

**BEFORE THE ILLINOIS COMMERCE COMMISSION**

**PEOPLES GAS LIGHT & COKE COMPANY  
NORTH SHORE GAS COMPANY**

**ICC DOCKET NOS. 07-0241 AND 07-0242**

**REBUTTAL TESTIMONY OF WILLIAM L. GLAHN**

**ON BEHALF OF**

**PEOPLE OF THE STATE OF ILLINOIS**

**THE CITY OF CHICAGO AND**

**THE CITIZENS UTILITY BOARD**

**DATED AUGUST 21, 2007**

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is William L. Glahn.

4

5 **Q. ARE YOU THE SAME WILLIAM L. GLAHN WHO PREVIOUSLY**  
6 **SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?**

7  
8 A. Yes, I am.

9

10 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

11 A. The purpose of my Rebuttal Testimony is to rebut portions of the July 27, 2007, Rebuttal  
12 Testimonies of North Shore Gas Company (“North Shore Gas” or “NSG”) and Peoples  
13 Gas Light and Coke Company (“Peoples Gas” or “PGL”) (collectively, “Companies”) witnesses Ronald J. Amen and Valerie Grace, and to rebut the entirety of the rebuttal  
14 testimonies of North Shore Gas/Peoples Gas witnesses Brian M. Marozas and Dr. Eugene  
15 S. Takle. I will also rebut portions of the Direct Testimony of ICC Staff witness Mike  
16 Luth.  
17

18  
19 **II. SUMMARY OF TESTIMONY**

20 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS IN YOUR REBUTTAL**  
21 **TESTIMONY.**

22  
23 A. I have carefully reviewed the rebuttal testimonies listed above and I believe that, with  
24 two exceptions mentioned below, the Companies have failed to rebut the

25 recommendations in my Direct Testimony. Except for those two modifications, the  
26 Commission should adopt all of the recommendations contained in my Direct Testimony.

27

28 **Q. WHAT ARE THE TWO MODIFICATIONS?**

29 A. First, based on my review of the Rebuttal Testimony, I wish to alter my recommendation  
30 concerning the treatment of FERC Account No. 385, which was discussed on pages 24  
31 through 27 of my Direct Testimony. Costs for FERC No. 385 (Industrial Metering and  
32 Regulating Costs) should not be allocated to Service Classification (“S.C.”) No. 4, as I  
33 had previously recommended, nor should those costs be allocated between S.C. Nos. 2  
34 and 4 as the Company recommends. Instead, these costs should be directly charged, as a  
35 “facilities” charge or “metering surcharge” to that handful of customers generating these  
36 costs.

37 Second, should the Commission desire more recent data than the 30-year National  
38 Oceanic and Atmospheric Administration's (“NOAA”) average weather data I  
39 recommended in my Direct Testimony for purposes of determining heating degree days, I  
40 urge the Commission to return to its previous use of a 30-year average of heating degree  
41 days (“HDDs”) for the purpose of weather normalizing test-year sales volumes. The 30-  
42 year average reflects a wider range of weather experiences than the Companies' proposed  
43 10-year data period while also reflecting any long-term trends affecting local climate  
44 appearing in more recent data.

45

46 **III. REBUTTAL OF NSG/PGL WITNESS AMEN**

47 **Bifurcation of S.C. No. 1 into Heating and Non-heating**

48 **Q. DID YOU REVIEW MR. AMEN’S REBUTTAL TESTIMONY REGARDING THE**  
49 **BIFURCATION OF SERVICE CLASSIFICATION NO. 1?**

50  
51 A. Yes, I reviewed Mr. Amen’s Rebuttal Testimony regarding the bifurcation of Service  
52 Classification No. 1 into heating and non-heating customer classes. First, I would  
53 observe that he does not rebut the main point of my testimony: that the bifurcation will  
54 disproportionately harm low-income customers. Second, he spends the bulk of this  
55 section of his rebuttal on my observations regarding the average cost of service between  
56 the two subgroups (heating and non-heating), but in that portion of his testimony he  
57 invalidates the Companies’ own justification for the proposed bifurcation.

58 Mr. Amen states:

59 Mr. Glahn’s average cost per customer calculations  
60 for service plant fail to account for the occurrence  
61 of multiple S.C. No. 1 non-heating customers  
62 served by shared gas service lines. This is the  
63 predominant circumstance for non-heating  
64 residential customers on Peoples Gas; system and  
65 not an uncommon industry practice where there are  
66 separately metered multi-family dwelling units  
67 served by a single service line and apartment  
68 buildings with central heating systems but  
69 separately metered apartment units for other natural  
70 gas end uses. In fact, 97 percent of Peoples Gas’  
71 non-heating residential customers share a gas  
72 service line while almost half (47%) of the  
73 residential heating customers are served by a  
74 separate, dedicated gas line.

75  
76 My calculations did not account for the multi-family dwellings because no such  
77 data was included in the Companies’ exhibits that I reference in my Direct Testimony.

78 Now that that data has been provided, it is clear that the principal drivers of cost  
79 differentials in S.C. No. 1 – the Companies’ purported basis for the proposed bifurcation  
80 – are not “heating vs. non-heating,” but “multi-family vs. single family” or “single meter  
81 vs. separately metered.”

82 The fact that 97 percent of “non-heating” customers are multi-family while only  
83 about half (53 percent) of “heating” customers are multi-family goes a long way to  
84 explain the cost differential between the two groups. Multi-family units spread fixed  
85 costs of services, regulators, and meters over a larger customer base, driving down the  
86 cost per customer and providing a legitimate reason to charge different rates. However,  
87 the cost-causation information in this observation regarding multiple units is largely lost  
88 in the Companies’ artificial distinction between “heating” and “non-heating.”

89 Especially considering this new information identifying the actual, distinguishing  
90 cost factors, I continue to recommend that the Companies’ bifurcation proposal based on  
91 heating/non-heating end uses be rejected by the Commission. After the Companies have  
92 properly accounted for the multi-family phenomenon that actually drives the cost of  
93 service differences of S.C. No. 1 subgroups, then perhaps in the next rate case they can  
94 propose in a new cost of service study that supports a more appropriate bifurcation.

95

96 **FERC Account No. 385**

97 **Q. DID YOU REVIEW MR. AMEN’S REBUTTAL TESTIMONY REGARDING**  
98 **COSTS IN INDUSTRIAL MEASURING AND REGULATING STATION**  
99 **EQUIPMENT, ACCOUNT NO. 385?**

100

101 A. As with the previous item, Mr. Amen provides additional information and insight into the  
102 treatment of this account, information not previously shared with the Commission.

103 As Mr. Amen explains:

104 There are many relatively large customers in a  
105 broad ranging General Service class of business  
106 customers with correspondingly larger meter  
107 installations and there is nothing improper about  
108 recording that plant investment in Account No. 385  
109 or specifically identifying it with individual  
110 customers, some of whom may migrate from one  
111 class to another as their load characteristics change  
112 due to business growth or changing economic  
113 conditions. A relevant example of this is the case of  
114 a current S.C. No. 2 customer, an electric power  
115 plant with test year consumption in excess of  
116 500,000 therms, which had previously taken service  
117 under S.C. No. 7 (Contract Service). This customer  
118 alone represents \$136,000 (over one-third) of the  
119 \$373,000 recorded in Account No. 385. Thus, large  
120 industrial customers can and do receive service  
121 under S.C. No. 2, which may require significant  
122 investment in metering and regulator facilities.<sup>1</sup>  
123

124 Given (a) that the Companies can track these costs to individual customers, (b)  
125 that these customers may move from one rate classification to another, and (c) the small  
126 number of customers causing the costs, it only makes sense to charge a special  
127 “facilities” charge or “metering surcharge” to these individual customers. It makes no  
128 sense for a dry cleaner, a small restaurant, or another small business in S.C. No. 2 to pay  
129 for the special, industrial-grade equipment needed for an electric power plant or a similar  
130 customer, just because that customer decided to switch from S.C. No. 7 to S.C. No. 2.  
131 Those large customers needing such equipment should pay those costs directly. Consider

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<sup>1</sup> Amen Rebuttal Testimony, p. 17, lines 376-87.

132 the possibility that the electric generating plant Mr. Amen describes decides to switch  
133 back to S.C. No. 7 or to S.C. No. 4. In that case, small businesses in S.C. No. 2 may be  
134 paying for those metering costs for years, even though the customer causing those costs  
135 is not even a member of the class and may be paying for the same costs again in its new  
136 rates.

137 My revised recommendation is that FERC Account No. 385 costs should be  
138 directly charged, as a “facilities” charge or “metering surcharge,” to the individual  
139 customers generating these costs.

140

141 **IV. REBUTTAL OF NSG/PGL WITNESS GRACE**

142 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF NORTH**  
143 **SHORE/PEOPLES GAS WITNESS VALERIE GRACE IN THESE DOCKETS?**

144  
145 A. Yes, I did.

146

147 **Q. DOES MS. GRACE DISCUSS RATE DESIGN OBJECTIVES IN HER**  
148 **REBUTTAL TESTIMONY?**

149  
150 A. Yes. Ms. Grace discusses rate design objectives on pages 6 through 8 of her Rebuttal  
151 Testimony. She comments on some of the observations that I make in my Direct  
152 Testimony in mapping commonly accepted rate design objectives, as defined by James C.  
153 Bonbright and the American Gas Association (“AGA”), against the six objectives listed  
154 by Ms. Grace in her Direct Testimony. In my testimony, I noted that a number of the  
155 Bonbright/AGA objectives were missing from Ms. Grace’s description. In her Rebuttal  
156 Testimony, Ms. Grace makes a number of assertions and conclusory statements

157 contesting my conclusions, but provides no citations, additional facts, or supporting  
158 documents to substantiate her additional testimony.

159 As the Commission is well aware, utilities tend to support objectives favorable to  
160 their shareholders, management, and employees, while consumer advocates tend to  
161 emphasize those ratemaking objectives that are favorable to ratepayers. The Commission  
162 must balance the interests of all parties and establish rates that are just and reasonable.

163 As proposed, the Companies' rate design increases residential heating customers monthly  
164 customer charges by 111 percent for Peoples' customers and 88 percent for North Shore  
165 customers. These rate design proposals ignore central tenets of public utility rate design  
166 theory: gradualism, fairness and equity. My proposals, which move the residential  
167 customer charge portion of the bill closer to the Companies' alleged cost while still  
168 incorporating the goals of equity, gradualism and fairness, constitute the better rate  
169 design and should be approved by the Commission.

170

171 **Allocation of Rate Increase**

172 **Q. MS. GRACE BELIEVES THAT YOU HAVE MISUNDERSTOOD PEOPLES**  
173 **GAS' PROPOSAL REGARDING CLASS ALLOCATION OF THE PROPOSED**  
174 **RATE INCREASE. DO YOU AGREE?**

175  
176 A. No. I believe that my Direct Testimony displays a thorough understanding of the Peoples  
177 Gas proposal regarding its allocation of the proposed rate increase. I simply do not agree  
178 with Peoples Gas' proposal. My basic problem with Peoples Gas' proposed allocation is  
179 that it is based on the arbitrary grouping of rate classes contained in Exhibit VG-1.3. In a  
180 two step process, (1) the utility lumps together the small residential class of S.C. No. 1

181 with the “broad ranging General Service class of business customers”<sup>2</sup> included in S.C.  
182 No. 2. and (2) the utility then levelizes rates across the two classes. Likewise, the utility  
183 does the same with S.C. Nos. 3 and 4 (which they propose to combine), and with the  
184 remaining classes as a third subgroup (through the operations of mathematics, the third  
185 subgroup must also be *de facto* levelized to reach the total cost of service amount).

186 My approach treats S.C. No. 2 business customers, which Mr. Amen revealed  
187 includes large industrial customers who can hop from service class to service class, in a  
188 manner similar to the business customers in other service classifications. From her  
189 Rebuttal Testimony, it appears that Ms. Grace does not understand the principle of  
190 horizontal equity. Within the Companies’ cost allocation methodology, business  
191 customers, generally speaking, are equals, and residential customers, generally speaking,  
192 are equals. However, the large electric plant included in S.C. No. 2, mentioned by Mr.  
193 Amen, is not the equal of a small home included in S.C. No. 1, and they should not be  
194 lumped together for the purpose of allocating the utility’s proposed revenue increase, as  
195 Ms. Grace proposes.

196

197 **Q. AT PAGE 17 OF HER REBUTTAL TESTIMONY, MS. GRACE ARGUES THAT**  
198 **THE IMPUTATION OF A PORTION OF THE PROPOSED REVENUE**  
199 **INCREASE TO S.C. NO. 7 IS “IMPROPER.” DO YOU AGREE?**

200

201 A. No. In making its request for a revenue increase, Peoples Gas alleges that the cost to  
202 serve their customers has increased since 1995. S.C. No. 7 customers are customers of  
203 Peoples Gas. They use the same system facilities and services as all of the other Service

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<sup>2</sup> Amen Rebuttal Testimony, p. 17, lines 377-78.

204 Classifications use. To argue, as Peoples Gas does, that somehow costs for S.C. No. 7  
205 have remained frozen for twelve years is nonsensical. Some of the increase in costs since  
206 1995 should be imputed to S.C. No. 7 customers. Those S.C. No. 7 cost increases should  
207 not be shifted to other customer classes through the allocation process. Whether the  
208 utility chooses to recover these additional costs from S.C. No. 7 customers is up to the  
209 utility.

210

211 **Q. WHY DOES MS. GRACE CLAIM THAT “IT IS IMPORTANT THAT PEOPLES**  
212 **GAS’ S.C. NO. 4 BE SET AT COST?”**

213

214 A. Ms. Grace claims that it is important that Peoples Gas’ S.C. No. 4 be set at cost because:

215 Peoples Gas’ S.C. No. 4 represents large volume  
216 customers, many of which may be able to  
217 physically bypass Peoples Gas’ system by leaving  
218 its service territory or connecting directly to a  
219 pipeline.<sup>3</sup>

220

221 However, as made clear from Mr. Amen’s rebuttal testimony, S.C. No. 2 includes  
222 “many relatively large customers,” including one large industrial customer, an electric  
223 power plant that was formerly a member of S.C. No. 7 (Contract Rates for Bypass  
224 Service). So, according to Peoples Gas, S.C. No. 2 includes at least one large customer  
225 that has an “economically feasible and practical”<sup>4</sup> ability to bypass the system. Yet,  
226 Peoples Gas sees fit to impose on that customer and others in S.C. No. 2 rates equal to  
227 124 percent of their cost of service. This result is yet more evidence of the arbitrary  
228 nature of Peoples Gas’ proposed customer classifications and rate increase allocation.

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<sup>3</sup> Grace Rebuttal Testimony, p. 16, lines 326-28.

<sup>4</sup> See Tariff for Service Classification Ho. 7.

229 **Customer Charge Recommendations**

230 **Q. MS. GRACE CLAIMS IN THE QUESTION AT THE TOP OF PAGE 23 OF HER**  
231 **TESTIMONY THAT YOU PROPOSE TO REDUCE CUSTOMER CHARGES IN**  
232 **S.C. NOS. 1 AND 2. IS THIS TRUE?**

233  
234 A. No. Ms. Grace’s accusation is false. In fact, as discussed in my Direct Testimony, I am  
235 proposing that increases for customer charges for S.C. Nos. 1 and 2 for Peoples Gas, be  
236 limited to 16.7 percent to 26.6 percent above current levels. For North Shore Gas, I  
237 recommended keeping fixed charges at current levels, not reducing them.

238  
239 **Q. MS. GRACE FURTHER CLAIMS THAT YOUR PROPOSED CUSTOMER**  
240 **CHARGES “WOULD SIGNIFICANTLY HAMPER THE COMPANIES’**  
241 **ABILITY TO ACHIEVE THEIR REVENUE REQUIREMENTS.” IS THIS**  
242 **TRUE?**

243  
244 A. No. My recommended customer charges, after adjusting the corresponding volumetric  
245 charges appropriately, would allow both Peoples Gas and North Shore Gas to fully  
246 recover their revenue requirements. As Ms. Grace illustrates in her Rebuttal Testimony  
247 (Exhibit VG-2.5-PGL, page 4, last column), my proposed rates would generate  
248 \$472,188,828 in revenue,<sup>5</sup> the same amount as proposed by the utility in Ms. Grace’s  
249 Direct Testimony (Exhibit VG-1.3, page 2, Column G). For North Shore Gas, Ms.  
250 Grace’s Rebuttal Testimony (Exhibit VG-2.5 NSG, page 4, last column) shows total  
251 revenue of \$67,902,642, approximately the same amount as shown in Ms. Grace’s Direct  
252 Testimony (North Shore Exhibit VG-1.2, page 2, Column G).

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<sup>5</sup> Putting aside, for the moment, disagreements about the treatment of S.C. No. 7.

253                   The quibble that Ms. Grace seems to have regarding my proposal is the certainty  
254                   surrounding the recovery of revenue. The Companies prefer the comparative certainty of  
255                   larger fixed monthly charges. Peoples Gas’ and North Shore Gas’ quest for certainty is  
256                   further reflected in Ms. Grace’s inclusion in her proposed rate book<sup>6</sup> of the following  
257                   riders that affect revenue certainty:

- 258                   1-Additional Charges for Taxes and Customer Adjustments;
- 259                   2-Gas Charge;
- 260                   4-Extension of Mains;
- 261                   11-Adjustment for Incremental Costs of Environmental Activities;
- 262                   EEP-Enhanced Efficiency Program;
- 263                   UBA-Uncollectible Balancing Adjustment;
- 264                   VBA-Volume Balancing Adjustment; and
- 265                   ICR-Infrastructure Cost Recovery (Peoples Gas only).

266

267       **Q.     DOES MS. GRACE OBJECT TO YOUR COMPARISON OF HER PROPOSED**  
268       **CUSTOMER CHARGES WITH THOSE OF OTHER ILLINOIS UTILITIES?**

269       A.     Yes. Ms. Grace objects to my comparison of the Companies’ current and proposed  
270       customer charges to those charged by other Illinois investor-owned and rate-regulated  
271       utilities. She objects that my recommended customer charges are “not cost based and  
272       would result in an increase in the distribution charge.”  
273

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<sup>6</sup> Peoples Gas Exhibit VG-1.1 and North Shore Gas Ex. VG-1.1



299 likely to live in older housing, with possibly less (or less effective) insulation and older,  
300 less efficient appliances.

301 However, that anecdotal observation is no reason to more than double customer  
302 charges. The solution to assist this subset of customers lies in targeted energy efficiency  
303 assistance for low income customers through programs that help provide insulation,  
304 weather proofing, and energy efficient appliance rebates that would effectively flatten the  
305 “U” shaped curve described by a witness in a Missouri Gas Energy case, as quoted by  
306 Ms. Grace at page 38 of her Rebuttal Testimony.

307

308 **Q. HOW DOES MS. GRACE JUSTIFY THE IMPACT OF BIFURCATION ON LOW**  
309 **INCOME CUSTOMERS?**

310  
311 A. Rather than addressing the issue head-on, Ms. Grace appears to fall back on a false  
312 “greater good” justifications for this change, claiming that “the Company’s proposed  
313 bifurcation of S.C. 1 moves each of the resulting service classifications closer to their  
314 respective costs.”<sup>7</sup>

315 We should be clear that the Companies’ proposed bifurcation does not move S.C.  
316 1 as a whole closer to cost of service. Rather, the Companies have assumed these two  
317 sub-groups have different cost of services and have defined the sub-classes accordingly.

318

319 **Q. WHAT KIND OF BURDEN WOULD THESE HIGH FIXED CHARGES**  
320 **REPRESENT TO LOW INCOME CUSTOMERS?**

321

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<sup>7</sup> Grace Rebuttal Testimony, p. 33, lines 724-25.

322 A. As described in my response to the Companies' Data Request Nos. 2.10 and 2.11 from  
323 the Companies, the proposed \$19 fixed monthly charge imposes a significant burden to  
324 low income households in the Chicago area, representing over 4 percent of their monthly  
325 income.<sup>8</sup>

326

327 **Dishonored Check Charge/incomplete Electronic Withdrawal**

328 **Q. DOES MS. GRACE ADDRESS YOUR RECOMMENDATION REGARDING THE**  
329 **CHARGE FOR DISHONORED CHECKS AND/OR INCOMPLETE**  
330 **ELECTRONIC WITHDRAWALS IN HER REBUTTAL TESTIMONY?**

331  
332 A. Yes. On pages 52 and 53 of her Rebuttal Testimony, Ms. Grace addresses my  
333 recommendation that the Companies keep their charge for dishonored checks and  
334 incomplete electronic withdrawals at current levels. Ms. Grace states at page 52 of her  
335 Rebuttal Testimony:

336 ...the Companies' proposed charges of \$25.00  
337 reflect the prevailing rates for such checks and  
338 transactions and would serve to discourage  
339 customers from making deficient payments to the  
340 Companies. The charge is based on both the costs  
341 associated with these situations and the need to  
342 deter such payments.

343  
344 Ms. Grace cites as support for the Companies' position, the testimony of Staff  
345 witness Mike Luth in an eight-year-old MidAmerican case (Docket No. 99-0534) and the  
346 Direct Testimony of Staff witness Cheri Harden in this docket. Ms. Harden's Direct  
347 Testimony reveals that she based her support entirely on the price charged by  
348 MidAmerican for this item.<sup>9</sup>

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<sup>8</sup> See GCI Exhibit 6.1.

<sup>9</sup> Harden Direct Testimony, p. 10-11, lines 212-19.

349 As discussed above, Ms. Grace spent two pages of her rebuttal testimony  
350 attempting to explain why comparing North Shore Gas and Peoples Gas customer  
351 charges to those of other Illinois utilities was not appropriate. However, in this instance,  
352 the level charged by MidAmerican for dishonored checks appears to be the only source  
353 of support for the Companies' proposal.

354 As discussed in my Direct Testimony,<sup>10</sup> and documented in the Companies'  
355 response to Data Request AG-8.24,<sup>11</sup> no original research or study has been conducted by  
356 North Shore or PGL on the actual cost to the utilities for this item. The belated, after-the-  
357 fact checking done by the Companies to respond to my data request on the actual fees  
358 charged by banks for such items reveals that such fees fall well below the \$25 dollar level  
359 proposed by the Company and, in some instances, well below the \$10 fee currently  
360 charged. Thus, the statements that the proposed charge is cost based or reflects  
361 prevailing bank rates for this item are incorrect. There is simply no evidence in the  
362 record of this case to support the proposed \$25 charge. The charge for this item should  
363 remain at the current level.

364

365 **V. REBUTTAL OF ICC STAFF WITNESS LUTH**

366 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF ILLINOIS**  
367 **COMMERCE COMMISSION STAFF WITNESS MIKE LUTH IN THESE**  
368 **DOCKETS?**

369  
370 **A. Yes, I have.**

371

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<sup>10</sup> GCI Exhibit 3.0, p. 35.

<sup>11</sup> Included in my Direct Testimony as Exhibit\_WLG 3.1, Schedule 7.

372 **Q. DOES MR. LUTH MAKE ANY RECOMMENDATIONS REGARDING**  
373 **CUSTOMER CHARGES?**

374 A. Yes. Mr. Luth recommends imposing customer charges that are even higher than those  
375  
376 proposed by the Companies.

377 For Peoples Gas, Mr. Luth would increase customer charges for S.C. 1N (non-  
378 heating) customers from the current \$9.00 per month to \$12.00 per month, an increase of  
379 \$3.00 or 33.3 percent -- higher than the proposed \$2.25 increase proposed by the utility.  
380 Mr. Luth's proposal would go beyond the utility in imposing rate shock on these  
381 customers. For S.C. No. 1H (heating), he proposed a customer increase from \$9.00 per  
382 month to \$19.00, an increase of \$10.00 or 111 percent, the same as proposed by the  
383 utility.

384 For North Shore Gas, Mr. Luth endorses the customer charges proposed by the  
385 utility. For S.C. 1N (non-heating) the customer charge is proposed to increase from  
386 \$8.50 per month to \$10.50 per month, an increase of \$2.00 or 23.5 percent. For S.C. No.  
387 1H (heating), the customer charge is proposed to increase from \$8.50 per month to  
388 \$16.00, an increase of \$7.50 or 88 percent.

389 He justifies these recommendations as moving rates "closer to full cost recovery,  
390 particularly for customer costs."<sup>12</sup> However, as with the Companies, Mr. Luth appears to  
391 have given no consideration to the impact of his recommendations on residential  
392 ratepayers, and in particular, low income ratepayers. In addition, Mr. Luth's single-  
393 minded focus on moving rates closer to cost ignores the other objectives and public

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<sup>12</sup> Luth Direct Testimony, p. 26, lines 504-05.

394 policies of rate design listed by the AGA and Bonbright, and thoroughly discussed in my  
395 Direct Testimony, as important for setting appropriate rates.

396

397 **VI. REBUTTAL OF NSG/PGL WITNESSES MAROZAS AND TAKLE**

398 **Q. HAVE YOU REVIEWED THE REBUTTAL TESTIMONIES OF NORTH SHORE**  
399 **GAS/PEOPLES GAS WITNESSES MAROZAS AND TAKLE?**

400  
401 A. Yes.

402

403 **Q. IN HIS REBUTTAL TESTIMONY, MR. MAROZAS CONTINUES TO**  
404 **MAINTAIN THAT HIS 10-YEAR DATA SET PRODUCES A BETTER ONE-**  
405 **YEAR HDD FORECAST. DO YOU ACCEPT HIS CONCLUSION ON THIS**  
406 **POINT?**

407  
408 A. No, I do not. Mr. Marozas continues to base his recommendations on a comparison of  
409 data sets to find the one “statistically superior at forecasting prospective conditions.” Mr.  
410 Marozas makes much out of the observation that I “did not question the accuracy of [his]  
411 statistical analysis.”<sup>13</sup> As I have documented extensively, his statistical analysis has no  
412 validity. I continue to question the Companies’ decision to define “prospective  
413 conditions” as the next year, as evidenced in their analysis that purports to determine  
414 which time period of weather “normals” – 10 year vs. 30 years – more accurately predicts  
415 weather one year into the future.

416

417 **Q. OVER WHAT PERIOD OF TIME DO THE COMPANIES EXPECT RATES TO**  
418 **BE IN EFFECT?**

419

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<sup>13</sup> Marozas Rebuttal Testimony, p. 4, lines 65-66.

420 A. In their response to AG Data Request No. 13.09,<sup>14</sup> the Companies indicate that they  
421 expect their rates to be in effect for one to three years. At the same time, the Companies  
422 indicate that they have accepted an amortization period of five years for the expense  
423 arising from this rate case. Since the Companies expect their rates to be in effect for a  
424 number of years, Mr. Marozas’ exercise to calculate the “one-year predictive value of  
425 various data sets” is mismatched from the start. Current rates for the Companies’ have  
426 been in effect for approximately 12 years, suggesting that a forecast methodology  
427 designed to predict “next year’s” weather is shortsighted. This methodology, based on  
428 10 years of data, is inadequate to capture the entire period over which rates may be in  
429 effect. NOAA takes the position that as for their 30-year climate normals:

430 Normals are best used as a base against which  
431 climate during the following decade can be  
432 measured. (Emphasis added)<sup>15</sup>  
433

434 In addition, Mr. Marozas’ analysis might have been more convincing had he  
435 shown the results of predicting weather for a period longer than next year, using time  
436 periods other than 10 years and 30 years. It would be interesting to see, for example,  
437 how 15-year, 20-year, or 25-year periods fare in predicting annual HDD averages. I  
438 suspect that the result of using the 10-year data will turn out to be an anomaly.  
439

440 **Q. MR. MAROZAS CRITICIZES YOUR RECOMMENDATION IN YOUR DIRECT**  
441 **TESTIMONY THAT THE COMMISSION USE NOAA 30-YEAR “NORMALS”**  
442 **AS A BASIS FOR COMPUTING TEST YEAR REVENUES. HE OBSERVES**

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<sup>14</sup> Included as GCI Exhibit 6.2.

<sup>15</sup> <http://lwf.ncdc.noaa.gov/oa/climate/normals/usnormals.html#FAQ>, See “Frequently Asked Questions” tab.

443 **THAT NOAA CHANGES ITS “NORMALS” ONLY ONCE A DECADE. IS THIS**  
444 **AN ADVANTAGE OR A DISADVANTAGE TO USING SUCH DATA?**  
445

446 A. The infrequent updates to NOAA’s data provide stability. As Mr. Marozas observes in  
447 his Rebuttal Testimony, NOAA changes its “normal” data set only once a decade, with  
448 the latest data set running through the year 2000.<sup>16</sup> However, these infrequent updates  
449 provide the NOAA data with an advantage, as the Missouri Public Service Commission  
450 noted in upholding the use of NOAA 30-year data in a recent Missouri Gas Rate Case,<sup>17</sup>

451 The Commission has historically used a 30-year  
452 average in determining what the normal  
453 temperature should be. Staff gathers its information  
454 from the National Oceanic [&] Atmospheric  
455 Administration (NOAA). Currently, the NOAA’s  
456 period for calculating a normal climate is the 30-  
457 year period between January 1, 1971 and December  
458 31, 2000. The “normal” temperature is ultimately  
459 used to determine what the cost of each unit of gas  
460 should be. MGE proposes to use what is described  
461 as a ten-year rolling average to determine normal  
462 weather.

463  
464 MGE argues Staff’s recommendation of the  
465 30-year period is flawed because Staff’s proposal  
466 fails to consider circumstances that reasonable [sic]  
467 can be expected to occur while rates are in effect.  
468 MGE goes on to argue that ‘the theory underlying  
469 the policy should generate a result that has some  
470 relationship to reality; otherwise, what we do here  
471 is just a formality.’  
472

473 ...Staff has problems with the 10-year  
474 normal because it’s too short to provide the  
475 necessary stability. Temperature variations can  
476 span across decades...[footnotes in quote omitted.]  
477

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<sup>16</sup> Marozas Rebuttal Testimony, p. 3, lines 53-55.

<sup>17</sup> Missouri Public Service Commission, Case No. GR-2006-0422, Report and Order, March 22, 2007, pp. 14-15. Discussion of the SPV rate design was omitted from the quoted passages.

478 As noted above, the Commission has  
479 historically used the 30-year normal. As MGE has  
480 stated, under the SFV rate design this will not be an  
481 issue for 90% of the company’s customers. The  
482 Commission continues to use the 30-year normal  
483 and finds that it should be consistent when applying  
484 a method of weather normalization between  
485 utilities. In the absence of more convincing  
486 evidence that this methodology should be changed,  
487 the Commission will continue to adopt the 30-year  
488 weather normalization as proposed by Staff.

489 NOAA’s 30-year climate normals have a long and well-researched history.

491 According to the NOAA’s National Climate Data Center, only the NCDC “official thirty-  
492 year normals,” and not “long term means” can be appropriately called normals.

493 According to the NOAA,<sup>18</sup>

494 Every ten years, NCDC computes new thirty-year  
495 climate normals for selected temperature and  
496 precipitation elements for a large number of U.S.  
497 climate and weather stations.

498  
499 Clearly, there is merit to examining the longer, 30-year time period for purposes of  
500 predicting weather and heating degree days.

501

502 **Q. WHAT CRITERION SHOULD THE COMMISSION USE IN SELECTING AN**  
503 **APPROPRIATE DATA SET FOR NORMALIZING TEST YEAR REVENUES**  
504 **FOR WEATHER?**

505  
506 A. The Commission should select a data set for normalizing test year revenues that best

507 captures the wide variability of weather experienced in a climate such as Northern

508 Illinois. As the Companies have acknowledged, these rates are likely to be in effect for a

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<sup>18</sup> <http://lwf.ncdc.noaa.gov/oa/climate/normal/usnormals.html#FAQ>. See the “Overview” tab.

509 number of years. The Companies' analysis, focused on predicting weather only one year  
510 ahead, seems unlikely to be reflective of the full range of weather likely to be  
511 experienced in the next three to five years.

512           Should the Commission desire more recent data than the 30-year NOAA average  
513 weather data I recommended in my Direct Testimony, it would be preferable that the  
514 Commission return to their previous reliance on a 30-year average of heating degree days  
515 for the purpose of weather normalizing billing determinants. The 30-year average, the  
516 Commission standard prior to the 2004 NICOR case (Docket No. 04-0779), reflects a  
517 wider range of weather experiences than 10-year data, yet also reflect any long-term  
518 trends affecting local climate appearing in more recent data.

519

520 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

521 A. Yes, it does.