

DIRECT TESTIMONY
OF
GENE BEYER
Public Utilities Bureau
Illinois Commerce Commission

Proposed General Increase in Rates, and Revisions to Other Terms and
Conditions of Service

Nicor Gas Company

Docket No. 04-0779

March 1, 2005

1 **Q. Please state your name and business address.**

2 A. My name is Gene Beyer. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4

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

6 A. I am currently employed as the Bureau Chief of the Public Utilities Bureau
7 of the Illinois Commerce Commission (the "Commission" or "ICC").

8

9 **Q. Please describe your professional background.**

10 A. I earned a B.S. in Accountancy and an MBA from the University of Illinois
11 in 1977 and 1991, respectively. I was awarded the Certified Public
12 Accountant certificate in 1980. Prior to joining the Commission in May
13 1984, I worked for Laclede Gas Company in St. Louis, Missouri, for seven
14 years. While at the Commission, I have held various positions in the
15 Accounting Department, the Public Utilities Division, the
16 Telecommunications Division, and the Public Utilities Bureau.

17

18 **Q. What is the purpose of your testimony in this proceeding?**

19 A. The purpose of my testimony is to address the proposal by Northern
20 Illinois Gas Company d/b/a Nicor Gas Company (the "Company" or "Nicor
21 Gas") to use a 10-year average rather than a 30-year average of heating
22 degree days ("HDDs") for purposes of weather normalizing billing
23 determinants.

24

25 **Q. Please summarize your recommendations.**

26 A. My recommendation is twofold. First, for this rate case, I recommend that
27 the determination of normal weather continue to be based on a 30-year
28 average of HDDs. Second, I recommend that the Commission consider
29 initiating a separate proceeding, such as a rulemaking, in which input from
30 all natural gas and electric utilities subject to ICC jurisdiction can be
31 evaluated to determine if a new basis for determining normal weather as
32 measured by HDDs is appropriate.

33

34 **Q. What has been the Commission's practice for determining normal**
35 **weather?**

36 A. The Commission has consistently used a 30-year average as the basis for
37 determining normal weather in cases to determine rates for electric and
38 gas companies. As acknowledged by Nicor Gas witness Dr. Kenneth
39 Gordon, "...the Company is recommending a shift in long-standing
40 Commission practice on this issue" (Nicor Gas Exhibit 2.0, lines 571-572).

41

42 **Q. Is it your position that long-standing practices should not be**
43 **changed?**

44 A. The Commission's employment of a long-standing practice is not, in and
45 of itself, a reason for rejecting change. It is my understanding that the
46 Commission has the power to deal freely with each situation as it comes

47 before it, regardless of how the Commission may have dealt with a similar
48 or even the same situation in a previous proceeding. Although the
49 Commission is free to consider each case on its own facts and to
50 implement new and different policies over time, departure from a prior
51 practice (particularly, a long-standing practice) that affects many Illinois
52 utilities should only be undertaken after the Commission has considered
53 the input from all affected companies.

54
55 The weather normalization change recommended by the Company
56 presents an issue that is neither unique to Nicor Gas nor limited to gas
57 utilities. In other words, assuming the Company is correct that there has
58 been an overall climate change towards warmer temperatures justifying
59 the use of the most recent 10-year period instead of a 30-year period to
60 determine normal weather, then that environmental change will affect all
61 natural gas and electric utilities whose demand is impacted by weather –
62 not just Nicor Gas. Although the Commission is only presented with utility
63 input from Nicor Gas in this docket, fairness to ratepayers and utilities
64 alike would require that the Commission not reach inconsistent
65 conclusions on this issue for other natural gas and electric utilities.

66 Moreover, Nicor Gas' proposal is partly based on the opinion testimony of
67 its scientific and statistical experts regarding climate changes, and as
68 such, its proposed change is not one supported by a simple change of
69 fact. In view of these concerns, it is my position that a change to the

70 practice that has been applied to the determination of normal weather for
71 all natural gas and electric utilities should only occur after hearing from all
72 companies and interested parties.

73

74 **Q. What are heating degree days?**

75 A. Heating degree days indicate the extent to which the average of the daily
76 high and low temperatures falls below 65° Fahrenheit, and this measure is
77 used to estimate customer demand at different temperatures. For
78 purposes of calculating degree days, 65° is typically assumed to be the
79 temperature at which customers do not require heating or cooling to
80 remain comfortable. Here is the calculation: if a day's high temperature is
81 60° and the low temperature is 40°, the average temperature is 50°. Sixty-
82 five minus fifty equals fifteen heating degree days. The calendar day in
83 this example produces fifteen heating degree days. A company is able to
84 use this information in connection with historical demand data to predict
85 usage for a given day, month, or year.

86

87 **Q. Will every calendar day produce heating degree days?**

88 A. No. On days when the average temperature is equal to or greater than
89 65°, the heating degrees days are equal to zero. When the day's average
90 temperature is greater than 65°, the result of the calculation is indicated in
91 terms of cooling degree days. This measure is of interest to electric

92 companies whose customers use air conditioning during warmer periods
93 of the year.

94

95 **Q. Can you further explain why a discussion of normal weather and**
96 **heating degree days is important to this case?**

97 A. Normal weather and heating degree days are extremely relevant to the
98 development of weather-normalized billing determinants and are used in
99 rate cases, such as this one, to help develop rates that will recover the
100 allowed revenue requirement. Short-term forecasts are used outside of
101 rate cases to help ensure that supply matches demand.

102

103 In a rate case, actual natural gas usage from a recent year can be a
104 starting point to which adjustments are made to reflect variables such as
105 normal weather, customers' energy efficiency measures, and customer
106 growth. The normal weather variable is based on a study of historical
107 weather that can be measured in heating degree days. These variables
108 are used to modify the test year usage and arrive at an expected customer
109 usage level during the period that new rates will be in effect.

110

111 In this Nicor Gas rate case, final rates will be based on many factors, one
112 factor being expected customer usage. Other things being equal, a
113 forecast based on colder weather and higher therm sales will produce
114 lower per therm rates than a forecast based on warmer weather and lower

115 therm sales. Consider this example: a company wants to recover \$2
116 million from customers through a per therm charge, and the company
117 expects to sell 2 million therms. The per therm charge will be \$1. If the
118 company expects to sell only 1 million therms, however, the per therm
119 charge will need to be \$2 to recover costs of \$2 million. A therm sales
120 forecast that is set too high will contribute to the company's inability to
121 recover its costs, while a forecast that is set too low will contribute to
122 collecting too much from customers.

123

124 **Q. How does the previous discussion apply to Nicor Gas' proposal in**
125 **this case?**

126 A. Nicor Gas has presented statistical and scientific studies in support of the
127 use of a 10-year period to determine normal weather. This proposal is a
128 deviation from the traditional use of the most recent 30 years of weather
129 data to determine normal weather. The 10-year period, according to the
130 Company's testimony¹, reflects a trend of warmer temperatures that would
131 provide a better basis for forecasting future customer usage than would a
132 30-year average. As noted above, the forecast based on warmer versus
133 colder temperatures results in a lower forecast of therm sales, and that
134 contributes to a higher per therm rate.

135

¹ The issue is presented in Nicor Gas Exhibit 1.0 (Direct Panel Testimony of Richard L. Hawley and Gerald P. O'Connor), Nicor Gas Exhibit 2.0 (Direct Testimony of Kenneth Gordon), Nicor Gas Exhibit 15.0 (Direct Testimony of Cesar A. Herrera), and Nicor Gas Exhibit 16.0 (Direct Testimony of Eugene S. Takle).

136 **Q. Please summarize your position and recommendation that a change**
137 **in the basis for determining normal weather as measured by heating**
138 **degree days should be considered in a separate proceeding, perhaps**
139 **a rulemaking, in which input from all natural gas and electric utilities**
140 **subject to ICC jurisdiction can be evaluated to determine if a new**
141 **policy is appropriate.**

142 A. As Nicor Gas' analysis and presentation indicates, determining the best
143 approach to normal weather is a complex task based on objective and
144 subjective elements. The Commission has used one standard for many
145 years and has applied that standard to determine normal weather for all
146 natural gas and electric utilities whose customers' usage is affected by
147 weather. The proposal made by Nicor Gas presents a universal issue that
148 is neither unique to Nicor Gas nor limited to natural gas utilities. It is my
149 position that the Commission can deviate from its long-standing practice,
150 but should only do so after having considered the positions and
151 recommendations of all natural gas and electric utilities and other parties
152 that want to comment on all utilities' proposals. I therefore recommend
153 that, in this case, the Commission continue to use 30-year weather data
154 as the basis for determining normal weather, and that a separate
155 proceeding be initiated to discuss (a) the determination of normal weather,
156 (b) the impacts of weather upon expected customer usage, and (c)
157 alternative methods for mitigating adverse impacts of colder- and warmer-
158 than-normal weather upon rates and cost-recovery.

159

160 **Q. Does this conclude your testimony?**

161 **A. Yes.**