

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	No. 07-_____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of

**LAWRENCE T. BORGARD**

President and Chief Operating Officer - The Integrys Gas Group  
and  
Vice Chairman of the Board and Chief Executive Officer -  
The Peoples Gas Light and Coke Company and  
North Shore Gas Company

On Behalf of  
The Peoples Gas Light and Coke Company

March 9, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 Q. Please state your name and business address.

4 A. Lawrence T. Borgard, 130 East Randolph Drive, Chicago, Illinois 60601.

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

6 A. I am President and Chief Operating Officer of Integrys Gas Group and Vice Chairman of  
7 the Board and Chief Executive Officer of The Peoples Gas Light and Coke Company and  
8 North Shore Gas Company.

9 **B. Purposes of Testimony**

10 Q. What is the purpose of your direct testimony in this proceeding?

11 A. The purpose of my direct testimony is to discuss the reasons The Peoples Gas Light and  
12 Coke Company (“Peoples Gas” or “the Company”) finds it necessary to request a rate  
13 increase (the first rate increase it has requested in twelve years), to propose rate design  
14 changes at this time, and to describe certain of the innovative rate design proposals that  
15 the Company is making in this filing. Those points are addressed in Section II of my  
16 testimony.

17 I also identify the other witnesses providing direct testimony in support of the  
18 Company’s filing and provide a short overview of the subjects on which they will testify  
19 in Section II of my testimony.

20 I discuss in more detail the key components of Peoples Gas’ rate design proposals  
21 in Section III of my testimony.

22 Finally, I note that the Company’s rate filing conforms with the agreements and  
23 orders entered in other proceedings, in Sections IV and V of my testimony.

24 **C. Summary of Conclusions**

25 Q. Please summarize the conclusions of your testimony regarding Peoples Gas' need for a  
26 rate increase.

27 A. The facts demonstrate that Peoples Gas is not recovering its costs (including capital costs  
28 and operating expenses) incurred in order to provide safe, adequate, and reliable natural  
29 gas distribution service to its customers. In order to be able to continue to provide  
30 customers with safe, adequate, and reliable natural gas distribution service, the Company  
31 is seeking an increase in its base rates of \$75,831,000, if its proposed uncollectible  
32 account expenses rider is approved, or \$102,560,000 if that rider is not approved.

33 Q. Please summarize your testimony regarding Peoples Gas' proposed rate design changes.

34 A. Peoples Gas has made a number of rate design proposals that are necessary to update and  
35 augment its Schedule of Rates for the benefit of its customers and the Company. Peoples  
36 Gas is proposing increases in its base rates to achieve a more equitable recovery of costs  
37 balanced by the impact on customers. The Company is also making changes to its  
38 transportation services that reflect the changes over the last 12 years in how these  
39 services operate. In addition, Peoples Gas is proposing certain riders that better balance  
40 benefits and costs between the Company and its customers.

41 **D. Itemized Attachments to Direct Testimony**

42 Q. Are there any attachments to your direct testimony?

43 A. Yes. The following exhibits were prepared by me or under my supervision and direction:

44 (1) Peoples Gas Exhibit ("Ex.") LTB-1.1 shows the monthly NYMEX natural gas  
45 prices and Peoples Gas' monthly gas charge for the past 13 years;

- 46 (2) Peoples Gas Ex. LTB-1.2 shows the continual decline in the usage of residential  
47 heating customers over the past 12 years;
- 48 (3) Peoples Gas Ex. LTB-1.3 shows the decrease in average use per customer served  
49 on Rate 2, the Company's general service rate, over the past 12 years;
- 50 (4) Peoples Gas Ex. LTB-1.4 shows the monthly degree day variation from normal  
51 and the annual degree day variation since 1995 (this variation is shown versus the  
52 Company's proposed 10 year normal);
- 53 (5) Peoples Gas Ex. LTB-1.5 shows the Company's actual bad debt (uncollectible  
54 account) expense for fiscal years 1995 through 2005; and
- 55 (6) Peoples Gas Ex. LTB-1.6 shows the Conditions of Approval from the order of the  
56 Illinois Commerce Commission (the "Commission" or "ICC") in ICC Docket  
57 No. 06-0540, which bear on this filing.

58 **E. Background and Experience**

59 Q. What are your duties in your position with Integrys Gas Group?

60 A. As President and Chief Operating Officer of Integrys Gas Group, I am responsible for all  
61 the natural gas businesses for the parent company, Integrys Energy Group, Inc. This  
62 group is made up of The Peoples Gas Light and Coke Company, North Shore Gas  
63 Company ("North Shore"), Minnesota Energy Resources Corporation, and Michigan Gas  
64 Utilities Corporation. In this position I am responsible for operations, engineering,  
65 marketing, customer contact, payment processing, credit and collections.

66 Q. Please summarize your professional experience.

67 A. I began my career with Integrys in 1984 as an Associate Engineer and subsequently  
68 served as Electric Engineer, Planning Engineer, Division Engineer, Transmission

69 Planning Engineer, Regulatory Compliance Supervisor, Manager – Transmission  
70 Planning and Operations, and General Manager – Transmission, before being appointed  
71 Vice President – Transmission in 1999, Vice President – Transmission and Engineering  
72 in 2000, Vice President – Distribution and Customer Service in 2001 and President and  
73 Chief Operating Officer – Energy Delivery in August 2004. I was appointed President of  
74 Upper Peninsula Power Company in 2002, Chief Executive Officer in May 2004, and  
75 President and Chief Operating Officer of Integrys Gas Group in February 2007.

76 Q. Please summarize your educational background.

77 A. I received a Bachelor of Science degree in Electrical Engineering from Michigan State  
78 University in 1984 and a Masters Degree in Business Administration from the University  
79 of Wisconsin – Oshkosh in 1995. I am also a 2002 graduate of the Harvard Business  
80 School’s Advanced Management Program.

81 Q. Have you ever testified before the Commission?

82 A. Yes, I have testified in ICC Docket No. 06-0540 regarding the merger of Peoples Energy  
83 Corporation, the parent company of Peoples Gas, and WPS Resources Corporation, to  
84 form Integrys Energy Group, Inc., which is now the parent of Peoples Energy. I have  
85 also testified in numerous dockets before the Public Service Commission of Wisconsin.

86 **II. SUMMARY OF PEOPLES GAS’ NEED FOR**  
87 **RATE RELIEF AND RATE DESIGN CHANGES**

88 **A. Overview**

89 Q. Please give a brief description of the operations of Peoples Gas.

90 A. The Company is engaged in the business of transporting, purchasing, storing, distributing  
91 and selling natural gas at retail to approximately 840,000 residential, commercial, and

92 industrial customers within the City of Chicago. This service territory covers an area of  
93 about 228 square miles and has a population of approximately three million people. The  
94 Company employs approximately 1,540 people, virtually all within the City of Chicago.  
95 Peoples Gas is a wholly owned subsidiary of Peoples Energy Corporation which is a  
96 wholly owned subsidiary of Integrys Energy Group, Inc.

97 Q. In brief, what are the purposes of the Company's rate filing?

98 A. Peoples Gas is requesting an increase in its current base rates and is proposing several  
99 new rate mechanisms in its tariffs. Together, they will allow the Company the  
100 opportunity to recover its current cost of service and earn a reasonable rate of return of  
101 and on its investment dedicated to providing gas service to its customers in the City of  
102 Chicago, plus provide customers with new programs and rate mechanisms to mitigate the  
103 effects of weather and gas prices on their gas bills, and a rate mechanism to accelerate the  
104 replacement of the cast iron and ductile iron main system. The Company also is  
105 proposing changes to improve its current transportation programs.

106 **B. Identification of Other Witnesses Providing Direct Testimony**

107 Q. Please identify the witnesses presenting direct testimony in support of the Company's  
108 filing and the main topic(s) that each witness addresses.

109 A. The following witness are providing direct testimony on behalf of Peoples Gas:

- 110 • Linda M. Kallas, Vice President, Financial and Accounting Services (Peoples Gas  
111 Ex. LK-1.0), addresses and supports the Company's actual costs incurred during  
112 the test year being employed in this proceeding. She discusses variances in  
113 operating expenses from the prior fiscal year and certain specific expenses in  
114 detail. She also addresses and supports certain ratemaking adjustments.

- 115           •     Salvatore Fiorella, Manager, State Regulatory Affairs (Peoples Gas Ex. SF-1.0),  
116                     addresses and supports components of the Company’s request for a general  
117                     increase in base rates, including the test year, the revenue requirement, rate base,  
118                     adjustments to rate base, operating income, and adjustments to operating income.  
119                     He also addresses and supports the test year depreciation expense.
- 120           •     Edward Doerk, Vice President, Gas Operations (Peoples Gas Ex. ED-1.0),  
121                     addresses and supports certain major additions (not including information  
122                     technology (“IT”)) to rate base since the last rate case and discusses and supports  
123                     the Company’s capital investment in operating assets.
- 124           •     Thomas L. Puracchio, Manager, Gas Storage (Peoples Gas Ex. TLP-1.0),  
125                     addresses and supports the Company’s capital investment in storage assets.
- 126           •     Joseph P. Phillips, Vice President, Information Technology (Peoples Gas  
127                     Ex. JPP-1.0), addresses and supports the major IT additions to rate base since the  
128                     last rate case and the Company’s investment in intangible assets.
- 129           •     Michael J. Adams, Director in the Energy Practice of Navigant Consulting, Inc.  
130                     (Peoples Gas Ex. MJA-1.0), addresses the Company’s cash working capital  
131                     requirements.
- 132           •     Bradley A. Johnson, Vice President and Treasurer (Peoples Gas Ex. BAJ-1.0),  
133                     addresses the Company’s capital structure and cost of capital (its required rate of  
134                     return of and on its investments).
- 135           •     Paul R. Moul, Managing Consultant, P. Moul & Associates (Peoples Gas  
136                     Ex. PRM-1.0), addresses the Company’s required rate of return on common  
137                     equity.

- 138 • Brian M. Marozas, Coordinator, Trading Risk Management (Peoples Gas  
139 Ex. BMM-1.0), addresses the statistical support for using a recent 10-year, rather  
140 than a 30-year, period of data to develop the Company’s normal heating degree  
141 days for purposes of weather normalization.
- 142 • Dr. Eugene S. Takle, Professor, Iowa State University (Peoples Gas  
143 Ex. EST-1.0), addresses climate science data that support the reasonableness of  
144 Mr. Marozas’ statistical study.
- 145 • Valerie H. Grace, Manager, Rates (Peoples Gas Ex. VG-1.0), addresses and  
146 supports the Company’s proposed rate design, except for the transportation riders,  
147 new riders that the Company is proposing, and changes to the Company’s  
148 Schedule of Rates for Gas Service. She also addresses and supports the weather  
149 normalization adjustment to volumes.
- 150 • Thomas E. Zack, Vice President, Gas Supply (Peoples Gas Ex. TZ-1.0), addresses  
151 and supports the proposed changes to the Company’s small and large volume  
152 transportation programs and the associated tariff provisions.
- 153 • Ronald J. Amen, Director with Navigant Consulting, Inc. (Peoples Gas  
154 Ex. RJA-1.0), presents and supports the Company’s embedded cost of service  
155 study.
- 156 • Russell A. Feingold, Managing Director of Navigant Consulting, Inc. (Peoples  
157 Gas Ex. RAF-1.0), addresses and supports four new riders that the Company is  
158 proposing to track certain costs and describe how other utilities and other states  
159 have addressed similar proposals.

- 160           • James F. Schott, Vice President, Regulatory Affairs (Peoples Gas Ex. JFS-1.0),  
161 addresses and supports the proposed new rider to recover incremental costs (not  
162 included in the proposed base rate charges or the other proposed riders) associated  
163 with accelerated infrastructure improvements.
- 164           • Ilze Rukis, Manager, Alternative Resources (Peoples Gas Ex. IR-1.0), addresses  
165 and supports the Company’s proposed energy efficiency and conservation  
166 programs.

167           **C. Need For Rate Relief and Rate Design Changes**

168   Q. When was Peoples Gas’ last authorized a general increase in its rates for gas service?

169   A. Peoples Gas was last authorized a general increase in rates for gas service in the Order in  
170 ICC Docket No. 95-0032, entered November 8, 1995 (“1995 Rate Order”). The base  
171 rates authorized by the 1995 Rate Order became effective on November 14, 1995, and the  
172 transportation tariffs became effective on May 1, 1996.

173   Q. What was the rate of return of and on rate base authorized in the 1995 Rate Order?

174   A. The Commission authorized an overall rate of return of and on rate base (weighted  
175 average cost of capital) of 9.19%. The rate of return calculation incorporated an allowed  
176 rate of return on common equity of 11.10%.

177   Q. What is the amount of the revenue increase that the Company is requesting in this  
178 proceeding?

179   A. The Company is requesting an increase in its base rates of \$102,560,000 in additional  
180 annual revenue exclusive of additional charges for revenue taxes, if its proposed  
181 uncollectible account expenses rider is not approved. The Company must recover its

182 uncollectible account expenses through its base rates absent the rider. This is  
183 approximately a 6.8% increase in overall revenues. The Company is requesting an  
184 increase in its base rates of \$75,831,000 in additional annual revenue exclusive of  
185 additional charges for revenue taxes, assuming that its proposed uncollectible account  
186 expenses rider is approved. Mr. Fiorella presents the development of this request in his  
187 testimony (Fiorella Direct, Peoples Gas Ex. SF-1.0).

188 Q. During the past several years, has Peoples Gas been able to earn a reasonable rate of  
189 return on average common equity?

190 A. No. In fiscal year 2004, Peoples Gas' actual earned rate of return on average common  
191 equity was 7.2%. In fiscal year 2005, Peoples Gas' actual earned rate of return on  
192 average common equity was 7.9%. In fiscal year 2006, excluding the effect of the  
193 settlement of Peoples Gas' 2001-2004 gas charge cases, Peoples Gas' actual earned rate  
194 of return on average common equity was 4.2%. All of these returns are significantly  
195 below Peoples Gas' allowed rate of return on equity of 11.10% from its last rate case and  
196 also below its request in this case of 11.06%. I should note that the Company's fiscal  
197 year, for accounting and financial reporting purposes, until December 2006 was the  
198 12 months ending September 30. It is now a calendar year.

199 Q. Why is Peoples Gas unable to earn a reasonable rate of return on common equity?

200 A. Three major factors have contributed to the Company's recent results and, in particular,  
201 its inability to earn a reasonable rate of return on common equity. These major factors  
202 are: (1) a continuing decrease in the volume of gas delivered to customers, (2) the costs  
203 of increased investment in the Company's facilities and IT infrastructure to serve  
204 customers, and (3) an increase in operating expenses.

205 Q. Please discuss the continuing decrease in the volume of gas being delivered to customers.

206 A. Deliveries of natural gas to customers (throughput) have decreased dramatically from the  
207 level reflected in the Company's revenue requirement established in the 1995 Rate Order.  
208 In that proceeding, Peoples Gas projected 235.7 bcf of throughput in the fiscal 1996 test  
209 year. The Company's actual throughput for test year fiscal year 2006, which was 4.5%  
210 warmer than normal, was 172.5 bcf. Peoples Gas' normalized throughput for the test  
211 year in this docket is 177.6 bcf based on the Company's proposed 10 year normal  
212 weather discussed later in my testimony. This is a decrease of 58 bcf or 25% from the  
213 level of throughput currently reflected in rates.

214 Deliveries have been negatively impacted by both weather and by reduced usage  
215 per customer. The Company's current rates were set based on volumes assuming a  
216 30-year normal weather. Because a large part of the Company's revenues and cost  
217 recovery are driven by volumetric-based charges, when weather is warmer than that  
218 30-year normal, the Company's ability to earn a reasonable rate of return on its  
219 investment is directly and adversely impacted. Mr. Marozas demonstrates that a 10-year,  
220 rather than a 30-year, period of data should be used to develop the Company's normal  
221 hearing degree days for purposes of weather normalization (Marozas Direct, Peoples Gas  
222 Ex. BMM-1.0). Dr. Takle discusses the warming trend in weather, which makes  
223 continued use of the 30-year normal inappropriate for ratemaking purposes (Takle Direct,  
224 Peoples Gas Ex. EST-1.0).

225 In addition to lower volumes due to the trend of warmer weather, the Company  
226 has experienced a significant decline in usage per customer. In recent years, natural gas  
227 prices have been trending upward significantly. Peoples Gas Ex. LTB-1.1, page 1 of 2,

228 shows the monthly NYMEX natural gas prices for the last 13 years. As can be seen, the  
229 overall level of prices has been rising and considerable price volatility has been  
230 experienced. Indeed, the month-to-month price variances have been much greater during  
231 the last several years. Peoples Gas Ex. LTB-1.1, page 2 of 2, shows the history of  
232 Peoples Gas' monthly gas charge for the last 13 years. It is not surprising that it reflects  
233 the price fluctuations and increases that have occurred in the wholesale markets.

234 While the Company has the ability to directly recover these costs from customers,  
235 albeit with no markup, customers react to the higher natural gas prices in part by reducing  
236 their consumption. In addition, reduced consumption also occurs as customers replace  
237 less efficient gas furnaces and water heaters with more efficient ones. A large part of the  
238 Company's cost of providing service is recovered through volumetric charges, so reduced  
239 usage per customer directly and adversely impacts the Company's ability to earn a  
240 reasonable rate of return on its investment. Further, the reduced usage per customer has  
241 not been offset by the increase in the number of residential heating customers served by  
242 the Company.

243 Q. Please discuss the increased investment in the Company's facilities and IT infrastructure.

244 A. Peoples Gas has an ongoing need to invest in facilities to keep the Company's  
245 distribution system safe, adequate, and reliable and to provide customer service. Since  
246 1995, Peoples Gas has invested over \$800 million in both new and replacement facilities.  
247 This investment has raised the Company's total capital investment and the need for a  
248 related return on this investment. In light of the long-lived nature of much of the  
249 Company's underground plant, such as mains and services, the installed cost of facilities  
250 constructed to replace existing facilities substantially exceeds the original cost of the

251 facilities being retired. In addition, Peoples Gas must continually update and improve its  
252 IT systems, such as customer information systems, accounting systems, and all other  
253 systems that support its day-to-day business activities in the field and in the office. As a  
254 result of the Company's investments in facilities and IT infrastructure since the 1995  
255 Rate Order, the Company's rate base has substantially increased.

256 Q. Has this growth in rate base caused a like increase in depreciation expense since the last  
257 rate case?

258 A. No, in fact, the requested depreciation expense in this case is approximately \$3 million  
259 less than that allowed in the last rate case. This is due to the fact that in the intervening  
260 years Peoples Gas has conducted studies of the lives of its plant that indicate that certain  
261 lives should be extended. These studies have been filed with the Commission and  
262 approved for use in determining depreciation expense. Thus depreciation expense is  
263 lower even though the continuing investment in plant has increased the rate base used to  
264 provide service to customers.

265 Q. Please describe the increase in operating expenses.

266 A. The Company has expended significant effort to reduce its costs of doing business and  
267 has been successful in the areas where it has control. In the 1995 Rate Order, Peoples  
268 Gas was allowed to recover \$213 million of operating expenses, excluding bad debt  
269 (uncollectible account) expense. As adjusted for actual inflation since, this amount of  
270 operating expense would have grown to \$274 million, excluding bad debt expense, for  
271 fiscal year 2006. In this filing, however, we are requesting recovery of \$215 million for  
272 operating expenses, excluding bad debt expense. This is less than an average 1%

273 increase over 10 years. Thus in terms of inflation-adjusted dollars, Peoples Gas'  
274 operating expenses are down substantially from those last approved by the Commission.

275 Q. How has the Company controlled its costs in order to delay the need to file a rate  
276 increase?

277 A. The Company has taken several significant steps to control costs. These efforts have  
278 enabled the Company to avoid increasing rates for the last decade. These cost control  
279 efforts are evident in several areas.

280 The Company has made numerous improvements in its operations that have  
281 created efficiencies. For example, the Company installed automated meter reading  
282 equipment, which has reduced the need to manually read meters, has reduced the number  
283 of estimated bills, and has improved the accuracy of meter reads. In addition, Peoples  
284 Gas has employed new technology that has improved operations, such as using  
285 directional boring, external sealant, and vacuum trucks. Moreover, the Company's  
286 system maps are computerized, the new Supervisory Control and Data Acquisition  
287 ("SCADA") system automatically monitors the gas system and the new customer  
288 information system provides the call center representatives access to all available  
289 customer information. These improvements have created efficiencies that allow Peoples  
290 Gas to operate and maintain its system with fewer employees than were required in 1995.

291 Q. What has occurred with bad debt expense over this period of time?

292 A. Bad debt expense is directly affected by the cost of gas. As is demonstrated by Peoples  
293 Gas Ex. LTB-1.1, page 2, the cost of gas has more than doubled since the last rate case.  
294 High and volatile gas prices have an effect on certain customers' ability to make timely  
295 payments for services, or in some cases to pay at all, and have caused bad debt expense to

296 rise. One particularly severe impact of this situation is that although gas costs are  
297 supposed to be a “pass through” cost item that does not affect the Company’s return  
298 either positively or negatively, in fact the Company bears the burden of non-payment of  
299 the gas charge portion of customer bills. This results in the Company bearing the cost of  
300 a portion of the gas that is supplied to customers but not paid for. Bad debt expense on  
301 the gas charge portion of customer bills directly and adversely impacts the Company’s  
302 ability to earn a just and reasonable rate of return on its investment.

303 Q. How do these three factors that you discussed earlier impact this proposed rate increase?

304 A. As was stated earlier in my testimony, the main driver of Peoples Gas’ need for a revenue  
305 increase is the lower throughput. The decline in throughput and related lost revenue  
306 since the last rate case translate into a revenue requirement impact of approximately  
307 \$63 million or well over half of the revenue increase requested in this proceeding.  
308 Peoples Gas’ normalized gas deliveries for the test year are addressed by Ms. Grace  
309 (Grace Direct, Peoples Gas Ex. VG-1.0).

310 Peoples Gas’ operating expenses, including bad debt expense, depreciation and  
311 taxes in the test year fiscal year 2006 as adjusted for ratemaking adjustments are  
312 \$23 million higher than the level of expenses reflected in current rates. Ms. Kallas  
313 presents testimony and exhibits covering Peoples Gas’ actual operating costs and  
314 expenses for fiscal year 2006, the test year (Kallas Direct, Peoples Gas Ex. LK-1.0).

315 With respect to investments in plant and IT infrastructure, which has totaled more  
316 than \$800 million since the 1995 Rate Order, the Company’s original cost rate base for  
317 the test year fiscal year 2006 has increased by \$237 million. This increase in rate base  
318 generates \$37 million of the requested revenue increase. Peoples Gas’ original cost rate

319 base as adjusted for the test year is presented in the testimony and exhibits of Mr. Fiorella  
320 (Fiorella Direct, Peoples Gas Ex. SF-1.0). A discussion of the major capital projects  
321 reflected in this filing and the investment needed to serve customers is contained in the  
322 direct testimony and exhibits of Mr. Doerk, Mr. Phillips, and Mr. Puracchio (Doerk  
323 Direct, Phillips Direct, and Puracchio Direct, Peoples Gas Exs. ED-1.0, JPP-1.0 and  
324 TLP-1.0, respectively).

325 Q. Are there any offsets that affect the revenue requirement?

326 A. Yes, partially offsetting the revenue increase generated by lost volumes and increased  
327 investment and operating expenses is a decrease in Peoples Gas' overall average cost of  
328 capital. This decrease in overall cost of capital is due in part to decreased debt costs. The  
329 weighted average cost of capital for the fiscal year 2006 test year includes an embedded  
330 cost of long-term debt of 4.68%, as opposed to the 7.19% reflected in the Commission's  
331 1995 Rate Order – or a reduction of 35%. Mr. Johnson discusses the activity undertaken  
332 to decrease debt costs in his testimony (Johnson Direct, Peoples Gas Ex. BAJ-1.0). In  
333 addition, in this rate case filing Peoples Gas is requesting a return on equity which is  
334 lower than the 11.10% allowed by the Commission in its last rate case. Mr. Moul  
335 supports the Company request of a return on equity of 11.06%. (Moul Direct, Peoples  
336 Gas Ex. PRM-1.0) Overall, the Company's requested rate of return on rate base is  
337 8.25%; which is 94 basis points lower than that allowed in the 1995 Rate Order. The  
338 lower requested rate of return as compared to the current authorized rate of return reduces  
339 the test year revenue requirement by \$21 million.

340 Q. Have there been changes in the Company's service territory in the last 10 years?

341 A. Yes, there have been significant changes in the demographics of the City since our last  
342 rate case. In 1995, we were forecasting a continued decline in the number of residential  
343 heating customers. Today we see that number as being steady to growing slightly.  
344 Generally, the housing stock of the City is changing from centrally heated larger  
345 buildings to individually heated housing.

346 However, having a steady number of residential heating customers, or even a  
347 slightly growing number of such customers, does not translate into steady or growing  
348 throughput or load on the system. Overall, the Company has experienced significant load  
349 loss since the last rate case filing due to a number of factors. The homes being built are  
350 better insulated and contain more efficient appliances. As I stated previously, customers  
351 have reacted to higher gas prices by implementing measures to reduce their consumption.  
352 The weather normalized average annual use per small residential heating customer has  
353 declined from 160 dekatherms to 113 dekatherms over the last ten years, a 29% decrease.  
354 Peoples Gas Ex. LTB-1.2 shows the continual decline in the usage of residential heating  
355 customers over the past ten years.

356 Q. How does this decrease in average use affect the Company financially?

357 A. In the last rate case, the Commission approved rates which provided the Company with  
358 non-gas revenue of approximately \$36.50 per residential heating customer per month. In  
359 fiscal year 2006, the Company received approximately \$29.75 of non-gas revenue per  
360 residential heating customer per month, an 18.5% decline. This non-gas revenue per  
361 customer is used to cover the Company's non-gas operating expenses and costs for  
362 borrowed capital, and to provide a return on investment. The reduction in the non-gas

363 revenues per customer is directly attributable to the reduced usage per customer and  
364 weather variations.

365 Q. Have there been changes in the commercial/industrial sector?

366 A. Yes, this sector has lost customers and throughput. The number of customers taking  
367 service under the Company's commercial/industrial rates has decreased by 8% and the  
368 load represented by this sector has dropped by 25%, since the last rate order. Peoples  
369 Gas' Ex. LTB-1.3 shows the decrease in average use per customer served on Rate 2, the  
370 Company's general service rate.

371 **III. KEY COMPONENTS OF THE COMPANY'S RATE DESIGN PROPOSAL**

372 **A. Current Rate Design Challenges**

373 Q. What are the current challenges facing the Company in terms of its ability to earn an  
374 adequate return of and on its investment while continuing to provide high quality, safe,  
375 adequate, and reliable service to its customers?

376 A. There are five major challenges: (1) weather trending warmer; (2) reduced consumption  
377 per customer; (3) a volatile and high gas price environment; (4) ongoing cost of doing  
378 business in an environment of rising costs which affects the Company's operating costs  
379 and capital expenditures; and (5) a need to balance the Company's recovery of its mostly  
380 fixed costs and the customers' desire for low and stable bills. Each of the challenges  
381 negatively impacts the Company's ability to earn its approved margin revenues, i.e. its  
382 cost of service exclusive of purchased gas and flow-through items.

383 Q. What is the Company proposing in this case to answer these challenges?

384 A. First, with regard to the trend of warmer weather, the Company is proposing to move to a  
385 normal degree day measure based on ten years, rather than the thirty years used  
386 previously. By setting rates using volumes predicated on a more realistic weather  
387 expectation, the Company increases the likelihood of actually recovering its costs through  
388 the rates approved in this case. Mr. Marozas addresses the statistical support for the  
389 ten-year normal method and Dr. Takle discusses the trend toward warmer weather in their  
390 direct testimonies (Marozas Direct and Takle Direct, Peoples Gas Exs. BMM-1.0 and  
391 EST-1.0, respectively). This proposal is substantially similar to Nicor Gas Company's  
392 proposal for a weather normalization period based on 10 years, which was approved by  
393 the Commission in ICC Docket No. 04-0779.

394 Second, with regard to declining use per customer, customer conservation and  
395 energy efficiency efforts should be encouraged, but their impacts should be neutral to the  
396 Company. Peoples Gas knows that it is good for customers to use less natural gas. It is a  
397 valuable natural resource that, as a societal goal, should be conserved. Also,  
398 approximately 70% of the customer's bill is the cost of gas. Reducing consumption is the  
399 best way for a customer to contain costs.

400 While the Company believes that conservation should be encouraged, it cannot  
401 continue to absorb the related margin revenue losses. These losses threaten the ability to  
402 continue to provide safe, adequate and reliable service to all customers. Therefore,  
403 Peoples Gas is proposing Rider VBA, which is a decoupling mechanism designed to  
404 maintain the Company's margin despite the reduction in throughput on the system. This  
405 proposal is complemented by a proposed conservation program, Rider EEP, that will fund  
406 energy efficiency programs. I will summarize the policy aspects of this proposal later in

407 my testimony. The policy aspects of these proposals also are addressed in the direct  
408 testimony of Mr. Feingold (Feingold Direct, Peoples Gas Ex. RAF-1.0). Meanwhile,  
409 Ms. Grace describes the details of the volume balancing adjustment (Rider VBA) and the  
410 rider for enhanced efficiency program (Rider EEP) in her Direct Testimony (Grace  
411 Direct, Peoples Gas Ex. VG-1.0). Ms. Rukis describes the processes of the energy  
412 efficiency program (Rukis Direct, Peoples Gas Ex. IR-1.0).

413 Third, Peoples Gas proposes to address the issue of higher gas prices in two ways,  
414 namely by encouraging both conservation and competition. The Company currently  
415 hedges the prices of much of the gas that it purchases and has storage in its supply  
416 portfolio, which helps to mitigate seasonal price differences. While hedging may not,  
417 and is not intended to, achieve the lowest price, it does enhance price stability and reduce  
418 price volatility. There is very little else that the Company can do in this arena to control  
419 gas costs without sacrificing reliability. However, the Company's proposed energy  
420 efficiency program will affect the demand side of the supply/demand equation and could  
421 cause the balance to be achieved at a lower overall price.

422 Peoples Gas also believes that customers can benefit from increased competition.  
423 Under the Company's current transportation programs, all customers have the choice to  
424 purchase their supply from Peoples Gas or a third-party supplier and over 40% of the  
425 throughput on the system is transportation gas. Currently, most large volume customers  
426 participate in the competitive gas market. In fact, over 90% of the Company's large  
427 volume service classification customers, representing over 97% of the large volume load,  
428 buy their gas from a third-party supplier. In contrast, however, a very low percentage of  
429 small volume customers take advantage of the opportunity. Small volume customers

430 may benefit from the ability of alternative suppliers to offer them a competitive price.  
431 Consequently, Peoples Gas is proposing several changes to its tariffs in this filing to  
432 improve this service for both the suppliers and customers, and to encourage the further  
433 development of this service for small volume customers. These proposals are discussed  
434 in the direct testimony of Mr. Zack (Zack Direct, Peoples Gas Ex. TZ-1.0).

435 Fourth, Commission approval of the Company's requested revenue increase will  
436 allow it the opportunity to recover its costs and to earn a reasonable rate of return.  
437 Prospectively, Peoples Gas will have to continue its cost control activities and continue to  
438 push for even more efficiencies to maintain operating and capital costs at a reasonable  
439 level into the future so that the need for rate relief will be mitigated. Also, Peoples Gas is  
440 interested in accelerating upgrades of its system if it can receive timely recovery of this  
441 investment. This proposal is discussed in the direct testimony of Mr. Schott (Schott  
442 Direct, Peoples Gas Ex. JFS-1.0)

443 Fifth, in addition to proposing the weather normalization/decoupling mechanism I  
444 discussed previously, the Company also is proposing a revised method of recovering the  
445 gas cost portion of bad debt. This proposal is contained in Rider UBA, Uncollectible  
446 Balancing Adjustment, and is described by Mr. Feingold and Ms. Grace (Feingold Direct  
447 and Grace Direct, Peoples Gas Exs. RAF-1.0 and VG-1.0, respectively). In addition, as  
448 also detailed in Ms. Grace's testimony, the Company is proposing to move recovery of a  
449 larger portion of fixed costs out of variable distribution charges and into monthly  
450 customer and demand charges.

451 **B. RATE DESIGN PROPOSALS**

452 **1. Basic Rates**

453 Q. What changes is People Gas proposing for its basic charges?

454 A. Peoples Gas is requesting an increase in charges for all of its service classifications with  
455 an emphasis on recovering more of its fixed costs through fixed charges. Consistent with  
456 the last rate case, the large volume service classifications are set at cost. The small  
457 residential service classifications are moved towards cost. Peoples Gas is proposing to  
458 split its small residential service classification into space heating and non-space heating  
459 services classifications to facilitate the move to setting those rates closer to cost and  
460 recovering a larger share of fixed costs through fixed charges. Mr. Amen discusses  
461 Peoples Gas' embedded cost of service study which guided the rate design proposals.  
462 (Amen Direct, Peoples Gas Ex. RA-1.0) Ms. Grace provides the details on the rate  
463 design proposals including the proposed monthly customer charges and distribution  
464 charges. (Grace Direct, Peoples Gas Ex. VG-1.0)

465 **2. Transportation Riders**

466 Q. What changes is the Company proposing for its transportation program?

467 A. We are proposing to simplify the transportation services while instituting more equitable  
468 parameters for service. The program that was initially limited to small volume customers  
469 will be expanded to allow all but the largest commercial and industrial customers to take  
470 service under this program. The large volume program will be consolidated and the  
471 terms of the service revised to match more closely the assets with which the Company  
472 supports that program.

473                   **3.     Rider EEP (Enhanced Efficiency Program)**

474    Q.     Please briefly describe the Company’s proposal with regard to energy efficiency.

475    A.     The Company is proposing to identify and support conservation programs that will  
476           benefit customers. This effort will focus on programs that target residential heating  
477           customers, low-income customers and small commercial customers. The costs of the  
478           programs will be recovered, through Rider EEP, from the service classifications  
479           benefiting from the programs. The proposal is explained more fully in the testimony of  
480           Mr. Feingold, Ms. Rukis, and Ms. Grace (Feingold Direct, Rukis Direct, and Grace  
481           Direct, Peoples Gas Exs. RAF-1.0, IR-1.0, and VG-1.0, respectively).

482    Q.     Why is the Company making an energy efficiency proposal in this case?

483    A.     First of all, the Company generally supports energy efficiency measures in its service  
484           territory. It has provided conservation tips and information to its customers for many  
485           years. In addition, annually it engages in a service project to help a number of customers  
486           weatherize their homes before winter. However, at this point in time it is important to  
487           become more structured in our approach to energy efficiency. Second, as part of the  
488           merger proceeding, ICC Docket No. 06-0540, the Company agreed to several Conditions  
489           of Approval related to energy efficiency. These are conditions 27 through 30 and are  
490           contained in my exhibit LTB-1.6. The testimony provided by Ms. Rukis and Ms. Grace  
491           describes the energy efficiency program that company is proposing to meet these  
492           conditions and the allocation of the \$7,500,000 between Peoples Gas and North Shore.

493    Q.     Why is \$7,500,000 a reasonable amount to fund energy efficiency in the service  
494           territories of Peoples Gas and North Shore?

495 A. Given Integrys' experience in the operation of energy efficiency programs in other states  
496 and our understanding of the need in Illinois due to the lack of recent coordinated efforts  
497 in the efficiency sector, in our judgment \$7,500,000 is a reasonable level, balancing the  
498 rate impact and the need for energy efficiency.

499 **4. Rider VBA (Volume Balancing Adjustment)**

500 Q. Why is Peoples Gas proposing a decoupling mechanism?

501 A. To date, Peoples Gas has had to absorb the financial impacts of load reductions which, as  
502 I have shown, have been significant. Many of the Company's costs of providing service  
503 are fixed costs that are not affected by reductions in usage per customer, such as wages  
504 and salaries, employee pension and benefits, rents, and depreciation and return on fixed  
505 plant such as mains and services. These costs do not vary based on throughput, but are  
506 currently recovered largely through volumetric charges. Even under the proposed rate  
507 design, a significant amount of fixed costs will continue to be recovered through  
508 volumetric charges. The Company needs to decouple its cost recovery from the volumes  
509 used by customers, particularly with respect to non-usage sensitive costs of service, if it is  
510 to have any chance of earning a reasonable return and thereby maintain its ability to  
511 provide safe, adequate, and reliable service to customers in an increasing energy efficient  
512 environment. Customers would continue to benefit from the reduced consumption  
513 through their savings on their gas charge, which is the much larger piece of the  
514 customer's overall bill, while the Company would not continue to see its margin erode  
515 over time due to continuing reductions in usage per customer.

516 Q. What are the risks that the Company and its customers face due to weather?

517 A. Volumes and prices have the biggest impact on the customers' bills and the Company's  
518 financial performance. Variations in volumes from year to year are primarily driven by  
519 weather. (Over the longer term, as I have discussed, volumes are declining due to  
520 ongoing reductions in usage per customer.) Peoples Gas Ex. LTB-1.4, page 1, shows the  
521 monthly degree day variation from normal and page 2 shows the annual degree day  
522 variation since 1995. This variation is shown versus the Company's proposed 10 year  
523 normal. Though moving to the 10 year normal produces less variation than the 30 year  
524 normal, there will still be differences that affect customers' bills and the Company's  
525 margin.

526 Q. Is the Company making any tariff proposals to mitigate the impacts of the volume  
527 variation driven by weather?

528 A. Yes. The Company is proposing weather normalization through the decoupling rider  
529 mechanism. Rates are designed based on normal weather, and this mechanism is an  
530 adjustment that is derived from the weather assumption underlying the Company's base  
531 rates. The weather normalization in the decoupling mechanism will reduce the impact of  
532 high bills to customers when the weather is colder than normal (based, as I have  
533 indicated, on 10 years rather than 30 years) and reduce the Company's loss of margin  
534 when the weather is warmer than normal and bills are lower.

535 Q. How will Peoples Gas implement the decoupling mechanism and the weather  
536 normalization mechanism?

537 A. The Company proposes to effectuate Rider VBA. This proposal would mesh the weather  
538 normalization adjustment with the decoupling adjustment for easier administration, but

539 each adjustment could stand on its own. This adjustment mechanism will help to  
540 maintain the Company's margin at the level that results from the order in this docket.

541 Of course, to earn a reasonable return, the Company will also have to continue to  
542 control costs. Rider VBA addresses only the impacts of weather and load loss, which are  
543 factors outside the Company's control. Under this proposed rate mechanism, which is  
544 discussed in greater detail by Mr. Feingold and Ms. Grace, Peoples Gas will adjust  
545 customer bills in order to recognize the margin recovery allowed by the Commission in  
546 this rate case (Feingold Direct and Grace Direct, Peoples Gas Exs. RAF-1.0 and VG-1.0,  
547 respectively).

548 Q. What impact would the implementation of the energy efficiency program have on  
549 Peoples Gas' need for a decoupling mechanism?

550 A. The energy efficiency and conservation programs are expected to accelerate load  
551 reductions in the Company's service territory. The Company is making a long term  
552 commitment to energy efficiency in its service territory. This should evolve into  
553 significant savings for customers but also load loss for the Company.

554 Q. What are the benefits of the proposed Rider VBA with the energy efficiency program?

555 A. All customers will benefit because the base rate portion of their bill will not be affected  
556 by weather, while the customers who participate in the energy efficiency program will  
557 benefit from having lower consumption and, therefore, lower bills. In addition, there are  
558 societal benefits – even the customers who do not participate in the energy efficiency  
559 program will benefit from the availability of the program. Customers who can conserve  
560 on their gas usage or use gas more efficiently will pay a smaller portion of their income  
561 for natural gas and, therefore, have more money to save or spend to support the local

562 economy. Further, the dollars spent on conservation and energy efficiency projects in  
563 customers' homes and businesses will largely go to local service providers and, therefore,  
564 also support local jobs and businesses. In addition, Peoples Gas will benefit because its  
565 margin is protected from weather impacts and it will no longer be harmed by customers  
566 reducing consumption.

567 **5. Rider UBA (Uncollectible Balancing Adjustment)**

568 Q. What are the effects on Peoples Gas and its customers of increased bad debt expense due  
569 to higher gas prices?

570 A. As gas charge billings are driven up by higher gas prices, increased bad debt expense  
571 follows, even though the Company's base revenues do not rise. As prices rise, some  
572 customers have an increasingly hard time making their payments, which increases the  
573 Company's bad debt percentage. Peoples Gas' bad debt expense is 2.54% of total  
574 revenues in the test year. Using a 2.54% bad debt rate, for every \$1 per dekatherm  
575 change in the cost of gas, bad debt expense changes by approximately \$3.0 million.  
576 Since fiscal 1996, the average annual gas charge for the Company has varied from a low  
577 of \$2.771 per dekatherm to a high of \$8.765 per dekatherm. Under Peoples Gas' current  
578 rates, all bad debt expense is recovered through base rates, even though a significant  
579 portion of bad debt expense is due to the gas charge portion of the bill. The recoverable  
580 expense incorporated into the revenue requirement is a function of the Company's bad  
581 debt percentage and total test year revenues. To the extent actual revenues vary from the  
582 test year, the bad debt expense is effectively either under- or over-recovered by the  
583 Company. If prices are stable and match the test year when rates were set, this effect is  
584 small. If prices are volatile and vary significantly from the test year when rates were set,

585 however, then there can be a significant mismatch between the recovered expense and the  
586 actual expense.

587 Peoples Gas Ex. LTB-1.5 illustrates Peoples Gas' actual bad debt expense from  
588 fiscal years 1995 through 2005. The solid line is the bad debt expense included in the  
589 revenue requirement in that case and the dashed line is the base rate piece of that bad debt  
590 expense. The base rate piece of bad debt expense is shown in the light grey portion of the  
591 bar and the gas cost portion of the expense is shown in the patterned portion of the bar.  
592 For the last several years, the total bad debt expense has greatly exceeded the amount  
593 allowed in the last rate case, but for several years prior to that, the total bad debt expense  
594 was below that allowed. While the base rate portion has been fairly constant over time,  
595 and has only changed due to the Company experiencing a higher bad debt percentage  
596 rate, the gas cost piece has varied considerably over time due to both the change in the  
597 rate and, more significantly, the change in the cost of gas.

598 Q. How has bad debt previously been treated in rate cases?

599 A. Typically, it has been treated as an expense to be recovered through base rates. Up until  
600 the last few years, this treatment was generally fair to both customers and the utility.  
601 More recently, with the increases and volatility in gas prices as shown in Peoples Gas  
602 Ex. LTB-1.1, it is not fair to either. In years when the actual gas costs are lower than  
603 those used in the rate case filing, the customers actually overpay for bad debt. In years  
604 when the actual gas costs are higher than those used in the rate case filing, the Company  
605 under-recovers for bad debt. For this reason, Peoples Gas is proposing to recover the gas  
606 cost portion of the bad debt expense through Rider UBA rather than through base rates.

607 Mr. Feingold will describe why the gas cost portion of bad debt should be  
608 recovered through a rider (Feingold Direct, Peoples Gas Ex. RAF-1.0). As he points out,  
609 a number of other public utility commissions have already adopted this approach.  
610 Peoples Gas proposes to retain the base rate portion of bad debt as an expense that is  
611 recovered through base rates. This portion does not vary significantly unless the overall  
612 bad debt rate changes, and recovering it through base rates is appropriate as an incentive  
613 for the Company to keep this rate as low as possible. Ms. Kallas discusses the  
614 Company's activities related to controlling bad debt expense (Kallas Direct, Peoples Gas  
615 Ex. LK-1.0).

616 Q. How does Peoples Gas' proposal to recover the gas cost portion of bad debt through  
617 Rider UBA affect the requested revenue increase in this proceeding?

618 A. Peoples Gas calculated that the gas cost related portion of uncollectibles for the fiscal  
619 2006 test year was \$26,729,000. If the Company is allowed to recover these costs  
620 through Rider UBA, its base rate increase is reduced to \$75,831,000, as I indicated  
621 earlier. Mr. Fiorella discusses Rider UBA and how it affects the requested revenue  
622 increase (Fiorella Direct, Peoples Gas Ex. SF-1.0).

623 **6. Rider ICR (Infrastructure Cost Recovery)**

624 Q. Please briefly describe the Company's proposal with regard to the replacement of cast  
625 iron and ductile iron main.

626 A. A significant portion of the Company's distribution system is cast iron and ductile iron  
627 main. Peoples Gas has been steadily replacing this main for many years. In this filing  
628 the Company is proposing to continue its ongoing cast iron and ductile iron replacement  
629 program and to accelerate the pace at which this main is replaced, provided that it is

630 allowed to timely recover the costs of this accelerated capital investment. Peoples Gas  
631 would not be able to undertake the acceleration program unless it obtains the additional  
632 authority to recover the costs of the accelerated program in its rates through Rider ICR.  
633 Without such assured cost recovery, the financial health of the Company would be  
634 impaired if it were to accelerate cast iron and ductile iron replacement and not have a  
635 timely means of collecting the costs for it. Mr. Schott discusses the Company's proposed  
636 accelerated replacement program. (Schott Direct, Peoples Gas Ex. JFS-1.0).

637 **IV. GAS CHARGE SETTLEMENT**

638 Q. In March 2006, Peoples Gas settled numerous gas charge reconciliation cases by  
639 agreeing, among other things, to provide credits to customers totaling approximately  
640 \$100 million, committing to fund conservation programs through 2011 and crediting  
641 interstate services ("Hub") revenues to customers through the operation of Rider 2. What  
642 effect, if any, does this settlement have on Peoples Gas' requested revenue increase  
643 presented in this filing?

644 A. The settlement and the payments Peoples Gas has made or committed to make pursuant  
645 to the settlement have no effect on the amount of the requested revenue increase. The  
646 settlement related to the gas costs billed to customers through the gas charge for fiscal  
647 years 2001 through 2004; whereas, this filing pertains to the level of the Company's  
648 delivery rates through which it will recover its costs of delivering gas to its customers  
649 after the expected 2008 order date in this docket. Peoples Gas reflected the settlement  
650 refunds and the \$4.8 million payment for conservation in its fiscal 2006 historical data  
651 provided in this filing. However, Mr. Fiorella eliminates these expenses from the  
652 proposed test year revenue requirement through his rate making adjustment shown on

653 Schedule C-2.11 in Peoples Gas Ex. SF-1.1. As explained by Mr. Johnson, the settlement  
654 had no effect on the test year capital structure, because the Company eliminated  
655 dividends to its parent company for two quarters and issued stock to its parent company  
656 in order to restore Peoples Gas' common equity balance to the level it would have been  
657 but for the settlement-related charges to retained earnings (Johnson Direct, Peoples Gas  
658 Ex. BAJ-1.0).

659 Q. How were Hub revenues treated in the historical test year?

660 A. Since the order in the reconciliation cases was received in March 2006, the Hub revenues  
661 for the entire fiscal year were credited to the gas charge. Therefore, no ratemaking  
662 adjustment is necessary.

663 Q. Does any part of this rate increase request reimburse the Company for some or all of the  
664 monies that were credited to customers pursuant to the order in the reconciliation cases?

665 A. No.

666 **V. MERGER CONDITIONS**

667 Q. As part of the order in ICC Docket No. 06-0540, the Company accepted certain  
668 Conditions of Approval. Do any of these conditions affect this filing?

669 A. Yes, certain of the Conditions of Approval do affect the presentation and the substance of  
670 the Company's rate increase request. Peoples Gas Ex. LTB-1.6 is a listing of the  
671 specific conditions that affect this filing. In total there are 18 conditions which were  
672 considered.

673 Q. Please describe these conditions and provide information on how they are dealt with in  
674 this filing.

675 A. I will discuss Conditions 1, 2, and 9. Mr. Fiorella discusses Conditions 13, 15, 16, 21,  
676 24, and 33. Mr. Doerk will discuss Conditions 22, and 24. Mr. Schott will discuss  
677 Condition 23. Ms. Grace will support the Company’s proposal for cost recovery of the  
678 energy efficiency program discussed in Condition 27 b) and the Company’s proposal for  
679 cost recovery of the gas cost portion of bad debt discussed in Condition 35 c). Ms. Rukis  
680 will discuss Conditions 28, 29 and 30 and the portion of Condition 27 not covered by  
681 Ms. Grace. Mr. Zack will discuss Conditions 34 and 36 and the portion of Condition 35  
682 not covered by Ms. Grace.

683 Q. Please describe how the Company has met Conditions of Approval 1, 2, and 9.

684 A. Condition 1 relates to the tax impact of the last-in-first-out (“LIFO”) gas in storage issue.  
685 The Company committed that it would not propose to recover any taxes that resulted  
686 from this issue in any future revenue requirement. Because the merger closed in  
687 February 2007, the historical test year does not contain any effect of this issue and no  
688 ratemaking adjustment is proposed for this issue.

689 In Condition 2 the Company committed that the application of purchase  
690 accounting for financial reporting purposes would be disregarded for ratemaking  
691 purposes. Because the merger closed in February 2007, the historical test year does not  
692 contain any effect of purchase accounting and no ratemaking adjustment is proposed  
693 regarding purchase accounting.

694 In Condition 9 the Company committed that it would file certain annual reports  
695 on the same day it files this rate case. This filing was made.

696 Q. Does this conclude your direct testimony?

697 A. Yes.