

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.	:	

Surrebuttal Testimony of

LAWRENCE T. BORGARD

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

On Behalf of
The Peoples Gas Light and Coke Company and
North Shore Gas Company

September 5, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 Q. Please state your name.

4 A. Lawrence T. Borgard.

5 Q. Are you the same Lawrence T. Borgard who submitted Direct and Rebuttal Testimony on
6 behalf of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore
7 Gas Company (“North Shore”) (together, “the Utilities”) in this consolidated Docket?

8 A. Yes.

9 **B. Purposes of Testimony**

10 Q. What are the purposes of your Surrebuttal Testimony in this proceeding?

11 A. The purposes of my Surrebuttal Testimony are:

12 (1) to identify the other witnesses providing Surrebuttal Testimony on behalf of the
13 Utilities and briefly summarize the subjects on which they are testifying;

14 (2) to respond briefly to the Rebuttal Testimony of “GCI”¹ witness Michael Brosch
15 on the subject of Peoples Gas’ and North Shore’s margin revenues;

16 (3) to respond briefly to the Rebuttal Testimony of Local Union No. 18007, Utility
17 Workers Union of America, AFL-CIO (“Union Local 18007”) witness James
18 Gennett on the subject of the Peoples Gas work force; and

19 (4) to respond to the respective Rebuttal Testimony of Illinois Commerce
20 Commission (“the “Commission” or “ICC”) Staff (“Staff”) witness Dr. David
21 Rearden and Retail Gas Suppliers (“RGS”) witness James Crist regarding

¹ The Illinois Attorney General’s Office (the “AG”), the Citizens Utility Board (“CUB”), and the City of Chicago (the “City”) (collectively “GCI”) jointly submitted the testimony of three witnesses, including Mr. Brosch.

22 Mr. Crist's proposal that Peoples Gas and North Shore be forced to purchase
23 receivables of Choices for YouSM ("CFY") suppliers.

24 **C. Summary of Conclusions**

25 Q. Please summarize the conclusions of your Surrebuttal Testimony.

26 A. In brief, the conclusions of my Surrebuttal Testimony are as follows:

27 (1) Mr. Brosch's Rebuttal Testimony does not change the fact that, since 2003,
28 Peoples Gas and North Shore have experienced significant decreases in margin
29 revenues, as shown in North Shore / Peoples Gas Ex. RAF-2.1. (This subject is
30 addressed primarily in the Rebuttal and Surrebuttal Testimony of North Shore /
31 Peoples Gas witness Russell Feingold.)

32 (2) Mr. Gennett's Rebuttal Testimony does not alter that his "One for One" proposal
33 -- which would require Peoples Gas to "replenish[] any union vacancy with an
34 internal Local 18007 candidate" -- is not warranted and too rigid for management
35 to adopt as an inflexible policy across the board. (This subject is addressed
36 primarily in the Rebuttal and Surrebuttal Testimony of North Shore / Peoples Gas
37 witness Edward Doerk.)

38 (3) Dr. Rearden in his Rebuttal Testimony agrees with Peoples Gas and North Shore
39 that Mr. Crist's request that the Utilities should be forced to purchase receivables
40 of CFY suppliers should be rejected. Mr. Crist's Rebuttal Testimony makes
41 incorrect assumptions and does not refute the points that have been made showing
42 that his proposal is unwarranted and inappropriate.

43 **II. IDENTIFICATION OF OTHER WITNESSES PROVIDING SURREBUTTAL**
44 **TESTIMONY ON BEHALF OF PEOPLES GAS AND NORTH SHORE**

45 Q. Please identify the other witnesses presenting Surrebuttal Testimony on behalf of Peoples
46 Gas and North Shore and the main topic(s) that each witness addresses.

47 A. In brief, the following other witnesses are providing Surrebuttal Testimony on behalf of
48 Peoples Gas and North Shore on the following subjects:

- 49 • Linda M. Kallas, Vice President, Financial and Accounting Services (NS-PGL
50 Ex. LK-3.0), responds to certain contested revenue requirement adjustments still
51 proposed by Staff and GCI, demonstrating that they are incorrect or overstated.
- 52 • Salvatore Fiorella (NS-PGL Ex. SF-3.0), responds to most of the other revenue
53 requirement adjustments proposed by Staff and GCI, accepting some of them but
54 demonstrating that the remainder are incorrect or overstated. Mr. Fiorella also
55 presents the Utilities' revised revenue requirements and revenue deficiencies.
- 56 • Michael J. Adams, Vice President, Concentric Energy Advisers, Inc. (NS-PGL
57 Ex. MJA-30), responds to the testimony of Staff witness Daniel Kahle regarding
58 adjustments to the cash working capital amounts included in rate base, showing
59 that the adjustments are not warranted.
- 60 • James Hoover, Director - Compensation, Integrys Energy Group. Inc., and
61 Frank L. Volante, Operations Manager, North Shore (NS-PGL Ex. JH/FV-2.0),
62 respond to the adjustments proposed by Staff witness Bonita Pearce and GCI
63 witness David Efron to the Utilities' incentive compensation program expenses,
64 demonstrating that the adjustments are not justified and, in the alternative,
65 overstated because substantial amounts of the expenses meet the standards for

66 recovery that Staff and GCI espouse and that the Commission has applied in
67 approving such expenses in other recent proceedings.

68 • Paul R. Moul, Managing Consultant, P. Moul & Associates (NS-PGL
69 Ex. PRM-3.0), responds to the testimony of Staff witness Sheena Kight-Garlich
70 and CUB-City witness Mr. Thomas on the subject of the rate of return on
71 common equity, including the effect of approving the Utilities' proposed
72 Riders VBA (decoupling) and UBA (uncollectible accounts expenses) on the
73 Utilities' risks and cost of equity.

74 • Russell A. Feingold, Managing Director of Navigant Consulting, Inc. (NS-PGL
75 Ex. RAF-3.0), responds to the testimony of Staff and intervenors regarding the
76 four proposed new Riders (Riders VBA and UBA as well as the energy efficiency
77 program and main replacement cost riders, Riders EEP and ICR) and the
78 alternative weather normalization rider (Rider WNA).

79 • Valerie H. Grace, Manager, Regulatory Affairs (NS-PGL Ex. VG-3.0), responds
80 to testimony of Staff and intervenors on the subjects of rate design / cost of
81 service and the proposed new Riders.

82 • Thomas E. Zack, Vice President, Gas Supply (NS-PGL Ex. TZ-3.0), also
83 responds to testimony of Staff and intervenors on the subjects of rate design / cost
84 of service and tariff-related terms and conditions issues as they relate to the
85 Utilities' transportation programs.

86 • Ronald J. Amen, Vice President, Concentric Energy Advisers, Inc. (NS-PGL
87 Ex. RJA-3.0), also responds to various testimony of Staff and intervenors on the

88 subject of cost of service, particularly the Utilities’ embedded cost of service
89 studies.

90 • Brian M. Marozas, Manager, Planning, Modeling, and Contract Administrator
91 (NS-PGL Ex. BMM-3.0), responds to the testimony of GCI witness William
92 Glahn on the subject of weather normalization.

93 • Dr. Eugene S. Takle, Professor, Iowa State University (NS-PGL Ex. EST-3.0),
94 also responds to the testimony of GCI witness Mr. Glahn on the subject of
95 weather normalization.

96 • James F. Schott, Vice President, Regulatory Affairs (NS-PGL Ex. JFS-3.0),
97 responds to the testimony of Staff and GCI regarding proposed Rider ICR, and to
98 the testimony of CUB-City regarding the effect of approving the Utilities’
99 proposed Riders VBA and UBA on the Utilities’ risks and cost of equity.

100 • Edward Doerk, Vice President, Gas Operations (NS-PGL Ex. ED-3.0), responds
101 to portions of Staff’s testimony regarding a tariff provision and meter reading.
102 Mr. Doerk also responds to the testimony of Union Local 18007 witness
103 Mr. Gennett.

104 • Thomas L. Puracchio, Manager, Gas Storage (NS-PGL Ex. TLP-3.0), responds to
105 the testimony of Staff witness Dennis Anderson on the subject of Manlove Field
106 and hub services.

107 • Ilze Rukis, Manager, Energy Efficiency and Public Benefits (NS-PGL
108 Ex. IR-2.0), responds to the respective testimony of Staff witness Dr. Rearden and
109 Environmental Law and Policy Center (“ELPC”) witness Charles Kubert

110 regarding the appropriate amount of funds to be spent on energy efficiency by
111 Peoples Gas and North Shore Gas.

112 **III. RESPONSES TO SPECIFIC STAFF AND**
113 **INTERVENOR DIRECT TESTIMONY**

114 **A. Margin Revenues**

115 Q. On pages 4-7 of his Rebuttal Testimony, GCI witness Mr. Brosch seeks to respond to
116 criticisms of his Direct Testimony, on the subject of the Utilities' margin revenues, that
117 were offered in your Rebuttal Testimony and that of Mr. Feingold. To what extent, if
118 any, has Mr. Brosch's Rebuttal Testimony refuted your testimony on the subject of the
119 Utilities' margin revenues?

120 A. Mr. Brosch's Rebuttal Testimony has not refuted my testimony on the subject of the
121 Utilities' margin revenues. Nothing in Mr. Brosch's Rebuttal Testimony alters the fact
122 that the Utilities have experienced significant declines in their margin revenues from
123 fiscal year 2003 to fiscal year 2006, as is discussed in more detail in Mr. Feingold's
124 Rebuttal and Surrebuttal Testimony.

125 In my Direct Testimony (Peoples Gas Ex. LTB-1.0, page 17, lines 376-382; North
126 Shore Ex. LTB-1.0, page 16, lines 339-345), I identified five major challenges facing the
127 Utilities, and then I stated: "Each of the challenges negatively impacts the Company's
128 ability to earn its approved margin revenues, i.e., its cost of service exclusive of
129 purchased gas and flow-through items". (Emphasis added.) In his Direct Testimony
130 (GCI Ex. 1.0, pages 31-34), Mr. Brosch sought to respond, but he erroneously used data
131 for the Utilities' Gross Margins, which include certain flow-through items, and thus are
132 not the same thing as margin revenues as I used the latter term in the above quote.
133 Accordingly, in my Rebuttal Testimony (North Shore / Peoples Gas Ex. LTB-2.0, page

134 12, lines 258-264), I noted Mr. Brosch's error, and I cross-referenced Mr. Feingold's
135 more detailed Rebuttal Testimony on the subject. Mr. Feingold, in his Rebuttal
136 Testimony (North Shore / Peoples Gas Ex. RAF-2.0, pages 8-11; North Shore / Peoples
137 Gas Ex. RAF-2.1), explained that the Gross Margin figures cited by Mr. Brosch included
138 two flow-through items, i.e., add-on revenue taxes and the recovery of environmental
139 costs under the Utilities' currently effective Rider 11, that are not part of margin
140 revenues; and Mr. Feingold set forth the correct figures for the Utilities' margin revenues,
141 which excluded those flow-through items. Mr. Brosch's Rebuttal Testimony denies that
142 he "miscalculate[d]" the Utilities' margin revenues, but he agrees that he relied on figures
143 in data request responses that were expressly labeled as "Gross Margin". (GCI
144 Ex. MLB-2.0, page 4, lines 6-11). Mr. Brosch goes on to seek to explain why he used
145 those figures (GCI Ex. MLB-2.0, page 4, line 11, to page 5, line 4), claiming that the
146 Utilities, in setting forth the figures for their margin revenues, are changing the definition
147 of "Gross Margin" (*id.* at page 5, lines 6-26), and goes on to discuss their margin
148 revenues (*id.* at page 6, line 1, to page 7, line 10). However, my Direct Testimony
149 expressly indicated that margin revenues do not include flow-through items as I was
150 using that term in the quote above. That exclusion is important, because flow-through
151 items do not contribute to recovery of the Utilities' other costs. Moreover, nothing in
152 Mr. Brosch's Rebuttal Testimony alters the fact that the Utilities have experienced
153 significant declines in their margin revenues from fiscal year 2003 to fiscal year 2006, as
154 discussed in more detail in Mr. Feingold's Rebuttal and Surrebuttal Testimony.

155 **B. Staffing**

156 Q. Mr. Gennett's Rebuttal Testimony (UWUA Ex. 2.0, page 2, lines 17-21) notes that your
157 Rebuttal Testimony stated that the Union's proposed "One for One" system may be
158 followed in certain work groups at certain times but did not specify when that would be
159 the case, and that you criticized the "One for One" proposal as too inflexible. He also
160 offers to revise the proposal. (*Id.* at page 15, line 13, to page 16, line 11) Has
161 Mr. Gennett's Rebuttal Testimony provided grounds that would warrant Peoples Gas'
162 adopting, or the Commission's imposing on Peoples Gas, the "One for One" proposal?

163 A. No, for the reasons explained in more detail in the Rebuttal and Surrebuttal Testimony of
164 Mr. Doerk. Management needs to make staffing decisions, within the bounds of any
165 legal or contractual requirements, based on its best judgment as applied to the relevant
166 circumstances. I appreciate Mr. Gennett's proposed revision, but the "One for One"
167 proposal as an across the board proposition, whether as originally presented or as revised,
168 remains too inflexible to be adopted, and it would be inappropriate for the Commission to
169 impose it, as discussed by Mr. Doerk.

170 **C. Purchase of CFY Supplier Receivables**

171 Q. On pages 16 to 21 of his Rebuttal Testimony, Mr. Crist continues to propose that the
172 Commission should require Peoples Gas and North Shore to purchase the receivables of
173 CFY suppliers. In doing so, he seeks to respond to the position that you have taken
174 against that proposal in your Rebuttal Testimony. Does Mr. Crist's Rebuttal Testimony
175 change your position regarding his proposal?

176 A. No. That proposal should still be rejected for the reasons stated in my Rebuttal
177 Testimony and in this Surrebuttal Testimony and by Staff witness Dr. Rearden.

178 Q. On page 17 of his rebuttal testimony, Mr. Crist appears to indicate that Peoples Gas and
179 North Shore have information systems and business processes set up to enable them to
180 provide collection services for CFY suppliers. Is his assumption correct?

181 A. No. While it is true the Utilities' information systems were revised to provide for third
182 party billing for the CFY program, that revision took approximately 14,000 programming
183 hours at a cost of over \$900,000. Those revisions did not enable provision of collection
184 services for CFY suppliers. That would require a new information systems project.
185 Given the lack of specificity regarding Mr. Crist's proposal, I do not have a specific
186 estimate of how much work and expense that would require.

187 With respect to business processes, our customer services area has indicated that
188 additional employees would have to be hired to implement a purchase of CFY supplier
189 receivables program. However, again, given the largely undefined nature of Mr. Crist's
190 proposed program, I do not have an estimate of how many additional employees would
191 be needed or at what cost.

192 Q. On pages 17-18 of his Rebuttal Testimony, Mr. Crist also seeks to respond to your point
193 that his proposal would shift business risk from CFY suppliers to the Utilities. Did he
194 refute your concern?

195 A. No. Mr. Crist does not deny that such a shift would take place, although he claims that
196 his proposal would simply shift back to the Utilities business risks that the Utilities
197 historically had years ago. Instead, he appears to suggest that the Utilities should be
198 seeking a lower rate of return or a lesser amount of uncollectible accounts expenses in
199 this proceeding. While I am not the Utilities' witness on either of those subjects, my
200 understanding is that the Utilities' proposed rate of return and uncollectible accounts

201 expenses reflect the operation of the CFY (but not the proposed required purchase of
202 CFY supplier receivables). At any rate, Mr. Crist's observations do nothing to refute my
203 point.

204 Q. On page 18 of his Rebuttal Testimony, Mr. Crist, in response to your point that it is
205 inappropriate and harmful to the Utilities to expect them to disconnect their customers
206 based on amounts owed to CFY suppliers when those customers are current on their
207 obligations to the Utilities, claims that the Utilities have a superior ability to collect
208 arrearages and maintain a cost advantage over the CFY Suppliers. Has Mr. Crist refuted
209 your point?

210 A. No. First, Mr. Crist provides no response to the point that his proposal would be
211 inappropriate. (The Utilities will address this point in briefing in terms of the applicable
212 law.) Our customers likely will not understand why we are disconnecting their service
213 when their bills with us are current. Moreover, the problem is exacerbated because we
214 know the nature of our charges and, according to our records, there is no dispute about
215 such charges when we disconnect service. In contrast, we would have no exact
216 knowledge of the charges that a multitude of CFY suppliers impose on their customers
217 and that Mr. Crist would have us pay such suppliers, then attempt to collect from their
218 customers. The Utilities likely will not collect all of the amounts proposed to be
219 collected by them, which will lead to an increase in their bad debt expense.

220 Also, Mr. Crist omits that a CFY supplier has the ability to take steps that make
221 payment more certain, including steps that the Utilities may not be able to take, such as
222 choosing which customers to serve; terminating service at any time (not being subject to
223 the service termination / disconnection rules applicable to utilities); charging early

224 termination fees; requiring prepayments or customer deposits in circumstances when
225 utilities cannot do so; setting payment due dates of their own choosing (e.g., many
226 suppliers have a 10-day payment due date and not the 21 days in the rules applicable to
227 utilities for residential service); and choosing whether to bill for their own service, use
228 the utility billing service, or use Rider SBO to issue a supplier single bill. Suppliers also
229 are not subject to rules that govern the utilities regarding allowing payment plans, interest
230 on late payments, and informal and formal complaint procedures. His assertion that the
231 Utilities have an “unfair cost advantage” is vague and lacks any support. Mr. Crist
232 provides no analysis that demonstrates that, all things considered, the Utilities have a
233 superior or lower cost ability to collect bad debt. His comments on payment application
234 protocol are addressed in the Surrebuttal Testimony of North Shore / Peoples Gas witness
235 Thomas Zack.

236 Q. On page 20 of his Rebuttal Testimony, Mr. Crist claims that you were “trying to cloud
237 the issue” by your Rebuttal Testimony that the Utilities’ cost of service study
238 appropriately allocates uncollectible accounts expenses among the rate classes in
239 response to his claim that CFY customers pay more than their share of such costs. Would
240 you please comment on his claim?

241 A. Despite his stating that I am trying to cloud the issue, his testimony on this point has
242 nothing to do with his claim. He has not supported in any way his position that CFY
243 customers pay more than their share of such of uncollectibles costs. He simply rehashes
244 earlier arguments about his perception of the Utilities’ perceived advantages over CFY
245 suppliers.

246 As far as I can tell, his only other response is to state that he “found no reduction
247 in bad debt expenses for the future test year despite the fact that suppliers are now
248 responsible for their customers’ bad debt.” That response has no merit. The Utilities’
249 proposed revenue requirements are based on an adjusted historical test year, not a future
250 test year, and their cost of service studies include only their uncollectible accounts
251 expenses, as explained in the respective Direct Testimony of North Shore and Peoples
252 Gas witnesses Linda Kallas, Salvatore Fiorella, and Mr. Amen. To subtract bad debt
253 expenses of the CFY suppliers from the Utilities’ bad debt expenses does not make sense,
254 because the bad debt expenses of the CFY suppliers were never included in the Utilities’
255 figures in the first place and the test year reflects the CFY program.

256 Q. Does Mr. Crist in his Rebuttal Testimony refute your point that his proposal as presented
257 in his testimony provides no mechanism for the Utilities to recover the incremental
258 expenses of taking on the new task of collecting CFY suppliers’ receivables?

259 A. No, Mr. Crist does not refute my point. He simply theorizes that the Utilities would have
260 no incremental expenses, which, as noted above, is incorrect. His theory also is
261 inconsistent with his statement in his Direct Testimony (RGS Ex. 1.0, page 31, lines 8 to
262 13) that when purchase of alternate gas supplier receivables programs have been adopted
263 elsewhere, the utilities were made financially whole as to under-collections and program
264 expenses. I note that in data request responses served yesterday, Mr. Crist indicated that
265 the Utilities should be made financially whole through their base rates, apparently
266 through charges applicable not only to CFY customers but also to sales customers, but he
267 provided little in the way of specifics. (*See* RGS’ response to Peoples Gas / North Shore
268 data requests 4.01 and 4.02.)

269 Q. Finally, on page 21 of his Rebuttal Testimony, Mr. Crist claims that pending legislation,
270 Amendment 4 to Senate Bill 1299 in the Illinois General Assembly, supports purchase of
271 alternate supplier receivables programs. Do you agree?

272 A. No, I fail to see how pending legislation with regard to some Illinois electric utilities (my
273 current understanding is that the legislation passed both houses but has not yet been
274 signed) supports the generalization that the General Assembly also supports such
275 programs as to all utilities, including natural gas utilities. The opposite inference seems
276 at least as reasonable, if not more so. As to how the legislation otherwise differs from
277 Mr. Crist's proposal, that is beyond the scope of my testimony and will be addressed in
278 the Utilities' briefs.

279 Q. Does this conclude your Surrebuttal Testimony?

280 A. Yes.