BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY COMMISSION	:	
v.	:	Docket No. R-2018-3006818
PEOPLES NATURAL GAS COMPANY LLC	:	

PREPARED DIRECT TESTIMONY OF
MATTHEW D. WESOLOSKY
DIRECTOR, FINANCE AND REGULATION
PEOPLES NATURAL GAS COMPANY LLC

DATE SERVED: January 28, 2019 | Peoples Natural Gas Statement No. 4

DATE ADMITTED: ___________

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Matthew D. Wesolosky. My business address is 375 North Shore Drive, Pittsburgh, PA 15212.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed as Director, Finance and Regulation for PNG Companies LLC. I provide financial services to Peoples Natural Gas Company LLC ("Peoples" or the "Company").

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I received a Bachelor's of Science in Accounting from the University of Kentucky in 1999. I am a Certified Public Accountant in the State of Kentucky. From 1998 through 2001, I worked at Delta as the Accounting Systems Analyst/Coordinator. From 2001 through 2005 I worked in public accounting including two years at PricewaterhouseCoopers specializing in the utilities industry. From 2005 through 2018, I worked at Delta Natural Gas in accounting and finance. Beginning in 2010 I became Delta's Vice President-Controller. In June 2018, I started working for Peoples Natural Gas as the Director, Finance and Regulation.

Q. GENERALLY, WHAT ARE YOUR DUTIES AT PEOPLES?

A. As Director, Finance and Regulation, my responsibilities include oversight of the tax function.

Q. PLEASE DESCRIBE YOUR PUBLIC ACCOUNTING EXPERIENCE RELATED TO THE UTILITIES INDUSTRY.

A. I was a senior associate with PricewaterhouseCoopers from 2003-2005. During this time, I primarily worked on the financial audits for E.ON U.S. and its subsidiaries (Louisville Gas and Electric Company, and Kentucky Utilities Company), Western Kentucky Energy Corp. and the internal control audit for Southwest Power Pool. I was in charge of planning and managing the audit fieldwork as well as focusing on industry specific issues dealing with regulatory accounting, energy trading and ISO transactions. During my employment at Delta I was responsible for the accounting and information technology functions, as well as the company witness in proceedings before the Kentucky Public Service Commission.

Q. HAVE YOU BEEN A WITNESS IN MATTERS PREVIOUSLY BEFORE THE COMMISSION?

A. I have not been a witness before the Pennsylvania Public Utility Commission. However, I have served as a witness on behalf of Delta in the following proceedings:

- Case No. 2007-00089, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*,
- Case No. 2008-00062, *Application of Delta Natural Gas Company, Inc. for Approval of a Customer Conservation/Efficiency Program and Demand Side Management Cost Recovery Mechanism*,
- Case No. 2010-00116, *Application of Delta Natural Gas Company, Inc. for an Adjustment of Rates*,

- Case No. 2012-00136, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2013-00101, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2013-00365, *Application of Delta Natural Gas Company, Inc. For an Order Declaring That it is Authorized to Construct, Own and Operate a Compressed Natural Gas Station in Berea, Kentucky,*
- Case No. 2014-00072, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2015-00066, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2016-00110, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2017-00111, *Application for Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*,
- Case No. 2017-00125, *Electronic Joint Application of PNG Companies LLC, Drake Merger Sub Inc. And Delta Natural Gas Company, Inc. for Approval of an Acquisition of Ownership and Control of Delta Natural Gas Company, Inc.*
- *Case No. 2018-00040 – Investigation of the Impact of the Tax Cuts and Jobs Act on the Rates of Delta Natural Gas Company, Inc.*
- Case No. 2018-00086 – *Adjustment of the Pipe Replacement Program Rider of Delta Natural Gas Company, Inc.*

Q. ARE YOU GENERALLY FAMILIAR WITH THE BUSINESS AFFAIRS OF PEOPLES?

A. Yes, I am.

Q. PLEASE SUMMARIZE THE SCOPE OF YOUR TESTIMONY.

A. My testimony supports and sponsors the tax-related information provided in this case, including the calculation of income tax expense.

Q. ARE YOU SPONSORING ANY EXHIBITS AS PART OF YOUR TESTIMONY?

A. Yes, I am sponsoring **Exhibit 6** (Non-Income Taxes), **Exhibit 7** (Income Taxes), **Exhibit MDW-1** along with the filing requirements and standard data requests identified in Appendix A to this testimony.

<u>INCOME TAXES</u>

Q. WERE YOU INVOLVED IN THE PREPARATION OF THE TAX-RELATED INFORMATION SUBMITTED IN THIS PROCEEDING?

A. Yes. I participated in the preparation and review of the information along with members of the Company's tax department.

Q. WHAT SCHEDULE SETS FORTH THE COMPANY'S CALCULATION OF ITS INCOME TAX EXPENSE?

A. Exhibit 7 includes all filing requirements related to income taxes. Specifically, **Exhibit 7, Schedule 8** sets forth the calculation of income tax expense.

Q. PLEASE EXPLAIN HOW THESE SCHEDULES WERE PREPARED IN LIGHT OF THE SEPARATE DIVISIONS?

A. All the tax schedules were prepared individually for the Peoples and Equitable Divisions, as well as on a combined basis.

Q. PLEASE DESCRIBE EXHIBIT 7, SCHEDULE 8.

A. **Exhibit 7, Schedule 8** contains five separate income tax expense calculations for three different time periods:

- Column A – Income tax expense, per books, for the twelve months ended September 30, 2018;
- Column C – Presents income tax expense for the twelve months ended September 30, 2018 at present rates, after taking into account historical test year normalizing adjustments;
- Column E – Income tax expense for the twelve months ended September 30, 2019, at present rates;
- Column G – Income tax expense for the twelve months ended October 31, 2020, at present rates;
- Column I – Income tax expense for the twelve months ended October 31, 2020, at proposed rates.

Q. ARE THERE COMPLEXITIES WHEN IT COMES TO CALCULATING THE TAX EXPENSE ELEMENT OF COST OF SERVICE?

A. Yes. There are two primary reasons for the complexity. First, the tax law is, itself, enormously complicated such that its application to any business transaction or set of transactions is highly difficult. However, even more problematic is the fact that certain items of income and expense incurred by most utilities are treated very differently for regulatory (*i.e.*, book) purposes than they are for tax purposes - and there may be further differences between how they are treated for federal and state tax purposes. There are, in effect, two or even three different accounting regimes.

Q. PLEASE DESCRIBE THE CALCULATION OF INCOME TAX EXPENSE?

A. I will describe the calculation of income tax expense for the combined entities fully forecasted test year at proposed rates (Column I), noting that each of the other tax expense calculations operates in essentially the same fashion. The purpose of this calculation is to derive income tax expense attributable to the Company's regulated gas operations. The calculation starts on line 1 with Operating Income before Taxes and Interest ("OIBTI"). OIBTI, derived from **Exhibit 2, Schedule 4**, reflects the items of income and expense for the provision of natural gas service.

There are six major steps in calculating income tax expense:

- The deduction for interest expense (line 2) to derive Pre-tax Operating Income (line 3);
- The adjustments to Pre-tax Operating Income (lines 4-12) necessary to derive State Taxable Income (line 15);
- The calculation of state income tax expense (line 18);
- The calculation of Federal Taxable Income which represents pretax operating income (line 3) plus the Total Adjustments to Taxable Income (line 10), less State Income Tax Expense (line 18) ;

- The calculation of Federal Current Income Tax Expense (line 22-24);
- The calculation of Federal Deferred Income Tax Expense (lines 25-28).

Q. HOW IS THE DEDUCTION FOR INTEREST EXPENSE DETERMINED?

. OIBTI does not include interest expense. Thus, it is necessary to reflect it the calculation to derive Pretax Operating Income, as it is generally deductible for income tax purposes. The interest deduction, calculated at **Exhibit 2, Schedule 4**, is the product of multiplying People's weighted overall cost of debt by its regulated rate base for the same period. This calculation "synchronizes" the tax deduction with the rate base supported by the underlying debt and is consistent with the approach used in previous rate proceedings.

Q. WHAT ADDITIONAL ADJUSTMENTS ARE NECESSARY TO DERIVE STATE TAXABLE INCOME?

A. Pre-Tax Operating Income is calculated based on generally accepted accounting principles with adjustments required to conform with regulatory accounting rules. However, certain items of income and expense are treated differently for income taxes. Moreover, items of income and expense can be treated differently between federal and state income taxes. As a result, certain adjustments referred to as Schedule M items are necessary to derive taxable income. There are permanent adjustments whereby a deduction is never allowed for tax purposes and timing or deferred adjustments whereby the items are ultimately deductible but under different time frames for tax compared to book. The deferred adjustments are timing differences related to capital spending.

Q. WHAT ARE THE PERMANENT ADJUSTMENTS?

. The company has one permanent item for meals & entertainment expense. Under federal tax law, most of the Company's meals and entertainment expenditures that are expensed for book purposes are not deductible for tax purposes. Thus, an adjustment is necessary to increase taxable income.

Q. WHAT ARE THE DEFERRED ADJUSTMENTS?

There are four major types of adjustments:

- Depreciation - For book purposes, assets are depreciated on a straight-line basis using the approved depreciation rates; whereas, for tax purposes, assets are depreciated using the Modified Accelerated Cost Recovery System. The accelerated tax depreciation results in a depreciation deduction on the tax return, which exceeds the book expense.
- Section 165 Loss on Asset Retirements– For tax purposes, the undepreciated tax basis of an asset that has been retired is deductible in the year of retirement. For book purposes, the unrecovered book basis is recovered through additional depreciation.
- Contributions in aid of construction ("CIAC") – customer payments towards the construction of facilities are not income for book purposes but are taxable to the Company. Assets depreciated for book purposes have a cost basis net of CIAC, whereas for tax purposes, the basis is not reduced for CIAC. In subsequent years, this basis difference yields a tax depreciation deduction which is greater than the deduction for book purposes.

- Cost of Removal – The cost of removing an asset at the end of its useful life is, under Pennsylvania regulatory accounting principles, amortized over the five-year period subsequent to the year in which the cost is incurred. For tax purposes, the cost is deductible when incurred.

Q. WHAT DOES THE PA DEPRECIATION ADJUSTMENT ON LINE 12 REPRESENT?

. Under Pennsylvania law, the method of depreciation for state income tax does not always conform to the method utilized for federal income tax. The difference between the two methods results in an adjustment to derive state taxable income.

Q. IS THERE ANOTHER ADJUSTMENT NECESSARY TO DERIVE STATE TAXABLE INCOME?

A. In past years, the Peoples Division's regulated operations have produced tax net operating losses ("NOLs") for Pennsylvania tax purposes. As of October 31, 2020, the Company projects that it will have a state net operating loss carryforward ("NOLC") of over $38 million. Under Pennsylvania law, this NOLC can offset state taxable income, subject to limitation. Pennsylvania law limits the NOLC offset to a percentage of the state taxable income produced. This limit was 35% in 2018 and 2019 and increased to 40% in 2020. Consequently, the schedule reduces the Company's state taxable income produced in the future test year by $30.1 million to reflect utilizations of these NOLCs.

Q. HOW IS STATE INCOME TAX CALCULATED?

A. Pre-tax operating income of $160.2 million is reduced by the following adjustments to arrive at Pennsylvania taxable income:

- Permanent adjustments $1.0 million (line 4)
- Deferred adjustments $83.6 million (line 10)
- PA depreciation adjustment $1.4 million (line 12)
- Prior year net operating loss utilization $30.1 million (line 14)

The taxable income of $45.2 million is then multiplied by the 9.99% Pennsylvania income tax rate to arrive at current state income tax expense of $4.5 million.

Q. ARE ANY DEFERRED STATE INCOME TAXES CHARGED TO CUSTOMERS ON ACCOUNT OF THE BENEFITS OF ACCELERATED TAX DEPRECIATION OR ANY OTHER TEMPORARY DIFFERENCES?

A. No. The Company does not charge deferred state income taxes to customers. The only charge to customers is the current state income tax provision, as described above. This is consistent with the procedures Peoples has used in prior rate proceedings.

Q. EXPLAIN THE CALCULATION OF CURRENT TAXBALE INCOME.

A. State income taxes are deductible in arriving at federal taxable income. Thus, current federal taxable income must reflect this deduction so that customers receive the federal tax benefit of the state income tax expense. Therefore, taxable income equals Pre-tax Operating Income (line 3), plus the Total Adjustments to Taxable Income (line10) less

Pennsylvania Tax Expense (line 18). This yields federal taxable income of $73.1 million, before considering any federal NOLC utilization.

Q. HOW IS DEFERRED INCOME TAX EXPENSE CALCULATED?

A. Deferred income tax expense is calculated by multiplying the total deferred adjustments (line 10) by the corporate income tax rate of 21%.

Q. HOW ARE NOLCS REFLECTED IN DERIVING TAX EXPENSE?

A. The federal NOLCs are fully utilized by the end of the fully projected future test year. Utilization of federal NOLs do not impact the overall federal income tax expense. State NOLCs utilized offset 40% of the current year taxable income. The utilization of the state NOLC reduces the current state tax expense.

Q. HAS THE COMPANY CALCULATED A CONSOLIDATED TAX ADJUSTMENT ("CTA")?

A. Yes, but not for the purpose of flowing through as a ratemaking deduction to federal income tax expense. In 2016, Act 40 was passed which eliminated the consolidated tax savings adjustment. With the passage of Act 40, a utility's tax expense for regulatory purposes is calculated on a stand-alone basis and is not subsidized by its affiliates. Act 40 has been codified as Section 1301.1 of the Public Utility Code. Section 1301.1 (a) clearly and unambiguously states:

> *"If an expense or investment is not allowed to be included in a public utility's rates, the related income tax deductions and credits, including tax losses of the public*

utility's parent or affiliated companies, shall not be included in the computation of income tax expense to reduce rates. The deferred income taxes used to determine the rate base of a public utility for ratemaking purposes shall be based solely on the tax deductions and credits received by the public utility and shall not include any deductions or credits generated by the expenses or investments of a public utility's parent or any affiliated entity. "

Section 1301.1(b) requires a public utility seeking to change rates to demonstrate that it uses at least 50 percent of what would have been a consolidated tax expense adjustment under the law prior to Act 40 for reliability or infrastructure related capital investment and the other 50 percent may be used for general corporate purposes. Included at **Exhibit 7, Schedule 3** is the calculation of such an adjustment using the modified effective tax rate methodology traditionally used by the Commission prior to the enactment of Act 40. **Exhibit 7, Schedule 3** calculated the former consolidated tax adjustment to be $5.3 million for both divisions combined. For the fully projected future test year, pipe replacement spending under the Long-Term Infrastructure Improvement Program ("LTIIP") program will be $227.1. Section 1301.1(b) requires that $2.7 million (50% of $5.3 million consolidated tax adjustment) to be spent on infrastructure replacement. For the fully projected future test year, the Company will spend 83 times the amount required under Section 1301.1(b) on infrastructure related capital investment. Since the company has and will spend far more than the 50% ($2.3 million) of the former CTA on replacement of its plant under the LTIIP, the remaining 50% is available for any permissible corporate purpose. Therefore, Peoples has satisfied the Section 1301.1(b) requirements.

<u>TAX CUTS AND JOBS ACT</u>

Q. WHAT ARE THE KEY PROVISIONS OF THE TAX CUTS AND JOBS ACT (“TCJA”)?

A. The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to:

- reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent;
- eliminating the corporate alternative minimum tax (“AMT”);
- providing for full expensing of property acquired after September 27, 2017;
- creating a new limitation on deductible interest expense; and
- changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

Further, the TCJA includes changes only affecting the taxation of regulated public utilities, such as Peoples. These changes include generally allowing for:

- the continued deductibility of interest expense;
- not allowing the full expensing of certain property acquired after September 27, 2017; and
- continuing certain rate normalization requirements for accelerated depreciation benefits.

Q. HAVE CHANGES IN TAX LAW DUE TO TCJA BEEN CONSIDERED IN PREPARING THE INCOME TAX CALCULATIONS FILED IN THIS CASE?

A. Yes. The federal income tax rate utilized in the tax calculations is at the 21% tax rate, as well as the revenue conversion factor calculated in **Exhibit 2, Schedule 4**. The full expensing of property and limitations on the deductible of interest expense do not apply to regulated public utilities. Additionally, special consideration has been given to ensure the calculations do not yield a normalization violation.

Q. WHAT ADJUSTMENTS HAVE BEEN MADE TO AVOID NORMALIZATION ISSUES?

A. Under the Accounting Standards Codification *Topic 740 – Income Taxes*, deferred tax assets and liabilities are measured at the currently enacted tax rate expected to apply to taxable income in the period in which the deferred tax liability or asset is expected to be settled or realized. When there is a change in the tax rate, deferred tax assets and liabilities are adjusted in the period in which the change in the applicable tax rate is enacted into law. Prior to enactment of the TCJA, Peoples' deferred tax assets and liabilities were measured at a statutory rate assuming a 35% corporate income tax rate. Upon enactment of TCJA Peoples re-measured its accumulated deferred income taxes at the new 21% rate. This re-measurement gave rise to excess deferred income taxes recorded as a regulatory liability. The vast majority of the accumulated deferred income taxes relate to utility plant and are therefore subject to the normalization rules.

Section 13001 (d) of the TCJA contains normalization provisions that require the reserve for excess deferred income taxes to be amortized and reduced no more rapidly than such reserve would be reduced under the average rate assumption method ("ARAM"). The regulatory liability is amortized on **Exhibit 7, Schedule 8, Attachment 1**, Line 27 using the average rate assumption method and reduces the deferred income tax claim in rates that will be set in this proceeding.

Q. PREVIOUSLY YOU DISCUSSED NORMALIZATION AS IT RELATED TO THE TCJA. ARE THERE ANY OTHER NORMALIZATION CONSIDERATIONS RELATED TO A FULLY PROJECTED FUTURE TEST YEAR?

A. Yes. Rate base has been reduced for both accumulated deferred income taxes, as well as the excess deferred income taxes. Utilizing a fully forecasted test period results in rates going into effect before the end of the fully forecasted test period. Therefore, customers receive the benefit of the deferred taxes before the full amount of the deferred income taxes are realized. In such a situation, the tax depreciation normalization rules limit the amount of ADIT by which rate base can be reduced to (1) the ADIT balance existing as of the date rates go into effect plus (2) a ratable portion of the increase in ADIT occurring during the fully forecasted portion of the test period. **Exhibit 7, Schedule 8, Attachment 5** sets forth the calculation of the adjustment.

Q. WHAT IS THE CONSEQUENCE OF NOT ADHERING TO THE NORMALIZATION RULES?

A. Failure to comply with the normalization requirements results in a utility's tax liability for a given year to increase by the amount which it reduced its excess tax reserve in excess of the amount permitted under the normalization rules. In addition, the utility becomes ineligible to deduct accelerated depreciation for federal income tax purposes and instead may only deduct the amount of depreciation expensed for regulatory reporting purposes. A normalization violation would result in loss of accelerated tax depreciation and the ongoing deductions to rate base for deferred taxes, thereby increasing utility rates to customers.

Q. HOW HAS RIDER TCJA BEEN REFLECTED IN EXHIBIT 3, WHICH DETAILS THE CALCULATION OF REVENUES AT PRESENT AND PROPOSED RATES?

A. Rider TCJA, as billed, is reflected in the historical test period revenues. Since the proposed revenues have been designed to recover income tax expense at the 21% federal income tax rate, revenue derived from Rider TCJA is eliminated when calculating revenue at proposed rates.

Q. ONCE RATES FROM THIS CASE BECOME EFFECTIVE, IS RIDER TCJA REMOVED FROM CUSTOMER BILLS?

A. No. Once the proposed rates become effective, the base rates, as designed, will recover income tax expense at the 21% corporate income tax rate. However, amounts refunded under Rider TCJA must be evaluated for any over or under collection. The tariff change resulting from the base rate case reduced the TCJA rate to zero. Within 60 days of the effective date of the new rates in this proceeding Peoples will calculate the final amount to be refunded to customers including the 1) include the refund of stub period savings (as further discussed below) and 2) include the accumulated over or under collection while rate TCJA was in effect. These amounts will be refunded to customers by means of a one-time bill credit within 120 days of the effective date of the new base rates in this proceeding.

Q. IN ITS ORDER DATED MAY 17, 2018 IN CASE NO. R-2018-3000502, THE COMMISSION ORDERED THE ESTABLISHMENT OF A DEFERRED REGULATORY LIABILITY RELATED TO THE TAX SAVINGS ASSOCIATED WITH TCJA FOR THE PERIOD OF JANUARY 1, 2018 THROUGH JUNE 30, 2018 ("STUB PERIOD"). HOW HAVE THE TAX SAVINGS BEEN REFLECTED IN THE CURRENT CASE?

A. The tax savings associated with TCJA for January 1, 2018 through June 30, 2018 amounts to $16.6 million and has been deferred as a regulatory liability on the Companies' balance sheets, as shown in **Exhibit MDW-1**. The tax savings associated with the stub period have not been reflected in the claim for the current case. Rather, as previously mentioned, Peoples proposes to refund the stub period liability to customers beginning November 1, 2019 through Rider TCJA.

Q. IF THE COMMISSION APPROVES COMBINING THE PEOPLES AND EQUITABLE TARIFFS, WILL TWO SEPARATE RIDER TCJA EXIST?

A. No. Upon combining the tariffs, the Rider TCJA will be adjusted to a single rate, which represents a weighted average TCJA rate.

<u>DEFERRED INCOME TAXES</u>

Q. WHAT IMPACT DO DEFERRED INCOME TAXES HAVE ON RATE BASE?

A. Both accumulated federal deferred income taxes and excess deferred income taxes are a reduction to rate base, as presented on **Exhibit 7, Schedule 8, Attachment 2**.

Q. EXPLAIN THE CALCULATION OF ACCUMULATED DEFERRED INCOME TAXES?

A. Accumulated deferred income taxes represent the tax effect of the underlying cumulative timing differences. The beginning cumulative timing differences are adjusted on Attachment 2 for the current year Schedule M activity. The ending cumulative timing difference is multiplied by the federal income tax rate of 21% to arrive at the accumulated deferred income tax balance.

Q. WHY ARE STATE DEFERED TAXES NOT REFLETCED IN EXHIBIT 7, SCHEDULE 8, ATTACHMENT 2?

A. As previously mentioned, based on Commission precedence, state deferred taxes are excluded from the calculation of income tax expense. Therefore, there are no state deferred income taxes generated to offset rate base.

Q. IN THE EVENT THERE ARE ADJUSTMENTS TO THE RATES PROPOSED BY PEOPLES, WILL THE CALCULATION OF INCOME TAX EXPENSE REQUIRE UPDATING?

A. Yes, it will. Any adjustment impacting Pre-tax Operating Income will have an impact on income tax expense. Additionally, a change in Pre-tax Operating Income impacts taxable income which results in changes to the amount of the NOLC used in the fully forecasted test period to change. The change in the NOLC impacts the ending deferred income tax balance which impacts rate base.

TAXES OTHER THAN INCOME TAXES

Q. WHAT NON-INCOME TAXES ARE INCLUDED IN DETERMINING OIBTI?

A. There are five such taxes (see **Exhibit 6, Schedule 2**). They are:

- PUC Assessment;
- Payroll taxes (FICA and unemployment taxes);
- Property taxes (including PURTA);
- Sales and use tax; and
- Other miscellaneous taxes.

Q. WHAT IS THE TOTAL AMOUNT OF NON-INCOME TAXES?

A. The total amount of non-income tax expense for the full forecasted future test period at proposed rates is $10.4 million, as shown in **Exhibit 6, Schedule 2**.

Q. HOW WERE THE AMOUNTS NON-INCOME TAXES DERIVED?

A. The individual amounts of the projected levies were derived in different ways. In the case of payroll and unemployment taxes the tax, the tax expense for the historical test year was divided by the labor expense in the current year to derive an experience factor. The experience factor was then applied to the full projected future year labor to derive the projected expense, as shown on **Exhibit 6, Schedule 2**.

In the case of the PUC assessment, the fully projected future test year was adjusted from the historical year to reflect the most recent assessment by the PUC.

All other taxes have been kept at their historical level.

Q. SPECIFICALLY WHAT INFORMATION RELATING TO NON-INCOME TAXES ARE YOU SPONSORING?

A. I am sponsoring the filing requirements and standard data requests listed contained in Exhibit 6.

Q. IS THIS INFORMATION GENERALLY SELF-EXPLANATORY?

A. I believe it is.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Peoples Natural Gas Company **MDW-1**

Stub Period Tax Savings

	Current Period Federal Tax (Liability)/Benefit	Cumulative Tax Liability
January	(6,664,239)	(6,664,239)
February	(4,181,914)	(10,846,153)
March	(4,414,658)	(15,260,811)
April	(2,581,323)	(17,842,134)
May	(191,727)	(18,033,861)
June	1,466,650	(16,567,211)
Total Stub Period Tax Savings	**(16,567,211)**	

Peoples Natural Gas Company

Attachment A

Filing Requirements and Standard Data Requests

Sponsored by Matthew Wesolosky

Filing Requirements	
Exhibit 6, Schedule 1	53.53.III.E.35
Exhibit 6, Schedule 2	53.53.III.A.50
Exhibit 6, Schedule 3	53.53.III.A.48
Exhibit 6, Schedule 4	53.53.III.A.49
Exhibit 7, Schedule 1	53.53.II.A.8
Exhibit 7, Schedule 2	53.53.II.A.9
Exhibit 7, Schedule 3	53.53.II.A.26
Exhibit 7, Schedule 4	53.53.III.A.51
Exhibit 7, Schedule 5	53.53.III.A.52
Exhibit 7, Schedule 6	53.53.III.A.53
Exhibit 7, Schedule 7	53.53.III.A.54
Exhibit 7, Schedule 8	53.53.III.A.55
Exhibit 7, Schedule 9	53.53.III.A.56
Exhibit 7, Schedule 10	53.53.III.A.57
Exhibit 7, Schedule 11	53.53.III.A.58
Exhibit 7, Schedule 12	53.53.III.A.59
Exhibit 7, Schedule 13	53.53.III.A.62
Exhibit 7, Schedule 14	53.53.III.A.63
Exhibit 7, Schedule 15	53.53.III.A.64
Exhibit 7, Schedule 16	53.53.III.A.60
Exhibit 7, Schedule 17	53.53.III.A.61
Exhibit 7, Schedule 18	53.53.III.A.65
Exhibit 7, Schedule 19	53.53.III.A.66
Exhibit 7, Schedule 20	53.53.III.A.67
Exhibit 7, Schedule 21	53.53.III.A.68
Exhibit 7, Schedule 22	53.53.III.A.69
Exhibit 7, Schedule 23	53.53.III.A.70
Exhibit 7, Schedule 24	53.53.III.A.71
Exhibit 7, Schedule 25	53.53.II.A.10

Standard Data Requests	
Revenue Requirement	RR 41
Revenue Requirement	RR 48
Revenue Requirement	RR 49
Revenue Requirement	RR 50
Revenue Requirement	RR 55