

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase	:	No. 07-____
In Rates For Gas Service	:	

Direct Testimony of
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Manager, Rates Department
The Peoples Gas Light and Coke Company

On Behalf of
North Shore Gas Company

March 9, 2007

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1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Valerie H. Grace. My business address is 130 E. Randolph Drive, Chicago,
5 Illinois 60601.

6 **B. Purpose of Testimony**

7 Q. What is the purpose of your testimony?

8 A. The purpose of my testimony is to explain and analyze the changes proposed to North
9 Shore Gas Company's ("North Shore" or the "Company") Schedule of Rates for Gas
10 Service, provide support for the proposed changes and to discuss the new rates and riders
11 that have been filed as a part of this proceeding. I will also address adjustments made to
12 test year sales volumes and other billing units.

13 **C. Itemized Attachments to Direct Testimony**

14 Q. I now show you the exhibits that have been marked for identification as North Shore
15 Exhibits ("Exs.") VG-1.1 through VG-1.18 and ask you if these documents were
16 prepared under your supervision and direction?

17 A. Yes, they were.

18 **D. Background and Experience**

19 Q. By whom are you employed?

20 A. I am employed by The Peoples Gas Light and Coke Company ("Peoples Gas").

21 Q. How long have you been employed by Peoples Gas?

22 A. I have been employed by Peoples Gas for 26 years.

23 Q. What position do you hold with Peoples Gas?

24 A. I am Manager of the Rates Department.

25 Q. What are your responsibilities in that position?

26 A. I am responsible for rate research, rate administration and recommendations regarding
27 rate policies for Peoples Gas and North Shore.

28 Q. Please summarize your educational background and experience.

29 A. In 1980, I graduated from Illinois State University with a Bachelor of Science degree in
30 Business Administration. In 1988, I received a Master of Management Degree from
31 Northwestern University. I have been employed by Peoples Gas from September 1980 to
32 the present. I began my employment in the Gas Supply Planning Department. Since then
33 I have been employed in various positions and levels of responsibility at Peoples Gas
34 including the Rates Department, the Office of the Chairman, the Executive Office of the
35 Customer Relations Division and the Gas Transportation Services Department. I have
36 also been employed by Peoples Energy Corporation, the parent company of Peoples Gas
37 and North Shore, as Director of Strategic Development. I have been in my present
38 position since October, 2004.

39 Q. Have you testified before the Illinois Commerce Commission (“Commission”)
40 previously?

41 A. Yes, I have testified in several gas charge reconciliation proceedings, proceedings related
42 to customer choice and the recent Section 7-204 proceeding (ICC Docket No. 06-0540)
43 involving Peoples Gas and North Shore.

44 **II. NEW SCHEDULE OF RATES FOR GAS SERVICE**

45 Q. Will North Shore give public notice of the proposed changes it filed?

46 A. Yes. Notice will be published twice in the Waukegan News-Sun, a secular newspaper of
47 general circulation in the area which North Shore serves, in accordance with the
48 provisions of 83 Illinois Administrative Code Part 255. North Shore will submit for the
49 record copies of the Publisher's certification that public notice of the changes was
50 published in the Waukegan News-Sun. Copies of the proposed changes are on file and
51 open for public inspection at North Shore's corporate office. North Shore has also posted
52 public notice of the proposed changes in its corporate office.

53 Q. Is the Company proposing to file a new Schedule of Rates for Gas Service ("tariff" or
54 "tariff book")?

55 A. Yes, North Shore Ex. VG-1.1 contains copies of the rate sheets filed by North Shore. In
56 my testimony and exhibits the term "proposed changes" will refer to the rate levels and
57 other changes reflected in these rate sheets. These rates sheets comprise an entirely new
58 tariff book for North Shore, ILL. C.C. No. 17.

59 Q. Why is the Company filing an entirely new tariff book?

60 A. The Company's current tariff book was created in 1995. North Shore is making many
61 editorial changes to clarify the tariff language; eliminate blank pages and redundancies;
62 and eliminate obsolete or inactive tariff provisions. The Company is also proposing to
63 create several new riders and to change the titles of some of the current riders. For these
64 reasons, it is appropriate to file a new tariff book.

65 **III. RATE DESIGN OBJECTIVES**

66 Q. What are the objectives that North Shore seeks to achieve through the rate design
67 modifications it is proposing?

68 A. Through the proposed rate design, North Shore would accomplish six major objectives.
69 They are to (1) better align costs and revenue recovery, (2) provide more equity between
70 and within rate classes, (3) maintain rate design continuity, (4) reflect gradualism, (5)
71 retain customers on the Company's system and (6) consolidate certain transportation
72 riders while providing new service options for transportation customers. I will address
73 objectives 1 through 5 in my testimony while Mr. Zack (North Shore Ex. TZ 1.0) will
74 address objective 6 and other matters related to the Company's transportation riders.

75 **IV. EMBEDDED COST OF SERVICE STUDY AND**
76 **ALLOCATION OF REVENUE REQUIREMENT**

77 Q. Please describe North Shore Ex. VG-1.2, Summary of Estimated Effect of Proposed Rate
78 Increase.

79 A. North Shore Ex. VG-1.2, page 1 of 2, shows the revenue from North Shore's various
80 service classifications under present and proposed rates including Rider UBA and the
81 increase in revenue from the proposed rates, an increase of \$ 4.7 million in delivery (base
82 rate) charges (line 24, column L). It also shows revenue from North Shore's gas charges,
83 Rider 11, Adjustment for Incremental Costs of Environmental Activities, and proposed
84 Rider UBA, Uncollectible Balancing Adjustment. It excludes municipal and state taxes
85 and other state charges as well as any revenues arising from proposed Rider EEP,
86 Enhanced Efficiency Program. Proposed Rider UBA and Rider EEP will be discussed
87 later in my testimony. The exhibit also reflects the proposed change in the transportation
88 customer diversity factor from .50 to .75 as discussed in Mr. Zack's testimony, which

89 results in a transfer of \$388,000 of gas charge recovery from the sales customers to the
90 transportation customers (lines 8 and 16, column M). North Shore Ex. VG-1.2, page 2 of
91 2, shows the same revenues with proposed Rider UBA expenses being recovered through
92 North Shore's delivery (base rate) charges rather than through a rider mechanism.
93 Similarly, North Shore's tariff reflects delivery charges with and without Rider UBA.

94 Q. Why is it necessary to present rates with and without Rider UBA?

95 A. Rider UBA, as discussed below and by Mr. Feingold (North Shore Ex. RAF-1.0), places
96 recovery of the gas cost portion of the uncollectible expense in a rider rather than in base
97 rates. However, if the Commission did not approve this mechanism, then base rates must
98 include the full uncollectible expense. For completeness, I present data showing the
99 preferred rate design, which includes Rider UBA, and data showing the rate design with
100 uncollectible expense in base rates without Rider UBA.

101 Q. What is the basis of the Company's determination of rates to be proposed in this
102 proceeding?

103 A. The Company uses its Embedded Cost of Service Study ("ECOSS") as the basis for the
104 determination of the revenue requirement and resulting proposed rates in this proceeding.
105 The ECOSS has been submitted as North Shore Exs. RJA-1.1 through RJA 1.4 and is
106 sponsored by Mr. Amen (North Shore Ex. RJA-1.0). The Company also uses an
107 embedded cost of service summary submitted by Mr. Amen as North Shore Ex. RJA-1.7
108 as the basis for its discussion of rates without Rider UBA, which includes the gas cost
109 portion of uncollectible expense in base rates.

110 Q. How does the Company use the ECOSS to determine the proposed rates?

111 A. The Company uses the ECOSS to move to cost based rates and to better align charges
112 with like costs. The results of the ECOSS are also used to bifurcate Service
113 Classification (“S.C.”) No. 1, Small Residential Service, into two new service
114 classifications: S.C. No. 1N, Small Residential Non-Heating Service, and S.C. No. 1H,
115 Small Residential Heating Service, thereby moving both small residential service
116 classifications to cost. The results of the ECOSS are used to decrease S.C. No. 2,
117 General Service, decrease S.C. No. 3, Large Volume Demand Service, and increase S.C.
118 No. 5, Standby Service, setting all at cost.

119 Q. Have any of North Shore’s service classifications been omitted from the cost of service
120 analyses filed in this case, and from consideration for an increase in rates?

121 A. Yes, S.C. No. 4, Contract Service, was excluded from consideration because the revenues
122 from customers served under this service classification are based on a negotiated rate
123 rather than the cost of service analysis filed in this case. These contracts have been filed
124 with the Commission. S.C. No. 6, Contract Service For Electric Generation, was also
125 excluded as there are currently no customers being served under this service
126 classification, and in any event, this is also a negotiated rate service.

127 **V. CHANGES TO BASE RATES AND OTHER CHARGES**

128 Q. How is the Company proposing to meet its objective to better align costs and revenue
129 recovery?

130 A. To meet this objective, the Company is proposing to recover a greater portion of fixed
131 costs through fixed charges. Almost all of the Company’s costs, about 99%, are fixed,
132 *i.e.*, they do not vary with throughput. However, in the interest of rate design continuity,
133 the Company has historically recovered a large portion of such fixed costs through non-

134 fixed volumetric charges. For instance, in the Company's last rate case filed over twelve
135 years ago in Docket No. 95-0031, about 97% of the Company's costs were fixed while
136 only 28% of costs were recovered through fixed charges. This mismatch of fixed costs
137 and non-fixed charges practically assures that the Company will either over or under earn
138 its Commission approved revenue requirement and that customers will either over or
139 under pay their share of such costs. To remedy this, at least partially, the Company will
140 propose rates that would recover more fixed costs through fixed charges. Under
141 proposed rates, the Company will recover 48% of its fixed costs through fixed charges.
142 While not completely matching fixed costs and fixed charges, the Company's proposed
143 rates will provide more balance than its current rates and send more accurate price signals
144 to customers.

145 Q. Consistent with the objectives you described above and the move towards placing more
146 fixed cost recovery in fixed charges, what major changes to rates and charges is the
147 Company proposing?

148 A. The Company is proposing nine major changes to its base rates and other charges. As in
149 its most recent rate case, Docket No. 95-0031, North Shore proposes to set all service
150 classifications at cost. I will discuss these changes in detail later in my testimony.

151 First, S.C. No. 1, Small Residential Service, will be bifurcated into two service
152 classifications: S.C. No. 1N, Small Residential Non-Heating Service; and S.C. No. 1H,
153 Small Residential Heating Service.

154 Second, the monthly customer charge for S.C. No. 1N customers will be
155 increased. The distribution charge, which is a two-block rate structure under current S.C.
156 No. 1, will become a flat charge. This service classification is set at cost.

157 Third, the monthly customer charge for S.C. No. 1H customers will be increased.
158 The distribution charge will reflect a decrease in the end block with a greater percentage
159 of costs being allocated to the front block of the current two-block rate structure. This
160 service classification is set at cost.

161 Fourth, the monthly customer charges for each meter class under S.C. No. 2,
162 General Service, will be increased. The distribution charge will reflect an increase in the
163 front block and a decrease in the middle and end blocks of the three-block rate structure.
164 This service classification is set at cost.

165 Fifth, the monthly customer charge, demand charge, distribution charge and
166 standby service charge for S.C. No. 3, Large Demand Volume Service, will be decreased.
167 The demand blocks for this service classification will be changed from 5,000 therms and
168 over 5,000 therms to 10,000 therms and over 10,000 therms. This service classification is
169 set at cost.

170 Sixth, the monthly customer charge and distribution charge for S.C. No. 5,
171 Standby Service, will be increased. The demand charge will be decreased. This service
172 classification is set at cost.

173 Seventh, service reconnection charges and service activation charges will be
174 restructured to reflect a base charge and charges for additional appliances.

175 Eighth, the Charge for Dishonored Checks and/or Incomplete Electronic
176 Withdrawal will be increased to better reflect prevailing rates for such checks and
177 transactions and to discourage customers from making such deficient payments to the
178 Company.

179 Ninth, the Company is proposing a new charge for a Second Pulse Data
180 Capability to accommodate customers' requests for this service.

181 Q. Are the present and proposed charges under each service classification summarized in an
182 exhibit?

183 A. Yes. North Shore Ex. VG-1.3 Comparison of Present with Proposed Rates, page 1 of 2,
184 illustrates the charges for each present and proposed service classification with
185 Rider UBA. The exhibit also shows the increase or decrease in proposed rates as
186 compared to present rates. North Shore Ex. VG-1.3, page 2 of 2, shows the charges for
187 each present and proposed service classification without Rider UBA.

188 **A. Bifurcating S.C. No. 1, Small Residential Service**

189 Q. Why is the Company proposing to bifurcate S.C. No. 1 into a non-heating (S.C. No. 1N)
190 and heating (S.C. No. 1H) service?

191 A. Bifurcating S.C. No. 1 will allow the Company to meet its first two objectives which are
192 to (1) better align costs and revenue recovery and (2) provide more equity between and
193 within rate classes, by setting rates both rates at the cost of service. Under the
194 Company's current rate structure, all small residential customers, heating and
195 non-heating, pay the same customer charge and distribution charge. This structure,
196 which results in an intra-class subsidy from heating customers to non-heating customers,
197 also does not allow the Company to properly align revenue recovery with costs. North
198 Shore Ex VG-1.5, page 1 of 3, illustrates the cost differences between small residential
199 non-heating and heating customers. Lines 1-4 of this exhibit show the embedded costs
200 for S.C. Nos. 1N and 1H (from the ECOSS, North Shore Ex. RJA 1.2), while lines 6-9
201 show the allocated cost resulting from applying the EPEC method. As shown, the fixed

202 costs for S.C. No. 1H are nearly twice as high as the fixed costs for S.C. No. 1N. This
203 significant difference in fixed costs means that recovery of such costs through fixed
204 charges under a single service classification would over burden smaller use non-heating
205 customers. For these reasons, bifurcating the small residential service classification is an
206 appropriate approach for customers and the Company.

207 **B. S.C. No. 1N, Small Residential Non-Heating Service**

208 Q. Please describe North Shore' proposal for S.C. No. 1N.

209 A. S.C. No. 1N will be set at cost. North Shore is proposing to increase the monthly
210 customer charge for S.C. No. 1N from \$8.50 to \$10.50. North Shore Ex. VG-1.4, page 2
211 of 2 compares the proposed monthly customer charges under S.C. No. 1N with the
212 embedded monthly customer and demand costs per customer. As shown in the exhibit,
213 the monthly embedded customer cost with Rider UBA for S.C. No. 1N is \$15.06 and the
214 demand cost per customer is \$1.12 for a total embedded fixed cost per customer of
215 \$16.18 (lines 1-3, column B). While the proposed \$10.50 charge represents 70% of
216 embedded customer costs and 65% of total embedded fixed cost, North Shore has limited
217 the increase to \$2.00 per month in the interest of gradualism. Moving the charge to total
218 embedded fixed cost would require an increase of an additional \$5.68 per month.

219 Q. Why should the demand costs be included in a fixed monthly charge such as the customer
220 charge?

221 A. Both demand and customer costs are fixed. Demand costs are typically recovered from
222 large volume customers through demand charges. This is feasible because such
223 customers normally have demand meters that allow for accurate measurement of daily
224 demand volumes. However demand meters and demand charges are uncommon for

225 smaller volume customers. As a result, it would be more practical to recover demand
226 costs through a fixed monthly charge such as the customer charge.

227 Q. Is North Shore proposing to recover demand costs through a fixed monthly charge?

228 A. No. North Shore is not proposing to recover any demand costs through a fixed monthly
229 charge. Instead, to mitigate the impact of a new rate design on S.C. No. 1N customers,
230 North Shore is proposing to recover any remaining customer and all demand costs
231 through the distribution charge.

232 Q. What is the proposed distribution charge?

233 A. To recover the remaining customer and distribution costs, North Shore is proposing a flat
234 distribution charge of 28.70 cents per therm for S.C. No. 1N. Currently S.C. No. 1 has a
235 declining block structure with a front block of 0-50 therms and an end block for over
236 50 therms. As about 91% of S.C. No. 1N monthly bills are for 50 therms or less, a flat
237 rate structure is more appropriate than the current blocked rate structure.

238 **C. S.C. No. 1H, Small Residential Heating Service**

239 Q. Please describe North Shore's proposal for S.C. No. 1H.

240 A. S.C. No. 1H will be set at cost. North Shore is proposing to increase the monthly
241 customer charge for S.C. No. 1H from \$8.50 to \$16.00. North Shore Ex. VG-1.4 page 2
242 of 2, compares proposed monthly customer charges under S.C. No. 1H with the
243 embedded monthly customer and demand costs per customer. As shown in the exhibit,
244 the monthly embedded customer cost with Rider UBA for S.C. No. 1H is \$20.27 and the
245 demand cost per customer is \$9.01 for a total embedded fixed cost per customer of
246 \$29.28 (lines 1-3, column F). While the proposed \$16.00 charge represents 55% of total

247 embedded fixed cost and 79% of embedded customer costs, North Shore has limited the
248 increase to \$7.50 per month in the interest of gradualism. Moving the charge to total
249 embedded fixed cost would require an increase of an additional \$13.28 per month. If
250 properly aligned, such charges would be recovered through a fixed charge such as the
251 customer charge or a demand charge for the reasons discussed previously. However, in
252 the interest of rate design continuity, the Company is proposing to recover demand costs
253 as well as remaining customer costs through the distribution charge.

254 Q. Has North Shore proposed any changes to its S.C. No. 1H distribution charge blocking?

255 A. No. North Shore is proposing to maintain its two declining rate block structure for S.C.
256 No. 1H. The front block (0-50 therms) proposed distribution charge is 23.617 cents per
257 therm and was computed by allocating two-thirds of remaining customer, demand and
258 commodity costs to this block. The remainder of the S.C. No. 1 revenue will be collected
259 through an end block (over 50 therms) distribution charge of 6.335 cents per therm.

260 Q. Why is North Shore proposing significant increases for its monthly customer charges,
261 particularly for S.C. No. 1H, rather than placing the increase in the proposed distribution
262 charges?

263 A. Distribution charges are assessed only when a customer uses gas, but North Shore incurs
264 costs to serve its customers that are not dependent upon the amount of gas usage. In
265 other words, these costs are fixed. As explained previously, almost all of North Shore's
266 embedded costs, about 99%, are fixed. However, historically, most of its revenue
267 recovery has been through volumetric distribution rates. While North Shore is not
268 proposing to recover all of its fixed costs through its monthly customer charge,
269 recovering a greater portion through the customer charge better aligns fixed cost recovery

270 with fixed embedded costs. In a case involving Union Electric (Docket No. 03-0009), the
271 Commission endorsed the utility's efforts to recover all of a utility's fixed customer
272 related costs of serving residential customers through the customer charge component of
273 rates as well as a gradualism approach to doing so. Moreover, in Peoples Gas' last rate
274 case (Docket No. 95-0032), the Commission urged Peoples Gas to increase the customer
275 charge in future rate proceedings to move it closer to cost. North Shore's proposals to
276 increase its customer charges and bifurcate S.C. No. 1 into heating and non-heating
277 service classifications are consistent with these policies.

278 Q. Have other utilities and their commissions addressed this question?

279 A. Yes. There is a growing trend among other public utility commissions to approve greater
280 recovery of fixed costs through fixed charges. Oklahoma Natural Gas Company and
281 Xcel Energy Inc. ("Xcel") have both recently implemented rate designs that reflect
282 greater recovery of fixed costs through higher monthly customer charges. Xcel has a flat
283 monthly delivery services charge with no volumetric distribution charge for customers
284 served under its Residential Service rate. Similarly, Atlanta Gas Light Company has
285 recovered all fixed costs through fixed charges, using a Straight Fixed Variable ("SFV")
286 rate design, since 1998. Under this type of rate design, all fixed costs are recovered
287 through fixed charges with customers paying a largely flat fee for utility delivery service
288 and a small volumetric charge for any commodity related costs.

289 Q. Does a greater recovery of fixed costs through the customer charge rather than the
290 volumetric distribution charge offer any benefits?

291 A. Yes. Fixed cost recovery through the customer charge stabilizes the non-gas cost,
292 delivery charge portion of the customer's bill, making that portion of the bill less variable

293 than if such charges were recovered through the volumetric distribution charge. Bill
294 stability is a desirable goal, especially as national gas prices rise. Volatile gas prices
295 encourage customers, regulators and consumer advocates to look for ways to stabilize
296 bills, particularly during the winter period. This has resulted in an increasing interest in
297 budget plans, fixed prices and fixed bills. The Company's budget plan offers some
298 stability. However, there are periodic true-ups that can change the monthly budget
299 amounts. While the Company cannot currently fix the gas cost portion of customers'
300 bills, it does offer a choice program, open to all customers, under which customers may
301 be able to purchase fixed gas price products from participating gas suppliers. These types
302 of products combined with a more stable Company delivery charge may satisfy some
303 parties' desire for bill stability.

304 Greater recovery of fixed costs through the customer charge also provides more
305 stability to the Company by reducing variability in earnings related to variations in
306 customer consumption caused by weather or other conditions outside the Company's
307 control. Consequently, the Company would be less likely to either over or under earn its
308 Commission approved revenue requirement.

309 Q. If stability is a concern, why doesn't the Company simply propose SFV rates that would
310 recover all fixed costs through fixed charges?

311 A. The Company does consider SFV rates the most appropriate rate design to best align
312 revenue recovery with its mostly fixed costs. However, while SFV rates would offer
313 stability to the Company and customers, some may view SFV rates as too significant a
314 departure from the Company's current rate structure. North Shore Ex. VG-1.4, page 1 of
315 2, lines 5 and 6, shows the derivation of SFV rates if proposed using North Shore's

316 ECOSS. As shown, SFV rates with Rider UBA (columns A and C) would result in
317 monthly fixed charges of \$16.18 for S.C. No. 1N and \$29.28 for S.C. No. 1H and
318 distribution charges of .246 cents per therm and .304 cents per therm, respectively. These
319 fixed charges would be slightly higher without Rider UBA and are shown in columns B
320 and D. The SFV rate structure is widely used. For example, many customers are
321 accustomed to paying flat cable, telephone (local, long distance and wireless), internet
322 services, and sewer and waste disposal bills among others. Many of these service
323 providers who had traditionally charged on a volumetric basis are now charging a flat fee.

324 Q. What benefits would a flat fee such as a SFV rate offer?

325 A. A SFV rate would be equivalent to putting customers on a budget plan for the delivery
326 service portion of their bill but without any need for a true-up when conditions change.
327 Customers would pay a fixed monthly fee and a small distribution charge and the
328 delivery portion of their bill would be largely unaffected by variations in weather or other
329 conditions. As a result, they would not over or under pay for the services that they
330 receive. A SFV rate would also lower the delivery charge portion of a customer's bills
331 during the winter period when market commodity prices are typically at their highest.
332 This is illustrated in North Shore Ex. VG-1.5, pages 1 and 2, which shows that
333 customer's bills are somewhat flattened, particularly for S.C. 1H, during the winter under
334 the Company's proposed rates than under present rates and are almost completely flat
335 under SFV rates. As a SFV rate would cap the fixed delivery charge portion of a
336 customer's bill, it would help mitigate the impact of cold weather and high commodity
337 prices on customer's bills. This would be especially beneficial to customers who live in
338 energy inefficient housing, particularly those who are low income.

339 Q. Although the Company is not proposing SFV rates, it is proposing to recover a greater
340 portion of its fixed costs through the customer charge. Why then, is the Company
341 proposing Rider VBA, Volume Balancing Adjustment, a decoupling type mechanism?

342 A. As discussed previously in my testimony, only 65% and 55% of total embedded fixed
343 costs for S.C. Nos. 1N and 1H, respectively, will be recovered through the customer
344 charge under the Company's proposed rates. Therefore, for this reason and the reasons
345 discussed in Mr. Feingold's testimony, a mechanism such as Rider VBA is needed.

346 Q. Would the Company consider a SFV rate design if it is proposed by other parties in this
347 proceeding?

348 A. Yes.

349 Q. Do these proposed rates for S.C. No. 1N and S.C. No. 1H include all of North Shore's
350 embedded costs for these service classifications?

351 A. No, the proposed rates described previously exclude the gas cost portion of North Shore's
352 uncollectible expense, which North Shore is proposing to recover through a rider, Rider
353 UBA, Uncollectible Balancing Adjustment. Rider UBA is addressed later in my
354 testimony and also by Mr. Feingold.

355 Q. What is the amount of the base rate increase if the gas cost portion of uncollectible
356 expenses is recovered through delivery charges (base rates) rather than Rider UBA?

357 A. The base rate increase without Rider UBA is \$6.2 million as shown in North Shore
358 Ex. VG-1.2, page 2 of 2 (line 24, column L)

359 Q. Please describe North Shore's proposal for S.C. No. 1N without Rider UBA.

360 A. Absent Rider UBA, although the embedded customer cost would increase, the Company
361 would propose the same monthly customer charge of \$10.50 for S.C. No. 1N with the gas
362 cost portion of uncollectible expense being recovered though the distribution charge. The
363 distribution charge for S.C. No. 1N would be 33.97 cents per therm. North Shore
364 Ex. VG-1.4, page 2 of 2, compares the proposed monthly customer charges under S.C.
365 No. 1N with the embedded monthly customer and demand costs per customer. As shown
366 in the exhibit, the monthly embedded customer cost without Rider UBA for S.C. No. 1N
367 is \$16.11 and the demand cost per customer is \$1.12 for a total embedded fixed cost per
368 customer of \$17.23 (lines 4-6, column B).

369 Q. Please describe North Shore' proposal for S.C. No. 1H without Rider UBA.

370 A. Absent Rider UBA, although the embedded and allocated customer cost would increase,
371 the Company would propose the same monthly customer charge of \$16.00 for S.C. No.
372 1H with the gas cost portion of uncollectible expense being recovered though the
373 distribution charge. The charge for the front block (0 through 50 therms) would be
374 24.793 cents per therm and the charge for the end block would be 6.650 cents per therm.
375 North Shore Ex. VG-1.4, page 2 of 2, compares the proposed monthly customer charges
376 under S.C. No. 1H with the embedded monthly customer and demand costs per customer
377 and the allocated monthly customer and demand costs per customer. As shown in the
378 exhibit, the monthly embedded customer cost without Factor UBA for S.C. No. 1H is
379 \$20.95 and the demand cost per customer is \$9.01 for a total embedded fixed cost per
380 customer of \$29.96 (lines 4-6, column F).

381 Q. Please describe North Shore Ex. VG-1.6.

382 A. North Shore Ex. VG-1.6, page 1 of 4, illustrates the effect of the proposed changes on an
383 average S.C. No. 1N customer with and without Rider UBA. The S.C. No. 1N customer
384 has very low usage and is mainly affected by the increase in the monthly customer
385 charge. The average monthly bill will increase by \$3.21 for S.C. No. 1N customers with
386 Rider UBA and \$4.14 without Rider UBA. The annual bill will increase by 9.8% for
387 S.C. No. 1N customers with Rider UBA and 12.6% without Rider UBA. The increase in
388 base rates is slightly offset by the gas charge effect of the change in the Standby Demand
389 Charge diversity factor utilized in the calculation of the gas charge, as discussed by
390 Mr. Zack. North Shore Ex. VG-1.6, page 2 of 4, illustrates the effect of the proposed
391 changes on an average S.C. No. 1H customer with and without Rider UBA. The average
392 monthly bill will increase by \$4.88 for S.C. No. 1H customers with Rider UBA and \$4.85
393 without Rider UBA. The annual bill will increase by 3.6% for S.C. No. 1H customers
394 with and without Rider UBA. The increase in base rates is slightly offset by the gas
395 charge effect of the change in the Standby Demand Charge diversity factor utilized in the
396 calculation of the gas charge, as discussed by Mr. Zack. This increase also includes the
397 effect of proposed Rider EEP, which will be discussed later in my testimony. Rider EEP,
398 Enhanced Efficiency Program, is a proposed rider to fund energy conservation programs.
399 Mr. Borgard (North Shore Ex. LTB-1.0) and Mr. Feingold discuss this proposal in more
400 detail in their testimony.

401 North Shore Ex. VG-1.6, page 3 of 4, shows monthly bills at various levels of
402 usage under present rates and proposed rates and the dollar changes in these monthly bills
403 for S.C. No. 1N customers, with and without Rider UBA. Page 4 of 4 shows monthly
404 bills at various levels of usage under present rates and proposed rates and the dollar

405 changes in these monthly bills for S.C. No. 1H customers, with and without Rider UBA.
406 The pages also show the impact of the gas charge offset and proposed Rider EEP.

407 **D. S.C. No. 2, General Service**

408 Q. Please describe North Shore's proposal for changes in S.C. No. 2, General Service.

409 A. The Company proposes to increase the monthly customer charges for all S.C. No. 2
410 customers, while moving the charges for Meter Classes 1 and 2 closer to embedded cost
411 for each individual meter class. Present rates were set by considering an average of the
412 embedded customer costs for all S.C. No. 2 customers, which results in Meter Class 1
413 customers subsidizing Meter Class 2 customers. The proposed customer charges would
414 eliminate that subsidy. As shown on North Shore Ex. VG-1.7, the Meter Class 1 monthly
415 customer charge would increase from \$15.00 to \$17.00 and the Meter Class 2 monthly
416 customer charge would increase from \$22.00 to \$60.00. The proposed customer charges,
417 which reflect embedded customer costs and a small portion of embedded demand costs
418 for Meter Class 1 and a portion of embedded customer costs for Meter Class 2, are less
419 than the embedded fixed costs for each meter type. These charges and the embedded
420 customer costs found in the ECOSS are shown on North Shore Ex. VG-1.7.

421 North Shore is proposing to maintain the three declining block distribution charge
422 for S.C. No. 2 and allocate 25%, 55% and 20% of the remaining customer, demand costs
423 and commodity costs to the front, middle, and end blocks, respectively. The front block
424 (0-100 therms) has been increased to 23.248 cents per therm, the middle block (over 100-
425 3,000 therms) has been decreased to 8.716 cents per therm and the end block (over 3,000
426 therms) has been decreased to 2.769 cents per therm.

427 Q. Do these proposed rates for S.C. No. 2 include all of North Shore's embedded costs for
428 this service classification?

429 A. No, the proposed rates described above exclude the gas cost portion of North Shore's
430 uncollectible expense, which North Shore is proposing to recover through Rider UBA.

431 Q. Please describe North Shore's proposal for S.C. No. 2, General Service, without
432 Rider UBA.

433 A. Absent Rider UBA, although the embedded and allocated customer cost would increase,
434 the Company would propose the same monthly customer charges of \$17.00 for Meter
435 Class 1 and \$60.00 for Meter Class 2 with the gas cost portion of uncollectible expense
436 being recovered through the distribution charge. The front block (0-100 therms) charge
437 would be 24.175 cents per therm; the middle block (over 100-3,000 therms) charge
438 would be 9.064 cents per therm; and the end block (over 3,000 therms) charge would be
439 2.879 cents per therm.

440 Q. Please describe North Shore Ex. VG-1.8.

441 A. Pages 1 and 2 of North Shore Ex. VG-1.8 show monthly bills at various usage levels for
442 Meter Class 1 and Meter Class 2 retail sales customers, respectively, with and without
443 Rider UBA.

444 Q. Please discuss why Rider VBA, Volume Balancing Adjustment, a decoupling type
445 mechanism, would be applicable to S.C. No. 2.

446 A. About 98% of S.C. No. 2 costs are fixed. However, under the Company's proposed rates,
447 only 34% of its allocated revenue requirement will be recovered through fixed monthly
448 customer charges. That leaves a significant portion that will be recovered through

449 volumetric distribution charges. For this reason and the reasons discussed in Mr.
450 Feingold's testimony, a mechanism such as Rider VBA is needed.

451 Q. Did the Company consider SFV rates for S.C. No. 2?

452 A. Yes, the Company considered SFV rates for S.C. No. 2 but determined that due to the
453 heterogeneous nature of the service classification, SFV rates would not be a practical
454 option at this time.

455 **E. S.C. No. 3, Large Volume Demand Service**

456 Q. Please describe the changes proposed for S.C. No. 3, Large Volume Demand Service.

457 A. The Company's current S.C. No. 3 is a cost based rate that serves large volume, high load
458 factor customers. Present rates include a monthly two block demand structure which is
459 set at 5,000 therms and over 5,000 therms. The Company proposes to increase the front
460 block to 10,000 therms to better reflect the higher monthly demand volumes that are
461 representative of this service classification. The minimum, average and maximum
462 monthly demand volumes for this service classification are 19,000 therms, 26,000 therms
463 and 34,000 therms, respectively. The current demand block structure, which current data
464 show is set too low, results in 19% of demand volumes falling within the first block and
465 81% of demand volumes falling in the end block. This does not allow the Company to
466 recover its demand costs through a reasonable rate design that accurately reflects the
467 customer profile. To remedy this, at least partially, and to allow a more balanced cost
468 recovery, the Company proposes to increase the front block to 10,000 therms. This
469 would result in 38% of demand volumes falling within the first block and 62% of demand
470 volumes falling within the second block. The revenue from S.C. No. 3 will be set at

471 embedded cost as determined in the ECOSS. This is consistent with the rate treatment in
472 the Company's last rate case.

473 The demand charge will be set at 80% of cost, with 50% being recovered through
474 the front demand block. That results in about 75% of the total S.C. No. 3 revenue
475 requirement being recovered through the demand charges. The front block (0-10,000
476 therms) demand charge will be set at 49.065 cents per demand therm and the end block
477 (over 10,000 therms) demand charge will be set at 30.574 cents per demand therm. The
478 monthly customer charge will be set at cost and will be \$705.00. The monthly standby
479 service charge will be set at 11 cents per therm of standby demand with the remaining
480 revenue being recovered through the distribution charge, which will be set at .262 cents
481 per therm.

482 Q. Please describe North Shore's proposal for S.C. No. 3, Large Demand Volume Service,
483 without Rider UBA.

484 A. The Company would propose the same charges as those with Rider UBA.

485 **F. Standby Service Charge**

486 Q. What type of costs does the standby service charge recover?

487 A. The standby service charge recovers unbundled gas supply related costs. These costs,
488 which are included in the Company's ECOSS, arise from investments and expenses
489 related to the Company's production and storage functions. It applies to the Company's
490 fully unbundled S.C. No. 3 customers whose cost would be based on their selected
491 standby level. All of the current customers in this service classification who are
492 transportation customers would elect their standby level. If a retail sales customer were

493 to take service under this service classification, the charge would be applied to their
494 billing demand.

495 **G. S.C. No. 4, Contract Service to Prevent Bypass**

496 Q. Please describe the proposed changes to S.C. No. 4, Contract Service.

497 A. S.C. No 4, Contract Service, is available to any customer for whom bypass of the
498 Company's gas distribution system is, in the judgment of the Company, economically
499 feasible and practical. The Company is changing the description of this service
500 classification from "Contract Service" to "Contract Service to Prevent Bypass" to make it
501 more descriptive. In response to customer requests, the Company is proposing to allow a
502 longer term contract. Currently, a contract may not have a term in excess of five years.
503 Also, the Company is making minor editorial changes to the tariff.

504 **H. S.C. No. 5, Standby Service**

505 Q. Please describe the proposed changes to S.C. No. 5, Standby Service.

506 A. This service classification is set at cost. The monthly customer charge for S.C. No. 6 will
507 be set at cost and will be \$43.00. The monthly demand charge will be set at cost and will
508 be 10.414 cents per demand therm. The distribution charge will be 1.875 cents per
509 therm.

510 Q. Please describe North Shore's proposal for S.C. No. 5, Standby Service, without Rider
511 UBA.

512 A. The Company would propose the same charges as those with Rider UBA.

513 **I. S.C. No. 6, Contract Service for Electric Generation**

514 Q. Please describe the proposed changes to S.C. No. 6, Contract Service for Electric
515 Generation.

516 A. The Company proposes to make minor editorial changes to the tariff for this service
517 classification. No other changes are being proposed.

518 Q. Please summarize the increase in the Company's revenues from all proposed delivery
519 charges (base rates).

520 A. The Company's proposed delivery charges result in an increase of \$4.7 million. This is
521 shown in North Shore Ex. VG 1.2, page 1 of 2 (line 24, column L). If the Company were
522 to recover Rider UBA expenses in base rates rather than a rider mechanism, the increased
523 from proposed delivery charges would be \$6.2 million. This is shown in North Shore
524 Ex. VG 1.2, page 2 of 2 (line 24, column L).

525 Q. Please describe any other revenues that will arise from the Company's increase in base
526 rate delivery charges.

527 A. The Company will experience an increase in accounting charge and forfeited discount
528 revenues that are estimated to be \$5,000 and \$21,000, respectively. Combined with a
529 base rate increase of \$4.7 and the miscellaneous charges increase of \$95,000 discussed
530 later in my testimony, the total proposed revenue increase is \$4.8 million without Rider
531 UBA. With Rider UBA the proposed increase is \$6.3 million.

532 **J. Terms and Conditions of Service**

533 Q. What changes were made to the Company's Terms and Conditions of Service?

534 A. The Company revised the entire Terms and Conditions of Service to improve its
535 organization, simplify and clarify language, including provisions related to Company and
536 customer property, and reflect proposed charges for certain services. The Company, in
537 response to requests from some customers, added a provision to permit payment by wire
538 transfer, including requiring reimbursement of the transaction charge that the financial
539 institution will charge the Company, and a provision to provide for installation of second
540 pulse capability. The Company is also proposing changes to the Miscellaneous Charges,
541 described below. No other material changes are being proposed.

542 **K. Miscellaneous Charges**

543 Q. Please describe the items included in Miscellaneous Charges.

544 A. Miscellaneous Charges include the Service Activation Charges, Service Reconnection
545 Charges, the Charge for Dishonored Checks and/or Incomplete Electronic Withdrawal,
546 and a Charge for Second Pulse Data Capability.

547 **L. Service Activation Charges**

548 Q. Please describe the Company's proposal with respect to the Service Activation Charges.

549 A. The Company is proposing to increase its Service Activation Charges, which recover a
550 portion of the costs related to initiating gas service at a premises. The Service Activation
551 Charges apply to those customers moving into or within North Shore's service territory.
552 There are two types of service activations. A succession turn-on occurs when the
553 customer moving out calls and discontinues gas service at approximately the same time
554 as the applicant moving in calls and requests gas service. In this instance, only a meter
555 reading is taken. A straight turn-on occurs when there has never been gas service at a

556 location, or when the prior customer canceled service some time before the new applicant
557 calls to request gas service and the gas has actually been turned off. In this instance, the
558 gas has to be turned on and appliances have to be relit. The Company proposes to
559 restructure the charge to include a basic charge that includes lighting four appliances and
560 an additional charge for appliances that exceed the number of appliances included in the
561 basic charge. A study was performed to measure the costs of these activities and is
562 summarized in North Shore Ex. VG-1.9. The study shows that the cost for a succession
563 turn-on is \$19.02 (column J, line 1), the cost of a straight turn-on is \$44.28 (column J,
564 line 2) and the cost to light an additional appliance is \$9.34 (column J, line 3). The
565 Company's proposed charges, which recover only a portion of these costs, are \$18.00 for
566 a succession turn-on, \$28.00 for a straight turn-on and \$5.00 per appliance for each
567 appliance over four.

568 Q. Why is North Shore proposing to restructure the Service Activation Charges?

569 A. The restructuring assigns cost responsibility more accurately. The Service Activation
570 Charges apply to single dwelling units served under S.C. Nos. 1N and 1H as well as
571 master-metered multi-family buildings served under S.C. Nos. 1H, 2 and 3. Under the
572 Company's current Service Activation Charge structure, the Company would not
573 adequately recover its cost for those master metered buildings where the number of
574 appliances would be significantly higher than the number of appliances underlying the
575 charge. The proposed charge structure would better align the charges with costs.

576 **M. Service Reconnection Charges**

577 Q. What is the proposal for changes in the Service Reconnection Charges?

578 A. A Service Reconnection Charge is a charge assessed to a customer whose gas has been
579 turned off for any number of reasons. These include non-payment of bills and customer
580 request. Each customer is granted a waiver of one reconnection charge each year, except
581 in the situation where the customer voluntarily disconnects and then requests
582 reconnection within twelve months or in the situation in which service is disconnected at
583 the main. As with the Service Activation Charge, the Company proposes to restructure
584 the charge to include a basic charge that includes relighting four appliances and an
585 additional charge for appliances that exceed the number of appliances included in the
586 basic charge.

587 An analysis was performed to determine the cost basis of the three types of
588 service reconnections following an involuntary disconnection for which the Company
589 currently charges customers: basic reconnections which only require a meter turn-on;
590 reconnections which require setting a new meter; and reconnections that involve
591 excavating at the main. The results of this analysis are summarized in North Shore
592 Ex. VG-1.9. The study shows that the cost for a reconnection at the meter is \$69.17
593 (column J, line 8; the cost for a reconnection when the meter has to be reset is \$243.71
594 (column J, line 21); and the cost for a reconnection at the main is \$2,632.46 (column J,
595 line 26). The cost to light each additional appliance is the same as under the Service
596 Activation Charge. The Company proposes to recover only a portion of these costs.
597 North Shore proposes that the basic reconnection charge be increased from \$45.00 to
598 \$50.00, that the reconnection charge when the meter has to be reset be increased from
599 \$75.00 to \$90.00, and that the reconnection charge when service has to be reconnected at
600 the main be increased from \$225 to \$275. While these charges are still less than cost

601 based, they have been increased to collect a higher percentage of the costs from the
602 customers creating the costs. North Shore proposes a charge of \$5.00 per appliance for
603 each appliance over four.

604 Q. Why is North Shore proposing to restructure the Service Reconnection Charges?

605 A. As with the proposed changes to the Service Activation Charges, the restructuring more
606 accurately assigns cost responsibility. The Service Reconnection Charges apply to single
607 dwelling units served under S.C. Nos. 1N and 1H as well as master-metered multi-family
608 buildings served under S.C. Nos. 1H, 2 and 3. Under the Company's current Service
609 Reconnection Charge structure, the Company would not adequately recover its cost for
610 those master metered buildings where the number of incremental appliances would be
611 significantly higher than the number of appliances underlying the charges. Although the
612 overall charges would still be less than cost, the proposed charge structure would better
613 align the charges with costs.

614 N. **Charge for Dishonored Checks and Incomplete Electronic Withdrawal**

615 Q. Why is North Shore proposing to increase its charge for dishonored checks and
616 incomplete electronic withdrawals?

617 A. North Shore is proposing to increase its charge for dishonored checks and incomplete
618 electronic withdrawals to better reflect prevailing rates for such checks and transactions
619 and to discourage customers from making deficient payments to the Company. The
620 Commission approved a charge of \$25.00 for MidAmerican Energy in Docket
621 No. 99-0534. According to the Commission's order, Staff witness Luth stated that the
622 increase "...would serve to discourage payment with checks that are not valid." The
623 order further stated that Staff said "that revenues from this charge will serve to reduce the

624 rates of those customers who make valid payments.” The Commission approved the
625 proposed increase to \$25.00. Similarly, revenue from the Company’s charge will offset
626 the increase in base rates in this proceeding.

627 Q. What charge does North Shore propose for the charge for dishonored checks and
628 incomplete electronic withdrawals?

629 A. North Shore proposes to increase its charge for dishonored checks and incomplete
630 electronic withdrawals from \$10.00 to \$25.00.

631 **O. Second Pulse Data Capability**

632 Q. What is Second Pulse Data Capability?

633 A. Certain meters, meter correctors and daily demand measurement devices are capable of
634 delivering a “second pulse” signal to specialized devices that can capture and transmit
635 metering data. Second Pulse Data Capability can provide this signal and make real-time
636 usage readings to customers. While the Company does not require such capability, a few
637 large volume customers have requested to tap into the second pulse output to help
638 manage their gas usage.

639 Q. Is this the same as a daily demand measurement device?

640 A. No. The daily demand measurement device is required for S.C. No. 3 customers, and for
641 transportation customers purchasing standby service. This device allows the Company to
642 receive daily meter readings for the customer.

643 Q. What charge does North Shore propose for customers who elect Second Pulse Data
644 Capability?

645 A. The Company proposes a monthly charge of \$14.00, set at cost, to customers who elect
646 Second Pulse Data Capability. This is in addition to, and not in place of, the daily
647 demand measurement device charge that may also apply to these customers. Customers
648 who have already had Second Pulse Data Capability installed and have paid for it will not
649 be charged. The derivation of the cost for this service is shown in North Shore
650 Ex. VG-1.10.

651 **VI. SUMMARY OF INCREASE**

652 Q. Please summarize the increase in the Company's revenues from all proposed delivery
653 charges (base rates).

654 A. The Company's proposed delivery charges result in an increase of \$4.7 million. This is
655 shown in North Shore Ex. VG 1.2, page 1 of 2 (line 24, column L). If the Company were
656 to recover Rider UBA expenses in base rates rather than a rider mechanism, the increased
657 from proposed delivery charges would be \$6.2 million. This is shown in North Shore
658 Ex. VG-1.2, page 2 of 2 (line 24, column L).

659 Q. Please describe the revenues that will arise from the Company's increase in
660 miscellaneous charges.

661 A. The company will experience an increase in miscellaneous charges of \$95,000.

662 Q. Please describe any other revenues that will arise from the Company's increase in base
663 rate delivery charges and miscellaneous charges.

664 A. The Company will experience an increase in accounting charge and forfeited discount
665 revenues that are estimated to be \$5,000 and \$21,000, respectively. Combined with a
666 base rate increase of \$4.7 million and the miscellaneous charges increase of \$95,000, the

667 total proposed revenue increase is \$4.8 million with Rider UBA. Without Rider UBA,
668 the proposed increase is \$6.3 million.

669 **VII. OTHER CURRENT RIDER CHANGES**

670 Q. Please discuss North Shore's proposed changes to Rider 1, Additional Charges for Taxes
671 and Customer Charge Adjustments.

672 A. North Shore proposes to revise Rider 1 to clarify language and to incorporate the
673 language from Riders 14 and CCA, which are being eliminated. Rider 14 provides for
674 taxes on the use of compressed natural gas while Rider CCA provides for charges arising
675 from the Energy Assistance Act of 1989 and the Renewable Energy, Energy Efficiency
676 and Coal Resources Development Law of 1997.

677 Q. Please discuss North Shore's proposed changes to Rider 2, Gas Charge.

678 A. North Shore proposes to revise Rider 2 to reflect the applicability of the rider based on
679 the elimination and renaming of applicable transportation riders. North Shore also
680 proposes to eliminate Factor TS, Transition Surcharge, and refund or recover any dollars
681 awaiting recovery or refund through Factor NCGC, Non-Commodity Gas Charge. Factor
682 TS recovers gas supply realignment costs that are no longer being billed to the Company
683 by pipelines. The Company has not incurred any gas supply realignment costs since the
684 late 1990's and has not generated a Factor TS charge since January, 1999. The Gas
685 Charge filing effective March 1, 2007, includes a balance of \$9,524.16 that is awaiting
686 recovery from customers. As this amount is negligible, it would either not trigger a
687 refund, or trigger a small refund that would flow through Factor TS indefinitely as an
688 under or over-recovery. Adding these costs to Factor NCGC (in Schedule II, line 7 of
689 North Shore's monthly gas charge filing) would provide a means of resolving all

690 remaining Factor TS costs. Rider 2 has also been revised to address costs and revenues
691 associated with the proposal, discussed by Mr. Zack, under which certain gas sales and
692 purchases will occur in connection with the transportation programs' storage services.
693 Lastly, Rider 2 reflects minor editorial changes to clarify language. Note that the
694 Company recently revised Rider 2, as required by the Commission's order in ICC Docket
695 No. 06-0540 to reflect the Company's change to a calendar year for its fiscal year.

696 Q. Please discuss North Shore's proposed changes to Rider 3, Budget Plan of Payment.

697 A. North Shore proposes to revise the language in Rider 3 to make it more consistent with
698 the Company's current budget plan. For example, the process by which a customer can
699 enroll on the budget plan involves the customer paying the budget installment amount in
700 lieu of the otherwise applicable amount due. This simple process is described more
701 clearly in revised Rider 3.

702 Q. Please discuss North Shore's proposed changes to Rider 4, Extension of Mains.

703 A. North Shore proposes to revise Rider 4 to clarify language and to address Company
704 practices and customer preferences. The basic structure of Rider 4 is unchanged in that it
705 continues to delineate Company and customer cost responsibility. The Company is
706 responsible for the costs associated with certain main installations, as Part 500 of the
707 Commission's rules provides. However, when, for example, a customer requests that the
708 Company install a main in a different location than is required to provide service, the
709 customer would bear the incremental costs associated with meeting the customer's
710 preferences.

711 Q. Please discuss North Shore's proposed changes to Rider 5, Service Pipe.

712 A. North Shore proposes to revise Rider 5 to clarify language and to address Company
713 practices and customer preferences. One change is based on the Commission's final
714 order in Docket No. 03-0767 which included an appendix showing an agreement among
715 Staff and parties related to questions raised by the Commission when it initiated Docket
716 No. 03-0767 (On rehearing that appendix was omitted, but it was referenced in the
717 Commission's rehearing order.). One such agreement was that the amount of free gas
718 service pipe would be 60 feet. Accordingly, the Company is proposing to reduce the free
719 main extension shown in Rider 5 from 100 to 60 feet. This reduction in free footage was
720 approved by the Commission for Nicor Gas. North Shore also proposes to add language
721 that better addresses situations regarding Company practices and customer preferences.
722 As with Rider 4, the basic structure of Rider 5 is unchanged. Rider 5 continues to
723 delineate the circumstances under which the Company bears the costs of pipe installation
724 and relocation and the circumstances under which the customer bears those costs because
725 it is requesting that the work be done differently to meet its preferences. Lastly, North
726 Shore proposes to specify how the Company assesses charges for disconnecting and
727 relocating service pipe.

728 Q. Please discuss North Shore's proposed changes to Rider 8, Heating Value of Gas Supply.

729 A. North Shore proposes to revise Rider 8 to reflect the applicability of the rider based on
730 the elimination and renaming of transportation riders and to make a minor grammatical
731 change. The revisions also specify that the Company will make filings only when the
732 heating value factor changes, rather than file every month. The factor often remains the
733 same for two or more consecutive months, and a filing is only needed when the factor
734 changes.

735 Q. Please discuss North Shore's proposed changes to Rider 9, Unauthorized Use of Gas
736 Service.

737 A. North Shore proposes to revise Rider 9 to reflect the applicability of the rider based on
738 the elimination and renaming of transportation riders and to make minor grammatical
739 changes. The charges are unchanged.

740 Q. Please discuss North Shore's proposed changes to Rider 10, Controlled Attachment Plan.

741 A. North Shore proposes to revise Rider 10 to reflect the applicability of the rider based on
742 the elimination and renaming of transportation riders and to make the language more
743 understandable.

744 Q. Please discuss North Shore's proposed change to Rider 11, Adjustment for Incremental
745 Costs of Environmental Activities.

746 A. North Shore made only a minor editorial change. However, note that the Company
747 recently revised Rider 11, as required by the Commission's order in ICC Docket
748 No. 06-0540, to reflect the Company's change to a calendar year for its fiscal year.

749 Q. Are there any other rider changes that are not addressed in your testimony?

750 A. Yes. Mr. Zack discusses changes affecting the transportation riders.

751 **VIII. RIDERS TO BE ELIMINATED**

752 Q. Does North Shore propose to eliminate any riders?

753 A. Yes. North Shore proposes to eliminate Rider 14, Taxes on Use of Compressed Natural
754 Gas and Rider CCA, Customer Charge Adjustments.

755 As discussed previously, North Shore proposes to eliminate Rider 14 and
756 Rider CCA, as the terms of these riders will be included in Rider 1, Additional Charges
757 for Taxes and Customer Charge Adjustments.

758 As discussed by Mr. Zack, North Shore is also proposing to eliminate Riders FST,
759 LST and TB.

760 **IX. NEW RIDERS**

761 Q. Does North Shore propose to add any new riders?

762 A. Yes, North Shore proposes three new riders. They are Rider EEP, Enhanced Efficiency
763 Program; Rider UBA, Uncollectible Balancing Adjustment and Rider VBA, Volume
764 Balancing Adjustment. Mr. Feingold discusses the rationale for each of these riders in
765 detail. Each of the new riders set forth, in the form of formulas, the proposed billing
766 mechanisms and associated definitions. They also describe reports that the Company will
767 file with the Commission.

768 **A. Rider EEP**

769 Q. What is the purpose of Rider EEP?

770 A. The purpose of Rider EEP is to compute, on an annual basis, a monthly charge per
771 customer for each applicable service classifications to recover incremental expenses that
772 support the development and implementation of energy efficiency programs.

773 Q. Please explain how the Company's proposed Rider EEP will operate.

774 A. The Company's proposed Rider EEP will be applicable to S.C. Nos. 1H and 2, which are
775 the same classes eligible for these energy conservation and efficiency programs. The
776 monthly charges under this rider will be based on an amount budgeted for the Company's

777 upcoming calendar year as approved by the Commission in this proceeding plus a carry
778 over amount discussed later in my testimony. A charge for each service classification
779 will be calculated each December, to be effective for the next year, by taking dollars
780 budgeted for the upcoming year and dividing by forecasted average number of customers
781 for the same period (the Effective Component) and converting to a per month charge. A
782 reconciliation of the previous year will be made each March and amortized over the nine-
783 month period from April through December. The reconciliation will include a
784 reconciliation of the previous year's expenses, carry over dollars and revenues arising
785 from the Effective Component of Rider EEP as well as a reconciliation of any prior year
786 reconciliation adjustments. As budget dollars may not be fully expended as the program
787 is building awareness in the initial program years, the Company proposes to carry over up
788 to 75%, 50% and 25% of budget dollars into the second, third and fourth program years,
789 respectively. The Company proposes to carry over up to 10% of budget dollars in year
790 five and thereafter.

791 The Company will file with the Commission, a report computing the Effective
792 Component, on or before the last day of December and a report computing the
793 reconciliation adjustments in March of each year. North Shore Ex. VG-1.11 is a sample
794 of the reports that will be filed with the Commission. Pages 1 and 2 illustrate the
795 information sheet and the determination of the Effective Component that will be filed in
796 December of each year, to be effective in January. Pages 3 and 4 show the information
797 sheet and the determination of the reconciliation adjustment reconciling expenses and
798 revenues arising from the Effective Component from the previous year as well as the
799 carryover of any budget dollars. Page 5 adds the determination of the reconciliation

800 adjustment which reconciles the previous reconciliation adjustment. A report which
801 includes both reconciliation adjustments, as applicable, will be filed in March of each
802 year to be effective for a ten-month period from April through December.

803 Q. Why is the Company proposing rider recovery for expenses related to its proposed energy
804 efficiency programs?

805 A. First, there is precedent for recovering such expenses through a tariff rider. Previously,
806 the Company had offered energy efficiency programs as part of a statewide least cost
807 planning initiative and recovered such expenses through Rider 15, Energy Conservation
808 Programs. Second, legislation has been offered that may lead to a statewide energy
809 efficiency initiative. As there is potential for Company customers to fund energy
810 efficiency programs under a statewide initiative, the Company would not want to burden
811 its customers with the cost of multiple programs. For this reason, the Company is
812 proposing language in its tariff rider that will allow adjustments to or elimination of the
813 funding of its programs if and to the extent a statewide initiative comes to fruition.
814 Ms. Rukis (North Shore Ex. IR-1.0) discusses the interaction between Rider EEP and any
815 statewide initiative. As base rate recovery would require a rate case proceeding to
816 eliminate such charges to customers, rider recovery would be most appropriate.

817 Q. Please describe Rider EEP expenses and charges which are reflected in the test year.

818 A. Expenses related to Rider EEP would be incremental and are not reflected in the ECOSS.
819 However revenues arising from Rider EEP are included in certain exhibits to show its
820 impact on customers. As discussed further in Mr. Borgard's and Ms. Rukis's
821 testimonies, the Company proposes an annual budget of \$1.1 million for the programs
822 provided under Rider EEP.

823 Q. How did North Shore determine the budget amount of \$1.1 million for the programs
824 provided under Rider EEP?

825 A. As discussed by Mr. Borgard, the Commission's order in Docket No. 06-0540 included a
826 condition specifying that North Shore and Peoples Gas (the "Gas Companies") would
827 propose energy efficiency programs in an aggregate amount of \$7.5 million in their 2007
828 rate cases. Mr. Borgard and Ms. Rukis explain why this level of funding is reasonable.

829 The Gas Companies propose to divide this amount between the utilities in
830 proportion to each utility's base rate revenues from the service classifications eligible to
831 participate in the proposed program. Specifically, North Shore divided historical year
832 2006 account level base rate revenues for North Shore S.C. No. 1 (heating only) and S.C.
833 No. 2 by the Gas Companies' total account level S.C. No. 1 (heating only) and S.C. No. 2
834 account level base rate revenues and applying the result (15%) to the aggregate budget
835 amount of \$7.5 million.

836 Q. Please explain how the \$1.1 million budget amount will be allocated between service
837 classifications eligible to participate in the programs.

838 A. The \$1.1 million will be allocated to S.C. No. 1H and S.C. No. 2 based on the percentage
839 of 2006 account level base rate revenues for each respective service classification to total
840 S.C. No. 1H and S.C. No. 2 account level base rate revenues. This results in \$825,000
841 for S.C. No.1H and \$275,000 for S.C. No. 2.

842 Q. Please address any allocations to specific customer groups within the service
843 classifications.

844 A. As discussed by Mr. Borgard and Ms. Rukis, the Company is proposing to offer energy
845 efficiency programs specifically targeted to low income customers. The Company

846 estimates that approximately 4% of its customers are low income. This estimate is based
847 on customers who had a LIHEAP grant within the last 36 months or for whom available
848 data show an annual income of \$15,000 or less. The Company had considered allocating
849 4% of the total \$1.1 million to the low income program but was concerned that \$44,000
850 (4% x \$1.1 million) would be inadequate to offer any meaningful programs. Therefore,
851 the Company is proposing to allocate \$100,000 to the low income program. This amount
852 would be included in the \$875,000 allocated to S.C. No. 1H customers, thereby leaving
853 \$775,000 (\$875,000 - \$100,000) to be allocated to programs targeted to all S.C. No. 1H
854 customers. The allocations of the budget amount to the Company, each service
855 classification and the low income program are shown in North Shore Ex. VG-1.12. A
856 derivation of estimated test year charges per customer for Rider EEP is also shown in
857 North Shore Ex. VG-1.12, column I.

858 **B. Rider UBA**

859 Q. What is the purpose of Rider UBA?

860 A. The purpose of Rider UBA is to compute a monthly adjustment, applicable to all service
861 classifications except contract service rates (S.C. Nos. 4 and 6), to recover uncollectible
862 expenses associated with recoverable gas costs.

863 Q. Please explain how the Company's proposed Rider UBA will operate.

864 A. As explained above, the Company is proposing to remove recovery of these expenses
865 from its base rates. Rider UBA will be computed monthly based on forecasted gas costs
866 (i.e., estimated gas charge revenues) and will be applied to retail customers' bills on a
867 monthly basis and to transportation customers' bills only when they purchase
868 company-owned standby commodity gas or consume unauthorized use gas. The

869 adjustment under this rider will be determined by multiplying the uncollectible expense
870 percentage approved in the Company's most recent rate case proceeding by the
871 forecasted gas charge revenues arising from the application of Rider 2 to be effective for
872 the upcoming month and dividing by the applicable volumes for the same month,
873 yielding the effective adjustment. Any difference between billed revenues and
874 uncollectible expenses under the rider will be reconciled on an annual basis and
875 amortized over a ten-month period beginning the following March, with any resulting
876 adjustment (positive or negative) added to customers' bills during that period.

877 The Company will file a monthly report with the Commission on or before the
878 last day of the month prior to the effective month of the adjustment. The Company will
879 also file an annual report in February of each year that determines a reconciliation
880 adjustment reconciling the previous year's expenses and revenues and summarizes the
881 previous year's activity. North Shore Ex. VG-1.13 is a sample of the reports which will
882 be filed with the Commission. Page 1 illustrates the monthly information sheet. Page 2
883 illustrates the determination of the Effective Component. Page 3 illustrates the
884 determination of the reconciliation adjustment for the previous year. Page 4 illustrates
885 the determination of the reconciliation adjustment for the previous year as well as the
886 determination of the reconciliation adjustment reconciling any prior reconciliation
887 adjustments.

888 Q. Please describe how Rider UBA impacts base rates for retail sales and transportation
889 customers.

890 A. The gas cost related expense recovered through this proposed rider has been stripped out
891 of base rates. Rider UBA would apply to all service classifications, except S.C. Nos. 4

892 and 6, and the transportation riders but is only applicable to Company supplied gas. As a
893 result, there is no need to have separate base rate charges for retail sales and
894 transportation customers.

895 Q. Please describe test year expenses related to Rider UBA and the derivation of Rider UBA
896 adjustments which are reflected in test year revenues.

897 A. Uncollectible gas cost expenses to be recovered through Rider UBA are \$1.5 million in
898 the test year. Revenues arising from Rider UBA as shown in my exhibits are based upon
899 charges calculated as described above. A simple derivation of a Rider UBA adjustment
900 for the test year is shown in North Shore Ex. VG-1.14.

901 Q. How is your proposal for Rider UBA different from the proposal regarding bad debt that
902 Nicor Gas made in ICC Docket No. 04-0779?

903 A. My understanding is that Nicor Gas proposed to recover its commodity-related bad debt
904 expenses through its gas charge rider, and that Nicor Gas did not file a separate proposed
905 bad debt rider. North Shore is proposing a separate rider to recover these expenses. This
906 is appropriate because gas costs are largely volatile, unpredictable and unstable, as
907 discussed by Mr. Feingold and Mr. Borgard.

908 C. **Rider VBA**

909 Q. What is the purpose of Rider VBA?

910 A. The Company's base rate charges for providing delivery service to S.C. Nos. 1N, 1H and
911 2 customers include a fixed monthly customer charge and volumetric distribution
912 charges. The purpose of Rider VBA is to compute a monthly adjustment that will result
913 in the Company recovering only the distribution revenues (margin) approved by the

914 Commission in its most recent rate case proceeding, based on normal weather and the
915 approved level of customers.

916 Q. Please discuss the guiding principles that were adhered to when developing the
917 determination of the adjustments under Rider VBA.

918 A. Several principles guided the development of the adjustments determined under
919 Rider VBA. Specifically, the adjustments would:

- 920 • Result only in recovery of approved volumetric distribution margin, no more and
921 no less.
- 922 • Be fair and symmetrical.
- 923 • Avoid any overlap with weather and conservation related volume variations.
- 924 • Not be impacted by changes in the number of customers, resulting in no
925 recoveries for customer losses and no refunds for customer gains.
- 926 • Accurately compute margin impacts by using a margin per customer approach
927 rather than a single rate or a rate derived from a subjective weighting or averaging
928 of rate blocks.

929 Q. Please explain how the Company's proposed Rider VBA will operate.

930 A. The Company's proposed Rider VBA will be applicable to its S.C. Nos. 1N, 1H, and 2
931 and will be computed and applied to customers' bills on a monthly basis, using actual and
932 rate case data from the second month prior to the effective month of the adjustment
933 determined under this rider. For example, the Rider VBA amount computed based on
934 October results will be applied to customer bills rendered in December. A "baseline"
935 distribution margin per customer and average number of customer levels for each
936 applicable rate class will be established in the Company's current rate case, and they will

937 be adjusted as necessary in future rate cases. A separate adjustment will be computed for
938 each service classification. Each month an adjustment will be determined by taking the
939 difference between the rate case baseline distribution margin per customer and the actual
940 distribution margin per customer in the second month prior to the effective month of the
941 adjustment. The difference will be multiplied by the rate case number of customers and
942 divided by the number of therms estimated for the effective month of the adjustment,
943 yielding the monthly per therm adjustment. Any difference between actual billed
944 revenues arising from distribution charges plus the adjustment and approved distribution
945 margin under the rider will be reconciled on an annual basis and amortized over a ten-
946 month period beginning March, with any resulting positive or negative adjustment added
947 to customers' bills during that period. To remove the impact of customer loss or growth,
948 actual billed revenues will be based on the number of customers approved in this
949 proceeding.

950 The Company will file a monthly report with the Commission on or before the
951 last day of the month prior to the effective month of the adjustment, and an annual report
952 which will include a determination of any reconciliation adjustments in February of each
953 year. North Shore Ex. VG-1.15 is a sample of the reports that will be filed with the
954 Commission. Page 1 illustrates the monthly information sheet. Page 2 illustrates the
955 determination of the Effective Component. Pages 3 and 4 illustrate the determination of
956 the factors referenced on Page 2. Page 5 illustrates the determination of the
957 reconciliation adjustment for the previous fiscal year. Pages 6 and 7 illustrate the
958 determination of the factors referenced on Page 5. Page 8 illustrates the determination of

959 the reconciliation adjustment for the previous fiscal year as well as the determination of
960 the reconciliation adjustment reconciling any prior reconciliation adjustments.

961 Q. Please discuss the derivation of the Rate Case Margin per Customer that would be used in
962 determining Rider VBA.

963 A. The Rate Case Margin per Customer for each month would be based on the Commission
964 approved distribution margin for each month divided by the number of Commission
965 approved customers (Rate Case Customers) for the same month. North Shore Ex. G-1.16
966 shows how the Rate Case Margin per Customer for each service classification would be
967 calculated based on the Company's proposed rates with and without Rider UBA.

968 **IX. TEST YEAR BILLING UNIT ADJUSTMENTS**

969 Q. What billing units did North Shore use in deriving its proposed rates?

970 A. North Shore used normalized sales volumes and an average number of customers to
971 derive rates for all service classifications. The Company used average demand volumes
972 to derive demand rates for customers served under S.C. Nos. 3 and 5. The Company used
973 transportation units to derive rates related to its transportation programs. Mr. Zack will
974 address transportation charges in his testimony.

975 Q. What is the basis for these units?

976 A. The test year is the historical year of fiscal 2006 (October 1, 2005 - September 30, 2006).
977 In deriving the billing units used to develop proposed rates, the Company started with the
978 actual units from the period and made the following adjustments to the historical data: 1)
979 for S.C. No. 1H and S.C. No. 2, normalized for weather the sales volume; 2) for S.C.
980 No. 2, reallocated the number of customers for each meter class; and 3) for S.C. No. 5

981 and S.C. No. 2, adjusted sales volume, customers and demand volumes to reflect transfers
982 from S.C. No. 5 to S.C. No. 2.

983 Q. Please describe adjustments made to the Company's test year sales volumes to normalize
984 for weather.

985 A. The Company's test year reflects weather that was warmer than normal. Therefore,
986 North Shore developed a weather adjustment that would increase sales volume to a level
987 reflecting normal weather conditions. As discussed in Mr. Marozas' testimony (North
988 Shore Ex. BMM-1.0), the Company is proposing a 10-year weather normal based on
989 weather recorded at O'Hare International Airport for the ten-year period ending
990 September, 2006. The normal for that period is 6,044 heating degree days ("HDDs")
991 which is 269 HDDs higher than the 5,775 HDDs experienced in the test year. To account
992 for the variation from normal weather, the Company determined monthly weather
993 adjustments for each month in the test year, and the total weather adjustment is the sum
994 of these monthly adjustments. The adjustments were determined primarily by using a
995 methodology that is similar to the method used by the Company's customer information
996 system to determine heat and base load factors for customer accounts. This methodology
997 is described in North Shore Ex. VG -1.17. Using this methodology, the Company
998 calculated an annual normalization adjustment of 9,538,000 therms.

999 Q. Please describe how the Company allocated the monthly weather adjustments among the
1000 applicable service classifications and to the appropriate rate blocks.

1001 A. After determining the normalization adjustments described above, the Company used its
1002 Gas Sales and Revenue Model ("GSRM"), which calculates forecasted sales volumes,
1003 revenues and related taxes, to allocate the monthly weather adjustments to S.C. No. 1 and

1004 S.C. No 2, the Company's most weather sensitive service classifications. Using billing
1005 frequency data, the GSRM allocated the weather adjustments to the steps and blocks of
1006 each service classification. The GSRM also allocated blocked weather adjustments for
1007 each service classification to the appropriate business classifications (residential,
1008 commercial and industrial) and sales type (retail sales and transportation). Lastly, the
1009 GSRM calculated revenues for the weather volumes by applying the appropriate
1010 distribution rates and other charges. The allocation methods used by the GSRM are
1011 described more fully in North Shore Ex. VG-1.18.

1012 Q. Please describe the adjustments made by the Company to S.C. No. 2 to reallocate the
1013 number of meters between meter classes.

1014 A. As stated above, S.C. No. 2 divides customers into two meter classes. During fiscal year
1015 2006, the Company determined that certain customers that were billed under Meter
1016 Class 1 should have been billed under Meter Class 2 and vice versa. As a result, the
1017 Company made corrective billing adjustments which distorted the average number of
1018 customers in the test year. To eliminate this distortion in the average number of
1019 customers and to reflect the proper allocation, the Company made adjustments to test
1020 year customers to reflect the correct distribution of customers between the two meter
1021 classes. Therefore the test year customer counts reflect billing adjustments that removed
1022 customers from one meter class and placed them on the correct meter class. The total
1023 number of customers was unchanged.

1024 Q. Please describe the adjustments made by the Company to transfer accounts from S.C.
1025 No. 5 to S.C. No. 2.

1026 A. During fiscal year 2006, the Company determined that certain accounts receiving service
1027 under its S.C. No. 5, Standby Service, were not eligible for that service classification and
1028 took corrective action which transferred those accounts to S.C. No. 2, General Service.
1029 Consequently, test year sales and customers reflected distorted sales and average
1030 customer counts arising from the resulting billing adjustments. The Company corrected
1031 this distortion in its test year by transferring affected sales volumes and customers from
1032 S.C. No. 5 to S.C. No. 2, their current service classification. Total sales volume and
1033 customers between these two service classifications were unchanged. Demand volumes
1034 were not transferred to S.C. No. 2 which does not have demand charges.

1035 Q. Does this conclude your direct testimony?

1036 A. Yes, it does.