

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

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	No. 07-0241
	:	and
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	No. 07-0242
	:	Consol.
	:	
Proposed General Increase In Rates For Gas Service.	:	
	:	

Rebuttal Testimony of  
**VALERIE H. GRACE**  
Manager, Regulatory Affairs  
The Peoples Gas Light and Coke Company and  
North Shore Gas Company

July 27, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 **Q. PLEASE STATE YOUR NAME.**

4 A. Valerie H. Grace.

5 **Q. ARE YOU THE SAME VALERIE H. GRACE WHO SUBMITTED DIRECT**  
6 **TESTIMONY ON BEHALF OF THE PEOPLES GAS LIGHT AND COKE**  
7 **COMPANY (“PEOPLES GAS”) AND NORTH SHORE GAS COMPANY**  
8 **(“NORTH SHORE”) (TOGETHER, “THE COMPANIES”) IN THIS**  
9 **CONSOLIDATED DOCKET?**

10 A. Yes, although my title has changed to Manager, Regulatory Affairs.

11 **B. Purposes of Testimony**

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
13 **PROCEEDING?**

14 A. The purpose of my Rebuttal Testimony is to respond to the rate design and tariff related  
15 testimony of Illinois Commerce Commission (“Commission”) Staff witnesses Mike Luth,  
16 Peter Lazare, Daniel G. Kahle, Dianna Hathhorn, Cheri Harden and Dennis Anderson;  
17 the People of the State of Illinois, the City of Chicago and the Citizens Utility Board  
18 witnesses William L. Glahn and Michael Brosch; Vanguard Energy Services, LLC  
19 (“Vanguard”) witness Neil Anderson and Retail Gas Suppliers (“RGS”) witness James L.  
20 Crist. I will also describe the tariff rider that the Companies would file if the  
21 Commission were to approve an alternative weather normalization adjustment  
22 mechanism, as discussed by Mr. Borgard and Mr. Feingold in their Rebuttal Testimonies.

23 C. Summary of Conclusions

24 Q. PLEASE SUMMARIZE THE CONCLUSIONS OF YOUR REBUTTAL  
25 TESTIMONY.

26 A. Based on my review of the above mentioned testimony, I have reached the following  
27 conclusions:

28 1. The Companies' rate design proposals are consistent with their stated objectives  
29 and are theoretically sound.

30 2. The rate design proposals made by Mr. Luth are reasonable in certain regards and  
31 unclear and arbitrary in others.

32 3. The rate design proposals made by Mr. Glahn are too narrowly focused and would  
33 hamper the Companies' ability to achieve their revenue requirements.

34 4. Peoples Gas' proposed Equal Percentage of Embedded Cost methodology  
35 appropriately allocates its revenue requirement but would need to be modified if  
36 Rider UBA is not approved.

37 5. The Companies' proposals to bifurcate Service Classification ("S.C.") No. 1  
38 appropriately considers customer usage.

39 6. The Companies' proposed rates would need to be adjusted for sales and  
40 transportation customers if Rider UBA is not approved.

41 7. Deferred accounting can be used in lieu of the Riders to address concerns about  
42 complexity and resources although the Companies do not believe its proposals are  
43 complex and burdensome.

44 8. Tariff revisions would need to be made to address issues raised by Ms. Hathorn  
45 if the Commission approves the Companies' proposed Riders UBA, VBA, ICR  
46 and EEP or a weather normalization adjustment mechanism proposed as an  
47 alternative to Rider VBA.

48 9. Tariff revisions would need to be made to address issues raised by Ms. Harden.

49 My Rebuttal Testimony is divided into six main sections addressing general rate design,  
50 rate design for specific service classifications, new tariff riders, existing tariff provisions,  
51 an alternative weather normalization rider and miscellaneous issues.

52 **D. Itemized Attachments to Rebuttal Testimony**

53 **Q. ARE THERE ANY ATTACHMENTS TO YOUR REBUTTAL TESTIMONY?**

54 A. Yes. The following are attachments to my Rebuttal Testimony:

55 1. Exhibit VG 2.1-PGL is what I have determined are Mr. Luth's proposed rate  
56 increase allocations for Peoples Gas. Exhibit VG 2.1-NSG, page 1 summarizes  
57 North Shore's embedded costs and revenues arising from Mr. Luth's proposals in  
58 his Direct Testimony and North Shore's proposals without Rider UBA as filed  
59 with the Commission<sup>1</sup>. Exhibit VG 2.1-NSG, page 2 summarizes North Shore's  
60 embedded costs and revenues arising from Mr. Luth's response to the Companies'

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<sup>1</sup> See the Direct Testimony of Ronald J. Amen, Docket 07-0241, Exhibit RJA 1.7.

61 Data Request No. PGL-NS 2.39 and North Shore's proposals without Rider UBA  
62 as filed with the Commission.

63 2. Exhibit VG 2.2 summarizes the rate increase allocations proposed by Peoples Gas  
64 and other parties in this proceeding.

65 3. The following attachments address base rates and related billing impacts if the  
66 Commission does not approve the Companies' proposed Rider UBA:

67 A. Exhibits VG 2.3-PGL and VG 2.3-NSG illustrate the adjustments that  
68 would be made to the Companies' proposed base rates to establish  
69 separate base rates for S.C. Nos. 1N, 1H and 2 sales and transportation  
70 customers. Exhibit VG 2.3-PGL also includes adjustments for S.C. No. 4  
71 sales and transportation customers.

72 B. Exhibits VG 2.4-PGL and VG 2.4-NSG comprise summaries of base rates  
73 for sales and transportation customers and bill impacts for sales and  
74 transportation customers under the adjusted rates. Exhibit VG 2.4-PGL  
75 reflects the corrected demand charge for Peoples Gas' S.C. No. 6. Exhibit  
76 VG-2.4-NSG reflects the corrected standby service charge for North  
77 Shore's S.C. No. 3.

78 C. Exhibits VG 2.5-PGL, pages 1 and 2 and VG 2.5-NSG , pages 1 and 2  
79 provide a comparison between the Companies' present rates and revenues  
80 and those proposed by Mr. Luth based on his responses to the Companies'  
81 Data Request No. PGL-NS 2.40. Exhibits VG 2.5-PGL and VG 2.5-NSG

82 provide a comparison between the Companies' present rates and revenues  
83 and those proposed by Mr. Glahn.

84 D. Exhibits VG 2.6-PGL and VG 2.6-NSG provides (1) a summary of the  
85 Companies' proposed rates and revenues adjusted to establish separate  
86 rates for sales and transportation customers if Rider UBA is not approved  
87 and (2) a comparison with revenues arising from the Companies' proposed  
88 rates with Rider UBA. Exhibit VG 2.6-PGL reflects the corrected billing  
89 units and proposed rate for S.C. No. 6.

90 E. Exhibits VG 2.7-PGL and VG 2.7-NSG provide breakeven analyses which  
91 should be used to determine if the S.C. Nos. 1N and 1H distribution rates  
92 are set appropriately.

93 F. Exhibits VG 2.8-PGL and VG 2.8-NSG provides the average use per  
94 customer for various income levels.

95 G. Exhibits VG 2.9-PGL and VG 2.9-NSG include bill comparisons and  
96 graphed bill comparisons for class average and high consumption low-  
97 income customers.

98 H. Exhibit VG 2.10 provides the determination of North Shore's corrected  
99 proposed standby service charges as provided in North Shore's response to  
100 Data Request No. IIEC 1.38.

101 I. Exhibits VG 2.11-PGL and VG 2.11-NSG are the Companies' alternative  
102 Rider WNA tariff sheets if the Commission does not approve Rider VBA.

103 **II. GENERAL RATE DESIGN**

104 **A. Rate Design Objectives**

105 **Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT THE**  
106 **THEORETICAL SOUNDNESS OF THE COMPANIES' RATE DESIGN**  
107 **OBJECTIVES?**

108 A. Yes. I do. In his Direct Testimony, Mr. Glahn identifies various rate design principles  
109 and objectives that he believes are important. He discusses various principles and  
110 objectives that have been espoused by the American Gas Association (“AGA”)<sup>2</sup> and by  
111 Dr. James Bonbright.<sup>3</sup> Mr. Glahn lists what he considers to be the most important rate  
112 design objectives and criticizes the Companies for failing to “entirely embrace the same  
113 objectives and attributes described by the AGA and Bonbright”. I take issue with this  
114 conclusion because the Companies’ rate design embodies sound and appropriate  
115 objectives and principles.

116 **Q. WHAT IS YOUR OPINION OF MR. GLAHN’S OBSERVATIONS**  
117 **CONCERNING THE AGA AND DR. BONBRIGHT’S PRINCIPLES?**

118 A. I believe Mr. Glahn’s observations are overly simplistic and rigid. The Companies’ rate  
119 designs do indeed reflect sound theoretical underpinnings and are entirely consistent with  
120 the prescriptions of the AGA and Dr. Bonbright. My Direct Testimony, however, which  
121 addressed the Companies’ specific rate design objectives, was not intended to be an exact  
122 mirror of all of the theoretical objectives of rate design. In addition, although I may not  
123 have specifically identified certain rate design objectives, the Companies’ proposed rate

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<sup>2</sup> American Gas Association, Gas Rate Fundamentals, Fourth Edition, Arlington, VA, 1987, page 152.

<sup>3</sup> Bonbright, James. C., Albert L. Danielsen, and David R. Kamerschen, Principles of Utility Rates, Second Edition, Arlington VA: Public Utility Reports, Inc., 1998, pages 383-384.

124 designs do meet certain of the objectives which Mr. Glahn asserts are missing, such as  
125 “simplicity” and “social goals”.

126 **Q. CAN THE COMPANIES’ PROPOSED RATE DESIGN BE EXPECTED TO**  
127 **MEET ALL THEORETICAL RATE DESIGN OBJECTIVES?**

128 A. The theoretical rate design objectives are numerous and not necessarily consistent.  
129 Moreover, I am not aware of any requirement or theory of their application that requires  
130 that when they are applied, each and every objective must be a factor. Indeed, as the  
131 typical objectives can be conflicting, it is unlikely that any rate design would meet *all* of  
132 the theoretical rate design objectives. Even Mr. Glahn, who acknowledges that  
133 ratemaking objectives often conflict, did not propose any rate design that would meet all  
134 of the rate design objectives that he identified. In fact, Mr. Glahn’s rate design proposals  
135 for the Companies’ S.C. Nos. 1N, 1H and 2 are quite narrowly focused and center only  
136 on a few of the theoretical objectives. He appears to have done so because emphasis on  
137 those particular objectives furthers an end result he believes is desirable.

138 **Q. HOW WOULD YOU GENERALLY CHARACTERIZE THE COMPANIES’**  
139 **RATE DESIGNS ON A THEORETICAL BASIS?**

140 A. The objectives that underlie the Companies’ rate design are sound and well founded. The  
141 objectives are ones that meet the Companies’ business imperatives and appropriately  
142 address ratepayer concerns, as well as customer class considerations. Overall, the  
143 objectives reflected in the Companies’ practices represent a fair and balanced approach to  
144 rate design given the unique circumstances in existence on the Peoples Gas and North  
145 Shore systems. Moreover, these practices are consistent with the principles espoused by  
146 the AGA and Dr. Bonbright.

147 **Q. YOU MENTIONED THAT MR. GLAHN IS IN ERROR WHEN HE ASSERTS**  
148 **THAT TWO OF THE THEORETICAL RATE DESIGN OBJECTIVES THAT HE**  
149 **IDENTIFIES WERE NOT ADDRESSED BY THE COMPANIES. PLEASE**  
150 **EXPLAIN YOUR COMMENT.**

151 A. Mr. Glahn suggests that the Companies ignored objectives concerning simplicity and  
152 social goals. As to simplicity, however, the Companies have addressed this objective.  
153 They are proposing flat distribution charges for S.C. No. 1N to replace their current  
154 declining block structures. Peoples Gas is also proposing to combine S.C. Nos. 3 and 4  
155 which have similar load factors and demand related costs. As to social goals, Peoples  
156 Gas has proposed that the increase for the Company's S.C. Nos. 1N, 1H and 2 be  
157 allocated using an Equal Percentage of Embedded Cost Methodology ("EPEC"), a  
158 methodology which was approved by the Commission in Peoples Gas' last two rate cases  
159 (Docket Nos. 91-0586 and 95-0032). Both Companies have proposed to increase the  
160 customer charges for small residential customers currently served under their respective  
161 S.C. No. 1 and to bifurcate S.C. No. 1 into non-heating (S.C. No. 1N) and heating (S.C.  
162 No. 1H) service classifications to mitigate the impact of the proposed customer charge  
163 increase on S.C. No. 1N, a low usage service classification. The impact of increasing the  
164 customer charge on low-income customers will be addressed later in my Rebuttal  
165 Testimony. The Companies have also proposed Rider EEP - Enhanced Efficiency  
166 Program, which would fund energy efficiency programs for S.C. Nos. 1H and 2 with a  
167 specific amount targeting low-income S.C. No. 1H customers.

168 **B. Allocation of Rate Increase**

169 **Q. HOW DO THE RATE INCREASE ALLOCATIONS PROPOSED BY MESSRS.**  
170 **LUTH AND GLAHN DIFFER FROM THAT PROPOSED BY PEOPLES GAS?**

171 A. Peoples Gas proposes to allocate a portion of the S.C. Nos. 1N and 1H rate increases to  
172 S.C. No. 2 while both Mr. Luth and Mr. Glahn propose to allocate portions of the S.C.  
173 Nos. 1 and 1H rate increases to S.C. No. 2 and other service classifications.

174 **Q. PLEASE DISCUSS MR. LUTH'S RATE INCREASE ALLOCATIONS FOR**  
175 **PEOPLES GAS.**

176 A. Mr. Luth's rate increase allocations are based on revenue requirements arising from an  
177 embedded cost of service study ("ECOSS") that reflects adjustments addressed in his  
178 Direct Testimony, including the use of an Average and Peak methodology rather than the  
179 Coincident Peak methodology proposed by Peoples Gas. The appropriateness of such  
180 adjustments is discussed in Mr. Amen's Rebuttal Testimony and is not addressed here.  
181 On page 29, lines 575-578 of Mr. Luth's Direct Testimony, he advocates allocating a  
182 portion of the S.C. Nos. 1N and 1H rate increases to other service classifications.  
183 Mr. Luth does not specify which other service classifications he means and he offers no  
184 discernable explanation of how the increase would be allocated to other service  
185 classifications. He also does not propose any specific dollar allocations other than for  
186 S.C. No. 2. In addition, although Mr. Luth recommends a specific amount of  
187 \$12,887,405 to be allocated to S.C. No. 2, he does not explain how this amount was  
188 derived. Although Mr. Luth does not provide an identifiable methodology or reasoned  
189 analysis to support his proposed allocations, the electronic version of ICC Staff  
190 Exhibit 7.0, Schedule, 7.3-PG does offer limited insight. Using numbers from that

191 electronic version, I have developed a worksheet, which, I believe, calculates Mr. Luth's  
192 intended revenue increase allocations for each service classification. Exhibit VG 2.1-  
193 PGL is an analysis of Mr. Luth's data, including a derivation of rate increase allocations.  
194 As discussed later in my Rebuttal Testimony, it appears that Mr. Luth is spreading a  
195 portion of the S.C. Nos. 1N and 1H increase as well as the reduced increase from S.C.  
196 No. 2 to other service classifications to equalize revenue/cost ratios across all rates except  
197 S.C. Nos. 1N and 1H. This approach results in significant increases for all rates except  
198 S.C. No. 2 and results in a more inequitable increase across all rates than Peoples Gas'  
199 proposed EPEC methodology. Although Mr. Luth's intentions were ostensibly to treat  
200 other service classifications the same as S.C. No. 2, his resulting rate increase allocations  
201 are less fair and appropriate than the rate increase allocations proposed by Peoples Gas.  
202 Since the completion of my analysis, Mr. Luth has provided a response to the  
203 Companies' Data Requests Nos. PGL-NS 2.39 and 2.40, which requested workpapers  
204 supporting Mr. Luth's rate design and a summary of the proposed rates arising from his  
205 adjustments. Mr. Luth's summary in response to Data Request No. PGL-NS 2.40 did not  
206 include customer charges for S.C. No. 2. However, it appears that Mr. Luth supports  
207 Peoples Gas' proposed S.C. No. 2 customer charges (Luth, Direct Testimony, page 30,  
208 line 597). His summary also does not include demand or distribution charges for S.C.  
209 No. 6. However, I assume that Mr. Luth would agree with Peoples Gas' proposed  
210 demand charge as adjusted for the appropriate billing units and provided in Peoples Gas'  
211 response to Data Request No. ML 1.05, as addressed later in my Rebuttal Testimony.  
212 Using these assumptions in addition to the rates provided by Mr. Luth in response to Data  
213 Request No. PGL-NS 2.40, I have developed the revenues and rate increase allocations

214 resulting from Mr. Luth’s proposed rates. These revenues, which are \$6.1 million above  
215 Peoples Gas’ revenue requirement, are shown in Exhibit VG 2.5-PGL, pages 1 and 2. It  
216 appears that the high revenues arise from Mr. Luth’s desire to allocate more of the S.C.  
217 Nos. 1N and 1H increase to the other service classifications and less of the increase to  
218 S.C. No. 2. However, Peoples Gas has insufficient information to verify this assumption.

219 **Q. PLEASE DISCUSS ANY FLAWS RELATED TO MR. GLAHN’S PROPOSED**  
220 **ALLOCATIONS.**

221 A. First, Mr. Glahn misinterprets Peoples Gas’ Exhibit VG 1.3, which illustrates Peoples  
222 Gas’ rate increase allocation method and as a result, he focuses on what he terms  
223 “arbitrary subgroups”. In fact, my Direct Testimony explained the reason for grouping  
224 certain service classifications. Specifically, the S.C. Nos. 1N, 1H and 2 grouping is  
225 explained in the detailed discussion of the EPEC methodology on pages 7 and 8,  
226 lines 134-158 of my Direct Testimony and is illustrated in Exhibit VG 1.3, pages 1 and 2,  
227 lines 1-4. The S.C. Nos. 3 and 4 grouping is discussed in detail on pages 24 and 25,  
228 lines 530-542 of my Direct Testimony and is illustrated in Exhibit VG 1.3, pages 1 and 2,  
229 lines 5-7. Mr. Glahn erroneously claims that I also grouped S.C. Nos. 6, 7 and 8. Unlike  
230 the other “groupings” discussed above, these latter service classifications are not  
231 discussed as a group in my Direct Testimony, nor are they subtotaled in exhibit VG 1.3 as  
232 a distinct grouping. Mr. Glahn’s failure to understand these groupings, however, is no  
233 reason to characterize them as “arbitrary”.

234 Second, Mr. Glahn’s proposed allocation is based on the principles of “horizontal  
235 equity” which recommends that equals are treated equally. While I understand the  
236 premise, I disagree that the service classifications are “equals”. The fact that each service

237 classification has different underlying characteristics and embedded costs, suggest that  
238 they are more unequal than equal. As unequal groups, the principle of vertical equity is  
239 more applicable. Therefore, Peoples Gas' proposed allocations are reflective of Dr.  
240 Bonbright's principle of "vertical equity"<sup>4</sup> or unequals treated as unequals.

241 **Q. PLEASE DESCRIBE MR. LUTH'S AND MR. GLAHN'S RATE INCREASE**  
242 **ALLOCATION PROPOSALS FOR PEOPLES GAS.**

243 A. The allocations proposed by Mr. Luth move all service classifications except S.C. Nos.  
244 1N and 1H above cost. The allocations proposed by Mr. Glahn would move S.C. No. 4  
245 above cost and would improperly allocate costs to S.C. No. 7, a contract service rate.  
246 Exhibit VG 2.2, page 1 provides a summary of the rate increase allocation methodologies  
247 proposed by Peoples Gas, Mr. Luth in his Direct Testimony, Mr. Luth in his response to  
248 the Companies' Data Request No. PGL-NS 2.39 and Mr. Glahn assuming Peoples Gas'  
249 revenue requirement shown in Peoples Gas Exhibit RAF 1.7<sup>5</sup>. Exhibit VG 2.2 also  
250 includes an adjusted allocation that would arise from Peoples Gas allocating gas cost  
251 related uncollectible expense at cost if Rider UBA is not approved by the Commission.  
252 The rationale for this allocation at cost is discussed later in my Rebuttal Testimony.  
253 Columns A-D reflect the dollar increase over present rate revenues for each service  
254 classification assuming Peoples Gas' revenue requirement discussed above.

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<sup>4</sup> Bonbright, page 384.

<sup>5</sup> As Mr. Luth and Mr. Glahn assume no Rider UBA in their allocations, Peoples Gas' increase allocations without Rider UBA are shown for consistency. Peoples Gas' and Mr. Glahn's allocations are based on Peoples Gas' Embedded Cost of Service Study without Rider UBA as provided in the Direct Testimony of Ronald J. Amen, Exhibit RJA 1.7. Mr. Luth's allocations are based on adjustments made between Peoples Gas' proposed revenues without Rider UBA and Mr. Luth's Embedded Cost of Service Study arising from his proposed adjustments.

255 **Q. PLEASE DESCRIBE THE OUTCOMES OF MR. LUTH'S AND MR. GLAHN'S**  
256 **REVISED ALLOCATIONS, COMPARED WITH PEOPLES GAS' PROPOSAL.**

257 A. Mr. Luth's proposed allocations result in increases to S.C. Nos. 1N, 1H, 4 and 6 that are  
258 significantly higher than those proposed by Peoples Gas. His proposed allocations also  
259 result in an increase to S.C. No. 2 that is significantly lower than that proposed by  
260 Peoples Gas. Mr. Glahn's proposed increases for S.C. Nos. 1 H and 2 are slightly lower  
261 than Peoples Gas' proposed increases. However, his proposed increase for S.C. No. 4 is  
262 significantly higher than Peoples Gas' proposal. Columns F-J of Exhibit VG 2.2 reflect  
263 the percentage increases over present rate revenues for each service classification.  
264 Peoples Gas' EPEC methodology which spreads a portion of the rate increase to S.C.  
265 No. 2 and sets the other service classifications at costs results in proposed increases of  
266 34.8%, 30.7%, 21.8%, 9.7%, 19.5% and 112.6% for S.C. Nos. 1N, 1H, 2, 4, 6 and 8,  
267 respectively. Mr. Luth's proposed increases for S.C. Nos. 1N, 1H, 4, 6 and 8 are 39.1%,  
268 35.1%, 42.6%, 30.6% and 155.1%, respectively. On the other hand, his proposed increase  
269 for S.C. No. 2 is only 10.4%. The result of Mr. Luth's decision to spread a portion of the  
270 S.C. Nos. 1N and 1H increase to other rates was to significantly reduce the rate increase  
271 for S.C. No. 2 and significantly increase the rate increase for the other service  
272 classifications. Different allocations arise from Mr. Luth's response to the Companies'  
273 Data Request No., PGL-NS 2.39. Those allocations result in rate increases of 39.1%,  
274 37.2%, 11.7%, 42.6%, 30.6% and 154.6% for S.C. Nos. 1N, 1H, 2, 4, 6 and 8,  
275 respectively. The rate increases for S.C. No. 1H increase by nearly 2% and the rate  
276 increases for S.C. No. 2 increase by about 1.3%. The rate increases for the other service  
277 classifications are substantially the same as those in Mr. Luth's Direct Testimony. These

278 revenue requirement allocations and rate increases arise from an increase that is \$6.1  
279 million above Peoples Gas' revenue requirement. Accordingly, Mr. Luth's  
280 recommendations require additional clarification. Although not explicitly stated in Mr.  
281 Luth's response to the Companies' Data Request No., PGL-NS 2.40, it appears that some  
282 of the rate adjustments and proposed rates arising from his allocations differ from those  
283 in his Direct Testimony. As I am not sure which proposed rates are his intended proposed  
284 rates, my Rebuttal Testimony will address the proposed rates discussed in Mr. Luth's  
285 Direct Testimony unless otherwise noted.

286 Other than the improper allocation to S.C. No. 7, the percentage increases arising  
287 from Mr. Glahn's allocation proposals are similar to those proposed by Peoples Gas.  
288 Columns K-O of Exhibit VG 2.2 reflect the revenue/cost ratio for each service  
289 classification and are derived by dividing proposed revenues by embedded cost and  
290 showing on a percentage basis. An amount less than, equal to, or greater than 100%  
291 would demonstrate that the service classification is either under cost, at cost, or over cost,  
292 respectively. Under Peoples Gas' proposed allocation methodology, S.C. Nos. 4, 6 and 8  
293 are set at cost. As Mr. Luth only provided a specific increase allocation amount for S.C.  
294 No. 2, it was not initially clear what specific impact his proposal would have on the other  
295 service classifications other than to move them above cost. My analysis shown in Exhibit  
296 VG 2.1-PGL confirms that assumption and also suggests that Mr. Luth's goal may have  
297 been to equalize the revenue/cost ratio for all service classifications other than S.C. Nos.  
298 1N and 1H. Line 39 of Exhibit VG 2.1-PGL shows that Mr. Luth's proposals result in  
299 revenue/cost ratios of 107% for each service classification other than S.C. Nos. 1N and  
300 1H. Whether it was intentional or inadvertent, Mr. Luth's proposed allocations result in

301 significant increases for all service classifications except S.C. No. 2. While Mr. Glahn's  
302 proposals move S.C. No. 4 above cost by \$1.3, Mr. Luth's proposals would move S.C.  
303 No. 4 above cost by \$3.9 million based on Peoples Gas' ECOSS and \$1.1 million based  
304 on his ECOSS. Exhibit VG 2.2, page 2 provides a graphical summary of the increases  
305 percentages arising from each witness' allocation proposals as well as the revenue/cost  
306 ratios arising from the proposals. The graphs show that Mr. Luth's proposals result in  
307 significant increases for all service classifications except S.C. No. 2 and move all service  
308 classes except S.C. Nos. 1N and 1H above cost. The graphs show that Mr. Glahn's  
309 proposals for S.C. Nos. 1N, 1H and 2 are similar to Peoples Gas' proposals. However his  
310 proposals for S.C. No. 4 move it above cost and his proposal for S.C. No. 7 is  
311 inappropriate. Finally, the graphs demonstrate that Peoples Gas' proposed allocations  
312 result in reasonable increases for all service classifications and set all service  
313 classifications except S.C. Nos. 1N, 1H and 2 appropriately at cost.

314 **Q. ON PAGE 14, LINE 19 OF HIS DIRECT TESTIMONY, MR. GLAHN**  
315 **INDICATES THAT UNDER PEOPLES GAS' PROPOSED ALLOCATION, S.C.**  
316 **NO. 4 WOULD PAY ONLY 98 % OF COST. PLEASE DISCUSS.**

317 A. Mr. Glahn either overlooks or misunderstands Peoples Gas' proposal to combine S.C.  
318 Nos. 3 and 4. Peoples Gas Exhibit VG 1.3, pages 1 and 2, column I, lines 5-7 illustrates  
319 Peoples Gas' proposal. Due to Peoples Gas' proposed rate design, which accommodates  
320 customers who are presently served under different rate designs, former S.C. No. 3 would  
321 be slightly above cost at 100.9% and current S.C. No. 4 would be slightly below cost at  
322 98%. However, the combined service classification, S.C. No. 4, would be at cost at

323 100% (Peoples Gas Exhibit VG 1.3, column I, line 7). The revenues arising from this  
324 service classification are equal to its embedded cost.

325 **Q. WHY IS IT IMPORTANT THAT PEOPLES GAS' S.C. NO. 4 BE SET AT COST?**

326 A. Peoples Gas' S.C. No. 4 represents large volume customers, many of which may be able  
327 to physically bypass Peoples Gas' system by leaving its service territory or connecting  
328 directly to a pipeline. As a fully unbundled service classification, S. C. No. 4 allows  
329 customers to choose company services based upon their individual preferences. Mr.  
330 Luth's allocation proposals coupled with his rate design proposal for S.C. No. 4, to be  
331 discussed later, could make S.C. No. 4 so uneconomical that many customers may be  
332 forced to take service under bundled S.C. No. 2 or leave the system entirely. The latter  
333 would result in unfavorable consequences for Peoples Gas and its customers. Such  
334 customers may also be able to economically bypass Peoples Gas by using alternate  
335 energy sources. Peoples Gas' fifth stated rate design objective to "retain customers on  
336 the system" addresses these situations. In Docket No. 95-0032, Peoples Gas' 1996 test  
337 year reflected 283 S.C. Nos. 3 and 4 customers. Peoples Gas' 2006 test year in this  
338 proceeding reflects 191 S.C. Nos. 3 and 4 customers. Currently, about 20% of Peoples  
339 Gas' S.C. Nos. 3 and 4 customers have the ability to use alternate energy sources. Any  
340 permanent loss of any of these customers would cause a reduction in fixed cost recovery,  
341 resulting in higher rates for customers remaining on the system. Therefore, Peoples Gas'  
342 S.C. No. 4 rates should be set at cost to be competitive with other available and potential  
343 service options.

344 **Q. PLEASE DISCUSS MR. GLAHN'S PROPOSAL TO ALLOCATE COSTS TO S.C.**  
345 **NO. 7.**

346 A. Mr. Glahn’s proposal to allocate costs to S.C. No. 7 is flawed for several reasons. First, it  
347 is rooted in his assumption that Peoples Gas “assumes that the costs to serve this group of  
348 customers has not increased since 1995” (Glahn, Direct Testimony, page 13, lines 16-17).  
349 Peoples Gas’ present tariff limits contract terms for customers served under this service  
350 classification to five years. As a result, contracts which may have been in place since  
351 Peoples Gas’ last rate case over eleven years ago have been renegotiated based on the  
352 proper cost considerations. Peoples Gas’ allocation has been performed against the  
353 backdrop of the circumstances presently in place in respect of the contracts, *i.e.*, data  
354 which has changed since 1996. Mr. Glahn has not explained how any rate increase he  
355 might impute into rate design could be factored into the binding contracts that are  
356 currently in effect and that may expire up to five years from the effective date of Peoples  
357 Gas’ increase. He also does not address how Peoples Gas would recoup revenue from  
358 contracts that may not be renewed due to an actual bypass, potentially arising from the  
359 imputed increase. Lastly, Mr. Glahn does not recognize that S.C. No. 7 is for customers  
360 who can bypass Peoples Gas’ distribution system. Revenues arising from S.C. No. 7  
361 contribute to recovery of Peoples Gas’ fixed costs and mitigate any increase on Peoples  
362 Gas’ system customers. Accordingly, the \$2 million in revenues in Peoples Gas’ 2006  
363 test year is reflected as a revenue credit in the Company’s ECOSS.

364 **Q. VANGUARD WITNESS MR. NEIL ANDERSON PROPOSES A PHASED IN**  
365 **APPROACH TO ALLOCATING PEOPLES GAS’ INCREASE SO THAT ALL**  
366 **SERVICE CLASSIFICATIONS ARE AT COST IN YEAR 5. PLEASE DISCUSS.**

367 A. Although I understand the intent of Mr. Anderson’s proposal, it is extremely vague. He  
368 characterizes his proposal as a rate design proposal but does not offer any rates or

369 meaningful rate design proposal for any service classification. His exhibit VES 3, which  
370 supports his “rate design proposal”, reflects revenue allocations for years 1 through 4 that  
371 are consistent with Peoples Gas’ EPEC revenue allocation. However, it is unclear how  
372 the revenue allocation in year 5 (Exhibit VES 3, line 9) was derived. Mr. Anderson  
373 offers no explanation in his Direct Testimony or in his response to the Companies’ Data  
374 Request No. VES PGL-NS 3.01. It should also be noted that the service class revenues in  
375 year 5 (Exhibit VES 3, line 9) do not sum to the total company revenues and the total  
376 revenue amount is not consistent with any revenue amount proposed by any party in this  
377 proceeding. Peoples Gas agrees that it is appropriate to move all service classifications to  
378 cost, and it is taking significant steps in this case, including bifurcating S.C. No. 1 into  
379 heating and non-heating rates, to move S.C. No. 1 to cost. However, Mr. Anderson’s  
380 proposal lacks sufficient detail for Peoples Gas to evaluate.

381 **Q. PLEASE DISCUSS NORTH SHORE’S RATE INCREASE ALLOCATION.**

382 A. North Shore’s proposed rate increases allocations result in all service classifications  
383 being set at cost. Mr. Luth’s proposed allocations differ from North Shore’s proposals  
384 due to the adjustments made in his ECOSS including the use of the Average and Peak  
385 methodology rather than North Shore’s proposed Coincident Peak methodology. Mr.  
386 Luth’s ECOSS included with his Direct Testimony show costs that are \$92,135 less than  
387 North Shore’s ECOSS without Rider UBA. Also, revenues arising from his proposed  
388 rates result in a \$481,725 under-recovery of North Shore’s revenue requirement. These  
389 two errors in Mr. Luth’s proposals result in a total net revenue requirement under-  
390 recovery of \$481,719. Exhibit VG 2.1-NSG, page 1 reflects a summary and a  
391 comparison of Mr. Luth’s ECOSS and revenues arising from his proposed rates and

392 North Shore's ECOSS without Rider UBA and revenues arising from related rates.  
393 While Mr. Luth's proposed adjustments are based on his ECOSS with all service  
394 classifications being set at cost, his proposed adjustments would not adequately recover  
395 North Shore's revenue requirement as evidenced by the significant under-recovery  
396 discussed above. It appears that Mr. Luth corrected a significant amount of this under-  
397 recovery of North Shore's revenue requirement in his response to the Companies' Data  
398 Request No. PGL-NS 2.40. Although not explicitly stated in Mr. Luth's response to this  
399 data request, it appears that some of the adjustments and proposed rates differ from those  
400 in his Direct Testimony. As I am not sure which proposed rates are his intended  
401 proposed rates, my Rebuttal Testimony will address the proposed rates discussed in Mr.  
402 Luth's Direct Testimony unless otherwise noted. Mr. Glahn does not address North  
403 Shore's rate increase allocation.

404 **C. Gas Cost Related Uncollectible Expense**

405 **Q. MR. LUTH'S AND MR. GLAHN'S ANALYSES RELIED ON THE COMPANIES'**  
406 **ECOSS WITHOUT RIDER UBA. PLEASE DISCUSS.**

407 A. Both Mr. Luth and Mr. Glahn assume that Rider UBA may not be approved by the  
408 Commission. As a result, their analyses have focused on the Companies' rates without  
409 Rider UBA. Accordingly, Mr. Luth has proposed a methodology to credit gas cost  
410 related uncollectible expense to transportation customers and to recover gas cost related  
411 uncollectible expense from retail sales customers. Mr. Luth's proposal shown in ICC  
412 Staff Exhibit 7.0, Schedule 7.2PGL reflects computational errors that should be corrected  
413 if the Commission adopts his proposed methodology. Specifically, the figures shown for

414 S.C. No. 1H, line 3 and S.C. No. 2, line 11 should be corrected so that any adjustments  
415 arising from the calculation would be accurate.

416 **Q. DO YOU AGREE WITH MR. LUTH'S PROPOSALS TO RECOVER GAS COST**  
417 **RELATED UNCOLLECTIBLE EXPENSE IN BASE RATES IF THE**  
418 **COMMISSION DOES NOT APPROVE RIDER UBA?**

419 A. While I agree in principle with Mr. Luth that separate base rates will need to be set for  
420 sales and transportation customers if the Commission does not approve Rider UBA, I  
421 believe that such rates can be more simply designed than the manner proposed by Mr.  
422 Luth.

423 **Q. PLEASE DISCUSS THE APPROACH THAT YOU WOULD RECOMMEND TO**  
424 **RECOVER GAS COST RELATED UNCOLLECTIBLE EXPENSE IF RIDER**  
425 **UBA IS NOT APPROVED BY THE COMMISSION.**

426 A. Mr. Luth's analysis begins with the Companies' ECOSS without Rider UBA. As a  
427 result, several steps are needed to remove gas cost related uncollectible expense from  
428 base rates for transportation customers and credit it back to base rates for sales customers.  
429 The Companies' ECOSS and resulting proposed rates with Rider UBA already reflect the  
430 removal of gas cost related uncollectible expense from base rates. The final ECOSS  
431 reflecting the final revenue requirement approved by the Commission would be adjusted  
432 to remove these expenses from base rates. Therefore, the ECOSS would establish the  
433 base rates for all customers, including transportation. The gas cost related uncollectible  
434 expense approved by the Commission would be added to sales customers' base rates.  
435 This methodology would establish separate base rates for transportation and sales  
436 customers in a simpler manner with fewer steps. Assuming the Companies' current

437 ECOSS with Rider UBA, Exhibit VG 2.3-PGL and Exhibit VG 2.3-NSG illustrate this  
438 methodology for Peoples Gas and North Shore, respectively for S.C. Nos. 1N, 1H and 2.  
439 Exhibit VG 2.4-PGL, pages 1 and 2, summarizes the resulting rates for Peoples Gas’  
440 sales and transportation customers and Exhibit VG 2.4-PGL, pages 3-8, illustrates bill  
441 impacts for S.C. Nos. 1N, 1H and 2 sales and transportation customers. Exhibit VG  
442 2.4-NSG, pages 1 and 2, summarizes the resulting rates for North Shore’s sales and  
443 transportation customers and Exhibit VG 2.4-NSG, pages 3-8, illustrates bill impacts for  
444 S.C. Nos. 1N, 1H and 2 sales and transportation customers.

445 **Q. DOES THE APPROACH YOU HAVE DESCRIBED ALLOCATE GAS COST**  
446 **RELATED UNCOLLECTIBLE EXPENSES AT COST?**

447 A. Yes.

448 **Q. PLEASE DISCUSS THE IMPACT OF ALLOCATING GAS COST RELATED**  
449 **UNCOLLECTIBLE EXPENSE AT COST FOR PEOPLES GAS.**

450 A. Peoples Gas would allocate such costs at cost rather than using the EPEC methodology to  
451 mitigate the impact of such costs on Peoples Gas’ S.C. No. 2 sales customers. Thus,  
452 allocating gas cost bad debt at cost would allocate costs to S.C. Nos. 1N, 1H, 2 and 4  
453 based on cost causation. The results of this allocation methodology on Peoples Gas’ total  
454 allocated rate increase are summarized in Exhibit VG 2.2 under the columns labeled  
455 “Adjusted Company Proposed”.

456 **Q. PLEASE DISCUSS ANY OTHER ISSUES RELATED TO MR. LUTH’S**  
457 **PROPOSAL TO RECOVER GAS COST RELATED UNCOLLECTIBLE**

458           **EXPENSE IN BASE RATES FOR SALES AND TRANSPORTATION**  
459           **CUSTOMERS.**

460    A.    Peoples Gas' initial ECOSS reflected write-offs for rates S.C. Nos. 1N, 1H and 2 only.  
461           Mr. Luth proposes that such expenses be allocated to other service classifications.  
462           Mr. Amen agrees in his Rebuttal Testimony that such expenses should be allocated to  
463           Peoples Gas' S.C. No. 3 based on the write-offs attributed to S.C. No. 3 in the 2006  
464           historical test year. Accordingly such expenses would be allocated to S.C. No. 3 in  
465           Mr. Amen's adjusted ECOSS. As S.C. No. 3 would be combined with S.C. No. 4 under  
466           Peoples Gas' proposals, these expenses would be recovered under S.C. No. 4.

467           **D.    Cost and Revenue Alignment**

468    **Q.    PLEASE DISCUSS HOW MR. LUTH'S RATE DESIGN PROPOSALS WOULD**  
469           **AFFECT THE COMPANIES' ABILITY TO MEET THE OBJECTIVES OF**  
470           **ACHIEVING ITS REVENUE REQUIREMENT AND BETTER ALIGNING**  
471           **COSTS AND REVENUE RECOVERY.**

472    A.    Although there are some differences in Mr. Luth's overall rate design proposals, he  
473           fundamentally supports the Companies' proposals to increase their fixed charges --  
474           customer and demand charges. His concurrence that fixed charges should be increased  
475           appears to be founded in the belief that customer class cost of service should move more  
476           in the direction of full recovery. Accordingly, any increases that he supports in the  
477           Companies' fixed charges that are consistent with the Companies' proposals would better  
478           allow the Companies to achieve their revenue requirements for the reasons addressed in  
479           my Direct Testimony.

480 **Q. PLEASE DISCUSS HOW MR. GLAHN'S RATE DESIGN PROPOSALS TO**  
481 **REDUCE THE CUSTOMER CHARGES WOULD AFFECT THE COMPANIES'**  
482 **OBJECTIVES OF ACHIEVING ITS REVENUE REQUIREMENT AND**  
483 **ALIGNING COSTS AND REVENUE RECOVERY.**

484 A. Mr. Glahn proposes significant reductions in the Companies' proposed customer charges  
485 for S.C. Nos. 1N, 1H and 2. Such reductions would significantly hamper the Companies'  
486 ability to achieve their revenue requirements, as his proposals would continue the  
487 traditional, yet misguided, practice of recovering a large proportion of fixed costs through  
488 variable charges. Under present rates, Peoples Gas recovers 30% of costs through fixed  
489 charges and North Shore recovers 31% of costs through fixed charges in their 2006 test  
490 year. Under Mr. Glahn's proposals, fixed cost recovery would be reduced with only 28%  
491 of costs being recovered through fixed charges for Peoples Gas and North Shore. Exhibits  
492 VG 2.5-PGL, pages 3 and 4 and VG 2.5-NSG, pages 3 and 4 detail the rates and revenues  
493 under Mr. Glahn's proposed rates. The Companies' proposed rates without Rider UBA,  
494 adjusted for recovering gas cost related bad debt through base rates for sales customers,  
495 results in a more balanced approach. Under the Companies' rate design proposals, the  
496 amount of costs to be recovered through fixed charges would be 45% for Peoples Gas and  
497 50% for North Shore. This better aligns costs and revenues, as over 90% of the  
498 Companies' costs are fixed. Exhibits VG 2.6-PGL and VG 2.6-NSG detail the rates and  
499 revenues under the Companies' proposed rates assuming no Rider UBA and base rate  
500 recovery of gas cost related uncollectible expense for sales customers.

501 **Q. PLEASE ADDRESS MR. GLAHN'S ASSERTION THAT IN THE LONG RUN**  
502 **ALL FIXED COSTS ARE VARIABLE.**

503 A. It has been 11 years since the Companies' last rate cases and their fixed costs are still  
504 well over 90%. While, in abstract theory, it may be accurate to state that, in the long run,  
505 all costs are variable, the evidence shows that, on the Companies' systems, the proportion  
506 of fixed costs has remained quite stable. During the period over which the approved rates  
507 are likely to be in effect, Mr. Glahn provides no support that the high proportion of fixed  
508 costs on the Companies' systems will change significantly.

509 **E. Bill Impact Analysis**

510 **Q. PLEASE DISCUSS MR. LUTH'S ASSERTION THAT BILL IMPACTS ON**  
511 **CUSTOMERS ARE AN IMPORTANT ISSUE DESERVING FURTHER**  
512 **ANALYSIS IN THE COMPANIES' REBUTTAL TESTIMONY.**

513 A. The Companies agree that bill impact analysis is an important tool in assessing the impact  
514 of its rate design proposals on its customers. Accordingly, the Companies have provided  
515 such analyses in their Schedule E-9, in very detailed analyses in their response to Data  
516 Request No. ML 1.05 (summary shown in ICC Staff Exhibit 7.0, Schedule 7.1), and in  
517 exhibits accompanying my Direct Testimony. Customer bill impact analyses under the  
518 Companies' proposed rates, adjusted as necessary to address Staff and intervenor  
519 proposals to the extent possible, are included as Exhibits VG 2.4-PGL, VG 2.4-NSG, VG  
520 2.9-PGL and VG 2.9-NSG. Unfortunately, Staff and Intervenor witnesses did not include  
521 bill impact analyses nor were their proposals specific or timely enough for the Companies  
522 to develop such analyses.

523 **F. Sales Normalization**

524 **Q. PLEASE EXPLAIN WHY THE APPROPRIATE WEATHER NORMAL IS**  
525 **CRITICAL TO THE DEVELOPMENT OF THE APPROPRIATE RATE**  
526 **DESIGNS.**

527 A. Although over 90% of the Companies' costs are fixed, their proposed rate designs as well  
528 as the rate designs proposed by parties in this proceeding include a variable, per therm  
529 component – the distribution charge. In order for the Companies to recover their  
530 Commission authorized revenues, they need to make assumptions and predictions, about  
531 their expected sales. Sales are dependent in part on the number of heating degree days  
532 experienced. It is therefore important that the Companies use the most accurate  
533 projection of heating degree days available for the period that these rates will be in effect.  
534 Dr. Takle discusses climate change issues and its effects on the regions served by the  
535 Companies and Mr. Marozas discusses the appropriate heating degree level for the  
536 Companies based on his statistical analyses. If the Commission were to approve the  
537 much higher and unsupported number of heating degree days as well as the highly  
538 volumetric rate design proposed by Mr. Glahn, the Companies likely would not  
539 recover the revenue amounts authorized by the Commission.

540 **III. SERVICE CLASSIFICATION RATE DESIGN**

541 **A. Bifurcation of Service Classification No. 1**

542 **Q. DOES ANY PARTY OPPOSE THE COMPANIES' PROPOSALS TO**  
543 **BIFURCATE S.C. NO. 1 INTO HEATING AND NON-HEATING SERVICE**  
544 **CLASSIFICATIONS?**

545 A. Mr. Luth does not take a position on whether the Companies should bifurcate S.C. No. 1,  
546 although he does recommend that such bifurcation be made on the basis of usage if the  
547 Commission approves the Companies' proposals. Mr. Glahn acknowledges that in theory  
548 he is not opposed to separate service classes for heating and non-heating customers and  
549 that such divisions are common in the industry. He does, however, take issue with the  
550 proposed bifurcation based on issues related to the Companies' ECOSS.

551 **Q. DO YOU AGREE WITH MR. LUTH'S PROPOSAL TO BIFURCATE S.C. NO. 1**  
552 **BASED ON ANNUAL USAGE?**

553 A. I agree that annual usage should be an important consideration in determining whether a  
554 customer is properly distinguished as a heating or non-heating customer. However, I do  
555 not agree that annual usage should be the only basis for determining whether a customer  
556 should be billed under the Companies' proposed heating and non-heating rates.

557 **Q. PLEASE DISCUSS THE PROBLEMS THAT YOU HAVE IDENTIFIED WITH**  
558 **MR. LUTH'S PROPOSAL.**

559 A. First, each Company's ECOSS for S.C. Nos. 1H and 1N is based on data specific to those  
560 groups of customers as they are designated in the Companies' customer information and  
561 accounting systems. ECOSS allocations are based on rate class specific annual and peak  
562 day usage, number of customers, bad debt experience and other characteristics. Any  
563 arbitrary switching of such customers based solely on usage for the purposes of billing  
564 could seriously misalign recovery of the revenue requirement with the costs that have  
565 been allocated to these two disparate groups of customers. As a result, the Companies  
566 could significantly over or under earn their Commission approved revenue requirements.  
567 Second, the methodology proposed by Mr. Luth is not fully defined and is difficult to

568 understand, but it appears that it would be extremely complex to administer and explain  
569 to employees and customers. Mr. Luth recommends the use of a break-even point for  
570 determining billing but does not explain how or how often it should be determined. He  
571 also does not address how the proposed 12-month rolling average would apply to  
572 customers who show less than 12-months of usage or to customers whose service has  
573 been disconnected for one or more months within the rolling twelve-month period. A  
574 customer's consumption would vary depending upon weather variations as well as the  
575 customer's energy efficiency efforts. A customer could presumably be billed under two  
576 different service classifications during a 12-month period. This would also create a  
577 potential for "gaming" by customers who could voluntarily connect and disconnect  
578 service to benefit from a cheaper rate. By divorcing eligibility from the customer's use of  
579 the service (heating or non-heating), Mr. Luth introduces substantial instability as to  
580 which rate is appropriate for the customer. Even without any deliberate effort at  
581 manipulation, it appears possible that the same customer could switch back and forth  
582 between S.C. No. 1N and S.C. No. 1H one or more times during the course of the year as  
583 the customer's usage fluctuated. These are but a few of numerous serious issues that  
584 should be addressed before a distinction for S.C. Nos. 1N and 1H is made solely on the  
585 basis of usage, rather than the Companies' established S.C. Nos. 1N and 1H designations  
586 that have been accepted by the Commission as appropriate service classifications for  
587 evaluating Company costs at least as far back as the last two of the Companies' last past  
588 case proceedings.

589 **Q. HAS MR. LUTH PROVIDED DATA RESPONSES THAT ARE RELEVANT TO**  
590 **THESE ISSUES?**

591 A. Yes, and the responses are either vague or confirm the unreasonable complexities that  
592 Mr. Luth's proposals entail. The Companies' Data Request No. PGL-NS 2.32 asked  
593 whether the proposed distinction between S.C. Nos. 1N and 1H on the basis of usage  
594 would apply to the allocation of rate base and expenses in the Company's ECOSS and  
595 proposed rate design. The data request also asked whether Mr. Luth had reflected such  
596 allocation in his ECOSS. Mr. Luth responded that the distinction "could" be reflected in  
597 the ECOSS if sufficient and relevant information is available. He also indicated that he  
598 did not have the necessary information to reflect his proposed distinction in his ECOSS.  
599 This simply render's Mr. Luth's proposal very impractical since both Peoples Gas' and  
600 Mr. Luth's ECOSSs and proposed rate designs are based on Peoples Gas' heating and  
601 non-heating distinctions, which consider usage, rather than the sole annual usage  
602 distinction proposed by Mr. Luth. As a result, if Peoples Gas was required to bill  
603 customers based on usage rather than the criteria underlying the final and approved  
604 ECOSS and rate designs, any revenues arising through such billings would result in  
605 unpredictable revenues which would likely be over or under the revenues authorized by  
606 the Commission. Also, as a customer's service classification could change several times  
607 during a 12-month period, this would make it difficult for the Companies to establish the  
608 appropriate test year billing determinants for any future ECOSS. The instability arising  
609 from Mr. Luth's proposals would skew customer counts, monthly and annual  
610 consumption, peak day and average usage, load factors, bad-debt allocations and other  
611 rate design factors.

612 **Q. DID MR. LUTH ADDRESS HIS PROPOSED METHOD FOR DETERMINING**  
613 **CUSTOMER ELIGIBILITY FOR S.C. NOS. 1N AND 1H?**

614 A. Yes. The Companies' Data Request No. PGL-NS 2.33 asked Mr. Luth to provide an  
615 example to illustrate how his proposed break-even would be determined, how it would  
616 work over a 60-month period, how frequently it should be determined and if it would be  
617 adjusted to recognize usage changes due to weather variations and customer energy  
618 measures. In his Direct Testimony, Mr. Luth explained that the break-even should be  
619 determined based on a rolling 12-month average basis. In his response to the data  
620 request, he determined a monthly breakeven number of 54 therms for North Shore.  
621 However, he did not specify whether this is for a sales or a transportation customer. The  
622 break-even would differ for these two types of customers as their distribution rates would  
623 differ because of Mr. Luth's proposal to remove gas cost related uncollectible expense  
624 from transportation customers' base rates. Under Mr. Luth's proposed rates in his  
625 response to the Companies' Data Request No. PGL-NS 2.40, the break-even number for a  
626 North Shore transportation customer would be 65 therms. (The break-even points for  
627 Peoples Gas would be 60 therms and 50 therms, respectively, for sales and transportation  
628 customers).

629 **Q. IS MR. LUTH'S PROPOSAL PRACTICAL TO IMPLEMENT?**

630 A. No. Under Mr. Luth's proposal, the Companies would need to set different break-even  
631 points when a customer switches from retail sales to transportation or vice versa. This  
632 would be very complicated to program, bill, and explain to employees and customers.  
633 Mr. Luth also explains that when a customer's usage for any 12-month period results in  
634 an average usage of 54 or more monthly therms or 648 annual therms, the customer  
635 would be moved to S.C. No. 1H. for each month in which the previous 12 months of  
636 usage averaged 54 therms or more per month. Conversely, in any month in which the

637 previous 12 months of usage averaged 53 therms or less, a S.C. No. 1N customer would  
638 be billed under S.C. No. 1N rates. Mr. Luth also says that there would be no  
639 consideration of weather-related usage or customer efficiency usage. There are several  
640 flaws with this approach. First, it is based on a rolling twelve month determination.  
641 Accordingly, any swings in weather or differences in customer consumption patterns  
642 could conceivably result in customers being switched from one service classification to  
643 another every month. Second, the Companies' billing system would not only need to  
644 check the break-even level each month according to the customer's type (sales or  
645 transportation), it would need to be able to, if necessary, make prior period bill  
646 adjustments that may reflect different rates and different rate structures for several  
647 months in the prior period. This would be even more complicated to program, bill and  
648 explain to employees and customers. The complexity of Mr. Luth's proposal could easily  
649 result in considerable customer confusion and complaints to the Commission. Third, the  
650 Companies would not be able to accurately forecast its revenues. This would have  
651 implications for the accuracy of information provided to the Commission and to the  
652 financial community.

653 **Q. DID MR. LUTH'S PROPOSED METHOD RAISE OTHER ISSUES?**

654 A. Yes. The Companies' Data Request No. PGL-NS 2.35 asked how customers with less  
655 than 12-months of usage should be treated, specifically those whose service has been  
656 disconnected and new customers. Mr. Luth responded that the Companies should review  
657 the most recent 12 calendar months of billing history to determine the appropriate billing  
658 classification and then ask the customer if any additional high gas use equipment has  
659 been installed, removed or replaced. This approach would be impractical because it

660 would be administratively burdensome, since there are several thousand customers whose  
661 service is disconnected each year. Additionally, based on Mr. Luth's break-even criteria,  
662 a heating customer would likely automatically be placed on the non-heating rate if the  
663 Companies' efforts to contact the customer were unsuccessful. Third, Mr. Luth's  
664 proposal could place a low-income customer on a less favorable rate and jeopardize the  
665 customer's LIHEAP eligibility. Many LIHEAP applicants are disconnected at the time  
666 of their application for LIHEAP funding and consequentially would show less than  
667 twelve months of billing and possibly less usage than the "break-even" that would result  
668 from Mr. Luth's proposal. LIHEAP is only available to heating customers and their  
669 eligibility, by electronic file transfer, is determined by the Companies' heating and non-  
670 heating designations on their account. Mr. Glahn has discussed the vulnerability of such  
671 customers in his Direct Testimony although he did not acknowledge that only heating  
672 customers are eligible for LIHEAP funding.

673 **Q. PLEASE DESCRIBE HOW THE COMPANIES HAVE IDENTIFIED**  
674 **CUSTOMER ACCOUNTS AS HEATING AND NON-HEATING.**

675 A. The Companies have attached heating and non-heating designations to their small  
676 residential accounts for at least twenty years. Such designations have been made based  
677 on information provided by the customers at the time service commenced or in follow-up  
678 calls from the Companies, through service inspections and through billing department  
679 analyses of customer account usage.

680 **Q. HAVE THE COMPANIES DETERMINED THAT THEIR HEATING AND NON-**  
681 **HEATING DESIGNATIONS ARE ACCURATE?**

682 A. Yes. The Companies' Schedules E-8 demonstrates that over 97% of Peoples Gas' S.C.  
683 No. 1N monthly bills and 91% of North Shore's S.C. No. 1N monthly bills are for 50  
684 therms or less. This is consistent with the Companies' assumption that most bills under  
685 500 annual therms should be associated with S.C. No. 1N and most bills over 500 annual  
686 therms should be associated with S.C. No. 1H. These assumptions reflect the logic that  
687 heating customers can be expected to normally exceed 500 therms annually and that non-  
688 heating customers would be expected to use less than 500 therms annually. Of course,  
689 there will be a few exceptions to this rule. In those cases, bills would be analyzed based  
690 on load factor and heat pattern analysis. Using these types of analyses, the Companies  
691 have determined that at least 99% and 95% of Peoples Gas' S.C. Nos. 1N and 1H  
692 customers, respectively, and at least 97% and 98% of North Shore's S.C. Nos. 1N and 1H  
693 customers, respectively, have been properly classified. As usage is one of a few  
694 important factors that would be considered to ensure that customers are properly  
695 classified, the Companies believe that their bifurcation methodology is more appropriate  
696 and simpler to administer and understand than the usage proposal made by Mr. Luth.

697 **Q. DO THE COMPANIES PLAN TO NOTIFY CUSTOMER OF THE DIFFERENCE**  
698 **IN RATES BETWEEN S.C. NOS. 1N AND 1H AND CHANGES TO THEIR RATE**  
699 **STATUS?**

700 A. Yes, after the Companies make their compliance filing in these cases and as they begin to  
701 bill customers under the new rates, the Companies will notify customers of the difference  
702 in rates between S.C. Nos. 1N and 1H and inform customers about changes in their rate  
703 status.

704 **Q. PLEASE DISCUSS MR. GLAHN'S CONCERN THAT THE COMPANIES'**  
705 **PROPORTION OF COSTS ASSIGNED TO HEATING CUSTOMERS APPEARS**  
706 **IMPLAUSIBLY HIGH.**

707 A. Mr. Glahn's concern is grounded in a misunderstanding about the costs of regulators and  
708 services for S.C. Nos. 1N and 1H. Mr. Amen addresses Mr. Glahn's concern and  
709 explains the reason for the cost differentials, which are not related to the Companies'  
710 bifurcations proposals.

711 **Q. PLEASE DISCUSS MR. GLAHN'S ASSERTION THAT THE COMPANIES'**  
712 **PROPOSED BIFURCATION DISPROPORTIONATELY IMPACTS THE MOST**  
713 **VULNERABLE CUSTOMERS.**

714 A. The Companies are concerned about the impact of their proposed rate designs on all  
715 customers, including small residential customers who are greatly impacted by variations  
716 in weather and gas costs. Although it may not be apparent to Mr. Glahn, the Companies'  
717 proposed bifurcation and resulting rate design results in lower bills for S.C. No. 1H  
718 customers than the rate design proposed by Mr. Glahn, particularly during the winter.  
719 This will be demonstrated later in my Rebuttal Testimony.

720 **Q. PLEASE DISCUSS MR. GLAHN'S SUGGESTION THAT THE BIFURCATION**  
721 **OF S.C. NO. 1 SHIFTS THE ALLEGED SUBSIDY FROM HEATING**  
722 **CUSTOMERS TO NON-HEATING CUSTOMERS AND RESULTS IN**  
723 **SIGNIFICANTLY HIGHER RATE INCREASES FOR HEATING CUSTOMERS.**

724 A. The Companies' proposed bifurcation of S.C. No. 1 moves each of the resulting service  
725 classifications closer to their respective costs. However, they do not result in higher rate  
726 increases for heating customers. Exhibit VG 2.2, Column F, shows that under the

727 Companies' proposals without Rider UBA, the increase *percentages* would be higher for  
728 S.C. No. 1N than S.C. No. 1H at 34.8% and 30.7%, respectively. Mr. Glahn's own  
729 increase allocation methodology produces a similar increase. His Exhibit WL-G-D,  
730 Schedule 2, Page 1 of 1, column 7 shows that his proposed rate increase allocation results  
731 in a an increase of 34.84% for S.C. No. 1N and 30.58% for S.C. No. 1H.

732 **B. Peoples Gas Service Classification Nos. 1N and 1H**

733 **Q. PLEASE ADDRESS MR. LUTH'S AND MR. GLAHN'S RESPONSES TO**  
734 **PEOPLES GAS' PROPOSED CHARGES FOR S.C. NO. 1N.**

735 A. Mr. Luth proposes that Peoples Gas increase its proposed S.C. No. 1N customer charge  
736 from \$11.50 to \$12.00. He also proposes that the increase in the customer charge be  
737 offset by a decrease in Peoples Gas' proposed flat distribution charge. This is reasonable  
738 because an increased customer charge would recover more of the Company's fixed costs  
739 and be consistent with the ultimate objective of moving rates to cost. In addition, an  
740 increase in one charge would result in a decrease in another charge as rates are being  
741 designed to recover the service classification's revenue requirement. Nevertheless, the  
742 final rate design must be evaluated to make sure that the distribution charge is set  
743 correctly. S.C. No. 1H customers should not have an incentive to misrepresent their  
744 heating or non-heating status at the time that service is initially established or at any time  
745 thereafter. Exhibit VG 2.7-PGL is an example of a break-even table that should be used  
746 to evaluate whether the rate for S.C. No. 1N is set too low. A break-even term level  
747 between 50-60 monthly therms for sales customers would be appropriate, as on an annual  
748 basis it is slightly above Peoples Gas' threshold for determining whether an account  
749 would be considered heating or non-heating.

750 **Q. DO MR. LUTH OR MR. GLAHN MAKE ANY OTHER RECOMMENDATIONS**  
751 **THAT WOULD AFFECT S.C. NO. 1N CHARGES?**

752 A. Yes. Mr. Luth also proposes adjustments to sales and transportation customers'  
753 distribution charges for gas cost related uncollectible expense. As discussed previously, I  
754 agree that distribution charges should be adjusted for these expenses, but using the  
755 simpler approach that I described. Mr. Glahn proposes that S.C. No. 1 not be bifurcated  
756 and that Peoples Gas decrease its customer charge to \$10.50 while retaining the  
757 distribution charge in the current declining block rate structure. Although Mr. Glahn  
758 proposes a slight increase in the customer charge, it is based on a comparison with the  
759 customer charges for other Illinois utilities, rather than specific underlying costs or any of  
760 the theoretical rate design objectives and principles of the AGA and Dr. Bonbright that he  
761 cited elsewhere in his Direct Testimony. Presumably, the utilities' rates to which Mr.  
762 Glahn refers were set based on *their* respective costs as well as sound rate design  
763 principles. Mr. Glahn proposes to arbitrarily set Peoples Gas' S.C. No. 1N charge  
764 "squarely in the middle" of the customer charges for the utilities in his comparison.  
765 Unlike the Companies' and Mr. Luth's proposals, Mr. Glahn's proposal is not cost based  
766 and would result in an increase in the distribution charge. Although a decrease in the  
767 customer charge would result in an increase in the distribution charge, Mr. Glahn has not  
768 proposed any specific allocation of remaining costs to Peoples Gas' proposed distribution  
769 rates. In short, Mr. Glahn's recommendations are neither sound nor reasoned because  
770 they are arbitrary and incomplete.

771 **Q. PLEASE ADDRESS MR. LUTH'S AND MR. GLAHN'S RESPONSES TO**  
772 **PEOPLES GAS' PROPOSED CHARGES FOR S.C. NO. 1H.**

773 A. Mr. Luth proposes that Peoples Gas' S.C. No. 1H customer charge be set no higher than  
774 Peoples Gas' proposed \$19.00. He makes no recommendations concerning Peoples Gas'  
775 proposed distribution charges other than to say that they should not be reduced as long as  
776 overall costs are not recovered by rates. It is not clear how rates would be impacted by  
777 this generalization. Mr. Luth also recommends adjustments to sales and transportation  
778 customers' distribution charges to reflect the removal of gas cost related uncollectible  
779 expense. As discussed previously, I agree that distribution charges should be adjusted to  
780 remove these expenses, but using the simpler approach that I described. Mr. Glahn  
781 proposes that S.C. No. 1 not be bifurcated and that Peoples Gas decrease its customer  
782 charge to \$10.50 while retaining the distribution charge in the current declining block rate  
783 structure. Although Mr. Glahn recommends a slight increase in the customer charge, it  
784 is based on the same type of comparison with the customer charges for other Illinois  
785 utilities as was discussed above in regard to S.C. No. 1N. Mr. Glahn's approach is  
786 flawed for the same reasons discussed earlier. I also note that unless the final revenue  
787 requirement indicates otherwise, there is no reason why Peoples Gas' proposed \$19.00  
788 customer charge should not be set higher than that of CIPS Metro East, whose customer  
789 charge, at \$15.00, is 50% of Peoples Gas' embedded customer cost. This further  
790 illustrates how Mr. Glahn's approach would produce arbitrary and unreasonable results.

791 **Q. PLEASE DISCUSS MR. LUTH'S CONCERN THAT CUSTOMERS**  
792 **CONSUMING GREATER THAN 1,000 MONTHLY THERMS, AS SHOWN ON**  
793 **PEOPLES GAS' SCHEDULE E-9, WOULD BENEFIT FROM PEOPLES GAS'**  
794 **PROPOSED RATE DESIGN.**

795 A. Peoples Gas was required to show usage for 1,000 monthly therms to comply with the  
796 Commission's standard filing requirements. Inasmuch, as only .017% of Peoples Gas'  
797 monthly test year bills are greater than 1,000 therms, this is not a significant issue.

798 **Q. MR. GLAHN ASSERTS THAT PEOPLES GAS' PROPOSED S.C. NO. 1H RATE**  
799 **DESIGN WOULD HARM FIXED INCOME CUSTOMERS. DO YOU AGREE?**

800 A. No. Mr. Glahn mistakenly associates higher fixed charges with higher bills. Rates are  
801 designed to meet a service classification's revenue requirement. If a fixed charge such as  
802 the customer charge is higher, the volumetric charge or the distribution charge would be  
803 lower. Fixed income customers would actually benefit from a rate design which includes  
804 a higher fixed charge component. This type of rate design would make the base rate  
805 portion of a customer's bill more predictable than a rate design with higher volumetric  
806 charges.

807 **Q. MR. GLAHN ASSERTS THAT PEOPLES GAS' PROPOSED S.C. NO. 1H RATE**  
808 **DESIGN WOULD HARM LOW INCOME CUSTOMERS. DO YOU AGREE?**

809 A. No, primarily due to evidence to the contrary and partially due to Mr. Glahn's own  
810 contradictory statements. Mr. Glahn can't seem to make up his mind on whether higher  
811 customer charges or higher distribution charges would harm low income customers. On  
812 one hand, he asserts that higher fixed charges such as the customer charge would  
813 adversely impact low income customers (Glahn Direct Testimony, page 18, lines 21-22  
814 and page 19, lines 1-2). On the other hand, he asserts that low and fixed income  
815 customers are affected by increases in volumetric charges such as the distribution charge  
816 (Glahn Direct Testimony, page 19, lines 9 -15). Other than theory and assumptions, he  
817 provides no hard evidence for either assertion. On the contrary, Peoples Gas prepared an

818 analysis that indicates that the average use for the lowest income customers is higher at  
819 1,389 therms than the class average use per customer of 1,141 therms for S.C. No. 1H. It  
820 is important to note that the average use for the lowest income customers is higher than  
821 the average use for class average customers although it is based on actual warmer than  
822 normal weather and the class average use per customer is based on Peoples Gas' test year  
823 normal. If the usage for the low-income customers were normalized for the 269 heating  
824 degree day difference, the usage difference would be even higher. Exhibit VG 2.8-PGL  
825 reflects Peoples Gas' use per small residential heating customers for various income  
826 groups. Note that the lowest income customers consume more gas than the other higher  
827 income customer groups. Peoples Gas' finding is supported by a study performed by  
828 Philip B. Thompson, a witness in the Missouri Gas Energy Case No. GR-2006-0422.  
829 Mr. Thompson concludes that:

830 Most important, there is no evidence that usage and household income are  
831 positively related through all levels of income. Rather, the relationship between  
832 usage and income has a "U" shape. At lower income levels, usage increases as  
833 income falls, and at the lowest income levels is greater than the overall average  
834 usage. The relationship becomes positive at higher income levels-beyond some  
835 income level, usage increases with income. The implication for ratemaking is  
836 that larger proportional increases in the fixed monthly customer charges are not  
837 regressive. That is, increases in the customer charge do not harm low income  
838 users as a group. In fact, effecting a residential rate increase by  
839 disproportionately increasing the volumetric charge would likely have a greater  
840 harmful impact on such customers"<sup>6</sup>.

841 A bill impact comparison between Peoples Gas' proposed rate design and Mr. Glahn's  
842 proposed rate design (assuming remaining customer costs are recovered using the same  
843 percentage allocations applied to Peoples Gas' proposed distribution rates) in Exhibit VG  
844 2.9-PGL, page 1, supports the conclusion that an increased distribution charge rather than

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<sup>6</sup> Rebuttal testimony of Philip B. Thompson, Missouri Gas Energy, Case No. GR-2006-0422, Schedule PBT-2 page 16.

845 an increased customer charge would have a greater adverse impact on low-income  
846 customers. As shown in the Exhibit, class average customers would pay \$9.48 less under  
847 Peoples Gas' proposed rate design, while low income customers would pay \$30.98 less  
848 under Peoples Gas' proposed rate design. Customers would also pay less in many  
849 months including the winter period under Peoples Gas' proposed rate design when gas  
850 costs are typically the highest. Exhibit VG 2.9-PGL, page 2 shows graphically how  
851 Peoples Gas' proposed rate design would result in lower bills for class average and low  
852 income customers and would result in lower bills during the winter than the rate design  
853 proposed by Mr. Glahn. This demonstrates that customers, particularly low-income,  
854 high-usage customers, would benefit from a higher customer charge and a lower  
855 distribution charge. In essence, Mr. Glahn's rate design proposal, which lowers the  
856 customer charge, would harm S.C. No. 1H class average customers, low-income  
857 customers and Peoples Gas as discussed previously in my Rebuttal Testimony.

858 **Q. PLEASE DISCUSS MR. GLAHN'S ASSERTION THAT DECLINING BLOCK**  
859 **RATES SEND THE WRONG PRICE SIGNAL.**

860 A. Peoples Gas is a delivery services company whose fixed costs do not vary with customer  
861 consumption. Therefore, the appropriate price signal for the service would be a single  
862 fixed monthly charge – a rate design that Peoples Gas included with its Direct Testimony  
863 but that is not supported by Staff and intervenors in this case. Peoples Gas' proposal to  
864 move more cost recovery to fixed charges enhances the price signal. Also, the gas cost  
865 portion of a customer's bill, the largest portion of the bill, sends the appropriate signal on  
866 gas consumption.

867 **C. North Shore Service Classification Nos. 1N and 1H**

868 **Q. PLEASE DISCUSS MR. LUTH'S AND MR. GLAHN'S RESPONSES TO NORTH**  
869 **SHORE'S PROPOSED CHARGES FOR S.C. NO. 1N.**

870 A. Mr. Luth proposes to decrease the distribution charge for transportation customers for gas  
871 cost related uncollectible expense. Other than proposing to establish separate distribution  
872 charges for sales and transportation customers, Mr. Luth does not propose any changes to  
873 North Shore's S.C. No. 1N proposed rates. As discussed previously, I agree that  
874 distribution charges should be adjusted for these expenses but using the simpler approach  
875 that I described. Also, depending on the approved revenue requirement, the final rate  
876 design must be evaluated to make sure that the distribution charge is set correctly. S.C.  
877 No. 1H customers should not have an incentive to misrepresent their heating or non-  
878 heating status at the time that service is initially established or at any time thereafter.  
879 Exhibit VG 2.7-NSG is an example of a break-even table that should be used to evaluate  
880 whether the rate for S.C. No. 1N is set too low. A break-even therm level between 50-60  
881 monthly therms for sales customers would be appropriate as on an annual basis it is  
882 slightly above North Shore's threshold for determining whether an account would be  
883 considered heating or non-heating. Mr. Glahn proposes that North Shore's S.C. No. 1 not  
884 be bifurcated and that North Shore's customer charge be set at its current level of \$8.50  
885 based on an assumption that North Shore's revenue requirement would be reduced. Mr.  
886 Glahn's proposal is arbitrary and unsupported by any facts or reasoned analysis. His  
887 proposal most certainly has no cost basis, and is not aligned with North Shore's fixed  
888 customer costs. Even if North Shore's revenue increase is not granted, its fixed customer

889 costs would exceed that being recovered through its current customer charge. Mr.  
890 Glahn does not address the S.C. No. 1N distribution charge.

891 **Q. PLEASE DISCUSS MR. LUTH'S AND MR. GLAHN'S RESPONSES TO NORTH**  
892 **SHORE'S PROPOSED CHARGES FOR S.C. NO. 1H.**

893 A. Mr. Luth makes no proposals on North Shore's proposed customer charge but proposes to  
894 decrease the distribution charge since his ECOSS study allocates less costs to S.C. No.  
895 1H than North Shore's ECOSS. Mr. Luth also recommends adjustments to sales and  
896 transportation customers' distribution charges for gas cost related uncollectible expense.  
897 However, based on the distribution charge adjustments proposed by Mr. Luth, S.C. No.  
898 1H revenue would be over-recovered by \$1.088 million. In addition, the adjustments  
899 proposed by Mr. Luth on lines 398-399 of his Direct Testimony to increase the sales  
900 distribution charge and decrease the transportation distribution charge, do not match the  
901 adjustments shown on his accompanying schedule, ICC Staff Exhibit 7.0, Schedule 7.2  
902 NS. As discussed previously, I agree that distribution charges should be adjusted for  
903 these expenses, but using the simpler approach that I described. Mr. Glahn proposes that  
904 S.C. No. 1 not be bifurcated. Consequently, his proposals and my discussion are the  
905 same as discussed above in connection with North Shore's proposed S.C. No. 1N.

906 **Q. MR. GLAHN ASSERTS THAT NORTH SHORE'S PROPOSED S.C. NO. 1H**  
907 **RATE DESIGN WOULD HARM FIXED INCOME CUSTOMERS. DO YOU**  
908 **AGREE?**

909 A. No, for the reasons discussed above with respect to Peoples Gas.

910 **Q. MR. GLAHN ASSERTS THAT NORTH SHORE’S PROPOSED S.C. NO. 1H**  
911 **RATE DESIGN WOULD HARM LOW INCOME CUSTOMERS. DO YOU**  
912 **AGREE?**

913 A. No. North Shore’s service territory is somewhat different than Peoples Gas' as it includes  
914 many affluent communities with larger homes. Therefore, North Shore’s analysis  
915 indicates that the average use for the lowest income customers is lower at 1,134 therms  
916 than the class average use per customer of 1,325 therms for S.C. No. 1H. It is important  
917 to note that the average use for the lowest income customers is based on actual warmer  
918 than normal weather and the class average use per customer is based on North Shore’s  
919 test year normal. If the usage for the low-income customers were normalized for the 269  
920 heating degree day difference, the usage shown would be higher. Exhibit VG 2.8-NSG  
921 shows North Shore’s use per small residential heating customers for various income  
922 groups. The analysis reflects that the lowest income customers consume more gas than  
923 some of the higher income groups but not as much as the highest income customer  
924 groups. A bill impact comparison between North Shore’s proposed rate design and Mr.  
925 Glahn’s proposed rate design (assuming North Shore’s proposed increase and remaining  
926 customer costs being recovered under the same percentage allocations applied to North  
927 Shore’s proposed distribution rates) in Exhibit VG 2.9-NSG, page 1 shows that the bills  
928 for low income customers would be basically the same under North Shore’s and Mr.  
929 Glahn’s proposals but low income customers who consume close to the class average  
930 would be better off under North Shore’s proposal. As shown in the Exhibit, class average  
931 customers would pay \$7.50 less under North Shore’s proposed rate design while low  
932 income customers would pay only \$1.81 more (about 1%) under North Shore’s proposed

933 rate design. Both types of customers would pay less in several months including the  
934 winter period under North Shore's proposed rate design when gas costs are typically the  
935 highest. Exhibit VG 2.9-NSG, page 2 shows graphically how North Shore's proposed  
936 rate design would result in lower bills for class average and basically the same for low  
937 income customers and would result in lower bills during the winter than the rate design  
938 proposed by Mr. Glahn. This demonstrates that customers, particularly high-usage  
939 customers would benefit from a higher customer charge and a lower distribution charge.  
940 In essence, Mr. Glahn's rate design proposal, which lowers the customer charge, would  
941 harm S.C. No. 1H customers and North Shore as discussed previously in my Rebuttal  
942 Testimony.

943 **D. Peoples Gas Service Classification No. 2**

944 **Q. PLEASE DISCUSS MR. LUTH'S AND MR. GLAHN'S RESPONSES TO**  
945 **PEOPLES PROPOSED S.C. NO. 2.**

946 A. As discussed previously, Mr. Luth proposes to allocate a portion of the increase for S.C.  
947 Nos. 1N and 1H to S.C. No. 2 and the other service classifications. While he specifically  
948 reduces the increase allocated to S.C. No. 2 to \$12,887,405 from Peoples Gas' proposed  
949 increase of \$26.9 million (assuming no rider UBA), he does not explain how this amount  
950 is derived. Although I was able to determine a potential basis for Mr. Luth's proposed  
951 increase, this increase would result in a small increase for S.C. No. 2 with more  
952 significant increases for the other service classifications. It appears that Mr. Luth is  
953 proposing no adjustments to Peoples Gas' proposed customer charges. Although his  
954 Direct Testimony did not reflect any proposed distribution charges, Mr. Luth has  
955 provided his proposed distribution charges in response the Companies' Data Request No.

956 PGL-NS 2.40. However, the proposed distribution to charges arise from incorrect  
957 adjustments to Peoples Gas' proposed charges and include an end block charge for  
958 transportation customers, which is so low at 5.661 cents per therm, that many S.C. No. 4  
959 customers, whose bills would significantly increase under Mr. Luth's proposals, would  
960 switch to S.C. No. 2. It appears that Mr. Luth is reducing each block's distribution  
961 charges by 12.536%, the amount of his proposed reduction in Peoples Gas' proposed  
962 increase for S.C. No. 2. However, this is an inappropriate approach as it assumes  
963 incorrectly that the same number of billing unit therms fall in each block. As a result,  
964 Mr. Luth's proposed adjustments and proposed distribution rates are in error and result in  
965 a \$1.6 million over-collection of his revenue requirement. Mr. Glahn proposes to increase  
966 Peoples Gas' Meter Class 2 customer charge to \$27.00 so that it "matches" a charge for  
967 one utility and "falls in the midst" of certain other utilities. This proposal, like his  
968 proposal for Peoples Gas' S.C. No. 1H, is based on arbitrary, inapt comparisons and not  
969 on sound ratemaking principles. Indeed, Mr. Glahn selectively avoids any comparison  
970 for Meter Class 2 as Peoples Gas' proposed rate at \$60.00 is less than the \$70.00 and  
971 \$90.00 rates charged by other utilities shown in his Exhibit WLG-D, Schedule 6, page 1.

972 **E. North Shore Service Classification No. 2**

973 **Q. PLEASE DISCUSS MR. LUTH'S AND MR. GLAHN'S PROPOSALS FOR**  
974 **NORTH SHORE'S S.C. NO. 2.**

975 A. In his Direct Testimony, Mr. Luth proposes that North Shore's Meter Class 1 customer  
976 charge remain unchanged from its present rate and that the Meter Class 2 charge be set at  
977 \$52.71. Mr. Luth also proposes a non-specific increase in the S.C. No. 2 distribution  
978 charge. In his response to the Companies' Data Request No. PGL-NS, Mr. Luth proposes

979 a Meter Class 1 customer charge of \$15.26 and a Meter Class 2 Customer Charge of  
980 \$53.86. It was not clear in Mr. Luth's Direct Testimony which block of North Shore's  
981 three-block rate structure should be adjusted for his proposed non-specific increase. His  
982 response to the Companies' Data Request No. PGL-NS 2.39 shows, without reasoned  
983 explanation, adjustments for each block of the S.C. No. 2 distribution charge before  
984 adjustments are made for sales and transportation customers. Mr. Glahn proposes that  
985 the customer charges for S.C. No. 2 not be increased based on his reasons provided for  
986 not increasing the customer charges for S.C. No. 1. Similarly, Mr. Glahn's proposal is  
987 arbitrary, not cost based or aligned with North Shore's costs. Even if North Shore's  
988 revenue increase request is not granted, its fixed customer costs would exceed that being  
989 recovered through its current customer charges. Neither Mr. Luth nor Mr. Glahn has  
990 demonstrated that North Shore's proposed rates for S.C. No. 2 are not reasonable.  
991 Accordingly, North Shore's proposed rates should be considered acceptable unless the  
992 final ECOSS as approved by the Commission indicates otherwise.

993 **F. Peoples Gas Service Classification No. 4**

994 **Q. PLEASE DISCUSS MR. LUTH'S PROPOSALS FOR PEOPLES GAS' S.C. NO. 4.**

995 A. Based on his ECOSS, Mr. Luth proposes that Peoples Gas increase the S.C. No. 4  
996 customer charges to \$1,043, that 24% of demand costs be recovered through distribution  
997 charges, that the distribution charge be increased 1.33 cents per therm above Peoples  
998 Gas' proposed rate and that the demand charge be decreased 2.806 cents below Peoples  
999 Gas' proposed rates. As discussed previously, Mr. Luth sets S.C. No. 4 at 107% of costs.  
1000 Mr. Luth's adjustment to the demand charge results in only 53% recovery of demand  
1001 costs arising from his ECOSS. This insufficient recovery level results in a significant

1002 increase in the distribution charge. Mr. Luth expresses concern about Peoples Gas'  
1003 increased demand charge for former S.C. No. 3 customers but overlooks the impact that  
1004 his higher proposed customer and distribution charge would have on all customers. The  
1005 customer charge is 247% higher than the customer charge for former S.C. No. 3. The  
1006 distribution charge at 2.541 cents per therm would more than double for S.C. No. 4  
1007 customers. Although Mr. Luth indicates on page 32, lines 629-631 of his Direct  
1008 Testimony that his intent is to recover 24% of demand costs through the distribution rate,  
1009 his proposal results in 47% of demand costs being recovered through the distribution  
1010 charge. Mr. Luth's over-allocation of costs along with his proposed rate design would be  
1011 uneconomical to customers in this service classification and may induce some to switch  
1012 to S.C. No. 2 or bypass Peoples Gas' system. Mr. Luth has not demonstrated that  
1013 Peoples Gas' proposed rates for S.C. No. 4 are not reasonable. Accordingly, Peoples  
1014 Gas' proposed rates for S.C. No. 4 should be considered acceptable unless the final  
1015 ECOSS as approved by the Commission indicates otherwise.

1016 **G. North Shore Service Classification No. 3**

1017 **Q. PLEASE DISCUSS MR. LUTH'S PROPOSALS FOR NORTH SHORE'S S.C.**  
1018 **NO. 3.**

1019 A. Mr. Luth proposes to allocate \$236,527 more costs to S.C. No. 3 based on his use of the  
1020 Average and Peak methodology over the amount that North Shore proposed. While he  
1021 does not propose any changes to the customer charge, he is proposing to recover 23.1%  
1022 of the S.C. No. 3 demand costs through the distribution charge resulting in an increase in  
1023 the proposed S.C. No. 3 distribution charge to 0.46 cents per therm. Applying this  
1024 proposed rate to the S.C. No. 3 distribution volumes results in distribution charge revenue

1025 of \$85,246, which is only \$36,693 higher than what North Shore proposed. A  
1026 comparison of this amount to Mr. Luth's additional \$236,527 of proposed S.C. No. 3  
1027 costs, results in an under-recovery of S.C. No. 3 costs of approximately \$199,800.  
1028 Mr. Luth failed to account for these additional costs in his revenue adjustments for S.C.  
1029 No. 3. In addition, North Shore proposed to recover only 80% of demand related costs in  
1030 the demand charge as stated in my Direct Testimony on lines 473-481, with the  
1031 remaining demand and commodity costs being recovered through the standby service  
1032 charge and the distribution charge. This proposal is very similar to what Mr. Luth is  
1033 proposing, but Mr. Luth used a different cost allocation methodology. Mr. Glahn did not  
1034 address any modifications for S.C. No. 3. As Mr. Luth agrees with North Shore's  
1035 proposed customer charge and derives a demand charge which is similar to that proposed  
1036 by North Shore, the distribution charge would need to be adjusted to appropriately  
1037 recover the revenue requirement arising from his ECOSS. The charges would also need  
1038 to be adjusted to reflect revenues arising from the standby service charge that was  
1039 corrected in North Shore's response to IIEC-1.38 attached as Exhibit VG 2.10. Based on  
1040 that correction, the standby service charge would be reduced from 11 cents per therm to 7  
1041 cents per therm. Even with the proposed changes, all charges would need to be supported  
1042 by the final ECOSS arising from this proceeding.

1043 **H. Peoples Gas Service Classification No. 6**

1044 **Q. PLEASE DISCUSS MR. LUTH'S PROPOSALS FOR PEOPLES GAS' S.C. NO. 6**

1045 A. Based on his ECOSS, Mr. Luth proposes that Peoples Gas increase its customer charge to  
1046 \$101.56. He also recommends that Peoples Gas explain the decrease in S.C. No. 6 billing  
1047 units and the level of the proposed distribution charge. Mr. Luth's customer charge is

1048 higher than that proposed by Peoples Gas due to his proposal to set S.C. No. 6 above  
1049 cost. As stated previously, this approach is not appropriate. Peoples Gas' response to  
1050 Data Request No. ML 1.05 stated that it had used the incorrect billing units in the  
1051 derivation of the demand charge. The response to the data request also provided the  
1052 corrected rate of 70.956 cents per therm. Specifically, the response stated: "The  
1053 worksheets for Peoples' S.C. No. 6 reflect a corrected proposed demand charge of 70.956  
1054 cents per therm rather than the \$8.4893 per therm proposed demand charge shown in the  
1055 testimony of Ms. Grace, Exhibit VG 1.4 pages 1 and 2, Schedules E-1, E-2, E-4, E-5 and  
1056 used in the billing computations in Schedule E-9. The corrected demand charge arises  
1057 from the [in]correct application of monthly rather than annual billing units in the  
1058 derivation of the charge. The revenue requirement and other charges for Peoples' S.C.  
1059 No. 6 [are] unaffected by this correction." The corrected demand charge is shown in  
1060 Exhibit VG 2.4, pages 1 and 2. The correct demand charge and corrected billing units are  
1061 shown in Exhibits VG 2.5 and VG 2.6. Although Peoples Gas has corrected its proposed  
1062 demand charge, this charge as well as others would need to be supported by the final  
1063 ECOSS and rate increase allocation arising from this proceeding.

1064 **I. North Shore Service Classification No. 5**

1065 **Q. PLEASE DISCUSS MR. LUTH'S PROPOSALS FOR NORTH SHORE'S S.C.**  
1066 **NO. 5.**

1067 **A.** Mr. Luth proposes to decrease the customer charge by 65 cents per month based on his  
1068 allocation of \$615 less costs to S.C. No. 5 using the Average and Peak methodology.  
1069 Other than that, Mr. Luth makes no other adjustments to S.C. No. 5. Mr. Glahn did not  
1070 address any modifications for S.C. No. 5. Although I would prefer a customer charge

1071 rounded to the nearest dollar, I am not opposed to Mr. Luth's proposed adjustment as  
1072 long as it is supported by the final ECOSS arising from this proceeding.

1073 **J. Peoples Gas Service Classification No. 8**

1074 **Q. PLEASE DISCUSS MR. LUTH'S PROPOSALS FOR PEOPLES GAS' S.C. NO. 8.**

1075 A. Based on his ECOSS, Mr. Luth proposes that Peoples Gas increase the S.C. No. 8  
1076 customer charge to \$104.86. Mr. Luth did not propose any change to Peoples Gas'  
1077 proposed distribution charge. Mr. Luth's proposed increase in the customer charge is  
1078 based on his proposed rate increase allocation methodology. As stated previously in my  
1079 Rebuttal Testimony, this proposed allocation methodology is not appropriate.

1080 **IV. TARIFF – PROPOSED NEW RIDERS**

1081 **A. Rider VBA**

1082 **Q. MS. HATHHORN PROPOSES LANGUAGE CHANGES TO BE ADOPTED BY**  
1083 **THE COMMISSION IF THE COMPANIES' PROPOSED RIDER VBA IS**  
1084 **APPROVED. PLEASE COMMENT ON MS. HATHHORN'S PROPOSED**  
1085 **TARIFF LANGUAGE.**

1086 A. Other than a revision that I believe should be made regarding Factor O, I find  
1087 Ms. Hathhorn's language recommendations acceptable. I propose that Factor O be  
1088 removed from the RA<sub>2</sub> calculation and defined under RA as follows: "RA represents RA<sub>1</sub>  
1089 and Factor O for the Previous Reconciliation Period".

1090 **Q. PLEASE ADDRESS MR. BROSCHE'S AND MR. LAZARE'S ASSERTIONS THAT**  
1091 **RIDER VBA IS ADMINISTRATIVELY COMPLEX AND BURDENSOME.**

1092 A. Rider VBA is no more complex than the Companies' monthly and annual Rider 2, Gas  
1093 Charge and Rider 11, Adjustment for Incremental Costs of Environmental Activities

1094 filings. However, if Mr. Brosch and Mr. Lazare believe that Rider VBA should be  
1095 rejected on the grounds that it is administratively complex and burdensome, then the  
1096 Companies would propose a deferred accounting approach similar to that proposed by  
1097 Mr. Brosch for Rider EEP. Under this approach, any Rider VBA revenues would be  
1098 tracked in a deferred account until the Commission allows such amounts to be refunded  
1099 to or recovered from customers through a charge or an adjustment to base rates. This  
1100 could occur on an annual basis or in a future rate case proceeding. The Companies would  
1101 propose that such amounts be refunded or recovered on an annual basis.

1102 **B. Rider UBA**

1103 **Q. MS. HATHHORN PROPOSES LANGUAGE CHANGES TO BE ADOPTED BY**  
1104 **THE COMMISSION IF THE COMPANIES' PROPOSED RIDER UBA IS**  
1105 **APPROVED. PLEASE COMMENT ON MS. HATHHORN'S PROPOSED**  
1106 **TARIFF LANGUAGE.**

1107 A. Other than a revision that I believe should be made regarding Factor O, I find Ms.  
1108 Hathorn's language recommendations acceptable. I propose that Factor O be removed  
1109 from the  $RA_2$  calculation and defined under RA as follows: "RA represents  $RA_1$  and  
1110 Factor O for the Previous Reconciliation Period".

1111 **Q. PLEASE ADDRESS MR. BROSCH'S AND MR. LAZARE'S ASSERTIONS THAT**  
1112 **RIDER UBA IS ADMINISTRATIVELY COMPLEX AND BURDENSOME.**

1113 A. Rider UBA is no more complex than the Companies' monthly and annual Rider 2, Gas  
1114 Charge and Rider 11, Adjustment for Incremental Costs of Environmental Activities  
1115 filings. However, if Mr. Brosch and Mr. Lazare believe that Rider UBA should be  
1116 rejected on the grounds that it is administratively complex and burdensome, then the

1117 Companies would propose a deferred accounting approach similar to that proposed by  
1118 Mr. Brosch for Rider EEP. Under this approach, any Rider UBA revenues would be  
1119 tracked in a deferred account until the Commission allows such amounts to be refunded  
1120 to or recovered from customers through a charge or an adjustment to base rates. This  
1121 could occur on an annual basis or in a future rate case proceeding. The Companies would  
1122 propose that such amounts be refunded or recovered on an annual basis.

1123 **C. Rider EEP**

1124 **Q. MS. HATHHORN PROPOSES LANGUAGE CHANGES TO BE ADOPTED BY**  
1125 **THE COMMISSION IF THE COMPANIES' PROPOSED RIDER EEP IS**  
1126 **APPROVED. PLEASE COMMENT ON MS. HATHHORN'S PROPOSED**  
1127 **TARIFF LANGUAGE.**

1128 A. I find Ms. Hathhorn's language recommendations acceptable.

1129 **Q. PLEASE ADDRESS MR. BROSCH'S RECOMMENDATION THAT RIDER EEP**  
1130 **CHARGES BE RECOVERED THROUGH BASE RATES USING A DEFERRED**  
1131 **ACCOUNT.**

1132 A. The Companies would not be opposed to using a deferred accounting approach to recover  
1133 Rider EEP charges. However, the Companies would propose to recover such costs on an  
1134 annual basis rather than waiting until the next rate case proceeding.

1135 **D. Rider ICR**

1136 **Q. MS. HATHHORN PROPOSES LANGUAGE CHANGES TO BE ADOPTED BY**  
1137 **THE COMMISSION IF PEOPLES GAS' PROPOSED RIDER ICR IS**

1138 **APPROVED. PLEASE COMMENT ON MS. HATHHORN'S PROPOSED**  
1139 **TARIFF LANGUAGE.**

1140 A. Peoples Gas needs time to evaluate the detailed calculations and provisions proposed by  
1141 Ms. Hathhorn to determine whether the tariff language would be acceptable.

1142 **V. TARIFF – EXISTING TARIFF PROVISIONS**

1143 **A. Rider 2, Factor TS**

1144 **Q. PLEASE DISCUSS THE COMPANIES' PROPOSAL FOR RIDER 2, FACTOR**  
1145 **TS.**

1146 A. Mr. Kahle supports the Companies' proposal to roll Factor TS balances into their non-  
1147 commodity gas charges. However, Ms. Harden discussed the proposal in her Direct  
1148 Testimony but has not made a recommendation. Other parties to this case have not  
1149 addressed this matter. It appears that the Companies' proposal is not opposed.

1150 **B. Charge for Dishonored Checks and/or Incomplete Electronic Withdrawal**

1151 **Q. PLEASE DISCUSS MR. GLAHN'S RECOMMENDATION THAT THE**  
1152 **COMMISSION REJECT THE COMPANIES PROPOSED CHARGE FOR**  
1153 **DISHONORED CHECKS AND/OR INCOMPLETE ELECTRONIC**  
1154 **WITHDRAWAL.**

1155 A. As discussed in my Direct Testimony, the Companies proposed charges of \$25.00 reflect  
1156 the prevailing rates for such checks and transactions and would serve to discourage  
1157 customers from making deficient payments to the Companies. The charge is based both  
1158 on the costs associated with these situations and the need to deter such payments.  
1159 Mr. Luth supported a \$25.00 charge for MidAmerican Energy in Docket No. 99-0534.  
1160 Similarly, Ms. Harden supports the Companies' proposed charges in this proceeding. As

1161 revenues from the proposed charges offset base rates in this proceeding, any decrease in  
1162 the Companies' proposed charges would increase those rates.

1163 **C. Rider 4, Extension of Mains**

1164 **Q. PLEASE DISCUSS MS. HARDEN'S REQUEST THAT THE COMPANIES**  
1165 **PROVIDE ADDITIONAL SUPPORT AND/OR EXPLANATION FOR THE**  
1166 **COMPANIES' TARIFF LANGUAGE WHICH APPLIES A RETURN TO**  
1167 **CERTAIN MAIN INSTALLATIONS UNDER RIDER 4.**

1168 A. I understand that a return is applied on the installations to develop a cost to provide  
1169 service that is similar to developing cost of service revenue requirements in a rate case  
1170 proceeding. I also understand that amounts billed to customers for the installations are  
1171 recorded on the Companies' books in the appropriate accounts.

1172 **Q. PLEASE DISCUSS MS. HARDEN'S REQUEST THAT THE COMPANIES**  
1173 **PROVIDE JUSTIFICATION FOR THE COMPANIES' TARIFF LANGUAGE**  
1174 **WHICH ADDRESSES THE TYPES OF CHARGES APPLIED TO CERTAIN**  
1175 **MAIN INSTALLATIONS UNDER RIDER 4.**

1176 A. As such installations arise from customer preferences, I understand that billing work  
1177 orders are used to accommodate the unique nature of each job. Accordingly, costs for  
1178 labor, materials, transportation and overhead are not standard but are specific to each  
1179 individual job. I also understand that amounts billed to customers for the installations are  
1180 recorded on the Companies' books in the appropriate accounts.

1181 **D. Rider 5, Gas Service Pipe**

1182 **Q. PLEASE DISCUSS MS. HARDEN'S REQUEST THAT THE COMPANIES**  
1183 **PROVIDE ADDITIONAL SUPPORT AND/OR EXPLANATION FOR THE**  
1184 **COMPANIES' TARIFF LANGUAGE WHICH APPLIES A RETURN TO**  
1185 **CERTAIN SERVICE PIPE INSTALLATIONS UNDER RIDER 5.**

1186 A. I understand that a return is applied on the installations to develop a cost to provide  
1187 service that is similar to developing cost of service revenue requirements in a rate case  
1188 proceeding. I also understand that amounts billed to customers for the installations are  
1189 recorded on the Companies' books in the appropriate accounts.

1190 **Q. PLEASE DISCUSS MS. HARDEN'S REQUEST THAT THE COMPANIES**  
1191 **PROVIDE JUSTIFICATION FOR THE TWO-YEAR TIMEFRAME FOR**  
1192 **DISCONNECTIONS/RECONNECTION CHARGES UNDER RIDER 5.**

1193 A. The Companies' reconnection charges are significantly below cost. Currently, each  
1194 Company's reconnection charge for customers who request reinstatement of service of  
1195 service within twelve months of requesting disconnection is \$45.00 plus the customer  
1196 charges applicable to the period during which service was discontinued. The proposed  
1197 charge is \$50.00 plus the customer charges applicable to the period during which service  
1198 was discontinued and is based on disconnecting a customer at the meter. When a  
1199 customer requests disconnection of the service pipe, the Companies incur a more  
1200 significant expense to provide the requested service. The Companies also incur  
1201 significant expense to reconnect the customer. I understand that the two-year time  
1202 frame, which is a year longer than the twelve months for customers who request

1203 reinstatement of service at the meter, was established as a reasonable period for  
1204 determining whether the customer is a new applicant for service.

1205 **E. Corrections and Potential Revisions**

1206 **Q. PLEASE DISCUSS ANY TARIFF CORRECTIONS NOTED BY MS. HARDEN.**

1207 A. On page 34 of her Direct Testimony, Ms. Harden describes typographical errors that need  
1208 to be corrected for North Shore. North Shore will make these corrections in its  
1209 compliance filing.

1210 **Q. PLEASE DISCUSS ANY POTENTIAL REVISIONS THAT MAY NEED TO BE  
1211 MADE TO THE COMPANIES' TARIFFS.**

1212 A. S.C. Nos. 1N, 1H and 2 reflects distribution charges with and without Rider UBA. If the  
1213 Commission approves Rider UBA, this distinction would be removed with only the  
1214 appropriate distribution charges remaining. If the Commission does not approve Rider  
1215 UBA but approves separate distribution charges for sales and transportation customers,  
1216 the Companies would need to make the appropriate distinction in each applicable service  
1217 classification. Mr. Zack also discusses proposed corrections and clarifications to the  
1218 Companies' transportation riders.

1219 **VI. ALTERNATIVE WEATHER NORMALIZATION ADJUSTMENT RIDER**

1220 **Q. PLEASE DESCRIBE THE ALTERNATIVE WEATHER NORMALIZATION  
1221 TARIFF RIDER THAT WOULD ACCOMMODATE THE WEATHER  
1222 NORMALIZATION PROPOSALS DISCUSSED BY MR. BORGARD AND  
1223 MR. FEINGOLD.**

1224 A. Mr. Borgard, in his Rebuttal Testimony, states that, while the Companies continue to  
1225 support Rider VBA, a properly designed weather normalization rider, coupled with  
1226 appropriate customer charges, is a second best approach. On May 29, 2005, the  
1227 Companies filed special petitions with the Commission requesting approval of a Weather  
1228 Normalization Adjustment (“WNA”) Rider (Docket Nos. 05-0288 and 05-0289). The  
1229 petitions included a proposed tariff, Rider WNA, which described how the WNA would  
1230 be determined. Basically, Rider WNA established service class specific weather  
1231 adjustments for each of S.C. Nos. 1N, 1H and 2 (heating customers only). These  
1232 adjustments would be determined by using service class specific Heat and Base Load  
1233 Factors and Normal and Actual Heating Degree Days to determine weather adjustment  
1234 volumes. The weather adjustment volumes would be multiplied by the service class  
1235 specific Base Rates to determine the WNA. The adjustments would be determined for  
1236 the months of October through May only with an annual report to be submitted to the  
1237 Commission by September 30 of each year. The Companies would model their proposed  
1238 Rider WNA after the rider that they filed in Docket Nos. 05-0288 and 05-0289.  
1239 However, there would be a few differences from the proposals in those dockets.  
1240 Specifically, the Heat and Base Load Factors, Normal Heating Degree Days and Base  
1241 Rates would be established in this proceeding. The Companies also propose that the  
1242 Base Rates would be the flat rate if approved by the Commission for S.C. No. 1N and the  
1243 end block rates approved by the Commission for S.C. Nos. 1H and 2. Finally, if Rider  
1244 WNA is approved by the Commission in this proceeding, the Companies propose that the  
1245 rider become effective September 1, 2008, at the start of the 2008 heating season. Each

1246 company's proposed alternative Rider WNA is provided as Exhibits VG 2.11-PGL and  
1247 VG 2.11-NSG.

1248 **VII. MISCELLANEOUS ISSUES**

1249 **A. On-System Storage Costs**

1250 **Q. MR. CRIST STATES THAT ON-SYSTEM STORAGE COSTS ARE**  
1251 **RECOVERED EQUALLY FROM ALL RESIDENTIAL AND COMMERCIAL**  
1252 **CUSTOMERS. IS THIS AN ACCURATE DESCRIPTION OF HOW THE**  
1253 **COMPANIES RECOVER ON-SYSTEM STORAGE COSTS?**

1254 A. No. As shown in each Company's Schedule E-6, page 4, the per unit storage costs differ  
1255 for each service classification.

1256 **B. Hub Revenues and Base Rates**

1257 **Q. PLEASE COMMENT ON MR. DENNIS ANDERSON'S CLAIM THAT THE**  
1258 **EXPANSION OF MANLOVE FIELD TO PROVIDE HUB SERVICES**  
1259 **RESULTED IN THE USE OF EXISTING BASE RATE ASSETS AT RATES NOT**  
1260 **SET BY THE COMMISSION.**

1261 A. Mr. Anderson is mistaken. The base rates approved in Peoples Gas' last rate case  
1262 proceeding (Docket No. 95-0032) reflected a test year that was prior to the expansion of  
1263 Manlove Field.

1264 **Q. DOES THIS CONCLUDE your REBUTTAL TESTIMONY?**

1265 A. Yes.