

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	)	
On Its Own Motion,	)	
	)	
-vs-	)	
	)	
The Peoples Gas Light	)	05-0749
and Coke Company	)	
	)	
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 The Peoples Gas Light and Coke Company ("Peoples Gas" or
- 6 "Respondent").
- 7 Q. What position do you hold with Peoples Energy Corporation?
- 8 A. I am the Manager of Gas Accounting.
- 9 Q. What are your responsibilities in that position?
- 10 A. I am responsible for managing the activities of the Gas Accounting
- 11 Department and for making recommendations regarding gas charge rates for
- 12 Peoples Gas and its affiliate company, North Shore Gas Company.

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 the  
17 Respondent from July 1990 to the present. I began my employment with  
18 Peoples Gas in the State Regulatory Affairs Department. In July 1997, I was  
19 transferred to the Corporate Planning Department. In June 1999, I was  
20 transferred to the Corporate Accounting Department. In October 1999, I was  
21 promoted to Supervisor. In January 2003, I was transferred to the General  
22 Accounting Department as a Supervisor. In November 2003, I was transferred to  
23 Gas 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  
29 approximately 814,000 customers in the City of Chicago. I am advised by  
30 counsel that Respondent is a public utility within the meaning of the Public  
31 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. 05-0749 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. In this proceeding, Respondent is making an evidentiary showing in  
45 order to satisfy the requirements of the Commission's order.

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

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

54 Q. Please describe Respondent's Exhibit 1.

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

59 Determination of Reconciliation Balance for Gas Charge for the Year Ended  
60 September 30, 2005 ("Statement") and Independent Auditors' Report, as  
61 described in Rider 2, Section G, of Respondent's Schedule of Rates.

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

63 A. Yes, it was.

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

66 A. Yes, they are.

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

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

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

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

95 A. The unamortized Factor A balance at the end of fiscal 2004 for each  
96 respective Gas Charge is shown on Page 2, Line 1, of Respondent's Exhibit 1.  
97 Respondent's unamortized Factor A balance at the end of fiscal 2004 reflects a  
98 recoverable balance of \$8,645,698.30 for the CGC, a recoverable balance of  
99 \$4,422,192.83 for the NCGC, DGC and ABGC, and a refundable balance of  
100 \$24,669.95 for the TS, for a total recoverable balance of \$13,043,221.18. These  
101 amounts are also reflected on Page 2, Line 13, of Respondent's Statement to  
102 Illinois Commerce Commission, Determination of Reconciliation Balance for Gas  
103 Charge for the Year Ended September 30, 2004 ("2004 Statement"). This  
104 document was submitted as Exhibit 1 in the direct testimony of Mr. James Orsi in

105 Docket No. 04-0683, reconciliation of revenues collected under gas adjustment  
106 charges with actual costs prudently incurred for fiscal 2004.

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

111 A. Total unreconciled adjustments to gas costs (Factor A) reflect a  
112 recoverable amount of \$4,201,077.14 for the CGC, recoverable amount of  
113 \$697,233.47 for the NCGC, DGC and ABGC, and a refundable amount of  
114 \$4,379.24 for the TS, for a total recoverable Factor A of \$4,893,931.37. These  
115 adjustments, for the reported months of August and September, 2004, were not  
116 yet reconciled at the end of fiscal 2004. However, they are reflected in the CGC,  
117 NCGC, DGC and ABGC, and TS Gas Charges for the effective months of  
118 October and November 2004, which fall within fiscal 2005. These amounts are  
119 shown on Page 2, Line 2, of Respondent's Exhibit 1. They are also reflected on  
120 Page 2, Line 12, of Respondent's 2004 Statement.

121 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
122 2004 and collected or refunded during fiscal 2005.

123 A. There were no Factor O amounts requested by Respondent for fiscal  
124 2004, nor were any Factor O amounts collected or refunded during fiscal 2005.

125 Q. What was Respondent's refundable or recoverable balance for fiscal  
126 2004?

127 A. Respondent's refundable or recoverable balance for fiscal 2004, which is  
128 determined by summing the amounts on Page 2, Lines 1 through 3, of  
129 Respondent's Exhibit 1, reflects a recoverable balance of \$12,846,775.44 for the  
130 CGC, a recoverable balance of \$5,119,426.30 for the NCGC, DGC and ABGC,  
131 and a refundable balance of \$29,049.19 for the TS, for a total recoverable  
132 balance of \$17,937,152.55. These amounts are shown on Page 2, Line 4, of  
133 Respondent's Exhibit 1. These amounts are also reflected on Page 2, Line 11, of  
134 Respondent's 2004 Statement.

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

136 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of  
137 Respondent's Exhibit 1. Recoverable gas costs amount to \$795,872,511.07 for  
138 the CGC and \$41,609,827.53 for the NCGC, DGC and ABGC, for a total of  
139 \$837,482,338.60 to be recovered under the Gas Charge. There are no  
140 recoverable gas costs for the TS due to the termination of pipeline transition  
141 costs in November 1997, Respondent's fiscal 1998. Although there are no  
142 recoverable gas costs for the TS in fiscal 2005, there are revenues arising  
143 through the application of the TS, which are recovered under the Gas Charge.  
144 These amounts, which are insignificant, arise from billing adjustments and flow  
145 through Factor A of the TS. Revenues are summarized and shown on Page 2,  
146 Line 6, of Respondent's Exhibit 1. Revenues arising through the application of  
147 each Gas Charge amount to \$806,693,640.77 for the CGC, \$41,831,811.88 for  
148 the NCGC, DGC and ABGC and a refunded amount of \$31.86 for the TS, for a  
149 total of \$848,525,420.79 recovered under the Gas Charge. Recoverable gas

150 costs and revenues are shown in more detail on Pages 3, 4 and 5 of  
151 Respondent's Exhibit 1 for the CGC, NCGC, DGC and ABGC, and TS,  
152 respectively.

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

155 A. Pipeline refunds and surcharges, which are summarized and shown on  
156 Page 2, Line 7, of Respondent's Exhibit 1, include a refund of \$47,283.62 for the  
157 NCGC, DGC and ABGC.

158 Q. Please specify any other adjustments that were separately reported in  
159 fiscal 2005.

160 A. There were no other adjustments that were separately reported in fiscal  
161 2005.

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

164 A. Interest, calculated pursuant to Section 525.50, for inclusion in  
165 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of  
166 Respondent's Exhibit 1, and reflects a recoverable amount of \$21,242.64 for the  
167 CGC, a recoverable amount of \$634.40 for the NCGC, DGC and ABGC and a  
168 refundable amount of \$603.31 for the TS, for a total recoverable amount of  
169 \$21,273.73.

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

171 A. Respondent's over- or under-recovery for fiscal 2005 is shown on Page 2,  
172 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas

173 Charge can be determined by deducting the amount on Line 6 (revenues arising  
174 through the application of each Gas Charge) from the amount on Line 5 (costs  
175 recoverable through each Gas Charge) and adding the amounts on Line 7  
176 (separately reported pipeline refunds or surcharges), Line 8 (separately reported  
177 other adjustments), and Line 9 (interest). Using this calculation, Respondent's  
178 over- or under-recovery for fiscal 2005 reflects an over-recovery of  
179 \$10,799,887.06 for the CGC, an over-recovery of \$268,633.57 for the NCGC,  
180 DGC and ABGC, and an over-recovery of \$571.45 for the TS, for a total over-  
181 recovery of \$11,069,092.08.

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

183 A. The recovery balance for the reconciliation year, which reflects the sum of  
184 the (refundable)/recoverable balances for fiscal years 2004 and 2005 for each  
185 respective Gas Charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.  
186 This amount, which can be determined by summing the amounts on Line 4 (fiscal  
187 2004 balance) and Line 10 (fiscal 2005 balance), reflects an under-recovery of  
188 \$2,046,888.38 for the CGC, an under-recovery of \$4,850,792.73 for the NCGC,  
189 DGC and ABGC and an over-recovery of \$29,620.64 for the TS, for a total under-  
190 recovery of \$6,868,060.47.

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

195 A. Total unreconciled adjustments to gas costs (Factor A), which are shown  
196 on Page 2, Line 12, of Respondent's Exhibit 1, reflect a recoverable amount of  
197 \$2,046,888.38 for the CGC, a recoverable amount of \$702,911.11 for the NCGC,  
198 DGC and ABGC and a refundable amount of \$4,394.52 for the TS, for a total  
199 recoverable Factor A of \$2,745,404.97. These adjustments, for the reported  
200 months of August and September, 2005, are not yet reconciled at the end of  
201 fiscal 2005. However, they are reflected in the CGC, NCGC, DGC and ABGC,  
202 and TS Gas Charges for the effective months of October and November, 2005,  
203 which fall within fiscal 2006.

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

205 A. The unamortized balance at the end of fiscal 2005 is shown on Page 2,  
206 Line 13, of Respondent's Exhibit 1. The unamortized balance for each  
207 respective Gas Charge can be derived by deducting the amount on Line 12  
208 (unreconciled Factor A adjustments) from the amount on Line 11 (the over- or  
209 under-recovery balance for the reconciliation year). Respondent's unamortized  
210 balance at the end of fiscal 2005 a recoverable balance of \$4,147,881.62 for the  
211 NCGC, DGC and ABGC, and a refundable balance of \$25,226.12 for the TS, for  
212 a total recoverable balance of \$4,122,655.50.

213 Q. Please specify any Factor O amounts requested by Respondent for fiscal  
214 2005.

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

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

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

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

235 A. The Commission issued those orders on March 28, 2006, which was after  
236 Peoples Gas' fiscal 2005. During fiscal 2005, Peoples Gas did not reflect hub  
237 revenues as offsets to gas costs. Based upon the Commission's March 28, 2006  
238 Orders and the Settlement and Addendum in those dockets, Peoples Gas  
239 expects to receive in this proceeding an order that directs it to refund, using  
240 Factor O, the fiscal 2005 hub revenues through the CGC.

241 Q. What was the amount of fiscal 2005 hub revenues?

242 A. Fiscal 2005 hub revenues totaled \$10,662,268.27.

243 Q. Also in the fiscal 2001-2004 orders referenced above, the Commission  
244 directed Peoples Gas to comply with certain accounting requirements for what  
245 was called "maintenance gas." What is "maintenance gas?"

246 A. In the referenced cases, maintenance gas referred to a percentage of the  
247 gas delivered to Peoples Gas' Manlove storage field. Peoples Gas recovered  
248 the costs of the maintenance gas as unaccounted for gas, which is a recoverable  
249 gas cost. The Commission directed that maintenance gas be accounted for as  
250 cushion gas, which is not a recoverable gas cost.

251 Q. Did Peoples Gas change how it accounted for maintenance gas?

252 A. Yes, Peoples Gas changed its accounting for maintenance gas in fiscal  
253 2004, and this accounting was in effect throughout fiscal 2005. Maintenance  
254 Gas was transferred out of gas costs and ultimately transferred to ICC Account  
255 117, Gas Stored Underground - Noncurrent, in the case of recoverable cushion  
256 gas, or to ICC Account 101, Gas Plant in Service, in the case of non-recoverable  
257 portions of cushion gas. ICC Account 164.1, Gas Stored Underground –  
258 Current, was not utilized in any maintenance gas entries. Additionally, ICC  
259 Account 930.2, Miscellaneous General Expenses, and ICC Account 107,  
260 Construction Work in Progress, were used to facilitate the transfer of gas costs to  
261 ICC accounts 117 and 101. This accounting is consistent with the Commission's  
262 orders with the exception of utilizing two ICC accounts not listed in the orders in  
263 addition to all of the ICC accounts listed in the orders.

264 Q. Does this conclude your direct testimony?

265 A. Yes, it does.