

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)
 On Its Own Motion,)
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North Shore Gas Company) 05-0748
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Reconciliation of revenues)
collected under gas)
adjustment charges with actual)
costs prudently incurred.)

DIRECT TESTIMONY
OF
JAMES ORSI

- 1 Q. Please state your name and business address.
- 2 A. James Orsi, 130 East Randolph Drive, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. Peoples Energy Corporation. Peoples Energy Corporation is the parent
- 5 company of North Shore Gas Company ("Respondent").
- 6 Q. What position do you hold with Peoples Energy Corporation?
- 7 A. I am the Manager of Gas Accounting.
- 8 Q. What are your responsibilities in that position?
- 9 A. I am responsible for managing the activities of the Gas Accounting
- 10 Department and for making recommendations regarding gas charge rates for
- 11 North Shore Gas Company and its affiliate company, The Peoples Gas Light and
- 12 Coke Company ("Peoples Gas").

13 Q. Please summarize your educational background and experience.

14 A. In 1988, I graduated from St. Xavier University with a Bachelor of Arts
15 Degree (Accounting). In 1999, I received a Masters in Business Administration
16 from St. Xavier University. I have been employed by Peoples Energy or Peoples
17 Gas from July 1990 to the present. I began my employment with Peoples Gas in
18 the State Regulatory Affairs Department. In July 1997, I was transferred to the
19 Corporate Planning Department. In June 1999, I was transferred to the
20 Corporate Accounting Department. In October 1999, I was promoted to
21 Supervisor. In January 2003, I was transferred to the General Accounting
22 Department as a Supervisor. In November 2003, I was transferred to Gas
23 Accounting and promoted to my current position of Manager.

24 Q. Please give a brief description of the operations and status of Respondent.

25 A. I am advised by counsel that Respondent is a corporation organized and
26 existing under the laws of the State of Illinois, having its principal office at 130
27 East Randolph Drive, Chicago, Illinois 60601. It is engaged in the business of
28 purchasing, storing, distributing, selling and transporting natural gas to over
29 155,000 customers. Respondent's service territory covers approximately 275
30 square miles, located in northeastern Illinois. I am advised by counsel that
31 Respondent is a public utility within the meaning of the Public Utilities Act.

32 Q. Please describe the subject matter of this proceeding.

33 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 22,
34 2005, the Illinois Commerce Commission ("Commission") entered a citation order
35 ("order") directed to thirteen Illinois gas utilities, including Respondent. The order

36 requires Respondent to present evidence to the Commission at a public hearing
37 in Docket No. 05-0748 reconciling revenue collected under the purchased gas
38 adjustment clause (Rider 2, Gas Charge, of Respondent's Schedule of Rates)
39 with the actual costs prudently incurred and recoverable under Rider 2, for the
40 twelve months ended September 30, 2005, Respondent's fiscal 2005. The order
41 also requires Respondent's filing to reflect fourteen specified data for each of its
42 Gas Charges. The order further requires that notice of the filing of this evidence
43 be made in accordance with the requirements of 83 Illinois Administrative Code
44 Part 255.

45 Q. Please describe the notice given by Respondent of the filing in this case.

46 A. At the time the filing in the above-captioned proceeding was made,
47 Respondent placed copies of the filed evidence, available for public inspection, in
48 each of its offices. Public notice of the filing was also posted in each of these
49 offices. Further, Respondent published notice of the filing in the Waukegan
50 News-Sun, a secular newspaper of general circulation in Respondent's service
51 territory, in accordance with the requirements of 83 Illinois Administrative Code
52 Part 255.

53 Q. Please describe Respondent's Exhibit 1.

54 A. Respondent's Exhibit 1 includes a copy of the audit report of Respondent's
55 independent public accountants, Deloitte & Touche, LLP and the verification by
56 Respondent's Vice President and Controller, Linda Kallas. The audit report
57 includes a copy of Respondent's Statement to Illinois Commerce Commission –
58 Determination of Reconciliation Balance for Gas Charge for the Year Ended

59 September 30, 2005 ("Statement") and Independent Auditors' Report, as
60 described in Rider 2, Section G, of Respondent's Schedule of Rates.

61 Q. Was the Statement prepared under your supervision and direction?

62 A. Yes, it was.

63 Q. Are the verification and the audit report true and correct copies of Ms.
64 Kallas' verification and the audit report of the independent public accounts?

65 A. Yes, they are.

66 Q. What are the types of Gas Charges that Respondent files pursuant to its
67 Rider 2 and what costs do the Gas Charges recover?

68 A. Each month, Respondent files a Commodity Gas Charge ("CGC"), a Non-
69 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC"), a Transition
70 Surcharge ("TS"), and an Aggregation Balancing Gas Charge ("ABGC"). The
71 sum of the CGC, NCGC and TS is the Gas Charge, which is applied to all
72 Company-supplied therms except standby therms supplied to transportation
73 customers. Standby therms are priced at the standby commodity charge, which
74 is the sum of the CGC, 50% of the NCGC and the TS. The CGC recovers
75 commodity-related costs. The NCGC recovers non-commodity related costs.
76 The DGC also recovers non-commodity related costs, but from transportation
77 customers. A factor of 50% is applied to the DGC, which is applied to each
78 therm of transportation customers' contracted for standby service. Revenues
79 arising from the application of the DGC are credited against the non-commodity
80 related costs used in computing the NCGC. The ABGC also recovers non-
81 commodity related costs, but from suppliers serving small volume transportation

82 customers. The ABGC is applied to all therms delivered or estimated to be
83 delivered by Respondent to customers served under Rider SVT. Revenues
84 arising from the application of the ABGC are credited against the non-commodity
85 related costs used in computing the NCGC. Given that the NCGC, DGC and
86 ABGC all recover non-commodity related costs, revenues recovered under these
87 three charges are jointly reconciled with such costs. Finally, the TS, which is
88 applied to each therm delivered by Respondent, recovers pipeline gas supply
89 realignment transition costs.

90 Q. The Commission's order requires Respondent to include certain data from
91 the prior reconciliation year in its determination of the current year's
92 reconciliation. Please specify any unamortized Factor A balance at the end of
93 fiscal 2004.

94 A. The unamortized Factor A balance at the end of fiscal 2004 for each
95 respective Gas Charge is shown on Page 2, Line 1, of Respondent's Exhibit 1.
96 Respondent's unamortized Factor A balance at the end of fiscal 2004 reflects a
97 recoverable balance of \$658,504.74 for the CGC, a recoverable balance of
98 \$1,268,171.57 for the NCGC, DGC and ABGC, and a recoverable balance of
99 \$9,699.00 for the TS, for a total recoverable balance of \$1,936,375.31. These
100 amounts are also reflected on Page 2, Line 13, of Respondent's Statement to
101 Illinois Commerce Commission, Determination of Reconciliation Balance for Gas
102 Charge for the Year Ended September 30, 2004 ("2004 Statement"). This
103 document was submitted as Exhibit 1 in the direct testimony of Mr. James Orsi in

104 Docket No. 04-0682, reconciliation of revenues collected under gas adjustment
105 charges with actual costs prudently incurred for fiscal 2004.

106 Q. Please specify the total adjustments to gas costs (that is, Factor A) that
107 were amortized to Schedule I in Respondent's fiscal 2004 monthly filings but
108 were not yet reconciled through Schedule II of Respondent's monthly filings at
109 September 30, 2004.

110 A. Total unreconciled adjustments to gas costs (Factor A) reflect a
111 recoverable amount of \$519,158.65 for the CGC, a recoverable amount of
112 \$206,958.30 for the NCGC, DGC and ABGC, and a recoverable amount of
113 \$1,751.75 for the TS, for a total recoverable Factor A of \$727,868.70. These
114 adjustments, for the reported months of August and September, 2004, were not
115 yet reconciled at the end of fiscal 2004. However, they are reflected in the CGC,
116 NCGC, DGC and ABGC, and TS Gas Charges for the effective months of
117 October and November 2004, which fall within fiscal 2005. These amounts are
118 shown on Page 2, Line 2, of Respondent's Exhibit 1. They are also reflected on
119 Page 2, Line 12, of Respondent's 2004 Statement.

120 Q. Please specify any Factor O amounts requested by Respondent for fiscal
121 2004 and collected or refunded during fiscal 2005.

122 A. There was no Factor O amount requested by Respondent for fiscal 2004,
123 nor were any Factor O amounts collected or refunded during fiscal 2005.

124 Q. What was Respondent's refundable or recoverable balance for fiscal
125 2004?

126 A. Respondent's refundable or recoverable balance for fiscal 2004, which is
127 determined by summing the amounts on Page 2, Lines 1 through 3, of
128 Respondent's Exhibit 1, reflects a recoverable balance of \$1,177,663.39 for the
129 CGC, a recoverable balance of \$1,475,129.87 for the NCGC, DGC and ABGC,
130 and a recoverable balance of \$11,450.75 for the TS, for a total recoverable
131 balance of \$2,664,244.01. These amounts are shown on Page 2, Line 4, of
132 Respondent's Exhibit 1. These amounts are also reflected on Page 2, Line 11, of
133 Respondent's 2004 Statement.

134 Q. What are Respondent's fiscal 2005 recoverable gas costs and revenues?

135 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of
136 Respondent's Exhibit 1. Recoverable gas costs amount to \$162,012,461.22 for
137 the CGC and \$16,368,416.76 for the NCGC, DGC and ABGC, for a total of
138 \$178,380,877.98 to be recovered under the Gas Charge. There are no
139 recoverable gas costs for the TS due to the termination of pipeline transition
140 costs in November 1997, Respondent's fiscal 1998. Although there are no
141 recoverable gas costs for the TS in fiscal 2005, there are revenues arising
142 through the application of the TS, which are recovered under the Gas Charge.
143 These amounts, which are insignificant, arise from billing adjustments and flow
144 through Factor A of the TS. Revenues are summarized and shown on Page 2,
145 Line 6, of Respondent's Exhibit 1. Revenues arising through the application of
146 each Gas Charge amount to \$163,433,782.99 for the CGC, \$16,126,544.55 for
147 the NCGC, DGC and ABGC for a total of \$179,560,327.54 recovered under the
148 Gas Charge. Recoverable gas costs and revenues are shown in more detail on

149 Pages 3, 4 and 5 of Respondent's Exhibit 1 for the CGC, NCGC, DGC and
150 ABGC, and TS, respectively.

151 Q. Please specify the pipeline refunds or surcharges that Respondent
152 separately reported in fiscal 2005 monthly Gas Charge filings.

153 A. Pipeline refunds and surcharges, which are summarized and shown on
154 Page 2, Line 7, of Respondent's Exhibit 1, include a refund of \$13,055.91 for the
155 NCGC, DGC and ABGC.

156 Q. Please specify any other adjustments that were separately reported in
157 fiscal 2005.

158 A. There were no other adjustments that were separately reported in fiscal
159 2005.

160 Q. Please specify the interest, calculated pursuant to Section 525.50 of the
161 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

162 A. Interest, calculated pursuant to Section 525.50, for inclusion in
163 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of
164 Respondent's Exhibit 1, and reflects a refundable amount of \$20,606.58 for the
165 CGC, a recoverable amount of \$6,229.52 for the NCGC, DGC and ABGC and a
166 recoverable amount of \$238.02 for the TS, for a total refundable amount of
167 \$14,139.04.

168 Q. What was Respondent's over- or under- recovery for fiscal 2005?

169 A. Respondent's over- or under-recovery for fiscal 2005 is shown on Page 2,
170 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas
171 Charge can be determined by deducting the amount on Line 6 (revenues arising

172 through the application of each Gas Charge) from the amount on Line 5 (costs
173 recoverable through each Gas Charge) and adding the amounts on Line 7
174 (separately reported pipeline refunds or surcharges), Line 8 (separately reported
175 other adjustments), and Line 9 (interest). Using this calculation, Respondent's
176 over- or under-recovery for fiscal 2005 reflects an over-recovery of
177 \$1,441,928.35 for the CGC, an under-recovery of \$235,045.82 for the NCGC,
178 DGC and ABGC, and an under-recovery of \$238.02 for the TS, for a total over-
179 recovery of \$1,206,644.51.

180 Q. Please specify the recovery balance for the reconciliation year.

181 A. The recovery balance for the reconciliation year, which reflects the sum of
182 the (refundable)/recoverable balances for fiscal years 2004 and 2005 for each
183 respective Gas Charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.
184 This amount, which can be determined by summing the amounts on Line 4 (fiscal
185 2004 balance) and Line 10 (fiscal 2005 balance), reflects an over-recovery of
186 \$264,264.96 for the CGC, an under-recovery of \$1,710,175.69 for the NCGC,
187 DGC and ABGC and an under-recovery of \$11,688.77 for the TS, for a total
188 under-recovery of \$1,457,599.50.

189 Q. Please specify the total adjustments to gas costs (that is, Factor A) that
190 were amortized to Schedule I in Respondent's fiscal 2005 monthly filings but
191 were not yet reconciled through Schedule II of Respondent's monthly filings at
192 September 30, 2005.

193 A. Total unreconciled adjustments to gas costs (Factor A), which are shown
194 on Page 2, Line 12, of Respondent's Exhibit 1, reflect a refundable amount of

195 \$70,584.44 for the CGC, a recoverable amount of \$487,332.38 for the NCGC,
196 DGC and ABGC and a recoverable amount of \$1,777.02 for the TS, for a total
197 recoverable Factor A of \$418,524.96. These adjustments, for the reported
198 months of August and September, 2005, are not yet reconciled at the end of
199 fiscal 2005. However, they are reflected in the CGC, NCGC, DGC and ABGC,
200 and TS Gas Charges for the effective months of October and November, 2005,
201 which fall within fiscal 2006.

202 Q. Please specify any unamortized balance at the end of fiscal 2005.

203 A. The unamortized balance at the end of fiscal 2005 is shown on Page 2,
204 Line 13, of Respondent's Exhibit 1. The unamortized balance for each
205 respective Gas Charge can be derived by deducting the amount on Line 12
206 (unreconciled Factor A adjustments) from the amount on Line 11 (the over- or
207 under-recovery balance for the reconciliation year). Respondent's unamortized
208 balance at the end of fiscal 2005 reflects a refundable balance of \$193,680.52 for
209 the CGC, a recoverable balance of \$1,222,843.31 for the NCGC, DGC and
210 ABGC, and a recoverable balance of \$9,911.75 for the TS, for a total recoverable
211 balance of \$1,039,074.54.

212 Q. Please specify any Factor O amounts requested by Respondent for fiscal
213 2005.

214 A. There are no Factor O amounts requested by Respondent for fiscal 2005.

215 Q. Does Respondent's Exhibit 1 include other reports that support the
216 summary amounts shown on Page 2?

217 A. Yes. Respondent's Exhibit 1 includes a summary of the detailed Schedule
218 II, Adjustments to Gas Costs (Factor A) reports that were filed as part of
219 Respondent's monthly Gas Charge reports for fiscal 2005. Pages 6, 7 and 8 of
220 Exhibit 1 reflect Schedule II reports that were filed for the CGC, NCGC, DGC and
221 ABGC, and TS, respectively. These reports reflect the monthly reconciliation of
222 recoverable gas costs and Gas Charge revenues, adjustments to gas costs
223 (Factor A), refunds and other adjustments, Factor A amortizations and
224 unamortized balances, Factor O amortizations and unamortized balances, and
225 interest determined for each Gas Charge. Finally, Page 9 of Exhibit 1 contains
226 notes that explain Gas Charge reconciliation summary items noted on Page 2 of
227 Exhibit 1.

228 Q. The orders issued by the Commission in North Shore's gas charge
229 reconciliation cases for fiscal 2001, 2002, 2003 and 2004 included a settlement
230 under which Peoples Gas and North Shore agreed not to oppose treating
231 revenues from its interstate transportation and storage services (called "hub"
232 services) as offsets to recoverable gas costs. Does this affect North Shore?

233 A. No. North Shore did not offer hub services in fiscal 2005, nor in any prior
234 years.

235 Q. Also in the fiscal 2001-2004 orders referenced above, the Commission
236 directed North Shore and Peoples Gas to comply with certain accounting
237 requirements for what was called "maintenance gas." What is "maintenance
238 gas?

239 A. In the referenced cases, maintenance gas referred to a percentage of the
240 gas delivered to Peoples Gas' Manlove storage field. Peoples Gas recovered
241 the costs of the maintenance gas as unaccounted for gas, which is a recoverable
242 gas cost. The Commission directed that maintenance gas be accounted for as
243 cushion gas, which is not a recoverable gas cost. North Shore did not recover
244 any maintenance gas costs during fiscal 2001-2004.

245 Q. Did North Shore need to make any accounting changes to accommodate
246 the Commission's directive related to maintenance gas?

247 A. No. Unlike Peoples Gas, North Shore does not own a storage field and
248 did not account for any of its gas as maintenance gas during fiscal 2001-2004.
249 North Shore does have cushion gas on its books. Any future additions to
250 cushion gas would be treated as cushion gas and not recovered as a recoverable
251 gas cost, consistent with the Commission's settlement orders.

252 Q. Does this conclude your direct testimony?

253 A. Yes, it does.