

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. |) | |

REVISED 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. Was the Statement revised after it was finalized?

65 A. Yes. The Statement was finalized and filed in April 2006. It was revised in
66 May 2006 to address Factor O and hub revenues differently from the April 2006
67 presentation of gas costs and revenues.

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

70 A. Yes, they are.

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

73 A. Each month, Respondent files a Commodity Gas Charge ("CGC"), a Non-
74 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC"), a Transition
75 Surcharge ("TS"), and an Aggregation Balancing Gas Charge ("ABGC"). The
76 sum of the CGC, NCGC and TS is the Gas Charge, which is applied to all
77 Company-supplied therms except standby therms supplied to transportation
78 customers. Standby therms are priced at the standby commodity charge, which
79 is the sum of the CGC, 50% of the NCGC and the TS. The CGC recovers
80 commodity-related costs. The NCGC recovers non-commodity related costs.
81 The DGC also recovers non-commodity related costs, but from transportation

82 customers. A factor of 50% is applied to the DGC, which is applied to each
83 therm of large volume transportation customers' contracted for standby service.
84 Revenues arising from the application of the DGC are credited against the non-
85 commodity related costs used in computing the NCGC. The ABGC also recovers
86 non-commodity related costs, but from suppliers serving small volume
87 transportation customers. The ABGC is applied to all therms delivered or
88 estimated to be delivered by Respondent to customers served under Rider SVT.
89 Revenues arising from the application of the ABGC are credited against the non-
90 commodity related costs used in computing the NCGC. Given that the NCGC,
91 DGC and ABGC all recover non-commodity related costs, revenues recovered
92 under these three charges are jointly reconciled with such costs. Finally, the TS,
93 which is applied to each therm delivered by Respondent, recovers pipeline gas
94 supply realignment transition costs.

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

99 A. The unamortized Factor A balance at the end of fiscal 2004 for each
100 respective Gas Charge is shown on Page 2, Line 1, of Respondent's Exhibit 1.
101 Respondent's unamortized Factor A balance at the end of fiscal 2004 reflects a
102 recoverable balance of \$8,645,698.30 for the CGC, a recoverable balance of
103 \$4,422,192.83 for the NCGC, DGC and ABGC, and a refundable balance of
104 \$24,669.95 for the TS, for a total recoverable balance of \$13,043,221.18. These

105 amounts are also reflected on Page 2, Line 13, of Respondent's Statement to
106 Illinois Commerce Commission, Determination of Reconciliation Balance for Gas
107 Charge for the Year Ended September 30, 2004 ("2004 Statement"). This
108 document was submitted as Exhibit 1 in the direct testimony of Mr. James Orsi in
109 Docket No. 04-0683, reconciliation of revenues collected under gas adjustment
110 charges with actual costs prudently incurred for fiscal 2004.

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

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

125 Q. Please specify any Factor O amounts requested by Respondent for fiscal
126 2004 and collected or refunded during fiscal 2005.

127 A. There were no Factor O amounts requested by Respondent for fiscal
128 2004, nor were any Factor O amounts collected or refunded during fiscal 2005.

129 Q. What was Respondent's refundable or recoverable balance for fiscal
130 2004?

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

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

140 A. Recoverable gas costs are summarized and shown on Page 2, Line 5, of
141 Respondent's Exhibit 1. Recoverable gas costs amount to \$785,210,242.80 for
142 the CGC, including \$10,662,268.27 of fiscal 2005 hub revenues, and
143 \$41,609,827.53 for the NCGC, DGC and ABGC, for a total of \$826,820,070.33 to
144 be recovered under the Gas Charge. There are no recoverable gas costs for the
145 TS due to the termination of pipeline transition costs in November 1997,
146 Respondent's fiscal 1998. Although there are no recoverable gas costs for the
147 TS in fiscal 2005, there are revenues arising through the application of the TS,
148 which are recovered under the Gas Charge. These amounts, which are
149 insignificant, arise from billing adjustments and flow through Factor A of the TS.

150 Revenues are summarized and shown on Page 2, Line 6, of Respondent's
151 Exhibit 1. Revenues arising through the application of each Gas Charge amount
152 to \$806,693,640.77 for the CGC, \$41,831,811.88 for the NCGC, DGC and ABGC
153 and a refunded amount of \$31.86 for the TS, for a total of \$848,525,420.79
154 recovered under the Gas Charge. Recoverable gas costs and revenues are
155 shown in more detail on Pages 3, 4 and 5 of Respondent's Exhibit 1 for the CGC,
156 NCGC, DGC and ABGC, and TS, respectively.

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

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

162 Q. Please specify any other adjustments that were separately reported in
163 fiscal 2005.

164 A. There were no other adjustments that were separately reported in fiscal
165 2005.

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

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

172 refundable amount of \$603.31 for the TS, for a total recoverable amount of
173 \$21,273.73.

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

175 A. Respondent's over- or under-recovery for fiscal 2005 is shown on Page 2,
176 Line 10, of Respondent's Exhibit 1. The over- or under-recovery for each Gas
177 Charge can be determined by deducting the amount on Line 6 (revenues arising
178 through the application of each Gas Charge) from the amount on Line 5 (costs
179 recoverable through each Gas Charge) and adding the amounts on Line 7
180 (separately reported pipeline refunds or surcharges), Line 8 (separately reported
181 other adjustments), and Line 9 (interest). Using this calculation, Respondent's
182 over- or under-recovery for fiscal 2005 reflects an over-recovery of
183 \$21,462,155.33 for the CGC, an over-recovery of \$268,633.57 for the NCGC,
184 DGC and ABGC, and an over-recovery of \$571.45 for the TS, for a total over-
185 recovery of \$21,731,360.35.

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

187 A. The recovery balance for the reconciliation year, which reflects the sum of
188 the (refundable)/recoverable balances for fiscal years 2004 and 2005 for each
189 respective Gas Charge, is shown on Page 2, Line 11, of Respondent's Exhibit 1.
190 This amount, which can be determined by summing the amounts on Line 4 (fiscal
191 2004 balance) and Line 10 (fiscal 2005 balance), reflects an over-recovery of
192 \$8,615,379.89 for the CGC, an under-recovery of \$4,850,792.73 for the NCGC,
193 DGC and ABGC and an over-recovery of \$29,620.64 for the TS, for a total over-
194 recovery of \$3,794,207.80.

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

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

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

209 A. The unamortized balance at the end of fiscal 2005 is shown on Page 2,
210 Line 13, of Respondent's Exhibit 1. The unamortized balance for each
211 respective Gas Charge was shown in Respondent's November 2005 monthly
212 Gas Charge filing, which showed the unamortized balance at September 30,
213 2005. Respondent's unamortized balance at the end of fiscal 2005 consists of a
214 recoverable balance of \$4,147,881.62 for the NCGC, DGC and ABGC, and a
215 refundable balance of \$25,226.12 for the TS, for a total recoverable balance of
216 \$4,122,655.50.

217 Q. Please specify any Factor O amounts requested by Respondent for fiscal
218 2005.

219 A. Respondent is requesting a Factor O for fiscal 2005 of (\$10,662,268.27).
220 This Factor O request is associated with hub revenues, which I discuss below.

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

223 A. Yes. Respondent's Exhibit 1 includes a summary of the detailed Schedule
224 II, Adjustments to Gas Costs (Factor A) reports that were filed as part of
225 Respondent's monthly Gas Charge reports for fiscal 2005. Pages 6, 7 and 8 of
226 Exhibit 1 reflect Schedule II reports that were filed for the CGC, NCGC, DGC and
227 ABGC, and TS, respectively. These reports reflect the monthly reconciliation of
228 recoverable gas costs and Gas Charge revenues, adjustments to gas costs
229 (Factor A), refunds and other adjustments, Factor A amortizations and
230 unamortized balances, Factor O amortizations and unamortized balances, and
231 interest determined for each Gas Charge. There is an inconsistency with the
232 recoverable gas costs shown on Page 6 Line 1 with the recoverable gas costs
233 shown on Pages 2 and 3, which I discuss below. Finally, Page 9 of Exhibit 1
234 contains notes that explain Gas Charge reconciliation summary items noted on
235 Page 2 of Exhibit 1.

236 Q. The orders issued by the Commission in Peoples Gas' gas charge
237 reconciliation cases for fiscal 2001, 2002, 2003 and 2004 included a settlement
238 under which Peoples Gas agreed not to oppose treating revenues from its
239 interstate transportation and storage services (called "hub" services) as offsets to

240 recoverable gas costs. How does Peoples Gas propose to address hub
241 revenues in this case?

242 A. The Commission issued those orders on March 28, 2006, which was after
243 Peoples Gas' fiscal 2005. During fiscal 2005, Peoples Gas did not reflect hub
244 revenues as offsets to gas costs. Based upon the Commission's March 28, 2006
245 Orders and the Settlement and Addendum in those dockets, Peoples Gas is
246 requesting a Factor O in this proceeding that would refund the hub revenues
247 through the CGC.

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

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

250 Q. How was Factor O derived?

251 A. On Page 3 of Respondent's Exhibit 1, Peoples Gas added, as Line 1c, an
252 adjustment to gas costs in the amount of fiscal 2005 hub revenues. That
253 adjustment serves to reduce total recoverable gas costs. These recoverable gas
254 costs are reflected in the CGC on Page 2, Line 5, which is the Determination of
255 Reconciliation Balance for Respondent's fiscal 2005. Including the hub revenues
256 in recoverable gas costs affects Respondent's over/under-recovery for the year
257 (Page 2, Line 10) and its over/under-recovery balance for the year (Page 2, Line
258 11) and produces a Factor O, which is shown on Page 2, Line 14, of
259 Respondent's Exhibit 1.

260 Q. Are there any other ramifications of the change to gas costs?

261 A. Yes. The adjustment to Page 3 resulted in the supporting detail on Page
262 6, line 1, being inconsistent with the total gas costs shown on Pages 2 and 3.

263 This is because Page 6 reflects the actual recoverable gas costs recorded on
264 Respondent's books during the reconciliation year and reflected in Respondent's
265 fiscal 2005 monthly gas charge reports to the Commission. The hub revenue
266 adjustment was made after the year closed to address the settlement orders,
267 which, as I stated above, were issued after the fiscal year closed. Footnote
268 number 9 on Page 9 notes the inconsistency.

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

272 A. In the referenced cases, maintenance gas referred to a percentage of the
273 gas delivered to Peoples Gas' Manlove storage field. Peoples Gas recovered
274 the costs of the maintenance gas as unaccounted for gas, which is a recoverable
275 gas cost. The Commission directed that maintenance gas be accounted for as
276 cushion gas, which is not a recoverable gas cost.

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

278 A. Yes, Peoples Gas changed its accounting for maintenance gas in fiscal
279 2004, and this accounting was in effect throughout fiscal 2005. Maintenance
280 Gas was transferred out of gas costs and ultimately transferred to ICC Account
281 117, Gas Stored Underground - Noncurrent, in the case of recoverable cushion
282 gas, or to ICC Account 101, Gas Plant in Service, in the case of non-recoverable
283 portions of cushion gas. ICC Account 164.1, Gas Stored Underground –
284 Current, was not utilized in any maintenance gas entries. Additionally, ICC
285 Account 930.2, Miscellaneous General Expenses, and ICC Account 107,

286 Construction Work in Progress, were used to facilitate the transfer of gas costs to
287 ICC accounts 117 and 101. This accounting is consistent with the Commission's
288 orders with the exception of utilizing two ICC accounts not listed in the orders in
289 addition to all of the ICC accounts listed in the orders except for ICC account
290 164.1.

291 Q. Does this conclude your direct testimony?

292 A. Yes, it does.