

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
VALERIE H. GRACE
Manager, Rates Department
The Peoples Gas Light and Coke Company

March 9, 2007

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1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Valerie H. Grace. My business address is 130 E. Randolph Drive, Chicago,
5 Illinois 60601.

6 **B. Purpose of Testimony**

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to explain and analyze the changes proposed to the
9 Peoples Gas Light and Coke Company's ("Peoples Gas" or the "Company") Schedule of
10 Rates for Gas Service, provide support for the proposed changes, and to discuss the new
11 rates and riders that have been filed as a part of this proceeding. I will also address
12 adjustments made to test year sales volumes and other billing units.

13 **C. Itemized Attachments to Direct Testimony**

14 Q. I now show you the exhibits that have been marked for identification as Peoples Gas
15 Exs. VG-1.1 through VG-1.19 and ask you if these documents were prepared under your
16 supervision and direction?

17 A. Yes, they were.

18 **D. Background and Experience**

19 Q. By whom are you employed?

20 A. I am employed Peoples Gas.

21 Q. How long have you been employed by Peoples Gas?

22 A. I have been employed by Peoples Gas for 26 years.

23 Q. What position do you hold with Peoples Gas?

24 A. I am Manager of the Rates Department.

25 Q. What are your responsibilities in that position?

26 A. I am responsible for rate research, rate administration and recommendations regarding
27 rate policies for Peoples Gas and North Shore Gas Company (“North Shore”).

28 Q. Please summarize your educational background and experience.

29 A. In 1980, I graduated from Illinois State University with a Bachelor of Science degree in
30 Business Administration. In 1988, I received a Master of Management Degree from
31 Northwestern University. I have been employed by Peoples Gas from September 1980 to
32 the present. I began my employment in the Gas Supply Planning Department. Since
33 then, I have been employed in various positions and levels of responsibility at Peoples
34 Gas including the Rates Department, the Office of the Chairman, the Executive Office of
35 the Customer Relations Division and the Gas Transportation Services Department. I
36 have also been employed by Peoples Energy Corporation, the parent company of Peoples
37 Gas and North Shore, as Director of Strategic Development. I have been in my present
38 position since October, 2004.

39 Q. Have you testified before the Illinois Commerce Commission (“Commission”)
40 previously?

41 A. Yes, I have testified in several gas charge reconciliation proceedings, proceedings related
42 to customer choice and the recent Section 7-204 merger proceeding (Docket 06-0540)
43 involving Peoples Gas and North Shore.

44 **II. NEW SCHEDULE OF RATES FOR GAS SERVICE**

45 Q. Will Peoples Gas give public notice of the proposed changes it filed?

46 A. Yes. Notice will be published twice in the Chicago Tribune, a secular newspaper of
47 general circulation in the area which Peoples Gas serves, in accordance with the
48 provisions of 83 Illinois Administrative Code Part 255. Peoples Gas will submit for the
49 record copies of the Publisher's certification that public notice of the changes was
50 published in the Chicago Tribune. Copies of the proposed changes are on file and open
51 for public inspection at Peoples Gas' corporate office. Peoples Gas has also posted
52 public notice of the proposed changes in its corporate office.

53 Q. Is the Company proposing to file a new Schedule of Rates for Gas Service ("tariff" or
54 "tariff book")?

55 A. Yes, Peoples Gas Ex. VG-1.1 contains copies of the rate sheets filed by Peoples Gas. In
56 my testimony and exhibits the term "proposed changes" will refer to the rate levels and
57 other changes reflected in these rate sheets. These rates sheets comprise an entirely new
58 tariff book for Peoples Gas, ILL. C.C. No. 28.

59 Q. Why is the Company filing an entirely new tariff book?

60 A. The Company's current tariff book was created in 1995. Peoples Gas is making many
61 editorial changes to clarify the tariff language, eliminate blank pages and redundancies,
62 and eliminate obsolete or inactive tariff provisions. The Company is also proposing to
63 create several new riders and to change the titles of some of the current riders. For these
64 reasons, it is appropriate to file a new tariff book.

65 **III. RATE DESIGN OBJECTIVES**

66 Q. What are the objectives that Peoples Gas seeks to achieve through the rate design
67 modifications it is proposing?

68 A. Through the proposed rate design, Peoples Gas would accomplish six major objectives.
69 They are to (1) better align costs and revenue recovery, (2) provide more equity between
70 and within rate classes, (3) maintain rate design continuity, (4) reflect gradualism, (5)
71 retain customers on the Company's system and (6) consolidate certain transportation
72 riders while providing new service options for transportation customers. I will address
73 objectives 1 through 5 in my testimony while Mr. Zack (Peoples Gas Ex. TZ-1.0) will
74 address objective 6 and other matters related to the Company's transportation riders.

75 **IV. EMBEDDED COST OF SERVICE STUDY AND ALLOCATION OF REVENUE**
76 **REQUIREMENT**

77 Q. Please describe Peoples Gas Ex, VG-1.2, Summary of Estimated Effect of Proposed Rate
78 Increase.

79 A. Peoples Gas Ex, VG-1.2, page 1 of 2, shows the revenue from Peoples Gas' various
80 service classifications under present and proposed rates including Rider UBA and the
81 increase in revenue from the proposed rates, an increase of \$74.1 million in delivery
82 (base rate) charges (line 33, column L). It also shows revenue from Peoples Gas' gas
83 charges, Rider 11, Adjustment for Incremental Costs of Environmental Activities, and
84 proposed Rider UBA, Uncollectible Balancing Adjustment. It excludes municipal and
85 state taxes and other state charges as well as any revenues arising from proposed
86 Rider EEP, Enhanced Efficiency Program. Proposed Rider UBA and Rider EEP will be
87 discussed later in my testimony. The exhibit also reflects the proposed change in the

88 transportation customer diversity factor from .50 to .87, as discussed in Mr. Zack's
89 testimony, which results in a transfer of \$1.6 million of gas charge recovery from the
90 sales customers to the transportation customers (lines 11 and 22, column M). Peoples
91 Gas Ex. VG-1.2, page 2 of 2, shows the same revenues with proposed Rider UBA
92 expenses being recovered through Peoples Gas' delivery (base rate) charges rather than
93 through a rider mechanism. Similarly, Peoples Gas' tariff reflects delivery charges with
94 and without Rider UBA.

95 Q. Why is it necessary to present rates with and without Rider UBA?

96 A. Rider UBA, as discussed below and by Mr. Feingold (Peoples Gas Ex. RAF-1.0), places
97 recovery of the gas cost portion of the uncollectible expense in a rider rather than in base
98 rates. However, if the Commission did not approve this mechanism, then base rates must
99 include the full uncollectible expense. For completeness, I present data showing the
100 preferred rate design, which includes Rider UBA, and data showing the rate design with
101 uncollectible expense in base rates without Rider UBA.

102 Q. What is the basis of the Company's determination of rates to be proposed in this
103 proceeding?

104 A. The Company uses its Embedded Cost of Service Study ("ECOSS") as the basis for the
105 determination of the revenue requirement and resulting proposed rates in this proceeding.
106 The ECOSS has been submitted as Peoples Gas Exs. RJA-1.1 through RJA-1.4 and is
107 sponsored by Mr. Amen (Peoples Gas Ex. RJA-1.0). The Company also uses an
108 embedded cost of service summary submitted by Mr. Amen as Peoples Gs Ex. RJA-1.7
109 as the basis for its discussion of rates without Rider UBA, which includes the gas cost
110 portion of uncollectible expense in base rates.

111 Q. How does the Company use the ECOSS to determine the proposed rates?

112 A. The Company uses the ECOSS to move toward cost based rates and to better align
113 charges with like costs. The results of the ECOSS are also used to bifurcate Service
114 Classification (“S.C.”) No. 1, Small Residential Service, into two new service
115 classifications: S.C. No. 1N, Small Residential Non-Heating Service, and S.C. No. 1H,
116 Small Residential Heating Service, thereby, moving both small residential service
117 classifications closer to cost. The results of the ECOSS are used to increase S.C. No. 4,
118 Large Volume Demand Service; S.C. No. 6, Standby Service; and S.C. No. 8,
119 Compressed Natural Gas Service, setting all at cost. Lastly, the ECOSS provides the cost
120 basis for determining the revenue requirement for S.C. Nos. 1N, 1H and S.C. No. 2,
121 General Service, using the Equal Percentage of Embedded Cost (“EPEC”) method
122 discussed below.

123 The ECOSS indicates that, with the exception of S.C. No. 2, the current rates for
124 all service classifications are set below cost. Moving S.C. Nos. 4, 6 and 8 to cost leaves
125 \$72.9 million as shown on Peoples Gas Ex. VG-1.3, Allocation of Rate Increase, page 1
126 of 2 (line 4, column D), to be apportioned among S.C. Nos. 1N, 1H, and 2 using the
127 EPEC method. Under the EPEC basis, the increase is allocated in proportion to the
128 embedded cost of service for these three service classifications. These increases are
129 added to the revenue generated under current rates to determine the revenue to be
130 provided under proposed rates.

131 Q. Has the EPEC method been employed by Peoples Gas previously?

132 A. Yes, the Company used the EPEC method in its last two rate cases (Docket Nos. 91-0586
133 and 95-0032). The Commission accepted this method.

134 Q. Does the proposed rate design purport to equalize rates of return and ratios of revenue to
135 cost among the service classifications?

136 A. No. The EPEC method provides a gradual movement toward equalizing rates of return
137 by allocating the increase portion of the total revenue requirement on a cost of service
138 basis. The application of the EPEC method to the revenue requirement for S.C. Nos. 1N,
139 1H, and 2 is shown on Peoples Gas Ex. VG-1.3.

140 Q. Why has the Company chosen the EPEC method to allocate the additional revenue
141 requirement among S.C. Nos. 1N, 1H and 2?

142 A. As in prior cases, this method moves the small residential service rates closer to cost in a
143 gradual manner. As shown in Peoples Gas Ex. VG-1.3, page 1 of 2, the revenues
144 generated from S.C. No. 1N and S.C. No. 1H are currently \$10.1 million (line 1,
145 column D) and \$66.8 million (line 2, column D) respectively, below their embedded cost
146 of service, while S.C. No. 2 revenues are above the embedded cost requirement by \$4.0
147 million (line 3, column D). Under the Company's proposed rates, S.C. No. 1N would be
148 below its embedded cost of service by \$5.1 million (line 1, column J); S.C. No. 1H would
149 be below its embedded cost of service by \$19.1 million (line 2, column J), for a total of
150 \$24.3 million for these two small residential service classifications; while S.C. No. 2
151 would be above its embedded cost of service by \$24.3 million (line 3, column J). This
152 demonstrates that the EPEC method moves S.C. Nos. 1N and 1H toward their respective
153 revenue requirements on a gradual basis.

154 While a larger shift of revenue responsibility toward S.C. Nos. 1N and 1H is
155 justified from a pure cost of service standpoint, the proposed allocation provides
156 reasonable movement toward cost at this time and avoids excessive bill impacts. This is

157 consistent with the major objectives of Peoples Gas' rate design about which I testified
158 previously.

159 Q. Have any of Peoples Gas' service classifications been omitted from the cost of service
160 analyses filed in this case, and from consideration for an increase in rates?

161 A. Yes, S.C. No. 7, Contract Service, was excluded from consideration, because the
162 revenues from customers served under this service classification are based on a
163 negotiated rate rather than the cost of service analysis filed in this case. These contracts
164 have been filed with the Commission. S.C. No. 5, Contract Service For Electric
165 Generation, was also excluded as there are currently no customers being served under this
166 service classification, and in any event, this is also a negotiated rate service.

167 V. **CHANGES TO BASE RATES AND OTHER CHARGES**

168 Q. How is the Company proposing to meet its objective to better align costs and revenue
169 recovery?

170 A. To meet this objective, the Company is proposing to recover a greater portion of fixed
171 costs through fixed charges. Almost all of the Company's costs, about 95%, are fixed,
172 *i.e.*, they do not vary with throughput. However, in the interest of rate design continuity,
173 the Company has historically recovered a large portion of such fixed costs through non-
174 fixed volumetric charges. For instance, in the Company's last rate case filed over twelve
175 years ago in Docket No. 95-0032, about 98% of the Company's costs were fixed while
176 only 27% of costs were recovered through fixed charges. This mismatch of fixed costs
177 and non-fixed charges practically assures that the Company will either over or under earn
178 its Commission approved revenue requirement and that customers will either over or
179 under pay their share of such costs. To remedy this, at least partially, the Company will

180 propose rates that would recover more fixed costs through fixed charges. Under
181 proposed rates, the Company will recover 42% of its fixed costs through fixed charges.
182 While not completely matching fixed costs and fixed charges, the Company's proposed
183 rates will provide more balance than its current rates and send more accurate price signals
184 to customers.

185 Q. Consistent with the objectives you described above and the move towards placing more
186 fixed cost recovery in fixed charges, what major changes to rates and charges is the
187 Company proposing?

188 A. The Company is proposing ten major changes to its base rates and other charges. I will
189 discuss these changes in detail later in my testimony.

190 First, S.C. No. 1, Small Residential Service, will be bifurcated into two service
191 classifications: S.C. No. 1N, Small Residential Non-Heating Service, and S.C. No. 1H,
192 Small Residential Heating Service.

193 Second, the monthly customer charge for S.C. No. 1N customers will be
194 increased. The distribution charge, which is a two-block rate structure under current S.C.
195 No. 1, will become a flat charge.

196 Third, the monthly customer charge for S.C. No. 1H customers will be increased.
197 The distribution charge will reflect a decrease with a greater percentage of costs being
198 allocated to the front block of the current two-block rate structure.

199 Fourth, the monthly customer charges for each meter class under S.C. No. 2,
200 General Service, will be increased. The distribution charge will reflect an increase in the
201 front and middle blocks and a decrease in the end block of the three-block rate structure.

202 Fifth, S.C. No. 3, Large Volume Service, and S.C. No. 4, Large Volume Demand
203 Service, will be combined under S.C. No. 4. S.C. No. 3 will be eliminated. The monthly
204 customer charge and demand charge will be decreased. The distribution charge and
205 standby service charge will be increased. This service classification is set at cost.

206 Sixth, the monthly customer charge and distribution charge for S.C. No. 6,
207 Standby Service, will be increased. The demand charge will be decreased and will reflect
208 a single demand charge rather than the separate demand charges for heating and non-
209 heating customers under current rates. This service classification is set at cost.

210 Seventh, the customer charge and distribution charge for S.C. No. 8, Compressed
211 Natural Gas, will be increased. This service classification is set at cost.

212 Eighth, service reconnection charges and service activation charges will be
213 restructured to reflect a base charge and charges for additional appliances.

214 Ninth, the Charge for Dishonored Checks and/or Incomplete Electronic
215 Withdrawal will be increased to better reflect prevailing rates for such checks and
216 transactions and to discourage customers from making such deficient payments to the
217 Company.

218 Tenth, the Company is proposing a new charge for a Second Pulse Data
219 Capability to accommodate customers' requests for this service.

220 Q. Are the present and proposed charges under each service classification summarized in an
221 exhibit?

222 A. Yes. Peoples Gas Ex. VG-1.4, Comparison of Present with Proposed Rates, page 1 of 2,
223 illustrates the charges for each present and proposed service classification with
224 Rider UBA. The exhibit also shows the increase or decrease in proposed rates as

225 compared to present rates. Peoples Gas Ex. VG-1.4, page 2 of 2, shows the charges for
226 each present and proposed service classification without Rider UBA.

227 **A. Bifurcating S.C. No. 1, Small Residential Service**

228 Q. Why is the Company proposing to bifurcate S.C. No. 1 into a non-heating (S.C. No. 1N)
229 and heating (S.C. No. 1H) service?

230 A. Bifurcating S.C. No. 1 will allow the Company to meet its first two objectives, which are
231 to (1) better align costs and revenue recovery and (2) provide more equity between and
232 within rate classes, by setting rates closer to the cost of service. Under the Company's
233 current rate structure, all small residential customers, heating and non-heating, pay the
234 same customer charge and distribution charge. This structure, which results in an intra-
235 class subsidy from heating customers to non-heating customers, also slows the movement
236 of non-heating customers to cost and does not allow the Company to properly align
237 revenue recovery with costs. Peoples Gas Ex. VG-1.5, page 1 of 3, illustrates the cost
238 differences between small residential non-heating and heating customers. Lines 1-4 of
239 this exhibit show the embedded costs for S.C. Nos. 1N and 1H (from the ECOSS,
240 Peoples Gas Ex. RJA 1.2), while lines 6-9 show the allocated cost resulting from
241 applying the EPEC method. As shown, the fixed costs for S.C. No. 1H are twice as high
242 as the fixed costs for S.C. No. 1N. This significant difference in fixed costs means that
243 recovery of such costs through fixed charges under a single service classification would
244 over burden smaller use non-heating customers. For these reasons, bifurcating the small
245 residential service classification is an appropriate approach for customers and the
246 Company.

247 **B. S.C. No. 1N, Small Residential Non-Heating Service**

248 Q. Please describe Peoples Gas' proposal for S.C. No. 1N.

249 A. Peoples Gas is proposing to increase the monthly customer charge for S.C. No. 1N from
250 \$9.00 to \$11.25. Peoples Gas Ex. VG-1.5, page 2 of 3, compares the proposed monthly
251 customer charges under S.C. No. 1N with the embedded monthly customer and demand
252 costs per customer and the allocated monthly customer and demand costs per customer.
253 As shown in the exhibit, the monthly embedded customer cost with Rider UBA for S.C.
254 No. 1N is \$17.50 and the demand cost per customer is \$.64 for a total embedded fixed
255 cost per customer of \$18.14 (lines 1-3, column B). The monthly allocated customer cost
256 with Rider UBA for S.C. No. 1N is \$14.46 and the demand cost per customer is \$.53 for
257 a total allocated fixed cost per customer of \$14.99 (lines 1-3, column E). While the
258 proposed \$11.25 charge represents 64% of embedded customer costs and 62% of total
259 embedded fixed cost (lines 1 and 3, column D), by applying the EPEC method and only a
260 portion of allocated customer costs, Peoples Gas has limited the increase to \$2.25 per
261 month in the interest of gradualism. Moving the charge to total allocated fixed cost
262 would require an additional increase of \$3.74 per month while moving the charge to total
263 embedded fixed cost would require an additional increase of \$6.89 per month.

264 Q. Why should the demand costs be included in a fixed monthly charge such as the customer
265 charge?

266 A. Both demand and customer costs are fixed. Demand costs are typically recovered from
267 large volume customers through demand charges. This is feasible because such
268 customers normally have demand meters that allow for accurate measurement of daily
269 demand volumes. However demand meters and demand charges are uncommon for

270 smaller volume customers. As a result, it would be more practical to recover demand
271 costs through a fixed monthly charge such as the customer charge.

272 Q. Is Peoples Gas proposing to recover demand costs through a fixed monthly charge?

273 A. No. Peoples Gas is not proposing to recover any demand costs through a fixed monthly
274 charge. Instead, to mitigate the impact of a new rate design on S.C. No. 1N customers,
275 Peoples Gas is proposing to recover any remaining customer and all demand costs
276 through the distribution charge.

277 Q. What is the proposed distribution charge?

278 A. To recover the remaining customer and distribution costs, Peoples Gas is proposing a flat
279 distribution charge of 39.989 cents per therm for S.C. No. 1N. Currently, S.C. No. 1 has
280 a declining block structure with a front block of 0-50 therms and an end block for over 50
281 therms. As about 97% of S.C. No. 1N monthly bills are for 50 therms or less, a flat rate
282 structure is more appropriate than the current blocked rate structure.

283 **C. S.C. No. 1H, Small Residential Heating Service**

284 Q. Please describe Peoples Gas' proposal for S.C. No. 1H.

285 A. Peoples Gas is proposing to increase the monthly customer charge for S.C. No. 1H from
286 \$9.00 to \$19.00. Peoples Gas Ex. VG-1.5, page 3 of 3, compares proposed monthly
287 customer charges under S.C. No. 1H with the embedded monthly customer and demand
288 costs per customer and the allocated monthly customer and demand costs per customer.
289 As shown in the exhibit, the monthly embedded customer cost with Rider UBA for S.C.
290 No. 1H is \$26.71 and the demand cost per customer is \$9.56 for a total embedded fixed
291 cost per customer of \$36.27(lines 1-3, column B). The monthly allocated customer cost

292 for S.C. No. 1H is \$24.89 and the demand cost per customer is \$8.91 for a total allocated
293 fixed cost per customer of \$33.80 (lines 1-3, column E). While the proposed \$19.00
294 charge represents 71% of embedded customer costs and 52% of total embedded fixed
295 cost, by applying the EPEC method and only a portion of allocated customer costs,
296 Peoples Gas has limited the increase to \$10.00 per month in the interest of gradualism.
297 Moving the charge to total allocated fixed cost would require an additional increase of
298 \$14.80 per month while moving the charge to total embedded fixed cost would require an
299 additional increase of \$17.27 per month. If properly aligned, such charges would be
300 recovered through a fixed monthly charge for the reasons discussed previously.
301 However, in the interest of rate design continuity, the Company is proposing to recover
302 all demand costs as well as remaining customer costs through the distribution charge.

303 Q. Has Peoples Gas proposed any changes to its S.C. No. 1H distribution charge blocking?

304 A. No. Peoples Gas is proposing to maintain its two declining rate block structure for S.C.
305 No. 1H. The front block (0-50 therms) proposed distribution charge is 29.862 cents per
306 therm and was computed by allocating two-thirds of remaining customer, demand and
307 commodity costs to this block. The remainder of the S.C. No. 1 revenue will be collected
308 through an end block (over 50 therms) distribution charge of 9.131 cents per therm.

309 Q. Why is Peoples Gas proposing significant increases for its monthly customer charges,
310 particularly for S.C. No. 1H, rather than placing the increase in the proposed distribution
311 charges?

312 A. Distribution charges are assessed only when a customer uses gas, but Peoples Gas incurs
313 costs to serve its customers that are not dependent upon the amount of gas usage. In
314 other words, these costs are fixed. As explained previously, almost all of Peoples Gas'

315 embedded costs, about 95%, are fixed. However, historically, most of its revenue
316 recovery has been through volumetric distribution rates. While Peoples Gas is not
317 proposing to recover all of its fixed costs through its monthly customer charge,
318 recovering a greater portion through the customer charge better aligns fixed cost recovery
319 with fixed embedded costs. In a case involving Union Electric (Docket No. 03-0009), the
320 Commission endorsed the utility's efforts to recover all of a utility's fixed customer
321 related costs of serving residential customers through the customer charge component of
322 rates as well as a gradualism approach to doing so. Moreover, in the Company's last rate
323 case (Docket No. 95-0032), the Commission urged the Company to increase the customer
324 charge in future rate proceedings to move it closer to cost. Peoples Gas' proposals to
325 increase its customer charges and bifurcate S.C. No. 1 into heating and non-heating
326 service classifications are consistent with these policies.

327 Q. Have other utilities and their commissions addressed this question?

328 A. Yes. There is a growing trend among other public utility commissions to approve
329 greater recovery of fixed costs through fixed charges. Oklahoma Natural Gas Company
330 and Xcel Energy Inc. ("Xcel") have both recently implemented rate designs that reflect
331 greater recovery of fixed costs through higher monthly customer charges. Xcel has a flat
332 monthly delivery services charge with no volumetric distribution charge for customers
333 served under its Residential Service rate. Similarly, Atlanta Gas Light Company has
334 recovered all fixed costs through fixed charges, using a Straight Fixed Variable ("SFV")
335 rate design, since 1998. Under this type of rate design, all fixed costs are recovered
336 through fixed charges with customers paying a largely flat fee for utility delivery service
337 and a small volumetric charge for any commodity related costs.

338 Q. Does a greater recovery of fixed costs through the customer charge rather than the
339 volumetric distribution charge offer any benefits?

340 A. Yes. Fixed cost recovery through the customer charge stabilizes the non-gas cost,
341 delivery charge portion of the customer's bill, making that portion of the bill less variable
342 than if such charges were recovered through the volumetric distribution charge. Bill
343 stability is a desirable goal, especially as national gas prices rise. Volatile gas prices
344 encourage customers, regulators and consumer advocates to look for ways to stabilize
345 bills, particularly during the winter period. This has resulted in an increasing interest in
346 budget plans, fixed prices and fixed bills. The Company's budget plan offers some
347 stability. However, there are periodic true-ups that can change the monthly budget
348 amounts. While the Company cannot currently fix the gas cost portion of customers'
349 bills, it does offer a choice program, open to all customers, under which customers may
350 be able to purchase fixed gas price products from participating gas suppliers. These types
351 of products combined with a more stable Company delivery charge may satisfy some
352 parties' desire for bill stability.

353 Greater recovery of fixed costs through the customer charge also provides more
354 stability to the Company by reducing variability in earnings related to variations in
355 customer consumption caused by weather or other conditions outside the Company's
356 control. Consequently the Company would be less likely to either over or under earn its
357 Commission approved revenue requirement.

358 Q. If stability is a concern, why doesn't the Company simply propose SFV rates that would
359 recover all fixed costs through fixed charges?

360 A. The Company does consider SFV rates the most appropriate rate design to best align
361 revenue recovery with its mostly fixed costs. However, while SFV rates would offer
362 stability to the Company and customers, some may view SFV rates as too significant a
363 departure from the Company's current rate structure. Peoples Gas Ex. VG-1.5, page 1 of
364 3, lines 10 and 11, shows the derivation of SFV rates if proposed using Peoples Gas'
365 ECOSS and applying the EPEC method. As shown, SFV rates with Rider UBA (columns
366 A and C) would result in monthly fixed charges of \$14.99 for S.C. No. 1N and \$33.80 for
367 S.C. No. 1H and distribution charges of 1.244 cents per therm and 1.548 cents per therm,
368 respectively. These fixed charges would be slightly higher without Rider UBA and are
369 shown in columns B and D. The SFV rate structure is widely used. For example, many
370 customers are accustomed to paying flat cable, telephone (local, long distance and
371 wireless), internet services, and sewer and waste disposal bills, among others. Many of
372 these service providers who had traditionally charged on a volumetric basis are now
373 charging a flat fee.

374 Q. What benefits would a flat fee such as a SFV rate offer?

375 A. A SFV rate would be equivalent to putting customers on a budget plan for the delivery
376 service portion of their bill but without any need for a true-up when conditions change.
377 Customers would pay a fixed monthly fee and a small distribution charge and the
378 delivery portion of their bill would be largely unaffected by variations in weather or other
379 conditions. As a result, they would not over or under pay for the services that they
380 receive. A SFV rate would also lower the delivery charge portion of a customer's bills
381 during the winter period when market commodity prices are typically at their highest.
382 This is illustrated in Peoples Gas Ex. VG-1.6, pages 1 and 2, which shows that

383 customers' bills are somewhat flattened, particularly for S.C. 1H, during the winter under
384 the Company's proposed rates than under present rates and are almost completely flat
385 under SFV rates. As a SFV rate would cap the fixed delivery charge portion of a
386 customer's bill, it would help mitigate the impact of cold weather and high commodity
387 prices on customers' bills. This would be especially beneficial to customers who live in
388 energy inefficient housing, particularly those who are low income.

389 Q. Although the Company is not proposing SFV rates, it is proposing to recover a greater
390 portion of its fixed costs through the customer charge. Why then, is the Company
391 proposing Rider VBA, Volume Balancing Adjustment, a decoupling type mechanism?

392 A. As discussed previously in my testimony, only 62% and 52% of total embedded fixed
393 costs for S.C. Nos. 1N and 1H, respectively, will be recovered through the customer
394 charge under the Company's proposed rates. Although the EPEC method shifts some
395 costs from these service classifications to S.C. No. 2, a significant portion of fixed costs
396 will still be recovered and charged through volumetric distribution charges. Therefore,
397 for this reason and the reasons discussed in Mr. Feingold's testimony, a mechanism such
398 as Rider VBA is needed.

399 Q. Would the Company consider a SFV rate design if it is proposed by other parties in this
400 proceeding?

401 A. Yes.

402 Q. Do these proposed rates for S.C. No. 1N and S.C. No. 1H include all of Peoples Gas'
403 embedded costs for these service classifications?

404 A. No, the proposed rates described previously exclude the gas cost portion of Peoples Gas'
405 uncollectible expense, which Peoples Gas is proposing to recover through a rider, Rider
406 UBA, Uncollectible Balancing Adjustment. Rider UBA is addressed later in my
407 testimony and also by Mr. Feingold.

408 Q. What is the amount of the base rate increase if the gas cost portion of uncollectible
409 expenses is recovered through delivery charges (base rates) rather than Rider UBA?

410 A. The base rate increase without Rider UBA is \$100.8 million as shown in Peoples Gas
411 Ex. VG-1.3, Allocation of Rate Increase, page 2 of 2 (line 11, column D).

412 Q. Has Peoples Gas applied the EPEC method to determine the allocation of the rate
413 increase without Rider UBA?

414 A. Yes. Moving S.C. Nos. 4, 6 and 8 to cost leaves \$99.6 million as shown on Peoples Gas
415 Ex. VG-1.3, page 2 of 2 (line 4, column D) to be apportioned among S.C. Nos. 1N, 1H,
416 and 2 using the EPEC method. The revenues generated from S.C. No. 1N and S.C.
417 No. 1H would be \$11.6 million (line 1, column D) and \$87.9 million (line 2, column D),
418 respectively, below their embedded cost of service while S.C. No. 2 revenues would be
419 below the embedded cost requirement by \$173,000 (line 3, column D). Under the
420 Company's proposed rates without Rider UBA, S.C. No. 1N would be below its
421 embedded cost of service by \$4.8 million (line 1, column J), S.C. No. 1H would be below
422 its embedded cost of service by \$22.0 million (line 2, column J), for a total of
423 \$26.8 million for these two small residential service classifications, while S.C. No. 2
424 would be above its embedded cost of service by \$26.8 million (line 3, column J).

425 Q. Please describe Peoples Gas' proposal for S.C. No. 1N without Rider UBA.

426 A. Absent Rider UBA, although the embedded and allocated customer cost would increase,
427 the Company would propose the same monthly customer charge of \$11.25 for S.C.
428 No. 1N with the gas cost portion of uncollectible expense being recovered though the
429 distribution charge. The distribution charge for S.C. No. 1N would be 51.343 cents per
430 therm. Peoples Gas Ex. VG-1.5, page 2 of 3, compares the proposed monthly customer
431 charges under S.C. No. 1N with the embedded monthly customer and demand costs per
432 customer and the allocated monthly customer and demand costs per customer. As shown
433 in the exhibit, the monthly embedded customer cost without Rider UBA for S.C. No. 1N
434 is \$18.39 and the demand cost per customer is \$.64 for a total embedded fixed cost per
435 customer of \$19.03 (lines 4-6, column B). The monthly allocated customer cost without
436 Rider UBA for S.C. No. 1N is \$15.52 and the demand cost per customer is \$.54 for a
437 total allocated fixed cost per customer of \$16.06 (lines 4-6, column E).

438 Q. Please describe Peoples Gas' proposal for S.C. No. 1H without Rider UBA.

439 A. Absent Rider UBA, although the embedded and allocated customer cost would increase,
440 the Company would propose the same monthly customer charge of \$19.00 for S.C.
441 No. 1H with the gas cost portion of uncollectible expense being recovered though the
442 distribution charge. The charge for the front block (0 through 50 therms) would be
443 34.398 cents per therm and the charge for the end block would be 10.518 cents per therm.
444 Peoples Gas Ex. VG-1.5, page 3 of 3, compares the proposed monthly customer charges
445 under S.C. No. 1H with the embedded monthly customer and demand costs per customer
446 and the allocated monthly customer and demand costs per customer. As shown in the
447 exhibit, the monthly embedded customer cost without Rider UBA for S.C. No. 1H is
448 \$29.54 and the demand cost per customer is \$9.56 for a total embedded fixed cost per

449 customer of \$39.10 (lines 4-6, column B). The monthly allocated customer cost for S.C.
450 No. 1H is \$27.38 and the demand cost per customer is \$8.86 for a total allocated fixed
451 cost per customer of \$36.24 (lines 4-6, column E).

452 Q. Please describe Peoples Gas Ex. VG-1.7.

453 A. Peoples Gas Ex. VG-1.7, page 1 of 4, illustrates the effect of the proposed changes on an
454 average S.C. No. 1N customer with and without Rider UBA. The S.C. No. 1N customer
455 has very low usage and is mainly affected by the increase in the monthly customer
456 charge. The average monthly bill will increase by \$2.83 for S.C. No. 1N customers with
457 Rider UBA and \$3.68 without Rider UBA. The annual bill will increase by 13% for S.C.
458 No. 1N customers with Rider UBA and 16.9% without Rider UBA. The increase in base
459 rates is slightly offset by the gas charge effect of the change in the Standby Demand
460 Charge diversity factor utilized in the calculation of the gas charge, as discussed by
461 Mr. Zack. Peoples Gas Ex. VG-1.7, page 2 of 4, illustrates the effect of the proposed
462 changes on an average S.C. No. 1H customer with and without Rider UBA. The average
463 monthly bill will increase by \$9.00 for S.C. No. 1H customers with Rider UBA and \$9.24
464 without Rider UBA. The annual bill will increase by 7.0% for S.C. No. 1H customers
465 with Rider UBA and 7.2% without Rider UBA. The increase in base rates is slightly
466 offset by the gas charge effect of the change in the Standby Demand Charge diversity
467 factor utilized in the calculation of the gas charge, as discussed by Mr. Zack. This
468 increase also includes the effect of proposed Rider EEP, which will be discussed later in
469 my testimony. Rider EEP, Enhanced Efficiency Program, is a proposed rider to fund
470 energy conservation programs. Mr. Borgard (Peoples Gas Ex. LTB-1.0) and
471 Mr. Feingold discuss this proposal in more detail in their testimony.

472 Peoples Gas Ex. VG-1.7, page 3 of 4, shows monthly bills at various levels of
473 usage under present rates and proposed rates and the dollar changes in these monthly bills
474 for S.C. No. 1N customers, with and without Rider UBA. Page 4 of 4 shows monthly
475 bills at various levels of usage under present rates and proposed rates and the dollar
476 changes in these monthly bills for S.C. No. 1H customers, with and without Rider UBA.
477 The pages also show the impact of the gas charge offset and proposed Rider EEP.

478 **D. S.C. No. 2, General Service**

479 Q. Please describe Peoples Gas' proposal for changes in S.C. No. 2, General Service.

480 A. The Company proposes to increase the monthly customer charges for all S.C. No. 2
481 customers, while moving the charges for Meter Classes 1 and 2 closer to embedded cost
482 for each individual meter class. Present rates were set by considering an average of the
483 embedded customer costs for all S.C. No. 2 customers, which results in Meter Class 1
484 customers subsidizing Meter Class 2 customers. The proposed customer charges would
485 eliminate that subsidy. As shown on Peoples Gas Ex. VG-1.8, the Meter Class 1 monthly
486 customer charge would increase from \$15.00 to \$21.00 and the Meter Class 2 monthly
487 customer charge would increase from \$22.00 to \$60.00. The proposed customer charges,
488 which reflect embedded customer costs and a small portion of embedded demand costs
489 for Meter Class 1, and a portion of embedded customer costs for Meter Class 2, are less
490 than the allocated fixed costs for each meter type. These charges and the embedded
491 customer costs found in the ECOSS, as well as the allocated costs resulting from the
492 EPEC method, are also shown on Peoples Gas Ex. VG-1.8.

493 Peoples Gas is proposing to maintain the three declining block distribution charge
494 for S.C. No. 2 and allocate 23%, 61% and 16% of the remaining customer, demand costs

495 and commodity costs to the front, middle, and end blocks, respectively. The front block
496 (0-100 therms) has been increased to 35.441 cents per therm, the middle block (over 100-
497 5,000 therms) has been increased to 13.669 cents per therm and the end block (over 5,000
498 therms) has been decreased to 7.199 cents per therm.

499 Q. Do these proposed rates for S.C. No. 2 include all of Peoples Gas' embedded costs for
500 this service classification?

501 A. No, the proposed rates described above exclude the gas cost portion of Peoples Gas'
502 uncollectible expense, which Peoples Gas is proposing to recover through Rider UBA.

503 Q. Please describe Peoples Gas' proposal for S.C. No. 2, General Service, without
504 Rider UBA.

505 A. Absent Rider UBA, although the embedded and allocated customer cost would increase,
506 the Company would propose the same monthly customer charges of \$21.00 for Meter
507 Class 1 and \$60.00 for Meter Class 2 with the gas cost portion of uncollectible expense
508 being recovered through the distribution charge. The front block (0-100 therms) charge
509 would be 37.695 cents per therm; the middle block (over 100-5,000 therms) charge
510 would be 14.539 cents per therm; and the end block (over 5,000 therms) charge would be
511 7.655 cents per therm.

512 Q. Please describe Peoples Gas Ex. VG-1.9.

513 A. Pages 1 and 2 of Ex. VG-1.9 show monthly bills at various usage levels for Meter Class 1
514 and Meter Class 2 retail sales customers, respectively, with and without Rider UBA.

515 Q. Please discuss why Rider VBA, Volume Balancing Adjustment, a decoupling type
516 mechanism, would be applicable to S.C. No. 2.

517 A. Over 90% of S.C. No. 2 costs are fixed. However, under the Company's proposed rates,
518 only 25% of its allocated revenue requirement will be recovered through fixed monthly
519 customer charges. That leaves a significant portion that will be recovered through
520 volumetric distribution charges. For this reason and the reasons discussed in
521 Mr. Feingold's testimony, a mechanism such as Rider VBA is needed.

522 Q. Did the Company consider SFV rates for S.C. No. 2?

523 A. Yes, the Company considered SFV rates for S.C. No. 2 but determined that due to the
524 heterogeneous nature of the service classification, SFV rates would not be a practical
525 option at this time.

526 **E. S.C. No. 3, Large Volume Service and S.C. No. 4, Large Volume Demand**
527 **Service**

528 Q. Please describe the changes proposed for S.C. No. 3, Large Volume Service and S.C.
529 No. 4, Large Volume Demand Service.

530 A. The Company's current S.C. No. 3 is a cost based rate that was designed to serve large
531 volume, low load factor customers. The Company's current S.C. No. 4 is a cost based
532 rate that was designed to serve large volume, high load factor customers. In the
533 Company's last rate case the average load factors for S.C. No. 3 and S.C. No. 4 were
534 42% and 75%, respectively. Currently, these load factors are 37% and 51%, respectively.
535 As the difference in average load factors has significantly narrowed between the two
536 service classifications, it is no longer necessary to provide service under two separate
537 large volume service classifications. Combining these two service classifications under
538 S.C. No. 4, Large Volume Demand Service, is also supported by the Company's ECOSS
539 which demonstrates that on a per demand therm basis, there is very little difference in

540 costs. The revenue from S.C. No. 4 will be set at embedded cost for S.C. Nos. 3 and 4
541 combined as determined in the ECOSS. This is consistent with the rate treatment in the
542 Company's last rate case.

543 The monthly customer charge will be set at cost and will be \$565.00. The
544 demand charge will be set at 80% of cost, with 70% being recovered through the front
545 demand block. That results in about 59% of the total S.C. No. 4 revenue requirement
546 being recovered through the demand charges. The monthly standby service charge will
547 be set at 24 cents per therm of standby demand with the remaining revenue being
548 recovered through the distribution charge, which will be set at 1.211 cents per therm.
549 The front block (0-7,500 therms) demand charge is 50.609 cents per demand therm and
550 the end block (over 7,500 therms) demand charge is 40.163 cents per demand therm.

551 Currently, S.C. No. 3 customers are not required to have a daily demand
552 measurement device to determine billing demand although S.C. No. 4 customers are
553 required to have such a device. As the Company is proposing to increase the amount of
554 the revenue requirement being recovered through the demand charge, these customers
555 will be required to have a daily demand device to determine billing demand. This should
556 have a minimal impact on most S.C. No. 3 customers as about 90% of the current
557 customers already have such devices installed. For those customers who do not have a
558 daily demand device installed, until such device can be installed, the billing demand will
559 be calculated using the same methodology currently used to make such a determination
560 for transportation customers. The sales customers' standby demand will be the same as
561 their billing demand and the Rider SST customers' standby demand will be their selected
562 standby demand.

563 Q. Please describe Peoples Gas' proposal for S.C. No. 4, Large Demand Volume Service,
564 without Rider UBA.

565 A. The Company would propose the same charges as those with Rider UBA.

566 **F. Standby Service Charge**

567 Q. What type of costs does the standby service charge recover?

568 A. The standby service charge recovers unbundled gas supply related costs. These costs,
569 which are included in the Company's ECOSS, arise from investments and expenses
570 related to the Company's production and storage functions. It applies to the Company's
571 fully unbundled S.C. No. 4 customers whose cost would be based on their selected
572 standby level. Transportation customers would elect their standby level while the
573 Company's few retail sales customers would have this charge applied to their billing
574 demand.

575 **G. S.C. No. 5, Contract Service for Electric Generation**

576 Q. Please describe the proposed changes to S.C. No. 5, Contract Service for Electric
577 Generation.

578 A. The Company proposes to make minor editorial changes to the tariff for this service
579 classification. No other changes are being proposed.

580 **H. S.C. No. 6, Standby Service**

581 Q. Please describe the proposed changes to S.C. No. 6, Standby Service.

582 A. The Company proposes to set the overall charges under S.C. No. 6 to the embedded cost
583 of service level while eliminating a distinction between heating and non-heating
584 customers. The monthly customer charge for S.C. No. 6 will be \$90.00 and will be set at

585 80% of cost. The monthly demand charge will be set at cost and will be \$8.49 per
586 demand therm. The distribution charge, which will recover remaining customer costs,
587 will be 14.878 cents per therm.

588 Q. Please describe Peoples Gas' proposal for S.C. No. 6, Standby Service, without Rider
589 UBA.

590 A. The Company would propose the same charges as those with Rider UBA.

591 **I. S.C. No. 7, Contract Service to Prevent Bypass**

592 Q. Please describe the proposed changes to S.C. No. 7, Contract Service.

593 A. S.C. No 7, Contract Service, is available to any customer for whom bypass of the
594 Company's gas distribution system is, in the judgment of the Company, economically
595 feasible and practical. The Company is changing the description of this service
596 classification from "Contract Service" to "Contract Service to Prevent Bypass" to make it
597 more descriptive. In response to customer requests, the Company is proposing to allow a
598 longer term contract. Currently, a contract may not have a term in excess of five years.
599 Also, the Company is making minor editorial changes to the tariff.

600 **J. S.C. No. 8, Compressed Natural Gas Service**

601 Q. Please describe the proposed changes to S.C. No. 8, Compressed Natural Gas Service.

602 A. The Company proposes to increase overall charges under S.C. No. 8 to the embedded
603 cost of service level. The monthly customer charge for S.C. No. 8 will be \$140.00 and
604 will be set at 50% of cost, and the distribution charge, which will recover remaining
605 customer costs will be 5.022 cents per therm.

606 Q. Please describe Peoples Gas' proposal for S.C. No. 8, Compressed Natural Gas Service,
607 without Rider UBA.

608 A. The Company would propose the same charges as those with Rider UBA.

609 Q. Please summarize the increase in the Company's revenues from all proposed delivery
610 charges (base rates).

611 A. The Company's proposed delivery charges result in an increase of \$74.1 million. This is
612 shown in Peoples Gas Ex. VG 1.2, page 1 of 2 (line 33, column L). If the Company were
613 to recover Rider UBA expenses in base rates rather than in a rider mechanism, the
614 increase from proposed delivery charges would be \$100.8 million. This is shown in
615 Peoples Gas Ex. VG 1.2, page 2 of 2 (line 33, column L).

616 Q. Please describe any other revenues that will arise from the Company's increase in base
617 rate delivery charges.

618 A. The Company will experience an increase in accounting charge and forfeited discount
619 revenues that are estimated to be \$214,000 and \$704,000, respectively. Combined with a
620 base rate increase of \$74.1 million and the miscellaneous charges increase of \$811,000
621 discussed later in my testimony, the total proposed revenue increase is \$75.8 million
622 without Rider UBA. With Rider UBA, the proposed increase is \$102.6 million.

623 **K. Terms and Conditions of Service**

624 Q. What changes were made to the Company's Terms and Conditions of Service?

625 A. The Company revised the entire Terms and Conditions of Service to improve its
626 organization, simplify and clarify language (including provisions related to Company and
627 customer property) and reflect proposed charges for certain services. The Company, in

628 response to requests from some customers, added a provision to permit payment by wire
629 transfer, including requiring reimbursement of the transaction charge that the financial
630 institution will charge the Company, and a provision to provide for installation of second
631 pulse capability. The Company is also proposing changes to the Miscellaneous Charges,
632 described below. No other material changes are being proposed.

633 **L. Miscellaneous Charges**

634 Q. Please describe the items included in Miscellaneous Charges.

635 A. Miscellaneous Charges include the Service Activation Charges, Service Reconnection
636 Charges, the Charge for Dishonored Checks and/or Incomplete Electronic Withdrawal,
637 and a Charge for Second Pulse Data Capability. The additional revenue requirement for
638 these charges total \$811,000.

639 **M. Service Activation Charges**

640 Q. Please describe the Company's proposal with respect to the Service Activation Charges.

641 A. The Company is proposing to increase its Service Activation Charges, which recover a
642 portion of the costs related to initiating gas service at a premises. The Service Activation
643 Charges apply to those customers moving into or within Peoples Gas' service territory.
644 There are two types of service activations. A succession turn-on occurs when the
645 customer moving out calls and discontinues gas service at approximately the same time
646 as the applicant moving in calls and requests gas service. In this instance, only a meter
647 reading is taken. A straight turn-on occurs when there has never been gas service at a
648 location, or when the prior customer canceled service some time before the new applicant
649 calls to request gas service and the gas has actually been turned off. In this instance, the
650 gas has to be turned on and appliances have to be relit. The Company proposes to

651 restructure the charge to include a basic charge that includes lighting four appliances and
652 an additional charge for appliances that exceed the number of appliances included in the
653 basic charge. A study was performed to measure the costs of these activities and is
654 summarized in Peoples Gas Ex. VG-1.10. The study shows that the cost for a succession
655 turn-on is \$17.62 (column J, line 1), the cost of a straight turn-on is \$45.00 (column J,
656 line 2) and the cost to light an additional appliance is \$10.36 (column J, line 3). The
657 Company's proposed charges, which recover only a portion of these costs, are \$12.00 for
658 a succession turn-on, \$20.00 for a straight turn-on and \$5.00 per appliance for each
659 appliance over four.

660 Q. Why is Peoples Gas proposing to restructure the Service Activation Charges?

661 A. The restructuring assigns cost responsibility more accurately. The Service Activation
662 Charges apply to single dwelling units served under S.C. Nos. 1N and 1H as well as
663 master-metered multi-family buildings served under S.C. Nos. 1H, 2 and 4. Under the
664 Company's current Service Activation Charge structure, the Company would not
665 adequately recover its cost for those master metered buildings where the number of
666 appliances would be significantly higher than the number of appliances underlying the
667 charge. The proposed charge structure would better align the charges with costs.

668 N. **Service Reconnection Charges**

669 Q. What is the proposal for changes in the Service Reconnection Charges?

670 A. A Service Reconnection Charge is a charge assessed to a customer whose gas has been
671 turned off for any number of reasons. These include non-payment of bills and customer
672 request. Each customer is granted a waiver of one reconnection charge each year, except
673 in the situation where the customer voluntarily disconnects and then requests

674 reconnection within twelve months or in the situation in which service is disconnected at
675 the main. As with the Service Activation Charge, the Company proposes to restructure
676 the charge to include a basic charge that includes relighting four appliances and an
677 additional charge for appliances that exceed the number of appliances included in the
678 basic charge.

679 An analysis was performed to determine the cost basis of the three types of
680 service reconnections following an involuntary disconnection for which the Company
681 currently charges customers: basic reconnections which only require a meter turn-on,
682 reconnections which require setting a new meter, and reconnections that involve
683 excavating at the main. The results of this analysis are summarized in Peoples Gas
684 Ex. VG-1.10. The study shows that the cost for a reconnection at the meter is \$78.56
685 (column J, line 8; the cost for a reconnection when the meter has to be reset is \$255.87
686 (column J, line 21); and the cost for a reconnection at the main is \$2,839.55 (column J,
687 line 26). The cost to light each additional appliance is the same as under the Service
688 Activation Charge. The Company proposes to recover only a portion of these costs.
689 Peoples Gas proposes that the basic reconnection charge be increased from \$45.00 to
690 \$50.00, that the reconnection charge when the meter has to be reset be increased from
691 \$90.00 to \$100.00, and that the reconnection charge when service has to be reconnected
692 at the main be increased from \$225 to \$275. While these charges are still less than cost
693 based, they have been increased to collect a higher percentage of the costs from the
694 customers creating the costs. Peoples Gas proposes a charge of \$5.00 per appliance for
695 each appliance over four.

696 Q. Why is Peoples Gas proposing to restructure the Service Reconnection Charges?

697 A. As with the proposed changes to the Service Activation Charges, the restructuring more
698 accurately assigns cost responsibility. The Service Reconnection Charges apply to single
699 dwelling units served under S.C. Nos. 1N and 1H as well as master-metered multi-family
700 buildings served under S.C. Nos. 1H, 2 and 4. Under the Company’s current Service
701 Reconnection Charge structure, the Company would not adequately recover its cost for
702 those master metered buildings where the number of incremental appliances would be
703 significantly higher than the number of appliances underlying the charges. Although the
704 overall charges would still be less than cost, the proposed charge structure would better
705 align the charges with costs.

706 **O. Charge for Dishonored Checks and Incomplete Electronic Withdrawal**

707 Q. Why is Peoples Gas proposing to increase its charge for dishonored checks and
708 incomplete electronic withdrawals?

709 A. Peoples Gas is proposing to increase its charge for dishonored checks and incomplete
710 electronic withdrawals to better reflect prevailing rates for such checks and transactions
711 and to discourage customers from making deficient payments to the Company. The
712 Commission approved a charge of \$25.00 for MidAmerican Energy in Docket
713 No. 99-0534. According to the Commission’s order, Staff witness Mr. Luth stated that
714 the increase “...would serve to discourage payment with checks that are not valid.” The
715 order further stated that Staff said “that revenues from this charge will serve to reduce the
716 rates of those customers who make valid payments.” The Commission approved the
717 proposed increase to \$25.00. Similarly, revenue from the Company’s charge will offset
718 the increase in base rates in this proceeding.

719 Q. What charge does Peoples Gas propose for the charge for dishonored checks and
720 incomplete electronic withdrawals?

721 A. Peoples Gas proposes to increase its charge for dishonored checks and incomplete
722 electronic withdrawals from \$10.00 to \$25.00.

723 **P. Second Pulse Data Capability**

724 Q. What is Second Pulse Data Capability?

725 A. Certain meters, meter correctors and daily demand measurement devices are capable of
726 delivering a “second pulse” signal to specialized devices that can capture and transmit
727 metering data. Second Pulse Data Capability can provide this signal and make real-time
728 usage readings to customers. While the Company does not require such capability, a few
729 large volume customers have requested to tap into the second pulse output to help
730 manage their gas usage.

731 Q. Is this the same as a daily demand measurement device?

732 A. No. The daily demand measurement device is required for S.C. No. 4 customers, and for
733 transportation customers purchasing standby service. This device allows the Company to
734 receive daily meter readings for the customer.

735 Q. What charge does Peoples Gas propose for customers who elect Second Pulse Data
736 Capability?

737 A. The Company proposes a monthly charge of \$14.00, set at cost, to customers who elect
738 Second Pulse Data Capability. This is in addition to and not in place of the daily demand
739 measurement device charge that may also apply to these customers. Customers who have

740 already had Second Pulse Data Capability installed and have paid for it will not be
741 charged. The derivation of the cost for this service is shown in Peoples Gas Ex. VG 1.11.

742 **VI. SUMMARY OF INCREASE**

743 Q. Please summarize the increase in the Company's revenues from all proposed delivery
744 charges (base rates).

745 A. The Company's proposed delivery charges result in an increase of \$74.1 million. This is
746 shown in Peoples Gas Ex. VG 1.2, page 1 of 2 (line 33, column L). If the Company were
747 to recover Rider UBA expenses in base rates rather than a rider mechanism, the increased
748 from proposed delivery charges would be \$100.8 million. This is shown in Peoples Gas
749 Ex. VG 1.2, page 2 of 2 (line 33, column L).

750 Q. Please describe the revenues that will arise from the Company's increase in
751 miscellaneous charges.

752 A. The company will experience an increase in miscellaneous charges of \$811,000.

753 Q. Please describe any other revenues that will arise from the Company's increase in base
754 rate delivery charges.

755 A. The Company will experience an increase in accounting charge and forfeited discount
756 revenues that are estimated to be \$214,000 and \$704,000, respectively. Combined with a
757 base rate increase of \$74.1 million and the miscellaneous charges increase of \$811,000,
758 the total proposed revenue increase is \$75.8 million with Rider UBA. Without
759 Rider UBA, the proposed increase is \$102.6 million.

760 **VII. OTHER CURRENT RIDER CHANGES**

761 Q. Please discuss Peoples Gas' proposed changes to Rider 1, Additional Charges for Taxes
762 and Customer Charge Adjustments.

763 A. Peoples Gas proposes to revise Rider 1 to clarify language and to incorporate the
764 language from Riders 15 and CCA, which are being eliminated. Rider 15 provides for
765 taxes on the use of compressed natural gas while Rider CCA provides for charges arising
766 from the Energy Assistance Act of 1989 and the Renewable Energy, Energy Efficiency
767 and Coal Resources Development Law of 1997.

768 Q. Please discuss Peoples Gas' proposed changes to Rider 2, Gas Charge.

769 A. Peoples Gas proposes to revise Rider 2 to reflect the applicability of the rider based on
770 the elimination and renaming of applicable transportation riders. Peoples Gas also
771 proposes to eliminate Factor TS, Transition Surcharge, and refund or recover any dollars
772 awaiting recovery or refund through Factor NCGC, Non-Commodity Gas Charge. Factor
773 TS recovers gas supply realignment costs that are no longer being billed to the Company
774 by pipelines. The Company has not incurred any gas supply realignment costs since the
775 late 1990's and has not generated a Factor TS charge since February, 1999. The Gas
776 Charge filing effective March 1, 2007, includes a balance of \$23,870.62 that is awaiting
777 refund to customers. As this amount is negligible, it would either not trigger a refund or
778 trigger a small refund that would flow through Factor TS indefinitely as an under or over-
779 recovery. Adding these costs to Factor NCGC (in Schedule II, line 7 of Peoples Gas'
780 monthly gas charge filing) would provide a means of assuring that any remaining
781 Factor TS costs are refunded to customers through lowered Factor NCGC costs. Rider 2
782 has also been revised to address costs and revenues associated with the proposal,
783 discussed by Mr. Zack, under which certain gas sales and purchases will occur in
784 connection with the transportation programs' storage services. Lastly, Rider 2 reflects
785 minor editorial changes to clarify language. Note that the Company recently revised

786 Rider 2, as required by the Commission's order in Docket No. 06-0540, to reflect the
787 Company's change to a calendar year for its fiscal year.

788 Q. Please discuss Peoples Gas' proposed changes to Rider 3, Budget Plan of Payment.

789 A. Peoples Gas proposes to revise the language in Rider 3 to make it more consistent with
790 the Company's current budget plan. For example, the process by which a customer can
791 enroll on the budget plan involves the customer paying the budget installment amount in
792 lieu of the otherwise applicable amount due. This simple process is described more
793 clearly in revised Rider 3.

794 Q. Please discuss Peoples Gas' proposed changes to Rider 4, Extension of Mains.

795 A. Peoples Gas proposes to revise Rider 4 to clarify language and to address Company
796 practices and customer preferences. The basic structure of Rider 4 is unchanged in that it
797 continues to delineate Company and customer cost responsibility. The Company is
798 responsible for the costs associated with certain main installations, as Part 500 of the
799 Commission's rules provides. However, when, for example, a customer requests that the
800 Company install a main in a different location than is required to provide service, the
801 customer would bear the incremental costs associated with meeting the customer's
802 preferences.

803 Q. Please discuss Peoples Gas' proposed changes to Rider 5, Service Pipe.

804 A. Peoples Gas proposes to revise Rider 5 to clarify language and to address Company
805 practices and customer preferences. One change is based on the Commission's final
806 order in Docket No. 03-0767 which included an appendix showing an agreement among
807 Staff and parties related to questions raised by the Commission when it initiated Docket

808 No. 03-0767. One such agreement was that the amount of free gas service pipe would be
809 60 feet. Accordingly, the Company is proposing to reduce the free main extension shown
810 in Rider 5 from 100 to 60 feet. This reduction in free footage was approved by the
811 Commission for Nicor Gas in Docket No. 04-0779. Peoples Gas also proposes to add
812 language that better addresses situations regarding Company practices and customer
813 preferences. As with Rider 4, the basic structure of Rider 5 is unchanged. Rider 5
814 continues to delineate the circumstances under which the Company bears the costs of
815 pipe installation and relocation and the circumstances under which the customer bears
816 those costs because it is requesting that the work be done differently to meet its
817 preferences. Lastly, Peoples Gas proposes to specify how the Company assesses charges
818 for disconnecting and relocating service pipe.

819 Q. Please discuss Peoples Gas' proposed changes to Rider 8, Heating Value of Gas Supply.

820 A. Peoples Gas proposes to revise Rider 8 to reflect the applicability of the rider based on
821 the elimination and renaming of transportation riders and to make a minor grammatical
822 change. The revisions also specify that the Company will make filings only when the
823 heating value factor changes, rather than file every month. The factor often remains the
824 same for two or more consecutive months, and a filing is only needed when the factor
825 changes.

826 Q. Please discuss Peoples Gas' proposed changes to Rider 9, Unauthorized Use of Gas
827 Service.

828 A. Peoples Gas proposes to revise Rider 9 to reflect the applicability of the rider based on
829 the elimination and renaming of transportation riders and to make minor grammatical
830 changes. The charges are unchanged.

831 Q. Please discuss Peoples Gas' proposed changes to Rider 10, Controlled Attachment Plan.

832 A. Peoples Gas proposes to revise Rider 10 to reflect the applicability of the rider based on
833 the elimination and renaming of transportation riders and to make the language more
834 understandable.

835 Q. Please discuss Peoples Gas' proposed change to Rider 11, Adjustment for Incremental
836 Costs of Environmental Activities.

837 A. Peoples Gas made only a minor editorial change. However, note that the Company
838 recently revised Rider 11, as required by the Commission's order in Docket No. 06-0540,
839 to reflect the Company's change to a calendar year for its fiscal year.

840 Q. Are there any other rider changes that are not addressed in your testimony?

841 A. Yes. Mr. Zack discusses changes affecting the transportation riders.

842 **VIII. RIDERS AND OTHER ITEMS TO BE ELIMINATED**

843 Q. Does Peoples Gas propose to eliminate any riders?

844 A. Yes. Peoples Gas proposes to eliminate Rider 13, Remote Meter Reading Devices;
845 Rider 15, Taxes on Use of Compressed Natural Gas; Rider LCP, Low Income Customer
846 Assistance Program; and Rider CCA, Customer Charge Adjustments.

847 Peoples Gas proposes to eliminate Rider 13 because it is no longer installing
848 remote meter reading devices. The costs of radio transmitted devices are recovered
849 through base rates.

850 As discussed previously, Peoples Gas proposes to eliminate Rider 15 and
851 Rider CCA, as the terms of these riders will be included in Rider 1, Additional Charges
852 for Taxes and Customer Charge Adjustments.

853 Peoples Gas proposes to eliminate Rider LCP because the program is no longer
854 operational.

855 As discussed by Mr. Zack, Peoples Gas is also proposing to eliminate Riders FST
856 and LST.

857 Q. Does Peoples Gas propose to eliminate any other items?

858 A. Yes. Peoples Gas proposes to eliminate the Transportation Storage and Balancing
859 Agreement and the Interconnection Agreement (“Agreements”) between Peoples Gas and
860 a customer, the Southeast Chicago Energy Project (“SCEP”).

861 Q. Why does Peoples Gas propose to eliminate these items from its tariff?

862 A. When the Agreements were executed, Peoples Energy Resources Corp. (“PERC”), an
863 affiliate of the Company, was a partner in SCEP. Accordingly, the Agreements required
864 Commission approval and the Commission required the Company to include the
865 contracts in its tariff as a condition of providing service. As PERC is no longer a partner
866 in SCEP, the contract should be treated on a confidential basis like other negotiated rate
867 contracts.

868 **IX. NEW RIDERS**

869 Q. Does Peoples Gas propose to add any new riders?

870 A. Yes, Peoples Gas proposes four new riders. They are Rider EEP, Enhanced Efficiency
871 Program; Rider UBA, Uncollectible Balancing Adjustment; Rider VBA, Volume
872 Balancing Adjustment; and Rider ICR, Infrastructure Cost Recovery. Mr. Feingold
873 discusses the rationale for each of these riders in detail. Each of the new riders set forth,

874 in the form of formulas, the proposed billing mechanisms and associated definitions.
875 They also describe reports that the Company will file with the Commission.

876 **A. Rider EEP**

877 Q. What is the purpose of Rider EEP?

878 A. The purpose of Rider EEP is to compute, on an annual basis, a monthly charge per
879 customer for each applicable service classifications to recover incremental expenses that
880 support the development and implementation of energy efficiency programs.

881 Q. Please explain how the Company's proposed Rider EEP will operate.

882 A. The Company's proposed Rider EEP will be applicable to S.C. Nos. 1H and 2, which are
883 the same classes eligible for these energy conservation and efficiency programs. The
884 monthly charges under this rider will be based on an amount budgeted for the Company's
885 upcoming calendar year as approved by the Commission in this proceeding plus a carry
886 over amount discussed later in my testimony. A charge for each service classification
887 will be calculated each December, to be effective for the next year, by taking dollars
888 budgeted for the upcoming year and dividing by forecasted average number of customers
889 for the same period (the Effective Component) and converting to a per month charge. A
890 reconciliation of the previous year will be made each March and amortized over the nine-
891 month period from April through December. The reconciliation will include a
892 reconciliation of the previous year's expenses, carry over dollars and revenues arising
893 from the Effective Component of Rider EEP as well as a reconciliation of any prior year
894 reconciliation adjustments. As budget dollars may not be fully expended as the program
895 is building awareness in the initial program years, the Company proposes to carry over up
896 to 75%, 50% and 25% of budget dollars into the second, third and fourth program years,

897 respectively. The Company proposes to carry over up to 10% of budget dollars in year
898 five and thereafter.

899 The Company will file with the Commission, a report computing the Effective
900 Component, on or before the last day of December and a report computing the
901 reconciliation adjustments in March of each year. Peoples Gas Ex. VG-1.12 is a sample
902 of the reports that will be filed with the Commission. Pages 1 and 2 illustrate the
903 information sheet and the determination of the Effective Component that will be filed in
904 December of each year, to be effective in January. Pages 3 and 4 show the information
905 sheet and the determination of the reconciliation adjustment reconciling expenses and
906 revenues arising from the Effective Component from the previous year, as well as the
907 carryover of any budget dollars. Page 5 adds the determination of the reconciliation
908 adjustment which reconciles the previous reconciliation adjustment. A report which
909 includes both reconciliation adjustments, as applicable, will be filed in March of each
910 year to be effective for a nine-month period from April through December.

911 Q. Why is the Company proposing rider recovery for expenses related to its proposed energy
912 efficiency programs?

913 A. First, there is precedent for recovering such expenses through a tariff rider. Previously,
914 the Company had offered energy efficiency programs as part of a statewide least cost
915 planning initiative and recovered such expenses through Rider 16, Adjustment for
916 Incremental Costs of the Energy Conservation Plan. Second, legislation has been offered
917 that may lead to a statewide energy efficiency initiative. As there is potential for
918 Company customers to fund energy efficiency programs under a statewide initiative, the
919 Company would not want to burden its customers with the cost of multiple programs. For

920 this reason, the Company is proposing language in its tariff rider that will allow
921 adjustments to or elimination of the funding of its programs if and to the extent a
922 statewide initiative comes to fruition. Ms. Rukis (Peoples Gas Ex. IR-1.0) discusses the
923 interaction between Rider EEP and any statewide initiative. As base rate recovery would
924 require a rate case proceeding to eliminate such charges to customers, rider recovery
925 would be most appropriate.

926 Q. Please describe Rider EEP expenses and charges which are reflected in the test year.

927 A. Expenses related to Rider EEP would be incremental and are not reflected in the ECOSS.
928 However, revenues arising from Rider EEP are included in certain exhibits to show its
929 impact on customers. As discussed further in Mr. Borgard's and Ms. Rukis testimonies,
930 the Company proposes an annual budget of \$6.4 million for the programs provided under
931 Rider EEP.

932 Q. How did Peoples Gas determine the budget amount of \$6.4 million for the programs
933 provided under Rider EEP?

934 A. As discussed by Mr. Borgard, the Commission's order in Docket No. 06-0540 included a
935 condition specifying that Peoples Gas and North Shore (the "Gas Companies") would
936 propose energy efficiency programs in an aggregate amount of \$7.5 million in their 2007
937 rate cases. Mr. Borgard and Ms. Rukis explain why this level of funding is reasonable.

938 The Gas Companies propose to divide this amount between the utilities in
939 proportion to each utility's base rate revenues from the service classifications eligible to
940 participate in the proposed program. Specifically, Peoples Gas divided historical year
941 2006 account level base rate revenues for Peoples Gas S.C. No. 1 (heating only) and S.C.
942 No. 2 by the Gas Companies' total account level S.C. No. 1 (heating only) and S.C. No. 2

943 account level base rate revenues and applying the result (85%) to the aggregate budget
944 amount of \$7.5 million.

945 Q. Please explain how the \$6.4 million budget amount will be allocated between service
946 classifications eligible to participate in the programs.

947 A. The \$6.4 million will be allocated to S.C. No. 1H and S.C. No. 2 based on the percentage
948 of 2006 account level base rate revenues for each respective service classification to total
949 S.C. No. 1H and S.C. No. 2 account level base rate revenues. This results in \$4.1 million
950 for S.C. No.1H and \$2.3 million for S.C. No. 2.

951 Q. Please address any allocations to specific customer groups within the service
952 classifications.

953 A. As discussed by Mr. Borgard and Ms. Rukis, the Company is proposing to offer energy
954 efficiency programs specifically targeted to low income customers. The Company
955 estimates that approximately 17% of its customers are low income. This estimate is
956 based on customers who had a LIHEAP grant within the last 36 months or for whom
957 available data show an annual income of \$15,000 or less. Therefore, the Company is
958 proposing to allocate \$1 million of the total \$6.4 million (17% x \$6.4 million rounded
959 down) to the low income program. This amount would be included in the \$4.1 million
960 allocated to S.C. No. 1H customers, thereby leaving \$3.1 million (\$4.1 million - \$1
961 million) to be allocated to programs targeted to all S.C. No. 1H customers. The
962 allocations of the budget amount to the Company, each service classification and the low
963 income program are shown in Peoples Gas Ex. VG-1.13. A derivation of estimated test
964 year charges per customer for Rider EEP is also shown in Peoples Gas Ex. VG-1.13,
965 column I.

966 **B. Rider UBA**

967 Q. What is the purpose of Rider UBA?

968 A. The purpose of Rider UBA is to compute a monthly adjustment, applicable to all service
969 classifications except contract service rates (S.C. Nos. 5 and 7), to recover uncollectible
970 expenses associated with recoverable gas costs.

971 Q. Please explain how the Company's proposed Rider UBA will operate.

972 A. As explained above, the Company is proposing to remove recovery of these expenses
973 from its base rates. Rider UBA will be computed monthly based on forecasted gas costs
974 (i.e., estimated gas charge revenues) and will be applied to retail customers' bills on a
975 monthly basis and to transportation customers' bills only when they purchase company-
976 owned standby commodity gas or consume unauthorized use gas. The adjustment under
977 this rider will be determined by multiplying the uncollectible expense percentage
978 approved in the Company's most recent rate case proceeding by the forecasted gas charge
979 revenues arising from the application of Rider 2 to be effective for the upcoming month
980 and dividing by the applicable volumes for the same month, yielding the effective
981 adjustment. Any difference between billed revenues and uncollectible expenses under
982 the rider will be reconciled on an annual basis and amortized over a ten-month period
983 beginning the following March, with any resulting adjustment (positive or negative)
984 added to customers' bills during that period.

985 The Company will file a monthly report with the Commission on or before the
986 last day of the month prior to the effective month of the adjustment. The Company will
987 also file an annual report in February of each year that determines a reconciliation
988 adjustment reconciling the previous year's expenses and revenues and summarizes the

989 previous year's activity. Peoples Gas Ex. VG-1.14 is a sample of the reports which will
990 be filed with the Commission. Page 1 illustrates the monthly information sheet. Page 2
991 illustrates the determination of the Effective Component. Page 3 illustrates the
992 determination of the reconciliation adjustment for the previous year. Page 4 illustrates
993 the determination of the reconciliation adjustment for the previous year as well as the
994 determination of the reconciliation adjustment reconciling any prior reconciliation
995 adjustments.

996 Q. Please describe how Rider UBA impacts base rates for retail sales and transportation
997 customers.

998 A. The gas cost related expense recovered through this proposed rider has been stripped out
999 of base rates. Rider UBA would apply to all service classifications, except S.C. Nos. 5
1000 and 7, and the transportation riders but is only applicable to Company supplied gas. As a
1001 result, there is no need to have separate base rate charges for retail sales and
1002 transportation customers.

1003 Q. Please describe test year expenses related to Rider UBA and the derivation of Rider UBA
1004 adjustments which are reflected in test year revenues.

1005 A. Uncollectible gas cost expenses to be recovered through Rider UBA are \$26.7 million in
1006 the test year. Revenues arising from Rider UBA as shown in my exhibits are based upon
1007 charges calculated as described above. A simple derivation of a Rider UBA adjustment
1008 for the test year is shown in Peoples Gas Ex. VG-1.15.

1009 Q. How is your proposal for Rider UBA different from the proposal regarding bad debt that
1010 Nicor Gas made in Docket No. 04-0779?

1011 A. My understanding is that Nicor Gas proposed to recover its commodity-related bad debt
1012 expenses through its gas charge rider, and that Nicor Gas did not file a separate proposed
1013 bad debt rider. Peoples Gas is proposing a separate rider to recover these expenses. This
1014 is appropriate because gas costs are largely volatile, unpredictable and unstable, as
1015 discussed by Mr. Feingold and Mr. Borgard.

1016 C. **Rider VBA**

1017 Q. What is the purpose of Rider VBA?

1018 A. The Company's base rate charges for providing delivery service to S.C. Nos. 1N, 1H and
1019 2 customers include a fixed monthly customer charge and volumetric distribution
1020 charges. The purpose of Rider VBA is to compute a monthly adjustment that will result
1021 in the Company recovering only the distribution revenues (margin) approved by the
1022 Commission in its most recent rate case proceeding, based on normal weather and the
1023 approved level of customers.

1024 Q. Please discuss the guiding principles that were adhered to when developing the
1025 determination of the adjustments under Rider VBA.

1026 A. Several principles guided the development of the adjustments determined under
1027 Rider VBA. Specifically, the adjustments would:

- 1028 • Result only in recovery of approved volumetric distribution margin, no more and
1029 no less.
- 1030 • Be fair and symmetrical.
- 1031 • Avoid any overlap with weather and conservation related volume variations.
- 1032 • Not be impacted by changes in the number of customers, resulting in no

1033 recoveries for customer losses and no refunds for customer gains.

- 1034 • Accurately compute margin impacts by using a margin per customer approach
1035 rather than a single rate or a rate derived from a subjective weighting or averaging
1036 of rate blocks.

1037 Q. Please explain how the Company's proposed Rider VBA will operate.

1038 A. The Company's proposed Rider VBA will be applicable to its S.C. Nos. 1N, 1H, and 2
1039 and will be computed and applied to customers' bills on a monthly basis, using actual and
1040 rate case data from the second month prior to the effective month of the adjustment
1041 determined under this rider. For example, the Rider VBA amount computed based on
1042 October results will be applied to customer bills rendered in December. A "baseline"
1043 distribution margin per customer and average number of customer levels for each
1044 applicable rate class will be established in the Company's current rate case, and they will
1045 be adjusted as necessary in future rate cases. A separate adjustment will be computed for
1046 each service classification. Each month an adjustment will be determined by taking the
1047 difference between the rate case baseline distribution margin per customer and the actual
1048 distribution margin per customer in the second month prior to the effective month of the
1049 adjustment. The difference will be multiplied by the rate case number of customers and
1050 divided by the number of therms estimated for the effective month of the adjustment,
1051 yielding the monthly per therm adjustment. Any difference between actual billed
1052 revenues arising from distribution charges plus the adjustment and approved distribution
1053 margin under the rider will be reconciled on an annual basis and amortized over a ten-
1054 month period beginning March, with any resulting positive or negative adjustment added
1055 to customers' bills during that period. To remove the impact of customer loss or growth,

1056 actual billed revenues will be based on the number of customers approved in this
1057 proceeding.

1058 The Company will file a monthly report with the Commission, on or before the
1059 last day of the month prior to the effective month of the adjustment, and an annual report
1060 which will include a determination of any reconciliation adjustments in February of each
1061 year. Peoples Gas Ex. VG-1.16 is a sample of the reports that will be filed with the
1062 Commission. Page 1 illustrates the monthly information sheet. Page 2 illustrates the
1063 determination of the Effective Component. Pages 3 and 4 illustrate the determination of
1064 the factors referenced on Page 2. Page 5 illustrates the determination of the
1065 reconciliation adjustment for the previous fiscal year. Pages 6 and 7 illustrate the
1066 determination of the factors referenced on Page 5. Page 8 illustrates the determination of
1067 the reconciliation adjustment for the previous fiscal year as well as the determination of
1068 the reconciliation adjustment reconciling any prior reconciliation adjustments.

1069 Q. Please discuss the derivation of the Rate Case Margin per Customer that would be used in
1070 determining Rider VBA.

1071 A. The Rate Case Margin per Customer for each month would be based on the Commission
1072 approved distribution margin for each month divided by the number of Commission
1073 approved customers (Rate Case Customers) for the same month. Peoples Gas Ex. VG-
1074 1.17 shows how the Rate Case Margin per Customer for each service classification would
1075 be calculated based on the Company's proposed rates with and without Rider UBA.

1076 **D. Rider ICR**

1077 Q. What is the purpose of Rider ICR?

1078 A. The Company's proposed Rider ICR will recover, on a per customer basis, costs
1079 associated with the accelerated replacement of cast iron and ductile steel main and
1080 connecting facilities including services, meters and regulators.

1081 Q. What is the purpose of Rider VBA?

1082 A. The Company's proposed Rider ICR will recover (on a per customer basis) costs
1083 associated with the accelerated replacement of cast iron and ductile steel main and
1084 connecting facilities including services, meters and regulators.

1085 Q. Please describe how the Company's proposed Rider ICR would operate.

1086 A. Rider ICR would apply to S.C. Nos. 1H, 2 and 4. The monthly charge calculated under
1087 the rider will be determined an annual basis and billed over an annual cycle beginning
1088 each April 1. It will be determined by calculating a revenue requirement for investments
1089 made in Accounts 376, 380, 381, 382 and 383 of the Uniform System of Accounts for
1090 Gas Utilities operating in Illinois relative to a baseline level of investments in those
1091 accounts. The Company will file a report with the Commission annually, no later than
1092 March 31, which shows the determination of the charge calculated under this rider.

1093 Q. What is the baseline level of investment?

1094 A. The baseline level is the average amount of investments for fiscal years 2004 - 2006.
1095 (The fiscal years for this purpose are the twelve months ended September 30.) Peoples
1096 Gas selected this base period because, in its February 7, 2007 order in Docket 06-0540,
1097 the Commission directed Peoples Gas to maintain its capital expenditure budgets and
1098 operation and maintenance budgets associated with its physical gas systems for the
1099 aggregate period 2007 through 2009 at levels that will equal or exceed the actual capital

1100 and operation and maintenance expenditures, excluding unusual items of a non-recurring
1101 nature, during the aggregate three-year period of fiscal 2004 through fiscal 2006.

1102 **X. TEST YEAR BILLING UNIT ADJUSTMENTS**

1103 Q. What billing units did Peoples Gas use in deriving its proposed rates?

1104 A. Peoples Gas used normalized sales volumes and an average number of customers to
1105 derive rates for all service classifications. The Company used average demand volumes
1106 to derive demand rates for customers served under S.C. Nos. 4 and 6. The Company used
1107 transportation units to derive rates related to its transportation programs. Mr. Zack will
1108 address transportation charges in his testimony.

1109 Q. What is the basis for these units?

1110 A. The test year is the historical year of fiscal 2006 (October 1, 2005 - September 30, 2006).
1111 In deriving the billing units used to develop proposed rates, the Company started with the
1112 actual units from the period and made the following adjustments to the historical data: 1)
1113 for S.C. No. 1H and S.C. No. 2, normalized for weather the sales volume; 2) for S.C.
1114 No. 2, reallocated the number of customers for each meter class; 3) for S.C. No. 6 and
1115 S.C. No. 2, adjusted sales volume, customers and demand volumes to reflect transfers
1116 from S.C. No. 6 to S.C. No. 2; and 4) for S.C. Nos. 3 and 4, adjusted sales volume,
1117 customers and demand volumes to reflect transfers from one service classification to
1118 another as a result of the elimination of S.C. No. 3.

1119 Q. Please describe adjustments made to the Company's test year sales volumes to normalize
1120 for weather.

1121 A. The Company's test year reflects weather that was warmer than normal. Therefore,
1122 Peoples Gas developed a weather adjustment that would increase sales volume to a level
1123 reflecting normal weather conditions. As discussed in Mr. Marozas' testimony (Peoples
1124 Gas Ex. BMM-1.0), the Company is proposing a 10-year weather normal based on
1125 weather recorded at O'Hare International Airport for the ten-year period ending
1126 September, 2006. The normal for that period is 6,044 heating degree days ("HDDs")
1127 which is 269 HDDs higher than the 5,775 HDDs experienced in the test year. To account
1128 for the variation from normal weather, the Company determined monthly weather
1129 adjustments for each month in the test year, and the total weather adjustment is the sum
1130 of these monthly adjustments. The adjustments were determined primarily by using a
1131 methodology that is similar to the method used by the Company's customer information
1132 system to determine heat and base load factors for customer accounts. This methodology
1133 is described in Peoples Gas Ex. VG -1.18. Using this methodology, the Company
1134 calculated an annual normalization adjustment of 51,117,000 therms.

1135 Q. Please describe how the Company allocated the monthly weather adjustments among the
1136 applicable service classifications and to the appropriate rate blocks.

1137 A. After determining the normalization adjustments described above, the Company used its
1138 Gas Sales and Revenue Model ("GSRM"), which calculates forecasted sales volumes,
1139 revenues and related taxes, to allocate the monthly weather adjustments to S.C. No. 1 and
1140 S.C. No 2, the Company's most weather sensitive service classifications. Using billing
1141 frequency data, the GSRM allocated the weather adjustments to the steps and blocks of
1142 each service classification. The GSRM also allocated blocked weather adjustments for
1143 each service classification to the appropriate business classifications (residential,

1144 commercial and industrial) and sales type (retail sales and transportation). Lastly, the
1145 GSRM calculated revenues for the weather volumes by applying the appropriate
1146 distribution rates and other charges. The allocation methods used by the GSRM are
1147 described more fully in Peoples Gas Ex. VG-1.19.

1148 Q. Please describe the adjustments made by the Company to S.C. No. 2 to reallocate the
1149 number of meters between meter classes.

1150 A. As stated above, S.C. No. 2 divides customers into two meter classes. During fiscal year
1151 2006, the Company determined that certain customers that were billed under Meter Class
1152 1 should have been billed under Meter Class 2 and vice versa. As a result, the Company
1153 made corrective billing adjustments which distorted the average number of customers in
1154 the test year. To eliminate this distortion in the average number of customers and to
1155 reflect the proper allocation, the Company made adjustments to test year customers to
1156 reflect the correct distribution of customers between the two meter classes. Therefore the
1157 test year customer counts reflect billing adjustments that removed customers from one
1158 meter class and placed them on the correct meter class. The total number of customers
1159 was unchanged.

1160 Q. Please describe the adjustments made by the Company to transfer accounts from S.C. No.
1161 6 to S.C. No. 2.

1162 A. During fiscal year 2006, the Company determined that certain accounts receiving service
1163 under its S.C. No. 6, Standby Service, were not eligible for that service classification and
1164 took corrective action which transferred those accounts to S.C. No. 2, General Service.
1165 Consequently, test year sales and customers reflected distorted sales and average
1166 customer counts arising from the resulting billing adjustments. The Company corrected

1167 this distortion in its test year by transferring affected sales volumes and customers from
1168 S.C. No. 6 to S.C. No. 2, their current service classification. Total sales volume and
1169 customers between these two service classifications were unchanged. Demand volumes
1170 were not transferred to S.C. No. 2 which does not have demand charges.

1171 Q. Were there other adjustments made to billing periods ?

1172 A. Yes. Due to the elimination of S.C. No. 3, the Company transferred sales volumes,
1173 customers, demand terms, and transportation units from S.C. No. 3 to S.C. No. 4.

1174 Q. Does this conclude your direct testimony?

1175 A. Yes, it does.