

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

ILZE RUKIS

Manager – Energy Efficiency and Public Benefits
Integrys Energy Group, LLC

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. My name is Ilze Rukis.

5 Q. Are you the same Ilze Rukis who submitted pre-filed Direct Testimony and Rebuttal
6 Testimony on behalf of The Peoples Gas Light and Coke Company (“Peoples Gas”) and
7 North Shore Gas Company (“North Shore”) (together, “the Companies”) in this
8 consolidated Docket?

9 A. Yes.

10 **B. Purposes of Testimony**

11 Q. What is the purpose of your surrebuttal testimony in this docket?

12 A. The purpose of my rebuttal testimony is to respond to the rebuttal testimony of Mr.
13 Charles Kubert on behalf of the Environmental Law and Policy Center (“ELPC”) and to
14 the rebuttal testimony of Dr. David Rearden on behalf of the Commission Staff regarding
15 various aspects of the energy efficiency programs proposed by Peoples Gas and North
16 Shore.

17 **C. Summary of Conclusions**

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

19 A. The decision of the Illinois Commerce Commission to approve the energy efficiency
20 program proposed by Peoples Gas and North Shore Gas is one that encompasses a review
21 of broad base of issues of economics, regulatory oversight regarding prudence and cost
22 recovery, and energy policy. Mr. Kubert and Dr. Rearden each have touched on various

23 issues that the Commission must consider in reviewing the appropriateness and viability
24 of the proposed energy efficiency program to ultimately approve its implementation.

25 Peoples Gas and North Shore have filed a proposal for the implementation of an
26 energy efficiency program in their service territories as a result of collaborative
27 discussions with interested stakeholders. Peoples Gas and North Shore fully support the
28 energy efficiency proposal as filed. The Companies believe it is an appropriate energy
29 efficiency program for their customers in the City of Chicago and the northern suburbs.

30 The decision as to whether to approve a ratepayer-funded energy efficiency
31 program involves a review of the issues raised by each party in light of competing
32 priorities and concerns that include limiting rate impacts, making wise use of scarce
33 resources, and addressing environmental concerns such as emissions and climate change.
34 The Companies believe that, based on this review, the Companies' proposal is a
35 reasonable and balanced approach to promoting energy efficiency and should approve the
36 program as proposed.

37 **II. SURREBUTTAL TO MR. CHARLES KUBERT AND DR. DAVID REARDEN**

38 Q. Please recap how Dr. Rearden views prices, customers and the marketplace as it relates to
39 energy efficiency, and do you agree?

40 A. Dr. Rearden states that high natural gas prices is the best incentive for individual
41 businesses and consumers to invest in conservation technology. (Rearden Rebuttal, lines
42 699-704). However, there are many reasons why customers do not take actions on their
43 own initiative that would seemingly be of benefit to them. Customers do not always act
44 in an economically rational manner, nor do they always have all the right information.

45 Q. Dr. Rearden states it is impossible to determine whether there is underinvestment,
46 overinvestment or just the right amount of investment in energy efficiency ” (Rearden
47 Rebuttal, lines 740-742). Do you agree?

48 A. Whether there is an energy efficiency program or not, it is the customer’s choice to install
49 whatever energy efficiency options that they deem needed or desirable for their homes
50 and businesses. The customer must decide whether the next energy efficiency option is
51 cost effective or not. This may be done with or without the assistance of any existing
52 energy efficiency program. Presumably most customers acting on their own will not
53 pursue non-cost effective options. And presumably, should an energy efficiency program
54 exist, an energy efficiency program’s offerings should be designed to be cost effective
55 not only from the customer perspective but also from the total societal perspective in
56 accordance with generally accepted cost benefit principles of integrated resource
57 planning. There is no reason to believe the Governance Board of the proposed energy
58 efficiency program will authorize what would amount to as program “loss leaders” to
59 induce customers to implement additional, non-cost effective energy efficiency options.
60 By various means (financial, technical and/or educational), the purpose of an energy
61 efficiency program is to intervene and assist customers to invest in additional cost
62 effective energy efficiency. Therefore, an energy efficiency program can be an energy
63 policy tool of the Commission to achieve any overarching energy goals it deems
64 desirable to advance the wise use of natural gas and address environmental concerns.

65 The question before the Commission is whether the rate impact is reasonable to
66 implement such an energy policy. The Companies believe that the rate impact of our
67 proposal is reasonable and, should be approved. Participating customers who choose

68 effective energy efficiency options will enjoy lower energy bills even with an increase in
69 rates. Non-participating customers who opt not to be part of an available program can
70 still have the benefit of a better and cleaner environment. Implementing an energy
71 efficiency program is by its very nature a cross subsidization of certain groups or
72 initiatives. That does not make it unjustified. For example, everyone pays for public
73 education for the social good it provides although certain groups of people such as
74 parents who opt for private school education and people without children do not receive a
75 direct benefit. But society benefits from a well educated citizenry. The Companies
76 believe whatever cost effective investment can be induced by an energy efficiency
77 program is benefit to both participating and non-participating customers. Finally, to
78 address this issue, the Commission could explicitly direct that all energy efficiency
79 program offerings, except for market transformation (educational and informational)
80 types of programs, must meet specified cost effectiveness tests.

81 Q. Do you agree with Mr. Kubert's additional characterization of the proposed Governance
82 Board and how it will provide oversight of the energy efficiency program and its
83 functions? (Kubert Rebuttal, lines 28-38 and lines 118-146).

84 A. Yes.

85 Q. Do you have any concerns regarding Dr. Rearden's view that if the Commission approves
86 the energy efficiency program, that the Companies are held responsible for the prudent
87 choice of programs and efficient implementation of the those programs and that the
88 Companies will be ultimately responsible for any energy efficiency program expenditures
89 authorized (Rearden Rebuttal, lines 782 -787)?

90 A. The governance structure that was agreed to between the Companies and other interested
91 stakeholders provides for independent operation of the energy efficiency program,
92 separate from any controlling oversight of the Companies. The proposed governance
93 structure is meant to address concerns that the energy efficiency program may not be
94 completely promoted and efficiently operated as it could be in the presence of possible
95 utility conflicts or disincentives due to lost sales that reduce distribution revenues (Kubert
96 Rebuttal, lines 146-148). So, instead of “holding the Company responsible,” the agreed
97 alternative was to take the Companies out of the decision-making processes.

98 If the Companies had control of the energy efficiency program, its programs and
99 its expenditures, Dr. Rearden’s view that the Companies be held accountable for the
100 energy efficiency program is not at all unreasonable, however, given the proposed
101 structure, it is unreasonable to hold the Companies responsible since the Governance
102 Board consists of other stakeholders who provide controlling oversight and direction to
103 the energy efficiency program.

104 Q. Are you, Mr. Kubert and Dr. Rearden in agreement that the Governance Board use a
105 bidding process to solicit entities to implement the energy efficiency program?

106 A. Yes.

107 Q. Are you, Mr. Kubert and Dr. Rearden in agreement that administrative costs be
108 constrained and that the Companies should be required to provide periodic reports
109 regarding overhead expenditures?

110 A. Yes.

111 Q. Dr. Rearden believes that the effect of energy efficiency program on the Chicago citygate
112 price is nil. (Rearden Rebuttal, lines 773-777), while Mr. Kubert believes that energy
113 efficiency programs lower gas demand, that over time will lower the cost of natural gas
114 on the margin, and he states that you specifically acknowledge this fact. (Kubert Rebuttal,
115 lines 64-67). Do you have comment on this?

116 A. I may not have been clear in my testimony. I state in my Direct Testimony, lines 93-95
117 that “(e)nergy efficiency programs can reduce expenditures for importing natural gas
118 supplies and assist all customers to better managing their energy use and lowering energy
119 bills.” I meant to convey that the absolute number of therms purchased will decrease, not
120 necessarily that the marginal costs of the therms purchased decrease. I agree with
121 Dr. Rearden that the effect of a single utility energy efficiency program such as the one
122 proposed by the Companies will negligibly decrease the marginal cost of gas because
123 natural gas is priced on a regional or national basis. A program such as the proposed
124 energy efficiency program can, however, reduce the total amount of therms that need to
125 be purchased by the Companies, thus reducing the expenditures relating to the purchase
126 of natural gas. Statewide or regional energy efficiency programs, of which this proposal
127 could become a part, would have a greater ability to change the cost of gas on the margin.
128 So, while this program taken alone will have a negligible impact on gas prices, a much
129 larger program, of which this is program could be a part, would have more than a
130 negligible impact on prices.

131 Q. Does this conclude your Surrebuttal Testimony?

132 A. Yes.