

**Direct Testimony**

**of**

**Mike Luth**

Rates Department

Financial Analysis Division

Illinois Commerce Commission

Proposed general increase in natural gas rates

North Shore Gas Company and  
The Peoples Gas Light and Coke Company

Docket Nos. 07-0241 and 07-0242  
Consolidated

June 29, 2007

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**INTRODUCTION TO TESTIMONY**

1 Q. Please state your name and business address.

2 A. Mike Luth, 527 East Capitol Avenue, Springfield, Illinois 62701.

3 Q. Please state your professional qualifications and work experience.

4 A. I received a B.S. in Accounting from Illinois State University. I have earned the  
5 C.P.A and C.M.A professional designations. Since graduating, I have worked as  
6 an Assistant Property Manager with a real estate company and as a Field Auditor  
7 with the Wisconsin Department of Revenue. In October 1990, I joined the  
8 Accounting Department of the Illinois Commerce Commission (“Commission”).  
9 In June 1998, I transferred from the Accounting Department of the Commission  
10 to the Rates Department.

11 Q. Have you testified in any previous Commission dockets?

12 A. Yes. I have testified on numerous occasions before the Commission.

**PURPOSE OF TESTIMONY**

13 Q. What is the purpose of your testimony?

14 A. I am addressing the cost of service and base rate proposals of North Shore Gas  
15 Company (“North Shore”) and The Peoples Gas Light and Coke Company  
16 (“Peoples Gas”) (individually, the “Company””, collectively, the “Companies”) for  
17 natural gas service which were filed on March 9, 2007. I am not addressing the

18 Companies' new Rider proposals. Other Staff witnesses will discuss Staff's  
 19 position on the Companies' new Rider proposals.

20 Q. Are you sponsoring any schedules?

21 A. Yes, I am sponsoring the following schedules:

Schedule 7.1	Bill Impacts Summary
Schedule 7.2	Calculation of Credit to Transportation Therms and Additional Charge to Sales Therms for Uncollectible Gas Costs
Schedule 7.3	Summary of Customer Class Cost of Service and Revenue Recovery under Company-proposed Rates

22 Q. Are you making any adjustments to the Companies' proposals?

23 A. Yes, I recommend the following adjustments to the Companies' proposals:

- 24 1. Functionalize software account nos. 303.1 and 303.2 according to  
 25 the relative weights of depreciable plant in service rather than solely  
 26 a customer accounts cost,
- 27 2. Classify account no. 375 as a demand cost rather than a combination  
 28 of other costs, some of which are customer costs,
- 29 3. Classify uncollectible accounts expense into customer cost, demand  
 30 cost, and commodity cost including gas costs rather than solely a  
 31 customer cost,
- 32 4. Allocate Mains and other distribution costs according to a customer  
 33 class factor that combines the percentage of average load and the  
 34 percentage of peak load, and
- 35 5. Adjust rates consistent with differences in customer class cost of  
 36 service.

**COST OF SERVICE**

**Account nos. 303.1 and 303.2, Software**

37 Q. How did North Shore and Peoples Gas functionalize Intangible Plant  
38 account nos. 303.1 and 303.2, Software Licenses and Software – Other,  
39 respectively?

40 A. Peoples Gas functionalizes Intangible Plant account nos. 303.1, Software  
41 Licenses, and 303.2, Software – Other, as a customer accounts cost only,  
42 with no recognition of any contribution to Production, Storage,  
43 Transmission, or Distribution. There were no balances in Intangible Plant  
44 account nos. 303.1 and 303.2, Software Licenses and Software – Other,  
45 respectively at North Shore.

46 Q. Did you ask Peoples Gas for further information on account no. 303.1,  
47 Software Licenses?

48 A. Yes, I asked Peoples Gas to provide a list and description of the function of  
49 each software license that adds \$5,000.00 or more to the \$121,276,766  
50 plant account balance. The Company responded that the account title  
51 needed clarification and actually represents Software Additions rather than  
52 Software Licenses. The Company indicated that software licenses are  
53 included in the account, but in most cases are imbedded in the cost of the  
54 asset and are not readily identifiable.

55 The Company's response was not sufficient. The explanation that the  
56 account should have a different title is at best somewhat interesting, but not  
57 informative about the nature of the costs that are recorded in the account.  
58 Whether the Company develops or purchases the software, each significant  
59 addition to the account balance should be identifiable and the purpose of  
60 each addition should be available. It is unsettling that Peoples Gas cannot  
61 provide an analysis of the function for over \$121 million in costs that are  
62 capitalized. At this time, for the purposes of revising the cost of service  
63 study, I will functionalize account nos. 303.1 and 303.2 according to the  
64 relative weights of depreciable Production, Storage, Transmission,  
65 Distribution, and Customer Accounts Plant. I recommend that the Company  
66 provide an adequately informative response to my data request ML-2.01 for  
67 a description of the function of each significant addition to capitalized  
68 software costs. If an adequate description of additions to capitalized  
69 software costs cannot be provided, it should not be included in rate base  
70 because the purpose of the costs will not be adequately known.

**Account no. 375**

71 Q. How did North Shore and Peoples Gas allocate account no. 375,  
72 Distribution Plant – Structures and Improvements?  
73 A. North Shore and Peoples Gas allocate account no. 375 as a combination  
74 of demand and customer costs. As a result, the classification of

75 maintenance expense account no. 886 for Structures and Improvements is  
76 also classified as a combination of demand and customer costs.

77 Q. Please explain why you classify account nos. 375 and 886 as solely demand  
78 costs rather than a combination of demand costs and customer costs.

79 A. I classify account nos. 375 and 886 as a demand cost because the Uniform  
80 System of Accounts (83 Ill. Adm. Code, Part 505) describes the costs to be  
81 recorded in account no. 375 as those costs for structures and improvements  
82 used in connection with distribution operations. Gas Plant Instruction 8 describes  
83 costs to be considered as structures and improvements. In general, structures  
84 and improvements are costs that might be expected to be considered structures  
85 and improvements, namely, buildings and facilities to house, support, or  
86 safeguard property or persons. Meters and service connections are distribution  
87 plant costs that are customer costs; however, there are no buildings to house,  
88 support, or safeguard meters and service connections that would be recorded in  
89 Structures and Improvements account no. 375. Installations to support meters  
90 and service connections should be recorded in account no. 380, Services;  
91 account no. 381, Meters; account no. 382, Meter installations; or account no.  
92 386, Other property on customers' premises.

93 Q. What are the effects of allocating account no. 375 as a combination of  
94 demand and customer costs compared to allocation solely as a demand  
95 cost?

96 A. To the extent that the allocation of account no. 375 is influenced by the number  
97 of customers, customer classes with larger numbers of customers will be  
98 allocated a greater proportion of account no. 375 and account no. 886 costs than  
99 if those accounts are classified as solely demand costs. For Peoples Gas  
100 residential customers, non-heating customers would be allocated \$260,249  
101 under my approach, versus \$1,612,504, or approximately 5½ times more, under  
102 Peoples Gas' approach. Peoples Gas residential heating customers would be  
103 allocated \$16,084,659 under my approach versus \$22,698,094, or \$6.6 million  
104 more, under the Company's approach. For North Shore residential customers,  
105 non-heating customers would be allocated \$14,464 under my approach, versus  
106 \$41,601, or nearly 3 times more, under the Company's approach. North Shore  
107 residential heating customers would be allocated \$6,185,835 under my approach  
108 versus \$7,556,333, or \$1.5 million, more under the Company's approach.

109 One other effect under my approach is that account no. 375 and account no. 886  
110 costs will be recovered through the variable demand or distribution charge which  
111 is based upon monthly gas demand or consumption, rather than through the  
112 fixed monthly customer charge as well as the variable demand or distribution  
113 charge under the Companies' approach.

114 Q. Was account no. 375 classified as a demand cost in the recent AmerenUE and  
115 AmerenCIPS gas proceedings, Docket Nos. 03-0008 and 03-0009, and the

116 recent Northern Illinois Gas Company (“Nicor Gas”) rate proceeding, Docket No.  
117 04-0779?

118 A. Yes, account no. 375 was classified as a demand cost in docket nos. 03-0008,  
119 03-0009, and 04-0779; as described in the testimony of Ameren witness Difani,  
120 AmerenCIPS Exhibit No. 9.0, pp. 7-8 and AmerenUE Exhibit No. 9.0, pp. 7-8;  
121 and in Docket No. 04-0779, as shown in Nicor Exhibit 14.1, Schedule G, page 9  
122 of 104, lines 44 and 45. In the interest of maintaining consistency among gas  
123 companies and without clear reasons to allocate account no. 375 differently,  
124 account no. 375 should be considered a demand cost based upon the Uniform  
125 System of Accounts and as evidenced in docket nos. 03-0008, 03-0009, and 04-  
126 0779.

**Uncollectible Accounts**

127 Q. Did North Shore and Peoples Gas classify account no. 904, Uncollectible  
128 accounts, as solely a customer cost?

129 A. Yes, North Shore and Peoples Gas classify Uncollectible accounts as solely a  
130 customer cost.

131 Q. Do you agree with the Companies’ proposal?

132 A. No, I do not.

133 Q. How do you classify account no. 904?

134 A. I classify account no. 904, Uncollectible accounts as a combination of customer  
135 costs, demand costs, and commodity costs including gas costs.

136 Q. Why do you classify Uncollectible accounts as a combination of customer costs,  
137 demand costs, and commodity costs including gas costs?

138 A. Uncollectible accounts results from customers who do not pay bills owed to the  
139 Companies. A customer's bill is generally made up of both the fixed and variable  
140 charges. In particular, a customer's bill consists of a customer charge that does  
141 not vary with consumption (fixed), and charges that vary according to usage  
142 (variable). Since the Companies' revenues result from billings to customer  
143 accounts, the expense of uncollectible accounts is therefore made up of  
144 uncollectible customer charges and uncollectible usage charges. The  
145 Company's estimate of uncollectible accounts should be recovered through all  
146 base rate charges applicable to a customer, including variable charges based  
147 upon usage, not just the customer charge. By classifying uncollectible accounts  
148 expense as a combination of customer costs, commodity costs including gas  
149 costs, and demand costs, recovery of uncollectible accounts expense will be  
150 included in the charges applicable to each customer class that has an allocation  
151 of uncollectible accounts.

152 Q. How did you separate uncollectible accounts as demand costs, commodity costs  
153 including gas costs, and customer costs?

154 A. I separated uncollectible accounts expense allocated to each customer class by  
155 the relative weight, or percentage of, revenue requirement and gas costs from  
156 each customer class resulting from demand costs, commodity costs, customer  
157 costs, and gas costs. Uncollectible accounts expense allocated to each  
158 customer class is considered a demand cost, commodity cost, customer cost,  
159 and uncollectible gas cost according to the relative weight or percentage  
160 resulting from each of those cost classifications.

161 Q. Why do you include gas costs in the classification of uncollectible accounts  
162 expense within each customer class?

163 A. Staff is recommending that the Commission reject the Companies' proposed  
164 recovery of uncollectible gas costs through Rider UBA, which therefore would  
165 require the recovery of uncollectible gas costs through base rates determined in  
166 this docket. If the Commission approves the Companies' proposed Rider UBA,  
167 the remaining uncollectible accounts should be separated according to demand  
168 cost, commodity cost, and customer cost for each customer class.

169 Q. What customer classes are allocated uncollectible accounts expenses?

170 A. At this stage of review, uncollectible accounts are limited to residential customers  
171 in the 1N and 1H service classifications and smaller commercial customers in  
172 service classification 2. According to North Shore and Peoples Gas, those were  
173 the only service classifications that had accounts written off as uncollectible in  
174 the test year.

175 Q. Should the allocation of uncollectible accounts expenses consider customer  
176 classes other than the customer classes who had accounts written off as  
177 uncollectible in the test year?

178 A. Yes, other customer classes should be considered as having potentially  
179 uncollectible accounts for the purposes of determining rates in this proceeding if  
180 those other customer classes have had accounts recently written off as  
181 uncollectible. In Staff data request ML-2.01, I have requested the Companies to  
182 provide an analysis of uncollectible accounts written off by customer class over  
183 the past 10 years to determine whether the Companies have experienced  
184 uncollectible accounts in customer classes other than the residential and small  
185 commercial service classifications since the Companies' previous rates  
186 proceedings, Docket Nos. 95-0031 and 95-0032 (consol.). The data request  
187 response is due on June 29, 2007. When I have the appropriate information, I  
188 can determine whether other customer classes should be included in the  
189 allocation of uncollectible accounts, and if so, a representative test year  
190 allocation.

191 Q. Do the Peoples Gas and North Shore proposals for uncollectible accounts  
192 include a credit for uncollectible gas costs for transportation customers?

193 A. It does not appear that the Companies will charge transportation customers less  
194 than sales customers for uncollectible gas costs, particularly if the Commission  
195 rejects the Companies' proposal to add Rider UBA to its roster of charges.

196 Currently, the issue of lower charges for uncollectible gas costs for transportation  
197 customers within the same customer class would affect only residential customer  
198 service classifications ("SC") 1N and 1H, and commercial customer service  
199 classifications 1N, 1H and 2 because those are the only three customer classes  
200 that have uncollectible accounts included in cost of service.

201 Q. Should the rate for transportation customers in service classifications affected by  
202 uncollectible accounts for gas costs be lower than the rate for sales customers  
203 who purchase their gas supply from Peoples Gas and North Shore?

204 A. Yes, transportation customers in service classifications 1N, 1H, and 2 should pay  
205 less per therm than sales customers in those service classifications. In the event  
206 that a transportation account becomes uncollectible, gas costs should not be part  
207 of the amount that is uncollectible because neither Peoples Gas nor North Shore  
208 would have provided the gas supply to the uncollectible account. As a result, the  
209 usage charge for transportation customers should be lower than the rate for  
210 sales customers.

211 I have calculated the reduction for transportation customers compared to sales  
212 customers in service classifications 1N, 1H, and 2 on Schedule 7.2 for both North  
213 Shore and Peoples Gas. The reduction is on a per-therm basis because gas  
214 costs charged through the Gas Charge, Rider 2, is charged on a per-therm basis,  
215 so an allowance for reduced uncollectible gas costs from transportation  
216 customers should also be made on a per-therm basis. The reduction is based

217 upon the percentage of uncollectible expense from service classifications 1N, 1H,  
218 and 2 that includes gas costs in each service classification, divided by sales  
219 therms applicable to each service classification. Distribution rates per therm  
220 applicable to transportation customers should be lower by the amount shown that  
221 corresponds to each service classification.

**Allocation of Distribution System Costs by a combination of Average and Peak  
Loads**

222 Q. What is the Companies' recommended method to allocate distribution system  
223 costs?

224 A. The Companies recommend the allocation of distribution system costs by the  
225 relative customer service classification weightings of coincident peak ("CP")  
226 demand, which is the volume of natural gas that each customer service  
227 classification is responsible for on the day that Peoples Gas and North Shore  
228 have the highest volume of total gas deliveries. The general theory behind CP  
229 allocation is that the distribution system must be sized so that a Company can  
230 deliver the highest volume of gas reasonably expected in a day; typically the  
231 coldest day expected that results in maximum gas usage for heating in addition  
232 to other typical daily uses.

233 Q. Has the Commission reviewed the allocation of distribution system costs in other  
234 natural gas utility rate proceedings?

235 A. Yes, the Commission has reviewed the question of whether to allocate natural  
236 gas distribution system costs by the Average load and Peak demand factor  
237 (“A&P”) versus the CP, most recently in Nicor Gas rate case, Docket No. 04-  
238 0779. In that proceeding, the Commission concluded that not all costs of the  
239 natural gas distribution system are directly related to peak demand, and as a  
240 result, A&P is a more appropriate measure to allocate natural gas distribution  
241 system costs. (Order dated September 20, 2005, Docket No. 04-0779, p. 102)  
242 In explaining its decision, the Commission referenced several other dockets in  
243 which A&P was found to be the appropriate measure of distribution system cost  
244 allocation over CP (Id., pp. 101-102, referencing Orders in Docket Nos. 04-0476,  
245 03-0008, 03-0009, 95-0219, and 94-0040)

246 Q. Do you agree that the natural gas distribution must be sized to accommodate  
247 peak day demand?

248 A. Yes, I agree that the natural gas transmission and distribution system must be  
249 sized to accommodate peak day demand, but I do not agree that CP is the best  
250 method to allocate distribution system costs. As North Shore and Peoples Gas  
251 witness Ronald J. Amen notes, a significant portion of mains costs do not  
252 increase with an increase in pipe diameter (North Shore Ex. RJA-1.0, pp. 25-26,  
253 lines 551-572; and Peoples Gas Ex. RJA-1.0, p. 25, lines 547-562), which means  
254 that the cost of the distribution system is not fully determined by the sizing of the  
255 distribution system to accommodate peak demand.

256 Q. Does A&P take average daily deliveries of gas and peak demand into  
257 consideration in allocating natural gas distribution system costs?

258 A. Yes, A&P takes average daily deliveries of gas, as well as peak demand, into  
259 consideration in allocating natural gas distribution system costs. In the past, the  
260 Commission has adopted an A&P factor that weights average daily deliveries of  
261 gas by the system average load factor. (Order, Docket No. 04-0779, p. 102,  
262 referencing Orders in Docket Nos. 04-0476, 03-0008, 03-0009, 95-0219, and 94-  
263 0040) The system average load factor is determined by dividing daily average  
264 gas deliveries by peak day gas deliveries. Daily average gas deliveries are  
265 determined by dividing total annual throughput by 365 days. Peak demand,  
266 measured by CP, is weighted in the A&P allocation factor according to the  
267 difference between 100 percent of costs and the system average load factor. For  
268 Peoples Gas, A&P is weighted 24.44 percent for average load and 75.56 percent  
269 for peak demand. (Peoples Gas 285.5110, WPE-6.3, lines 4 and 8) For North  
270 Shore, A&P is weighted 25.47 percent for average load and 74.53 percent for  
271 peak demand. (North Shore 285.5110, WPE-6.3, lines 4 and 8) The Peoples  
272 Gas formula for determining the A&P allocation for each customer class would  
273 be:

274 
$$\text{A\&P} = (.2444 \times \text{average daily therms}) + (.7556 \times \text{peak demand day therms})$$

Similarly, the North Shore formula for determining the A&P allocation factor for  
each customer class would be:

$$\text{A\&P} = (.2547 \times \text{average daily therms}) + (.7453 \times \text{peak demand day therms})$$

275 Q. Is A&P a more reasonable measure of the costs of the natural gas distribution  
276 system than CP?

277 A. Yes, A&P is a more reasonable measure of the costs and uses of the natural gas  
278 distribution system than CP. As discussed in previous dockets, A&P takes into  
279 consideration that (1) not all costs of the distribution system are caused by peak  
280 demand sizing, (2) the distribution system is in use everyday of the year and not  
281 just on the coldest days of the year, and (3) customers benefit from the use of the  
282 system on lower-volume days. If the natural gas distribution system had been  
283 built only to provide service on a peak demand day, the cost of the system would  
284 make the amount that a customer would have to pay for one day of service so  
285 prohibitive that the customer would have a strong incentive to consider whether  
286 or not to be part of the system.

287 Another perspective, taken to the extreme, would be a sole customer in a service  
288 classification who did not have any gas delivered on a system peak day might  
289 not pay anything under a CP allocation for the use of the distribution system on  
290 364 other days of the year when that customer represents the highest volume  
291 delivered on the system on those other days. While this is an extreme example  
292 that would not likely occur, it is illustrative of the defects in a CP allocation  
293 because the single customer who did not have any gas delivered on the peak  
294 demand day certainly benefited from the use of the system throughout the  
295 remainder of the year. The customer in the extreme illustration should clearly  
296 pay for the use of the system on non-peak demand days. A&P is a more

297 reasonable measure of the costs and daily uses of the natural gas distribution  
298 system than CP and should be used in the allocation of those costs.

299 Q. Should a customer component be considered in the allocation of common or joint  
300 use distribution facilities, as suggested by the Companies?

301 A. No, a customer component should not be considered in the allocation of common  
302 or joint use distribution facilities, as discussed by North Shore and Peoples Gas  
303 witness Ronald J. Amen. (North Shore Ex. RJA-1.0, pp. 22-28, lines 491-618;  
304 and Peoples Gas Ex. RJA-1.0, pp. 22-28, lines 487-613) Costs to attach a  
305 customer to the distribution system, such as costs for services, meters, meter  
306 installations, demand measurement devices, house regulators, and other  
307 property on customer premises, are already considered to be customer-based  
308 costs and appropriately charged. Common or joint use distribution facilities, such  
309 as mains, should be allocated according to the use of the facilities, as  
310 represented by A&P. The inclusion of a customer component for common or  
311 joint use distribution facilities more heavily weights the cost of common or joint  
312 use facilities to customer service classifications with higher numbers of  
313 customers, even if those customers use the facilities far less than large use  
314 customer service classifications. The result of including a customer component  
315 in the allocation of common or joint use facilities would be that small-volume,  
316 high customer count service classifications would pay for the usage of the  
317 distribution system by large-volume, small customer count service classifications.  
318 That would be an inappropriate result because the low-volume, high customer

319 count service classifications already would be charged for the customer costs to  
320 physically attach those customers to the system such as services, meters, meter  
321 installations, demand measurement devices, house regulators, and other  
322 property on customer premises. The Commission should reject the addition of a  
323 customer component to the allocation of common or joint use distribution system  
324 facilities.

**REVENUE REQUIREMENT, COST OF SERVICE, AND RATE DESIGN**

325 Q. How does cost of service affect rate design?

326 A. After determining customer class cost of service, rates for each customer class  
327 should reflect the amounts in each cost classification or category. In this docket,  
328 costs are classified according to customer class, and then further defined within  
329 each customer class as customer costs, demand costs, or commodity costs.  
330 Rates should be designed, to the extent possible, to recover total customer class  
331 costs, with the fixed monthly customer charge recovering customer costs, the  
332 usage-based distribution charge recovering commodity and demand costs, and,  
333 when applicable for certain customer classes with the necessary metering, the  
334 demand charge recovering demand costs. Increases or decreases in specific  
335 rates can be determined to be excessive so that certain customers may  
336 experience rate shock. In the case of rate shock, rates can be structured so that  
337 customer costs may be recovered through the distribution rate, or costs from one  
338 customer class may be recovered from another customer class that does not  
339 face the same increase.

340 Q. Will differences in total company revenue requirement, such as those that could  
341 result from adjustments recommended by Staff or other parties, affect how rates  
342 are designed?

343 A. Yes, differences in revenue requirement could affect how rates are designed. A  
344 lower revenue requirement, for example, would generally result in lower rates  
345 because revenues recovered rates would be lower. A lower overall revenue  
346 requirement could affect whether revisions in individual rate elements are  
347 considered excessive or could cause rate shock in comparison to present rates,  
348 or whether costs from one customer class should be recovered from another  
349 customer class. Conversely, a higher revenue requirement could cause a  
350 particular rate or customer class costs to be considered excessive or cause rate  
351 shock when, with a lower revenue requirement, the rate would not be considered  
352 excessive or to cause rate shock.

353 Q. Have you based the following discussion of rate design upon the Company's  
354 proposed revenue requirement?

355 A. Yes, I have. The Company's proposed revenue requirement was available  
356 throughout my review of cost of service and rates, and also represents the basis  
357 for revenues to be recovered through the Company's proposed rates.

**North Shore Rate Design**

358 Q. Are North Shore rates affected by the cost of service adjustments that you are  
359 recommending, as discussed previously?

360 A. Yes, in general, rates will be affected by the cost of service adjustments that I  
361 recommend, although there will not be an effect on some of the rate elements  
362 because the rate proposed by North Shore result in revenues close to the  
363 corresponding cost classification within the customer class.

364 Q. Please compare adjusted North Shore customer class cost of service from your  
365 cost of service study with revenues recovered under the Company's proposed  
366 rates.

367 A. My adjustments to cost of service result in a small overrecovery, less than 2  
368 percent, of customer class cost of service from North Shore residential customer  
369 service classifications 1N and 1H and standby customer service classification 6.  
370 There is a small underrecovery of general commercial customer service  
371 classification 2 costs, and a significant, nearly 34 percent underrecovery of large  
372 volume demand service customer service classification no. 4 costs.

373 Q. What adjustment should be made to the Company's proposed North Shore  
374 residential non-space heat service classification 1N rates to correct the  
375 overrecovery?

376 A. The overrecovery of residential non-space heat customer service classification  
377 1N is less than 1/10<sup>th</sup> of one percent, so there is little need to adjust the

378 Company's proposed rates, except to recover uncollectible gas costs from sales  
379 customers, and eliminate recovery of uncollectible gas costs from transportation  
380 customers. In order to separate recovery of uncollectible gas costs between  
381 sales customers and transportation customers, the Company's single block  
382 distribution rate should be reduced 3.166¢ per therm for transportation  
383 customers. The decrease in revenues as a result of the reduction in the  
384 transportation distribution rate from residential 1N non-space heat customers is  
385 close to the overall \$326 overrecovery from 1N customers, so it is the only  
386 adjustment necessary to North Shore's proposed 1N rates.

387 Q. What adjustment should be made to the Company's proposed North Shore  
388 residential space heat service classification 1H rates to correct the over-  
389 recovery?

390 A. The overrecovery of residential space heat customer service classification 1H is  
391 slightly more than one percent of costs, with the overrecovery taking place  
392 through the distribution charge. As a result, the adjustment to residential space  
393 heat 1H rates should be made to the distribution charge. As with the 1N  
394 distribution rates, the transportation distribution rates should be reduced to  
395 eliminate recovery of uncollectible gas costs. In order to address both the overall  
396 general overrecovery of 1H costs and to eliminate recovery of uncollectible gas  
397 costs from transportation rates, the Company's proposed transportation  
398 distribution rates should be reduced 0.184¢ per therm, while the sales distribution  
399 rates should be increased 0.302¢ per therm.

400 Q. If the Commission approves the separation of current residential customer  
401 service classification 1 into SC 1N, should North Shore notify SC 1N customers  
402 of the difference in rates between SC 1N and SC 1H?

403 A. Yes, both North Shore and Peoples should inform SC 1N customers about the  
404 change to non-heating customer status and the difference in rates between 1N,  
405 non-heating rates and 1H, heating rates. If a North Shore customer who uses  
406 gas for heating is mistakenly identified as a non-heating customer, the bill  
407 impacts could be significant during high-use heating months because the  
408 proposed 33.97¢ per therm distribution rate for 1N, non-heating customers is  
409 more than 5 times higher than the proposed 6.65¢ per therm 1H second-block  
410 distribution rate.

411 Q. Should the distinction between 1N and 1H customers be made on the basis of  
412 usage rather than application of that usage, such as heat vs. non-heat?

413 A. Yes, the distinction between 1N and 1H customers should be made on the basis  
414 of usage rather than application of that usage because at high usage levels, the  
415 1H rate is less expensive than 1N. If a residential customer's usage is  
416 consistently fairly high, then that customer should qualify for the 1H rate, rather  
417 than forced into the higher-priced 1N rate simply because the customer does not  
418 use gas for space heat.

419 Q. What would be the level of usage that a residential non-space heat customer  
420 would qualify for the proposed 1H rate?

421 A. Depending upon the resolution of revenue requirement, customer class cost of  
422 service and rate design, the break-even point for usage billed under 1N  
423 compared to 1H should be used to determine when a non-space heat customer  
424 would qualify for 1H billing. The break-even usage level should be determined  
425 on a rolling 12-month average usage basis, so that a residential customer would  
426 not be billed under 1N for low-usage months and 1H for high-usage months.  
427 Instead, the customer service classification would be determined based upon a  
428 full year of usage to determine whether the customer consistently uses enough  
429 gas to establish a usage pattern more in line with a space heat customer rather  
430 than a low-use non-space heat customer.

431 Q. What adjustment should be made to the Company's proposed North Shore small  
432 commercial general service customer classification 2 rates to correct the under-  
433 recovery?

434 A. The underrecovery of general service customer classification 2 is approximately  
435 one and a half percent of costs. Customer costs are overrecovered through the  
436 customer charge, so commodity and demand costs are underrecovered by more  
437 than 1 and a half of those costs through the distribution charge. As a result, the  
438 Company's proposed customer charge should be reduced, and the Company's  
439 proposed distribution charge should be increased. In order to address the

440 overrecovery of customer costs through the service classification 2 customer  
441 charge, the separate customer charges for small and large meters should be  
442 reduced by 12 percent, which results in the small meter customer charge  
443 remaining unchanged from its present rate, and an approximately 12.15 percent  
444 reduction in the Company's proposed large meter customer charge so that it  
445 would be set at \$52.71. As with residential service classifications 1N and 1H, the  
446 distribution rate for general service customer classification 2 transportation  
447 customers should be lower than the comparable rate for sales customers. In  
448 order to address both the overall general overrecovery of service classification 2  
449 costs and to eliminate recovery of uncollectible gas costs from transportation  
450 rates, the Company's proposed transportation distribution rates should be  
451 reduced 1.135¢ per therm, while the sales distribution rates should be increased  
452 0.397¢ per therm.

453 Q. What adjustment should be made to the Company's proposed North Shore large  
454 volume demand service customer classification 4 rates to correct the under-  
455 recovery?

456 A. The Company's proposed rates overrecover commodity costs and underrecover  
457 demand costs. Customer cost recovery through the SC4 customer charge is  
458 nearly in balance with customer costs, so there is no need to adjust the customer  
459 charge. Since demand-classified costs under SC4 are influenced by average  
460 load, I am proposing the recovery of 23.1 percent SC4 demand costs through the  
461 distribution charge rather than the demand charge. Recovery of 23.1 percent re-

462 classification of SC 4 demand costs through the distribution charge would result  
463 in no change to the Company's proposed demand charges, and an increase in  
464 the SC 4 distribution charge to 0.46¢ per therm at the Company's proposed  
465 revenue requirement. It is reasonable for 23.1 percent of SC4 demand-classified  
466 costs to be recovered through the distribution charge rather than the demand  
467 charge because 23.1 percent is slightly less than the 25 percent North Shore  
468 overall system load factor.

469 Q. Are there any changes necessary to the Company's proposed North Shore SC5,  
470 rates for Standby Service?

471 A. Overall, there is a small overrecovery of SC5 costs through the Company's  
472 proposed rates. In order to reduce SC5 revenues to overall cost of service, the  
473 Company's proposed customer charge should be reduced 65¢ per month. A 65¢  
474 reduction in the SC5 customer charge results in a customer charge of \$42.35 per  
475 month.

### **Peoples Gas Rate Design**

476 Q. Are Peoples Gas rates affected by the cost of service adjustments that you are  
477 recommending, as discussed previously?

478 A. Yes, in general, rates will be affected by the cost of service adjustments that I  
479 recommend, although there will not be an effect on some of the rate elements  
480 because the rate proposed by Peoples Gas either result in revenues close to the

481 corresponding cost classification within the customer class, or result in revenues  
482 below the overall customer class of service.

483 Q. Please compare adjusted Peoples Gas customer class cost of service from your  
484 cost of service study with revenues recovered under the Company's proposed  
485 rates.

486 A. My adjustments to cost of service result in underrecovery under the Company's  
487 proposed rates from all customer service classifications except SC2. My  
488 adjustments to cost of service: (1) reduce the amount of underrecovery from  
489 residential customer service classifications 1N and 1H, (2) reduce the amount of  
490 over-recovery from small commercial customer service classification 2, (3) result  
491 in an underrecovery of costs from the combination of large volume service  
492 classifications 3 and 4 into a single service classification 4, and (4) result in an  
493 underrecovery of costs from standby customer service classification 6 and  
494 compressed natural gas customer service classification 8.

495 Q. Should adjustments be made to the Company's proposed rates for Peoples Gas  
496 residential customer service classifications 1N and 1H to address the  
497 underrecovery?

498 A. Yes, there should be a few changes in the rates proposed by the Company for  
499 SC 1N and 1H. First, the proposed SC1N customer charge should be increased  
500 from \$11.25 to \$12.00. For both SC1N and SC1H, customer costs are  
501 underrecovered by the proposed customer charges, but I agree that the increase

502 in the SC1H customer charge should be limited to the \$10.00 increase proposed  
503 by the Company, which more than doubles the current \$9.00 per month customer  
504 charge. The SC 1N customer charge should be increased to move SC 1N closer  
505 to full cost recovery, particularly for customer costs, to move the SC 1N customer  
506 charge closer to the overall SC 1N revenue increase, and to reduce the subsidy  
507 provided by other customer classes. The Company is proposing a substantial  
508 64.8 percent overall increase in the distribution rate charge to SC 1N customers.  
509 My recommended increase in the SC 1N customer charge should be offset by a  
510 decrease in the proposed distribution rate for SC 1N to 48.776¢ per therm, so  
511 that the distribution charge is less than 50¢ per therm and approximately five  
512 percent less than the Company's proposed rate of 51.343¢ per therm.

513 For SC 1H, the distribution charges currently in effect should not be reduced as  
514 long as overall customer class costs are not recovered by rates. The Company  
515 is proposing to reduce its SC 1H distribution rates. While the Company's  
516 proposed SC 1H distribution rates overrecover SC 1H commodity and demand  
517 costs, the distribution rate overrecovery does not balance the underrecovery of  
518 customer costs through the proposed customer charge. If the current distribution  
519 rate is not changed, then the increase to SC 1H customers will be \$10.00  
520 regardless of usage. Under the Company's proposal, as SC 1H usage  
521 increases, the overall bill increase becomes lower because the SC 1H  
522 distribution rates would be lower than the present rates. According to Peoples  
523 Gas 285.5135, Schedule E-9, the increase disappears with monthly usage of

524 1,000 therms. Increased usage should not result in an overall bill that remains  
525 the same or possibly decreases with usage more than 1,000 therms.

526 Q. What is the uncollectible gas costs credit to the distribution rate for Peoples Gas'  
527 SC 1N transportation customers?

528 A. Uncollectible SC 1N gas costs represent approximately 5.043¢ per therm  
529 delivered to sales customers. To eliminate uncollectible gas costs from SC 1N  
530 transportation customers, the Company's proposed distribution rate for SC 1N  
531 sales customers should be increased approximately 0.070¢ per therm to recover  
532 SC 1N uncollectible gas costs, while SC 1N transportation customers should pay  
533 approximately 5.043¢ less per therm.

534 Q. What is the uncollectible gas cost credit to the distribution rate for Peoples Gas'  
535 SC 1H transportation customers?

536 A. Uncollectible SC 1H gas costs represent approximately 2.947¢ per therm  
537 delivered to sales customers. To eliminate uncollectible gas costs from SC 1H  
538 transportation customers, the Company's proposed distribution rate for SC 1H  
539 sales customers should be increased approximately 0.075¢ per therm to recover  
540 SC 1H uncollectible gas costs, while SC 1H transportation customers should pay  
541 approximately 2.947¢ less per therm.

542 Q. If the Commission approves the separation of current residential customer  
543 service classification 1 into SC 1N, should Peoples Gas notify SC 1N customers  
544 of the difference in rates between SC 1N and SC 1H?

545 A. Yes, both Peoples Gas and North Shore should inform SC 1N customers about  
546 the change to non-heating customer status and the difference in rates between  
547 1N, non-heating rates and 1H, heating rates. If a Peoples Gas customer who  
548 uses gas for heating is mistakenly identified as a non-heating customer, the bill  
549 impacts could be significant during high-use heating months because the  
550 proposed 51.343¢ per therm distribution rate for 1N, non-heating customers is  
551 nearly 5 times higher than the proposed 10.518¢ per therm 1H second-block  
552 distribution rate.

553 Q. Should the distinction between 1N and 1H customers be made on the basis of  
554 usage rather than application of that usage, such as heat vs. non-heat?

555 A. Yes, the distinction between 1N and 1H customers should be made on the basis  
556 of usage rather than application of that usage because at high usage levels, the  
557 1H rate is less expensive than 1N. If a residential customer's usage is  
558 consistently fairly high, then that customer should qualify for the 1H rate, rather  
559 than forced into the higher-priced 1N rate simply because the customer does not  
560 use gas for space heat.

561 Q. What would be the level of usage that a residential non-space heat customer  
562 would qualify for the proposed 1H rate?

563 A. Depending upon the resolution of revenue requirement, customer class cost of  
564 service and rate design, the break-even point for usage billed under 1N  
565 compared to 1H should be used to determine when a non-space heat customer  
566 would qualify for 1H billing. The break-even usage level should be determined  
567 on a rolling 12-month average usage basis, so that a residential customer would  
568 not be billed under 1N for low-usage months and 1H for high-usage months.  
569 Instead, the customer service classification would be determined based upon a  
570 full year of usage to determine whether the customer consistently uses enough  
571 gas to establish a usage pattern more in line with a space heat customer rather  
572 than a low-use non-space heat customer.

573 Q. Should adjustments be made to Peoples Gas' rates for small commercial  
574 customer general service classification 2 to address the overrecovery of costs?

575 A. Yes, small commercial general customer SC 2 rates should be adjusted to  
576 reduce the overrecovery of costs from SC 2 customers and to spread the  
577 recovery of SC 1N and 1H costs not recovered through SC 1N and 1H rates to  
578 customer classes other than SC 2.

579 Q. Why should Peoples Gas' rates other than SC 2 include SC 1N and 1H costs not  
580 recovered through SC 1N and 1H?

581 A. There is nothing unique about SC 2 customers compared to SC 3, 6, or 8  
582 customers to require those customers to entirely fund the recovery of SC 1N and  
583 1H costs not recovered through SC 1N and 1H rates. Nearly all of the

584 Company's proposed 21.83 percent SC 2 increase results from revenues that are  
585 21.7 percent above the Company-determined SC 2 cost of service. In contrast,  
586 the increases to SC 3, 6, and 8 move revenues from those rates close to, at, or  
587 slightly higher than cost of service. If SC 1N and 1H costs are to be funded, in  
588 part, by other customer classes; SC 2 should not be required to compensate for  
589 the entire amount.

590 Q. What should be the overall increase to Peoples Gas' SC 2 to move some of the  
591 responsibility for SC 1N and SC 1H costs not recovered through rates?

592 A. The overall increase to SC 2 should be approximately \$12,887,405 rather than  
593 the Company's proposed \$26,982,000 increase. My proposed SC 2 increase is  
594 less than the Company's because of a reduction in funding of SC 1N and 1H  
595 costs.

596 Q. Should Peoples Gas' proposed SC 2 customer charges be adjusted?

597 A. No, Peoples Gas' proposed SC 2 customer charges should not be adjusted. SC  
598 2 customer charges overrecover SC 2 customer costs by approximately \$4.75  
599 million, but the SC 2 portion of underrecovered SC 1N and SC 1H costs is  
600 approximately \$8.84 million. As a result, I am not proposing to reduce SC 2  
601 customer charges even though those customer charges overrecover SC 2  
602 customer costs. The remaining \$4.09 million of underrecovered SC 1N and SC  
603 1H costs should be recovered through an 11.4 percent increase in the  
604 Company's proposed SC 2 customer charges, which would result in a \$2.39

605 increase in the Company's proposed SC 2 small meter customer charge and a  
606 \$6.84 increase in the Company's proposed SC 2 large meter customer charge.  
607 Since customer costs are underrecovered through SC 1N and 1H rates, and  
608 because revenues from the SC 2 customer charge is a smaller percentage of SC  
609 2 revenues than revenues from the distribution and demand charges, it is  
610 appropriate to increase the SC 2 customer charge.

611 Q. What is the uncollectible gas costs credit to the distribution rate for Peoples Gas'  
612 SC 2 transportation customers?

613 A. Uncollectible SC 2 gas costs represent approximately 1.036¢ per therm delivered  
614 to sales customers. To eliminate uncollectible gas costs from SC 2  
615 transportation customers, the Company's proposed distribution rate for SC 2  
616 sales customers should be increased approximately 0.051¢ per therm to recover  
617 SC 2 uncollectible gas costs, while SC 2 transportation customers should pay  
618 approximately 1.036¢ less per therm.

619 Q. What adjustments should be made to the Company-proposed SC 4 rates for  
620 large volume demand service customers?

621 A. Peoples Gas is proposing to include current SC 3 customers with SC 4  
622 customers. Current SC 3 customers would face a near 2½ times increase in  
623 demand charges, but a near 60 percent decrease in distribution charges.  
624 Current SC 4 customers would face approximately a 6.4 percent decrease in  
625 demand charges and a 42.4 percent increase in distribution charges. From

626 these observations, it appears that more emphasis should be placed on  
627 distribution charges and less emphasis should be placed on demand charges to  
628 reduce the impact on SC 3 customers. To re-balance recovery of demand costs,  
629 I recommend recovery of 24 percent of demand costs through the distribution  
630 charge rather than the demand charge because demand costs are influenced by  
631 usage. 24 percent represents the Peoples Gas system-wide load factor, which is  
632 a comparison of average daily usage with peak usage.

633 In order to re-balance the recovery of SC 3 and SC 4 demand costs, the revised  
634 SC 4 distribution charge, which would apply to both present SC 3 customers and  
635 SC 4 customers, should be increased 1.33¢ per therm above the Company  
636 proposed distribution rate. Both blocks of the revised SC 4 demand charges,  
637 which would also apply to both present SC 3 customers and SC 4 customers,  
638 should be decreased 2.806¢ per therm below the Company proposed demand  
639 rate.

640 To recover SC 1N and SC 1H costs, the revised SC 4 customer charge, which  
641 would apply to both present SC 3 customers and SC 4 customers, should be  
642 increase \$478.12 above the Company-proposed customer charge. Since  
643 customer costs are underrecovered through SC 1N and 1H rates, and because  
644 revenues from the SC 4 customer charge is a smaller percentage of SC 4  
645 revenues than revenues from the distribution and demand charges, it is  
646 appropriate to increase the SC 4 customer charge.

647 Q. What adjustments should be made to the Company-proposed Peoples Gas SC 6  
648 rates for standby service customers?

649 A. SC 6 distribution costs are overrecovered through the Company-proposed SC 6  
650 distribution charge, but the overrecovery of SC 6 distribution costs is exceeded  
651 by the underrecovery of SC 6 customer costs through the Company-proposed  
652 customer charge. As a result, I am not proposing to reduce the Company-  
653 proposed SC 6 distribution charge.

654 To recover SC 1N and SC 1H costs, the revised SC 6 customer charge should  
655 be increased \$11.56 above the Company-proposed customer charge. Since  
656 customer costs are underrecovered through SC 1N and 1H rates, it is  
657 appropriate to increase the SC 4 customer charge. The Company-proposed  
658 increase to the SC 6 is already significant, from \$15.00 to \$90.00, so an  
659 additional increase of \$11.56 further increases an already significant increase.  
660 The Company-proposed increase in the SC 6 distribution charge is also  
661 significant, from 1¢ per therm to 14.878¢ per therm, so an increase in the  
662 distribution does not appear to be favorable in comparison to the customer  
663 charge. The increase in the demand charge would also be significant to recover  
664 the SC 6 share of underrecovered SC 1N and 1H costs, so an increase in the  
665 Company-proposed demand charge does not appear to be a favorable option  
666 either.

667 Q. Did Peoples Gas comment upon the significant reductions in its SC 6 demand  
668 billing units, despite an increase in the number of customer charge billing units?

669 A. No, Company witness Grace did not comment upon the significant decrease in  
670 SC 6 demand billing units, from a combined sales and transportation total of  
671 more than 15,000 therms down to a combined total of approximately 1,100  
672 therms. An increase in the number of customer charge billing units suggests an  
673 increase in demand billing units rather than a 92.7 percent reduction. In rebuttal  
674 testimony, I recommend that the Company explain this apparent inconsistency.

675 If a mistake was made in the determination of demand billing units, it is possible  
676 that the SC 6 rate structure could be adjusted, from a proposed heavy emphasis  
677 on customer charge revenues to a greater emphasis on demand charge  
678 revenues. The Company's proposed rates under the Peoples SC 6 are  
679 significantly different from rates proposed under comparable North Shore SC 5.  
680 The Company-proposed Peoples SC 6 customer charge is \$90.00 compared to a  
681 proposed North Shore SC 5 customer charge of only \$43.00. The Company-  
682 proposed Peoples SC 6 demand charge is \$8.49 per therm compared to a  
683 proposed North Shore SC 5 demand charge of only 10.414¢ per therm. The  
684 Company-proposed Peoples SC 6 distribution charge is 14.878¢ per therm  
685 compared to a proposed North Shore SC 5 distribution charge of only 1.875¢ per  
686 therm. Under the Companies proposed rates, a Peoples SC 6 customer with  
687 identical usage patterns as a North Shore SC 5 customer would be billed twice  
688 as much for the customer charge, 8½ times more for the demand charge, and

689 nearly 8 times as much for the distribution charge. It is clear that Peoples should  
690 discuss the significant differences between the Peoples SC 6 and North Shore  
691 SC 5 rates, in addition to the apparent inconsistency in the Peoples SC 6  
692 demand billing units under present and proposed rates.

693 Q. Did the same significant reduction occur in comparable North Shore standby  
694 customer SC 5 demand billing units?

695 A. No, a reduction in demand billing units did not occur in comparable North Shore  
696 standby customer SC 5, which further indicates that Peoples Gas should explain  
697 the reduction in its SC 6 demand billing units.

698 Q. What adjustments should be made to Peoples Gas' proposed SC 8 rates for  
699 compressed natural gas service customers?

700 A. SC 8 demand costs, which in addition to commodity costs are recovered through  
701 the SC 8 distribution charge, are underrecovered through the Company-  
702 proposed SC 8 distribution charge. As a result, the Company-proposed SC 8  
703 distribution charge should be increased by approximately 1.094¢ per therm to  
704 fully recover distribution and demand costs.

705 To recover SC 1N and SC 1H costs, the revised SC 8 customer charge should  
706 be increased \$24.86 above the Company-proposed customer charge. Since  
707 customer costs are unrecovered through SC 1N and 1H rates, and because

708 revenues from the SC 4 customer charge is a smaller percentage of SC 4  
709 revenues than revenues from the distribution and demand charges, it is  
710 appropriate to increase the SC 4 customer charge.

**Bill Impacts**

711 Q. Have the Companies prepared a detailed analysis of bill impacts?

712 A. Yes, in addition to Administrative Code Part 285, Section 285.5135, Schedule E-  
713 9 for both Peoples, a 9-page schedule, and North Shore, a 7-page schedule, the  
714 Company prepared a month-by-month bill impacts analysis of the Company-  
715 proposed rates on various customer usages, in each rate class in response to  
716 Staff data request ML-1.05. The bill impacts analysis for each customer class in  
717 the response to Staff request ML-1.05 was completed for a very low-usage  
718 customer, a low-middle usage customer, a middle-usage customer, a high-  
719 middle usage customer, and a high usage customer. The monthly analysis was  
720 completed for a total of 17 representative customer subgroups at Peoples and 14  
721 representative customer subgroups at North Shore under each of the five usage  
722 patterns, for a total of approximately 1,860 monthly bills.

723 Q. What general conclusions can be reached after reviewing the monthly bill  
724 impacts analyses provided in response to Staff data request ML-1.05?

725 A. In general, and based on the Companies' responses to Staff data request ML-  
726 1.05, the highest percentage bill impacts will be felt by very-low usage customers

727 in each Peoples and North Shore rate class. This indicates that most of the  
728 resulting bill increases results from Company-proposed increases to the  
729 customer charges across customer service classifications.

730 The exception to the general conclusion that the resulting bill increases are  
731 highest to low-usage customers is the proposed new residential non-space heat  
732 SC 1N customer class at both Peoples and North Shore. Consistent with the  
733 general conclusion, a higher percentage increase is experienced at very-low  
734 usage levels. As usage increases, the bill impacts percentage of increase  
735 becomes smaller until very-high SC 1N usage levels are billed and the bill  
736 impacts percentage of increase becomes higher than at lower-usage levels.

737 Since SC 1N is supposed to be a low-volume customer class, billings for usage  
738 above the very-high usage level in the Companies' analysis should be rare.  
739 Monthly usage in the very-high usage 1N assumption at North Shore ranged  
740 from 135 therms to 446 therms, which are usage levels more comparable to  
741 heating customers rather than non-heat customers. It would be beneficial for a  
742 very-high usage North Shore 1N customer near-average monthly usage of 273  
743 therms to be billed as a 1H customer. Since a very-high usage 1N customer  
744 would benefit from a billing as a 1H customer rather than a 1N customer, I  
745 recommend that the distinction between a 1N and a 1H customer should be  
746 based upon usage, rather than application of that usage.

747 Q. Are there any other bill impacts that are significant?

748 A. Yes, the bill impacts for very-low and middle-low usage Peoples Gas SC 6  
749 standby service customers and North Shore SC 5 standby service customers are  
750 significant. Both Peoples Gas and North Shore nearly reverse the present SC 6  
751 and SC 5 billing structures from an emphasis on demand charge revenues to a  
752 proposed emphasis on customer charge revenues. I recommend that the  
753 Companies review their proposed rate structure for these 2 classes from a bill  
754 impacts perspective so that Peoples Gas SC 6 and North Shore SC 5 revenue  
755 recovery can become more balanced between customer charge revenues and  
756 demand charge revenues. Additionally, rebuttal testimony from Peoples Gas  
757 should address the significant reduction in SC 6 demand billing units at proposed  
758 rates compared to present rates shown on Schedule E-5.

759 Q. What other conclusions about bill impacts do you have?

760 A. Bill impacts on customers are an important issue that deserves further analysis in  
761 the Companies' rebuttal testimony.

762 Q. Does this conclude your direct testimony?

763 A. Yes, it does.

**Bill Impacts Summary**

Annual % Change Total Charges  
 Based on Company proposed rates in direct testimony

**Peoples Gas Company**

Frequency Range	Rate 1 Heating Retail	Rate 1 Heating Rider SVT	Rate 1 Non-Heating Retail	Rate 1 Non-Heating Rider SVT	Rate 2 Large Meter FST to Rider SST	Rate 2 Large Meter at usage levels	Rate 2 Large Meter Rider at usage levels	Rate 2 Large Meter SVT at usage levels	Rate 2 Small Meter FST to Rider SST	Rate 2 Small Meter FST to Rider SVT	Rate 2 Small Meter at usage levels	Rate 2 Small Meter SVT at usage levels	Rate 3 Rider LST Accounts	Rate 3 Retail Accounts to Rate 4	Rate 3 Rider LST Accounts to Rate 4	Rate 4 Rider LST Accounts	Rate 4 Retail Accounts - Standby	Rate 6 Rider FST Accounts - Only 3 accounts taking service under this Rate/Rider; Assumes they would be served at proposed Rates	Rate 8 Retail Accounts - Only 4 accounts on Rate 8 retail	
	1%	68.36%	28.07%	23.81%	30.14%	24.79%	56.07%	13.14%	35.96%	133.59%	-13.90%	30.77%	18.35%	29.88%	2.18%	7.57%	-0.86%	289.31%	N/A	6.32%
20%	11.57%	7.39%	20.28%	23.02%	10.01%	11.24%	2.14%	8.64%	30.59%	-1.42%	11.23%	8.55%	9.51%	1.12%	6.27%	-0.14%	230.75%	N/A	7.66%	7.30%
50%	7.15%	4.76%	16.90%	18.00%	5.89%	7.68%	1.15%	5.40%	13.83%	0.05%	6.73%	4.68%	5.11%	0.22%	2.90%	0.06%	-30.81%	N/A	0.37%	7.42%
80%	4.99%	3.16%	12.93%	9.91%	3.19%	5.41%	0.78%	3.09%	8.42%	1.79%	4.27%	3.11%	2.61%	1.07%	2.87%	0.26%	-12.30%	N/A		6.90%
100%	0.65%	-1.67%	25.40%	20.15%	0.78%	2.42%	-0.11%	0.74%	3.48%	2.67%	2.93%	1.62%	0.90%	-0.50%	2.74%	0.33%	10.68%			

**North Shore Gas Company**

Frequency Range	Rate 5 - Standby	Rate 3 Rider LST to Rider SST Only 3 Accounts
1%	108.35%	N/A -1.93%
20%	105.04%	N/A -1.85%
50%	57.29%	N/A -1.93%
80%	41.19%	
100%	-16.31%	

The Peoples Gas Light and Coke Company  
Calculation of Credit to Transportation Therms and  
Additional Charge to Sales Therms for  
for Uncollectible Gas Costs

<u>Line No.</u>		<u>SC 1N</u>	<u>SC 1H</u>	<u>SC 2</u>	
1	Fiscal Year 2006 Write-offs	\$ 2,014,399	\$ 29,553,701	\$ 5,867,093	ML 1.06
	Present Revenues				
2	Sales	\$ 37,771,000	\$ 1,007,203,000	\$ 471,623,000	E-5
3	Transportation	\$ 250,000	\$ 7,111	\$ 91,183,000	E-5
4	Combined	\$ 38,021,000	\$ 1,007,210,111	\$ 562,806,000	
5	Uncollectible Accounts Rate	<u>0.05298</u>	<u>0.02934</u>	<u>0.01042</u>	= Line No. 1/Line No. 4
6	Sales Gas Costs	\$ 14,418,000	\$ 689,986,000	\$ 348,579,000	E-5
7	Uncollectible Accounts Rate	<u>0.05298</u>	<u>0.02934</u>	<u>0.01042</u>	
8	Uncollectible Gas Costs	\$ 763,883	\$ 20,245,666	\$ 3,633,837	
9	Divided by: Sales Therms	<u>15,148,000</u>	<u>686,938,000</u>	<u>350,912,000</u>	E-5
10	<b>Transportation Credit per therm</b>	<b>\$ (0.05043)</b>	<b>\$ (0.02947)</b>	<b>\$ (0.01036)</b>	
11	Transportation therms	<u>210,000</u>	<u>17,406,000</u>	<u>17,406,000</u>	E-5
12	Transportation Revenue Reduction	\$ (10,590)	\$ (512,995)	\$ (180,246)	
13	Divided by: Sales Therms	<u>15,148,000</u>	<u>686,938,000</u>	<u>350,912,000</u>	E-5
14	<b>Charge per Sales Therm</b>	<b>\$ 0.00070</b>	<b>\$ 0.00075</b>	<b>\$ 0.00051</b>	

North Shore Company  
Calculation of Credit to Transportation Therms and  
Additional Charge to Sales Therms for  
for Uncollectible Gas Costs

<u>Line No.</u>		<u>SC 1N</u>	<u>SC 1H</u>	<u>SC 2</u>	
1	Fiscal Year 2006 Write-offs	\$ 30,144	\$ 1,147,192	\$ 352,332	ML 1.06
	Present Revenues				
2	Sales	\$ 947,000	\$ 235,103,000	\$ 54,550,000	E-5
3	Transportation	\$ 5,000	\$ 1,432,000	\$ 11,073,000	E-5
4	Combined	\$ 952,000	\$ 236,535,000	\$ 65,623,000	
5	Uncollectible Accounts Rate	<u>0.03166</u>	<u>0.00485</u>	<u>0.00537</u>	= Line No. 1/Line No. 4
6	Sales Gas Costs	\$ 526,000	\$ 179,013,000	\$ 43,676,000	E-5
7	Uncollectible Accounts Rate	<u>0.03166</u>	<u>0.00485</u>	<u>0.00537</u>	
8	Uncollectible Gas Costs	\$ 16,655	\$ 868,211	\$ 234,498	
9	Divided by: Sales Therms	<u>567,000</u>	<u>182,607,000</u>	<u>44,694,000</u>	E-5
10	<b>Transportation Credit per therm</b>	<b>\$ (0.02937)</b>	<b>\$ (0.00475)</b>	<b>\$ (0.00525)</b>	
11	Transportation therms	<u>10,000</u>	<u>4,247,000</u>	<u>85,453,000</u>	E-5
12	Transportation Revenue Reduction	\$ (294)	\$ (20,193)	\$ (448,350)	
13	Divided by: Sales Therms	<u>567,000</u>	<u>182,607,000</u>	<u>44,694,000</u>	E-5
14	<b>Charge per Sales Therm</b>	<b>\$ 0.00052</b>	<b>\$ 0.00011</b>	<b>\$ 0.01003</b>	

The Peoples Gas Light and Coke Company  
 Summary of Customer Class Cost of Service and  
 Revenues Recovered under Company-proposed Rates

	5	6	7	8	9	10	11
	S.C. 1 Non-Heating	S.C. 1 Heating	S.C. 2	S.C. 3	S.C. 4	S.C. 8	S.C. 6
Total Revenue Requirement -- Re-classified Uncollectible Accounts							
DEM	171,977,428	1,241,115	78,417,069	78,677,986	8,413,478	5,206,283	12,139
COM	24,034,311	201,071	11,381,314	11,644,075	486,036	318,790	1,731
CUS	249,525,575	26,855,926	187,482,110	33,700,943	1,059,208	374,833	4,088
UNCOLLECTIBLE GAS COSTS	24,643,387	763,883	20,245,666	3,633,837	-	-	-
~							
<b>Sub-total</b>	470,180,701	29,061,995	297,526,159	127,656,841	9,958,723	5,899,907	17,957
<b>Revenue Recovery per Company</b>							
<u>Sales:</u>							
Customer Charge Revenues	183,658,000	17,985,000	138,239,000	27,318,000	77,000	-	4,000
Distribution Charge Revenues	203,727,000	7,778,000	135,060,000	60,676,000	199,000	-	12,000
Demand Charge Revenues	233,000				225,000	-	8,000
Sales Total	387,618,000	25,763,000	273,299,000	87,994,000	501,000	-	16,000
<u>Transportation:</u>							
Customer Charge Revenues	16,016,000	180,000	3,674,000	10,837,000	1,127,000	194,000	-
Distribution Charge Revenues	59,059,000	108,000	3,447,000	51,757,000	2,141,000	1,598,000	-
Demand Charge Revenues	7,491,000				4,822,000	2,668,000	-
Transportation Total	82,566,000	288,000	7,121,000	62,594,000	8,090,000	4,460,000	-
<u>Combined Sales and Transportation:</u>							
Customer Charge Revenues	199,674,000	18,165,000	141,913,000	38,155,000	1,204,000	194,000	4,000
Distribution Charge Revenues	262,786,000	7,886,000	138,507,000	112,433,000	2,340,000	1,598,000	12,000
Demand Charge Revenues	7,724,000	-	-	-	5,047,000	2,668,000	-
Total Revenues	470,184,000	26,051,000	280,420,000	150,588,000	8,591,000	4,460,000	16,000
<u>Amount/(under)/over class cost of services:</u>							
Customer Charge Revenues	(49,851,575)	(8,690,926)	(45,569,110)	4,454,057	144,792	(180,833)	(88)
Distribution Charge Revenues	214,108,302	6,921,046	106,880,020	97,155,088	1,853,964	1,279,210	10,269
Demand Charge Revenues	(164,253,428)	(1,241,115)	(78,417,069)	(78,677,986)	(3,366,478)	(2,538,283)	(12,139)
Customer Class (under)/over recovery	3,299	(3,010,995)	(17,106,159)	22,931,159	(1,367,723)	(1,439,907)	(1,957)
		(3,010,995)	(17,106,159)	22,931,159	(1,367,723)	(1,439,907)	(1,957)
<u>Percentage/(under)/over class cost of services:</u>							
Customer Charge Revenues	(0.19979)	(0.32361)	(0.24306)	0.13216	0.13670	(0.48244)	(0.02144)
Distribution Charge Revenues	4.39849	3.13727	0.97125	1.03405	3.81446	4.01270	0.74042
Demand Charge Revenues	(0.95509)				(0.40013)	(0.48754)	
Customer Class (under)/over recovery	0.00001	(0.10361)	(0.05749)	0.17963	(0.13734)	(0.24406)	(0.10900)

North Shore Gas Company  
Summary of Customer Class Cost of Service and  
Revenues Recovered under Company-proposed Rates

	5	6	7	8	9	10
	S.C. 1 Non-Heating	S.C. 1 Heating	S.C. 2	S.C. 3	S.C. 6	S.C. 5
Total Revenue Requirement -- Re-classified Uncollectible Accounts						
DEM	25,669,413	37,417	15,511,361	9,440,982	677,358	2,294
COM	919,467	1,498	577,262	340,351	227	129
CUS	39,513,707	443,104	34,310,272	4,695,468	26,069	38,795
UNCOLLECTIBLE GAS COSTS	1,119,364	16,655	868,211	234,498	-	-
~						
<b>Sub-total</b>	<b>67,221,952</b>	<b>498,674</b>	<b>51,267,107</b>	<b>14,711,299</b>	<b>703,654</b>	<b>41,218</b>
<b>Revenue Recovery per Company</b>						
<u>Sales:</u>						
Customer Charge Revenues	30,633,000	301,000	26,741,000	3,552,000	-	39,000
Distribution Charge Revenues	28,728,000	192,000	23,817,000	4,718,000	-	1,000
Demand Charge Revenues	2,000	-	-	-	-	2,000
Sales Total	<u>59,363,000</u>	<u>493,000</u>	<u>50,558,000</u>	<u>8,270,000</u>	<u>-</u>	<u>42,000</u>
<u>Transportation:</u>						
Customer Charge Revenues	2,400,000	3,000	692,000	1,679,000	26,000	-
Distribution Charge Revenues	5,199,000	3,000	561,000	4,546,000	89,000	-
Demand Charge Revenues	352,000	-	-	-	352,000	-
Transportation Total	<u>7,951,000</u>	<u>6,000</u>	<u>1,253,000</u>	<u>6,225,000</u>	<u>467,000</u>	<u>-</u>
<u>Combined Sales and Transportation:</u>						
Customer Charge Revenues	33,033,000	304,000	27,433,000	5,231,000	26,000	39,000
Distribution Charge Revenues	33,927,000	195,000	24,378,000	9,264,000	89,000	1,000
Demand Charge Revenues	354,000	-	-	-	352,000	2,000
Total Revenues	<u>67,314,000</u>	<u>499,000</u>	<u>51,811,000</u>	<u>14,495,000</u>	<u>467,000</u>	<u>42,000</u>
<u>Amount/(under)/over class cost of services:</u>						
Customer Charge Revenues	(6,480,707)	(139,104)	(6,877,272)	535,532	(69)	205
Distribution Charge Revenues	31,888,169	176,847	22,932,527	8,689,151	88,773	871
Demand Charge Revenues	(25,315,413)	(37,417)	(15,511,361)	(9,440,982)	(325,358)	(294)
Customer Class (under)/over recovery	<u>92,048</u>	<u>326</u>	<u>543,893</u>	<u>(216,299)</u>	<u>(236,654)</u>	<u>782</u>
		<u>326</u>	<u>543,893</u>	<u>(216,299)</u>	<u>(236,654)</u>	<u>782</u>
<u>Percentage/(under)/over class cost of services:</u>						
Customer Charge Revenues	(0.16401)	(0.31393)	(0.20044)	0.11405	(0.00264)	0.00529
Distribution Charge Revenues	15.64042	3.18237	1.35241	0.86754	391.41896	0.35961
Demand Charge Revenues	(0.98621)				(0.48033)	(0.12820)
Customer Class (under)/over recovery	<u>0.00137</u>	<u>0.00065</u>	<u>0.01061</u>	<u>(0.01470)</u>	<u>(0.33632)</u>	<u>0.01898</u>