAS THE BASIS FOR THE COST ESTIMATES USED IN THE ECONOMIC  
7 ANALYSIS FOR ICE?

8 A. The undiscounted cost and savings estimates for the three options under ICE were  
9 provided to me by Mr. Brian E. Kage. The development of those undiscounted cost and  
10 savings estimates is described in his pre-filed direct testimony.  
11

12 Q. WHAT WERE THE RESULTES OF YOUR ECONOMIC ANALYSIS?

13 A. The results are shown on Exhibit\_\_\_\_(MEG-1). In short, the economic analysis resulted  
14 in a PVRR net savings of \$37.2 million for Option 1, a PVRR net cost of \$1.4 million for  
15 Option 2, and a PVRR net savings of \$19.7 million for Option 3.  
16

17 Q. WHY ARE THERE NO CAPITAL EXPENDITURE SAVINGS UNDER OPTION 2?

18 A. Integrys is not expecting any significant avoided capital expenditures because Option 2 is  
19 not a significant change from the current environment. That is, Integrys affiliates MERC  
20 and Michigan Gas Utilities Corporation ("MGUC") would be converted to the same  
21 platform as WPSC and UPPCO (i.e., Open-C), while PGL and NSG would remain on  
22 their currently existing platform (i.e., C-First).  
23

**IX. CONCLUSION**

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Q. WHAT WERE YOUR CONCLUSIONS?

A. Execution of Option 1 will produce the greatest net savings to Integrys' regulated utility customers over the 15 year period from 2012 through 2026. MERC's Operations and Maintenance costs associated with the 2014 projected test year are included in Exhibit\_\_\_\_(SSD-2), which are sponsored by Mr. Seth DeMerritt.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON THE PVRR ANALYSIS OF ICE?

A. Yes, it does.





**Integrus Energy Group, Inc.**  
**ICE 2016 Project**  
**Summary of Calculations of Net Present Value of Revenue Requirement ("NPVRR")**

***Option 1- Conversion from 3 Customer Information Systems to 1 by 2016***

<b>NPVRR:</b>	
Capital Expenditures	\$ 58,779,000
Operating & Maintenance Expense	10,179,000
Capital Expenditure Savings	(15,548,000)
Operating & Maintenance Expense Savings	(90,565,000)
<b>NPVRR (Savings) Cost</b>	<b><u>\$ (37,155,000)</u></b>

**Undiscounted Estimated Costs and Savings:**

Capital Expenditures	\$ 64,336,000
Operating & Maintenance Expense	12,400,000
Capital Expenditure Savings	(24,850,000)
Operating & Maintenance Expense Savings	(204,350,000)
<b>Total Undiscounted (Savings) Costs</b>	<b><u>\$ (152,464,000)</u></b>

***Option 2- Conversion from 3 Customer Information Systems to 2 by 2015***

<b>NPVRR:</b>	
Capital Expenditures	\$ 15,382,000
Operating & Maintenance Expense	2,684,000
Capital Expenditure Savings	-
Operating & Maintenance Expense Savings	(16,713,000)
<b>NPVRR (Savings) Cost</b>	<b><u>\$ 1,353,000</u></b>

**Undiscounted Estimated Costs and Savings:**

Capital Expenditures	\$ 16,807,000
Operating & Maintenance Expense	3,193,000
Capital Expenditure Savings	-
Operating & Maintenance Expense Savings	(36,309,000)
<b>Total Undiscounted (Savings) Costs</b>	<b><u>\$ (16,309,000)</u></b>

***Option 3- Conversion from 3 Customer Information Systems to 2 by 2015 and to 1 by 2018***

<b>NPVRR:</b>	
Capital Expenditures	\$ 58,179,000
Operating & Maintenance Expense	10,109,000
Capital Expenditure Savings	(15,547,000)
Operating & Maintenance Expense Savings	(72,457,000)
<b>NPVRR (Savings) Cost</b>	<b><u>\$ (19,716,000)</u></b>

**Undiscounted Estimated Costs and Savings:**

Capital Expenditures	\$ 72,549,000
Operating & Maintenance Expense	13,951,000
Capital Expenditure Savings	(24,850,000)
Operating & Maintenance Expense Savings	(173,192,000)
<b>Total Undiscounted (Savings) Costs</b>	<b><u>\$ (111,542,000)</u></b>