Direct Testimony

of

David Rearden

Policy Program

Energy Division

Illinois Commerce Commission

Reconciliation of Revenues Collected Under Gas Adjustment Charges
With Actual Costs Prudently Incurred

North Shore Gas Company

Docket No. 05-0748

January 18, 2007

Q: Please state your name, job title and business address.

A: My name is David Rearden and I am a Senior Economist on the Staff of the Illinois Commerce Commission ("Staff" or "Commission") in the Policy Program. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q: Please outline your education.

A: I have a Ph.D. (1991) in economics (specialties in econometrics and microeconomic theory) from the University of Kansas. I received a Bachelor's in economics and history from Eastern Illinois University in 1982, and studied economics at the Southern Illinois University graduate school from 1982-1984.

Q: Please state your work background.

A: Before joining Staff, I was a Manager of Regulatory Policy for Sprint Corporation ("Sprint") from 1998 until 2001. I wrote and defended testimony before state regulatory commissions, helped develop policy for Sprint, provided analysis and advice for the business units and supported other aspects of Sprint's external affairs activity.

I was a Managing Regulatory Economist at the Kansas Commerce Commission from 1994 until 1997. I wrote and defended testimony on both energy and telecommunications issues. I was promoted to Chief of Rate Design and Managing Telecommunications Economist in 1997. I supervised five employees that analyzed rate design for regulated energy companies in Kansas including purchased gas adjustment ("PGA") proceedings.

I taught economics at the undergraduate and graduate levels at the University of Kansas (1992-1994) and Cleveland State University (1990-1992). Besides introductory and basic intermediate courses, I taught public finance, econometrics and graduate level microeconomics.

Q: Have you filed testimony in Illinois before?

A: Yes, I prepared written testimony and appeared on the stand for cross examination in Docket Nos. 01-0706 and 01-0707, the 2001 fiscal year PGA reconciliations for North Shore Gas Company and Peoples Gas Light and Coke Company, respectively. I also filed testimony in Docket No. 03-0657 in which AmerenUE transferred its Illinois natural gas assets to AmerenCIPS, and Docket No. 05-0506 in which MidAmerican Energy Company reorganized its assets. I also filed direct and rebuttal testimony in the Peoples-WPS merger proceeding, Docket No. 06-0540.

Q: Have you appeared or testified before other public utility commissions?

A: I have filed written testimony or affidavits or appeared before the public utility commission in California, Florida, Georgia, Kansas, Kentucky, Nebraska, New Jersey, New York, Puerto Rico, Vermont and Wisconsin. I have also written comments in several other states.

Q: What is the purpose of your testimony in this proceeding?

A: On November 22, 2005, the Commission initiated its annual reconciliation of the PGA for fiscal year 2005, as filed by North Shore Gas Company ("North Shore" or the "Company"), pursuant to Section 9-220 of the Illinois Public Utilities Act. This investigation was initiated to determine whether North Shore's PGA clause reflects actual costs of gas and gas transportation for the twelve-month period from October 1, 2004 through September 30, 2005, and whether those purchases were prudent. The purpose of my testimony is to determine whether North Shore's natural gas purchasing decisions made during the reconciliation period were prudent.

Q: Have you determined whether North Shore's natural gas purchasing decisions were prudent during the reconciliation period?

A: Yes. Using the Commission's criteria for prudence, I found no reason to dispute the Company's assertion that all natural gas supply purchases were prudently incurred during the reconciliation period with one exception. In North Shore's 2001 to 2004 gas charge reconciliation proceeding, the Commission found the Gas Purchase and Agency Agreement ("GPAA") imprudent ("Settlement Order"). (Docket No. 01-0706, Order dated March 28, 2006, page 30) The same GPAA agreement was also in effect for the month of October of this reconciliation period. Therefore, consistent with the Settlement Order, Staff has determined that the GPAA is also imprudent in this proceeding. (See also the Direct Testimony of Dennis L. Anderson, ICC Staff Exhibit 2.0) My testimony calculates a disallowance for the one month that the GPAA was in effect in fiscal year 2005 (i.e., October 2004).

GPAA

Q: What period did the Settlement Agreement (Exhibits 1 and 2 to the Commission's Settlement Order) cover?

A: The Settlement Agreement covered all of North Shore's liabilities from fiscal year 2001 through fiscal year 2004.

Q: What was the term of the GPAA?

A: The GPAA began on October 1, 2000 and ended on October 31, 2004. The month of October 2005 is outside of the period covered by the Settlement Agreement and is within fiscal year 2005 that is the subject of this reconciliation review.

Q: Should there be a disallowance for the GPAA in fiscal year 2005?

A: Yes. The GPAA has been declared imprudent by the Commission's Settlement Order. As such, I have estimated the imprudent costs that North Shore imposed on ratepayers during October 2004.

Q: How did you calculate the disallowance?

A: I calculated the proposed disallowance using the same methodology that was employed in the fiscal year 2001 PGA reconciliation (Docket No. 01-0706). In that docket, I filed testimony describing how I determined the contract was imprudent and assessed the harm that the contract did to ratepayers. I broke the contract's elements down into discreet pieces and calculated a value for each one. The sum of the pieces then equaled the disallowance that I recommended to the Commission. However, I changed how I estimated the demand credits foregone by assuming a margin that the Company could have earned by using up half of the excess capacity on the pipelines. I made this change because the data used for demand credits in the 2001 PGA reconciliation docket stem from fiscal year 2000, and only one month of the GPAA takes place within this fiscal year. Rather than base the disallowance on such dated information, I believe that the numbers assumed in my analysis are reasonable for an uncertain value. The margins are the difference between the field delivered price and the citygate price. The only other changes were that I updated prices, costs, volumes and the composition of the pipeline portfolio.

Q: What is the proposed disallowance that you have calculated?

A: I calculate that the GPAA raised gas costs by $337,269 during October 2004. This calculation is shown in Attachment 3.1 to my testimony.

Q: Does this complete your prepared direct testimony?

A: Yes.

GPAA Disallowance

month	GPAA Discount Discount (A) (A)	Del'd price v. CG price Del'd&CG Costs(I) (B)	Foregone demand credits Demand Credits (F) (C)	Resale penalty Resale penalty (B) (D)	Avoided demand charges Demand Charge (C) (E)	SIQ option SIQ Option (F) (F)	Total = (A)+(B)+(C)+(D)+(E)+(F) (G)
Oct-00	$15,557	($367,091)	$30,342	$0	$6,924	($23,000)	($337,269)
Totals	**$15,557**	**($367,091)**	**$30,342**	**$0**	**$6,924**	**($23,000)**	**($337,269)**