BEFORE THE
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company and	)	
The Peoples Gas Light	)	
And Coke Company	)	Docket No. 07-0241
	)	Docket No. 07-0242
Proposed General Increase	)	
In Rates for Gas Service	)	

INITIAL BRIEF OF THE RETAIL GAS SUPPLIERS

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ATTORNEYS FOR THE RETAIL GAS SUPPLIERS

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INTRODUCTION

Dominion Retail Incorporated, Interstate Gas Supply, and U.S. Energy Savings Corporation, collectively the Retail Gas Suppliers ("RGS"), are companies that have been authorized to transact business in the State of Illinois and are either active participants in the natural gas market in the service territory of Peoples Gas Light and Coke Co. or considering entering that company's market. Collectively, the members of RGS provide service to residential, small, mid-size, and large business customers throughout the State of Illinois. For the purposes of this proceeding, RGS has focused its efforts on Peoples Gas Light and Coke Company's and North Shore Gas Company's (collectively "the Company" unless otherwise noted) Choices For You ("CFY") program, which allows gas suppliers such as RGS to provide service to residential and small commercial customers. RGS has proposed a number of changes to CFY that would benefit consumers and reduce or eliminate several impediments to competition. The changes proposed by RGS in the instant proceeding have already been ordered by the Commission in Nicor Gas Company's ("Nicor") service territory or are standard business practices in other deregulated markets where competition is thriving. RGS' proposed changes will provide greater benefits to customers, attract more competitors to the Illinois market, and promote increased competition for small commercial and residential energy consumers in Illinois.

The number of customers, pipeline interconnections, storage facilities, overlay of competitive retail electric markets, and other factors make the Company's service territory an attractive market for competitors. Yet the percentage of residential and small commercial customers that have chosen to take service under CFY is small, approximately three percent of the eligible customers. As set forth below, this low level of competition is partly the result of policies of the Company that create an uneven playing field between CFY and the Company's sales service. This proceeding provides the Commission with the opportunity to evaluate those policies and make appropriate changes that will enhance competition for gas service to these customers. The Commission has a long track record of promoting competition in retail energy markets and is in a unique position to order changes that have already proven to be successful in Illinois and other jurisdictions. The changes proposed by RGS will improve the CFY program and will allow small consumers greater choices similar to what sales customers and larger industrial customers experience.

I. RATE BASE

II. OPERATING EXPENSES

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IV. HUB SERVICES

Hub services are FERC-jurisdictional services that are provided to off-system customers. According to Mr. Zack, Hub services are provided to third parties through the Company's Manlove storage field. The Manlove storage field is an on-system storage field that is directly connected to the Company's distribution system and owned-and operated by the Company.

The costs associated with the Manlove storage field, including the physical plant costs and operating expenses, are recovered from customers through base rate delivery charges. Residential and small commercial customers pay the same delivery charges whether they are on sales service or purchase their supply from a CFY supplier. So, the costs associated with the Manlove storage field are recovered from residential and small commercial customers in the same manner regardless of whether they are on sales service or the CFY program. It follows that sales service customers and CFY customers should benefit equally from revenues that are generated from Hub service. However, this is not the case.

Instead of CFY customers and sales service customers benefiting equally from Hub service revenues, one hundred percent of the revenues that are generated from Hub service flow back to sales service customers and non-CFY transportation customers through the Gas Charge. (Tr. 642) The Gas Charge is the PGA charge that the Company assesses to sales service customers that purchase their natural gas supply from the Company. The Gas Charge is also the charge against potential customers compare CFY supplier offers.

The problem with the treatment of Hub revenues is two-fold. First, customers that pay for the costs of operating the Manlove storage field do not benefit from Hub service revenues if they switch to a CFY supplier, even though they continue to pay for those costs. Second, the Company's Gas Charge is reduced by Hub revenues, making it more difficult for CFY suppliers to compete with the Company and artificially widening the gap between sales service and CFY service. This is just one of many examples of the inequitable treatment of CFY suppliers and their customers. Because the disparity between the responsibility for Hub costs and allocation of Hub revenues was developed late in the case, RGS witness Crist did not make a proposal to address this issue. Nevertheless, the Commission should either adjust CFY charges in order to provide CFY customers with the same Hub revenues received by sales customers, or recognize the fact that CFY customers are not receiving the full benefit of their contribution to the Hub when the Commission addresses the storage rights and delivery flexibility issue discussed below.

V. WEATHER NORMALIZATION

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Upon reviewing the direct testimony of Staff witness Luth and the rebuttal testimony of Company witness Grace it would seem that the parties are in agreement that CFY customers should not bear the burden of paying the bad debt related to system gas costs. Mr. Luth's testimony is in agreement with the concept RGS witness Crist explained in his direct testimony (Ex. RGS 1.0, pp. 28-30) that transportation customers should not pay for bad debt related to system gas costs. Specifically CFY customers in the Residential 1N and 1H service classifications and Commercial customers in service classification 2 should receive a lower usage charge.

The Company initially proposed that such costs be recovered in a rider UBA (PGL Ex. VG-1.0) and that rider would not apply to supplier-supplied gas. Staff (Ex. 7.0, lines 201-221) agreed that Choice customers should not pay for bad debt related to system gas costs but proposed a lesser delivery rate for Choice customers.

Because either method removes this inappropriate cost from the rate charged to Choice customers, RGS recommends that the concept be adopted but has no recommendation concerning the method of implementation. The Commission can use its best judgment to determine the methodology for implementing this unchallenged adjustment.

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Under sales service, the Company provides natural gas supply to consumers at a regulated rate that is set through a Purchased Gas Adjustment ("PGA") mechanism. The Gas Charge ("GC") is assessed to sales service customers and consists of the sum of the Commodity Gas Cost ("CGC") and the Non-commodity Gas Cost ("NCGC").[1] The CGC recovers the Company's cost of natural gas supply and NCGC recovers the Company's cost of transporting gas on interstate pipelines, the cost of off-system storage, and the cost of balancing services necessary for the Company to deliver supply to the Company's distribution system on behalf of sales service customers. The CFY program provides customers with an alternative to utility sales service. Under CFY, customers can purchase their natural gas supply from competitive suppliers such as RGS. CFY suppliers purchase natural gas supply on behalf of their customers from producing regions, pipeline trading points and at the citygate, which is a term commonly used to refer to the point of interconnection between interstate pipelines and the Company's distribution system. Suppliers are required to arrange and pay for their own pipeline transportation capacity on interstate pipelines and any off-system storage that facilitates delivery of natural gas to the Company's city gate on behalf of CFY customers. The

[1] The GC, which includes all commodity and non-commodity costs that the Company incurs on behalf of sales service customers, is referred to as the "PGA", "PGA Charge", or "PGA rate" throughout this brief.

Company takes receipt of CFY supplier gas at the citygate and delivers the gas to CFY customers through the Company's distribution network. (RGS Ex. 1.0, pp. 3-4)

CFY is offered through a combination of riders in the Company's tariff. Rider SVT, Small volume Transportation Service, and Rider AGG, Aggregation Service, facilitate the delivery of natural gas supply under the CFY program. These tariffs contain terms and conditions related to the use of storage, delivery tolerances, customer and supplier charges, and other provisions that facilitate the CFY program. (RGS EX. 1.0, p. 4) As discussed below, there are a number of critical reforms necessary to remove artificial barriers the Company has placed before CFY suppliers. These reforms will allow CFY suppliers to compete on a more level playing field with the Company and provide more efficient, lower cost service to CFY customers.

1. Storage Rights and Delivery Flexibility

Storage is a critical component of the CFY program. Storage provides a seasonal hedge against gas prices by allowing customers to inject gas into storage during the summer period, when gas prices are typically lower, and withdraw that low-priced gas during the winter period, when prices are typically higher. Storage also provides a hedge against daily price volatility by providing suppliers with the ability to withdraw gas from storage on any given day as a substitute for spot market purchases. Storage can also be used to offset the need for more expensive pipeline capacity during periods of peak demand.

CFY suppliers and their customers pay the Company for storage through base rates and a separate PGA charge, the Aggregator Balancing Gas Charge ("ABGC"), which is designed to recover the cost of off-system storage and balancing services from

CFY suppliers. If designed properly, the terms and conditions of Rider AGG will convey the benefits associated with the use of storage to CFY suppliers and customers.

The issue of how to allocate storage rights to CFY suppliers and customers is of critical importance to the success of competitive retail gas markets. Because the costs recovered through the ABGC are excessive relative to the storage rights that CFY suppliers receive, CFY suppliers and their customers are essentially subsidizing sales service customers. The storage costs and storage rights allocated to CFY suppliers and customers have a direct impact on CFY suppliers' price offerings and their ability to compete on a level playing field with the Company's PGA rate. The Company claims that they do not compete with CFY suppliers for small volume customers and are indifferent as to whether customers remain on regulated sales service or switch to service with CFY suppliers. (Tr. 640) However, the vast majority of small volume customers are on sales service and, hence, the "price to compare" against a suppliers offer is the Company's PGA rate. Although the comparison is often an apples to oranges comparison, consumers will make the comparison as long as the PGA rate is available. Thus, it is critical that CFY customers only pay for assets to which they have access and not for assets that support the provision of sales service. Furthermore, many of the Company's proposals in the instant proceeding result in a competitive landscape that favors regulated sales service at the expense of efficient competition. For example, the Company's proposed allocation of storage rights to CFY suppliers and customers through Rider AGG is inequitable and fails to provide the benefits associated with the underlying storage assets used to support CFY service.

The Company claims that CFY suppliers and customers receive an appropriate allocation of delivery flexibility relative to the amount of storage for which they pay, but record evidence indicates otherwise. The Company's method for allocating storage rights fails to deliver the appropriate amount of monthly and daily withdrawal and injection rights and seasonal hedging associated with the storage assets that are allocated to CFY suppliers and their customers.

Under the Company's current proposal, CFY suppliers are prevented from varying the amount of gas they withdraw from storage on a month-to month basis even though such flexibility is afforded by the storage assets that CFY suppliers and customers ultimately pay for. Instead, the amount of storage injected into and withdrawn from storage on a monthly basis is a fixed number that is administratively determined approximately eight months prior to the withdrawal season with essentially no ability to adjust the amount of gas that is withdrawn from storage during any particular month based on weather or other factors that may effect the demand for and price of natural gas. (RGS Ex. 1.0, pp. 11-12) Under the Company's proposed Rider AGG, CFY suppliers are required to withdraw the same administratively determined amount of gas out of storage regardless of whether that month was the coldest month on record or the warmest month on record. Similar to the rigid treatment of monthly withdrawals, CFY suppliers are prevented from varying the amount of gas that is withdrawn from and injected into storage on a daily basis. Instead, daily withdrawals and injections are determined by an algorithm that provides no flexibility to CFY customers. The only daily flexibility is provided through a daily delivery tolerance that is tempered by a tight month-end tolerance. These rigid, administratively determined storage requirements deprive CFY suppliers and their customers of the ability to fully-hedge daily price volatility, meet day-to-day fluctuations in demand, adjust to changes in weather and other factors affecting demand during the withdrawal period, and supplement the need for pipeline capacity during periods of peak demand with withdrawals from storage. (*Id.*) The Company, on the other hand, is able to engage in such practices to the benefit of its sales customers. Yet, the storage component of the charges paid by CFY and sales customers is the same. Simply put, CFY suppliers and their customers are not getting what they pay for when it comes to on-system and off-system storage right allocation.

RGS proposes comprehensive revisions to the CFY program that properly allocate storage rights and provide delivery flexibility commensurate with the assets that are allocated to CFY suppliers and customers through base rates and the ABGC. RGS' proposed method for allocating storage rights and delivery flexibility is nearly identical to that approved by the Commission in Nicor's last rate case except that RGS' proposal in the instant proceeding reflects the rights associated with the specific on-system and off-system storage assets that Peoples and North Shore allocate to CFY suppliers and customers. (RGS Ex. 1.2; RGS Ex. 2.1) RGS proposes a number of other changes to the Company's treatment of storage in the event that RGS' Nicor-like virtual storage program is not approved.

a. <u>Specific allocation of storage rights and costs to CFY customers and suppliers</u>

The costs of off-system leased storage and on-system storage facilities are allocated equally to customers whether they choose sales service or switch to a competitive supplier under the CFY program. Off-system leased storage costs are recovered from sales service customers through the NCGC, and the same level of off-system storage costs are recovered from CFY suppliers through the ABGC. The difference between the NCGC and the ABGC is that the ABGC is designed to exclude the cost of interstate pipeline transportation necessary to support sales service. CFY suppliers are required to arrange for their own interstate pipeline capacity in the wholesale market. On-system storage costs, including the costs associated with the Manlove storage field, are recovered through base rates that are assessed to customers regardless of whether they choose sales service or service under CFY. This even allocation of storage-related costs highlights the necessity of properly allocating storage rights to CFY suppliers based on the contractual rights and physical constraints of off-system and on-system storage. In order to ensure a level playing field for CFY suppliers, it is crucial that suppliers are afforded the same rights that the utility enjoys when managing its storage assets. If CFY suppliers are not afforded the same rights, then the costs that flow through the ABGC need to be significantly reduced or the ABGC needs to be eliminated altogether. After all, CFY suppliers and customers are paying the exact same storage related costs as the Company's sales service customers.

(i) RGS' initial storage and delivery right proposal

In order to promote a level playing field and justify the allocation of storage costs to CFY suppliers and customers, RGS witness James L. Crist performed an analysis of the Company's on-system and off-system storage assets and calculated daily withdrawal and injection parameters for the winter and summer periods respectively. (RGS Ex. 1.0, p. 15) Mr. Crist calculated that in order to equalize the storage rights of sales and CFY customers, CFY suppliers' annual allocation of storage capacity should be equivalent to 30.985% of their customers' annual usage on North Shore's system and 39.0% of their customers' annual usage on Peoples system. CFY suppliers' daily withdrawal rights during the withdrawal period of November through March should be equal to 54.79% of their customers peak day demand on North Shore's system and 65.93% of their customers peak day demand on Peoples' system. CFY suppliers' daily withdrawal rights during the injection period of April through October should be equal to 19.7% of their customers peak day demand on both North Shore's and Peoples' systems. (RGS Ex. 1.0, p. 21)

RGS witness Crist explained that his proposed method for allocating storage capacity is consistent with the allocation of storage capacity to competitive suppliers in Nicor's Rider 16, Supplier Aggregation Service, which defines the delivery parameters for suppliers serving small volume transportation customers in Nicor's service territory. (RGS Ex. 1.2) Mr. Crist recommended that the Company use his proposed seasonal capacity allocation, daily injection rights and daily withdrawal rights as a starting point to develop a storage and delivery program for CFY suppliers and customers that mirrors Nicor's Rider 16. In order to simulate Nicor's storage program, Rider AGG would be revised to include monthly storage targets. The monthly storage targets would replace the current month-end delivery tolerance in Rider AGG. A Nicor-like storage program involves no contractual release of on-system or off-system assets. Suppliers and their customers would continue to pay for storage through base rates and the ABGC. The Company would remain the contract entity for off-system storage and maintain physical operation of on-system storage assets.

In his Direct Testimony, Mr. Crist reserved the right to revise the storage and delivery parameters in his proposal based on pending data request responses from the

Company that would provide the necessary information to calculate all of the parameters necessary to implement a Nicor-like storage program in the Company's service territory. (RGS Ex. 1.0, p. 24)

(ii) Company's response to RGS proposed storage and delivery rights

Company Witness Zack argued that a lack of daily metering for CFY customers somehow creates a problem for RGS' proposed implementation of a Nicor-like storage program. He stated, "First, CFY customers have no daily metering, so some of the problems with Mr. Crist's proposal are largely the problems that exist with the current Rider FST program." (Company Ex. PGL-NS TZ 2.0, p. 48) According to Mr. Zack, "The larger issue with FST is that daily metering is needed to better align usage with daily injection and withdrawal rights." (Company Ex. PGL-NS TZ 2.0, p. 6) However, Mr. Zack argued that the reason daily metering for FST customers is needed is because"…the rights of the FST service are much too broad in relation to the assets available to support this service." (Peoples Ex. TZ 1.0 revised, p. 34)

Mr. Crist testified that the exact opposite is true of the rights afforded to CFY suppliers, which are far too restrictive relative to the flexibility of the storage assets used to support the CFY service. (RGS Ex. 2.0, p. 6) Mr. Zack failed to recognize that CFY suppliers would be required to adhere to the Company's daily estimate of CFY customer consumption. Unlike FST customers, whose usage and deliveries are only reconciled at the end of the month, CFY customers usage would be reconciled on a daily basis. CFY suppliers would only be allowed to deviate from the Company's daily consumption estimate to the extent permitted by their withdrawal/injection rights and daily delivery tolerances. Failure to meet the appropriate daily targets would result in penalties being assessed to each therm of overage or underage on a daily basis. The Company's estimate of daily CFY customer consumption is a substitute for daily metering and is the main difference between FST and CFY.

There is, of course, one more obvious rebuttal to Mr. Zack's claim that a lack of daily metering makes RGS' storage proposal problematic. Nicor's Rider 16, Supplier Aggregation Service, includes the same type of daily and monthly withdrawal and injection parameters that RGS proposes in the instant proceeding. In addition, National Fuel, National Grid (formerly Niagara Mohawk), Dominion East Ohio, Columbia Gas of Ohio, Atlanta Gas Light, and Dominion Peoples, all have storage programs that provide daily and monthly withdrawal and injection parameters to customers without daily metering.(RGS Ex. 1.2; RGS Ex. 1.0, p. 17)

Mr. Zack also argued that the use of peak day data to establish daily withdrawal and injection parameters and the use of data from a single warm year are problematic. However, Mr. Zack provided no support for these bald claims and failed to provide any additional explanation as to why such issues would prevent the Company from providing CFY suppliers and customers with storage flexibility that reflects the costs of the assets that CFY suppliers and their customers pay for through base rates and the ABGC. (Company Ex. PGL-NS TZ 2.0, p. 48)

Mr. Crist responded that using peak day data is appropriate because residential and small commercial customers have a low load factor and rely on storage during the winter period in order to meet significant fluctuations in weather-related demand. He also noted that using data from a colder year would be acceptable to RGS because it would result in a larger allocation of storage rights, contrary to Mr. Zack's claims. (RGS

Ex. 2.0, p. 7) It should be noted that despite taking issue with Mr. Crist's calculation of storage rights and supporting data, Mr. Zack never proposed an alternative calculation.

Finally, Mr. Zack argued that Mr. Crist did not provide a proposal for the allocation of storage rights. However, as noted on page 24 of his direct testimony, Mr. Crist was unable to calculate daily withdrawal and injection rights in his direct testimony because he was waiting for the Company to respond to data requests designed to elicit data necessary to make such a calculation. Indeed, the Company eventually provided enough data for Mr. Crist to calculate daily withdrawal rights, daily injection rights, and monthly storage targets, which allowed Mr. Crist to propose all of the necessary revisions to the Company's Rider AGG that would result in a Nicor-like storage program. Those calculations are included in RGS Ex. 2.1 attached to Mr. Crist's rebuttal testimony.

(iii) RGS' proposed Rider AGG (RGS Ex. 2.1)

RGS' proposed Rider AGG, Aggregation Service, is a revised version of the Rider AGG proposed by the Company in the instant proceeding. RGS revised the Company's proposed Rider AGG to include a Nicor-like storage program based on the underlying rights of the storage assets that CFY suppliers and customers pay for through the ABGC and base rates. RGS' proposed Rider AGG includes calculated daily storage injection and withdrawal capacities and monthly storage quantity target levels. In addition to properly allocating the rights associated with the underlying storage assets that support CFY, the tariff language in RGS' proposed Rider AGG removes any mystery that exists in the Company's proposed Rider AGG with respect to how much gas is injected into and withdrawn from storage on a daily and monthly basis. That is, withdrawals and injections will no longer be hamstrung by non-tariffed algorithms and before the fact estimates of monthly storage withdrawals.

Mr. Zack pointed out that the storage quantity target levels in RGS' proposed Rider AGG are more liberal than those in Nicor's Rider 16. (NS-PGL Ex. TZ 3.0, p. 27) However, RGS' analysis indicates that the on-system and off-system assets that CFY suppliers and customers pay for support wider storage targets than those in Nicor's Rider 16. Again, instead of proposing an alternative to the parameters with which Mr. Zack took issue, he simply claimed that RGS' proposed Rider AGG is a "non starter". (*Id.*) To support his claim, Mr. Zack created a scenario in which a CFY supplier could draw down its entire storage inventory by December 17. Putting aside the fact that there is no rational reason that a CFY supplier would take such a reckless action that would leave it at the mercy of mid to late winter gas prices, Mr. Zack's analysis is flawed because the Storage Quantity Target Levels in Rider AGG require CFY suppliers to maintain a minimum of 15% of their total storage capacity through the end of January.

Mr. Zack argued that the Company would have trouble supporting the level of service provided through RGS' proposed Rider AGG. However, Mr. Zack agreed that there are numerous examples of large volume transportation tariffs that provide transportation customers with far greater flexibility than that provided in RGS' proposed Rider AGG. For example, some transportation customers are able to inject gas into storage during all months of the year. Likewise, those same transportation customers can withdraw gas from storage during every month of the year (Tr. 575) CFY customers would not have such flexibility under RGS' proposed Rider AGG. Further, CFY volumes only account for 3% of the volumes on the Company's system, whereas large volume transportation accounts for nearly 40% of the volumes on the Company's system. The Company has somehow been able to accommodate a much greater level of volumes flowing under large volume transportation tariffs with more liberal storage rights than those being requested here for CFY suppliers.

The Company had ample opportunities in rebuttal and surrebuttal testimony to review Mr. Crist's analysis supporting RGS' proposed storage parameters but provided no such analysis. Further, the Company chose to cross-examine Mr. Crist on his proposed storage parameters and asked Mr. Crist to provide a calculation of the maximum amount of gas that a supplier could withdraw from storage during the month of November. Those parameters from RGS' proposed Rider AGG were calculated from the data provided by the Company in response to RGS data request 1.14, which is CNEG Exhibit 3. The amount calculated by Mr. Crist under cross examination represents the same level of withdrawal flexibility that the Company enjoys based on the storage rights existing in their pipeline contracts.

At no point in these proceedings did the Company claim that the RGS proposed Rider AGG was faulty or that Mr. Crist misinterpreted or misunderstood the storage rights which the Company has under their current contracts. The Company proposed no alternative, and in negotiations prior to this proceeding did not offer any alternatives.

b. <u>Aggregation Balancing Gas Charge ("ABGC")</u>

The ABGC is a PGA mechanism that the Company uses to recover the costs of off-system storage and balancing assets from CFY customers. The Company proposes to assess the ABGC directly to CFY customers instead of to CFY suppliers. (PGL Exhibit TZ-1.0 2REV) No party opposed the Company's proposal to assess the ABGC directly to CFY customers. Other issues related to the ABGC are addressed in section X(D)(1)(a) above.

c. <u>Pipeline Capacity Assignment</u>

If RGS' proposed Rider AGG, Aggregation Service, in RGS Ex. 2.1, is rejected, then RGS recommends that the Company be required to release the capacity associated with the assets that flow through the ABGC. (RGS Ex. 1.0, p. 22) These assets include off-system leased storage assets and the pipeline capacity necessary to deliver gas from those storage assets to the Company's city-gate. RGS proposes that the Company be required to release storage capacity on a one-year recallable basis and pipeline capacity on a month-to-month recallable basis. (*Id.*) This proposal is consistent with RGS' position that storage rights should reflect the storage assets that CFY suppliers and their customers pay for through base rates and the ABGC.

Company witness Zack argued that a capacity release process would be burdensome for CFY suppliers and the Company. According to Mr. Zack, "The administrative burden of releasing relatively small amounts of capacity to suppliers for customer pools that change monthly would be considerable." (NS-PGL TZ-2.0, p. 49) Mr. Zack further argued that capacity recall rights are a weak remedy for addressing supplier failure to meet its obligations. (*Id.*) However, Mr. Zack provided no support for his claims.

In response to Mr. Zack's claims, RGS witness Crist stated, "Many other utilities conduct capacity release programs every day to enable suppliers to manage their obligations. Utilities post capacity rights at maximum rates and suppliers elect those rights." According to Mr. Crist, National Grid (formerly Niagara Mohawk), Columbia

Gas of Ohio and Dominion Peoples all host robust choice programs that provide for utility released capacity to choice suppliers. (RGS Ex. 2.0, p. 9) As to Mr. Zack's claim that recall rights may be problematic, Mr. Crist cited significant monetary penalties that are assessed to suppliers that fail to deliver the necessary amount of gas to meet the supplier's obligations. (*Id.*) For example, penalties can be as high as $6 per therm for failure to meet the supplier's obligations on a critical day. (*Id.*) The utilities will always maintain the right to recall capacity but the tariffed penalties for failure to meet delivery obligations in Rider AGG have been and will continue to be sufficient to provide customers with incentive to deliver the necessary amount of gas to the Company's city gate.

Capacity release is an appropriate method of ensuring that CFY suppliers receive a fair allocation of the off-system assets that they pay for through the ABGC. Of course, CFY suppliers would still need to be allocated the storage rights associated with on-system storage because CFY customers pay for that storage in their base rates. (*Id.*) If the Commission rejects RGS' proposed Rider AGG in RGS Ex. 2.1, then RGS recommends capacity release and an allocation of rights associated with on-system storage as a second best alternative to a Nicor-like storage program.

d. <u>Customer Migration</u>

Customer migration occurs when a customer switches from one supplier to another, from the utility to a supplier, or from a supplier to the utility. (RGS Ex. 2.0, p. 10) The amount of seasonal storage capacity allocated to each supplier is based on the estimated load of the customers served by that supplier. Under the Company's current CFY storage program, the amount of available storage capacity allocated to each supplier is fixed prior to the commencement of the withdrawal period (i.e. November through March).

Fixing the amount of available storage capacity prior to the commencement of the withdrawal period is problematic for CFY suppliers and their customers. Customer migration may result in a significant number of customers switching from the utility to a supplier during the withdrawal period. If this happens under the Company's current method for allocating storage to CFY suppliers, the amount of load served by the supplier would increase but the amount of storage available to meet its customers' needs would remain fixed. This creates a significant cost issue for CFY suppliers because it eliminates the supplier's ability to take advantage of the seasonal hedge that storage provides. (RGS Ex. 1.0, p. 20) Furthermore, customers and suppliers pay for storage through base rates and PGA charges. That storage capacity should follow customers when they switch to another supplier or to and from sales service.

Mr. Zack stated that the utilities proposals take customer migration into account. (PGL-NS Ex. TZ-2.0, p. 51) However, the Company's storage allocation method only accounts for customer migration during the injection season. According to Mr. Zack, the Company does not adjust for customer migration during the withdrawal season because "…withdrawals occur in a measured way over the course of the winter with appropriate adjustments for weather." (*Id.*) Customers should not lose their storage capacity and associated gas supply simply because they switched suppliers during the withdrawal season. Conversely, the Company should not be able to retain storage rights for customers it no longer serves. There is no sound reason not to allow storage to move with the customer.

In order to rectify the inequity in the Company's current treatment of storage for customer migration during the withdrawal period, RGS witness Crist proposed the following language:

> In the event that Supplier's storage capacity level increases significantly in any given month due to changes in the supplier's customers annual volumes, Supplier may purchase from Peoples storage inventory gas at then current first of the month price index published in Inside F.E.R.C.'s Gas Market Report for Chicago City Gate to enable the supplier to meet its minimum storage inventory levels as set forth below. Corresponding, in the event that supplier's storage capacity level decreases significantly in any given month due to changes in the supplier's customers annual volumes, supplier may sell to Peoples storage inventory gas at then current first of the month price index published in Inside F.E.R.C.'s Gas Market Report for Chicago City Gate to enable the supplier not to exceed its maximum storage capacity level. In any case, upon reasonable notification, Peoples at its sole discretion may require a supplier to purchase or sell storage inventory gas under the same price guidelines as outlined in this paragraph to meet prescribed storage inventory levels as set forth below.

(RGS Ex. 2.1)

This language is consistent with Nicor's treatment of storage capacity when customer migration impacts a supplier's obligations. RGS witness Crist included this language in RGS' proposed Rider AGG. The language works in conjunction with RGS' other proposed modifications to Rider AGG but would also work under the Company's current program. RGS urges the Commission to adopt this more equitable allocation of storage to suppliers that realize a significant level of customer migration.

e. <u>Month-End Delivery Tolerance</u>

The Month-end delivery tolerance in the current Rider AGG is plus or minus 2% of the sum of the Required Daily Delivery Quantities ("RDDQs") for each day during the month. The RDDQ is the Company's estimate of the usage of pools of customers served by CFY suppliers. The RDDQ takes into account the Company's administratively determined amount of daily storage activity for each pool. Suppliers are required to deliver within plus or minus 10% of the RDDQ on a daily basis in order to avoid penalties under Rider AGG. The Company proposes to increase the month-end delivery tolerance from plus or minus 2% to plus or minus 5%. (PGL Ex. TZ-1.0 2REV, p. 29)

The RDDQ is a special creation of the Company in order to administer their allocation of storage rights to CFY customers. As noted throughout this brief however, the Company's current Rider AGG, including the month-end delivery tolerance, fails to properly allocate the rights associated with the storage that supports the CFY program. RGS' proposed Rider AGG, attached to Mr. Crist's rebuttal testimony as Ex. 2.1, eliminates the month-end delivery tolerance approach in favor of monthly storage targets that CFY suppliers are required to meet. These monthly storage targets are consistent with the type of monthly storage targets approved by the Commission in Nicor's Rider 16 and the storage contracts and physical storage assets that support the CFY program. (RGS Ex. 1.1)

If the Commission rejects both the RGS' proposed Rider AGG and the RGS' proposed capacity release program, then RGS propose to increase the month-end tolerance to plus or minus 10%. (RGS Ex. 2.0, p. 14) However, such a result would fail to appropriately allocate the rights associated with the storage assets underlying the CFY program and would be far inferior to RGS' proposed Rider AGG or a capacity release program.

f. <u>Working Capital Related to System Gas Costs/Monthly Customer Aggregation Charge</u>

Working capital related to system gas costs represents the cost of carrying gas in storage and float costs related to the time value of money in between the time that the utility purchase gas on behalf of sales service customers and receives payment for that gas. (RGS Ex. 1.0, p. 35) Suppliers also incur working capital costs associated with gas stored on behalf of CFY customers. Therefore, it would be inappropriate to allocate the Company's working capital costs to CFY customers because they do not purchase or consume Company-supplied gas.

The rates originally proposed by the Company improperly allocated the Company's working capital costs to CFY customers. Mr. Zack corrected this error in his surrebuttal testimony. (NS-PGL Ex. TZ-3.0 REV, p. 31) The resulting credit amounted to $2.26 per customer in Peoples service territory and $1.48 per customer in North Shore's service territory. (*Id.*) Mr. Zack proposed to offset the per customer aggregation charges assessed to CFY suppliers. The credit applied to North Shore's per customer monthly aggregation charge reduced the charge from $1.51 per customer per month $0.03 per customer per month. The credit eliminated the per customer aggregation charge in Peoples with a remaining credit of $0.83 per customer per month. Mr. Zack proposed to return the remaining $0.83 monthly credit to CFY customers as an offset on the customer's bill. RGS witness Crist, however, recommended that the credit be applied to the ABGC. What is not clear from Mr. Crist's testimony is where that credit would appear on the customer's bill. An offset to the ABGC would be competitively neutral because, as noted by Mr. Crist, suppliers incur working capital costs associated with gas in storage on behalf of CFY customers. (RGS Ex. 1.0, p. 35)

2. Customer Enrollment

There are a number of issues related to customer enrollment including the release of payment history, consent to release such payment history, and a minimum stay requirement imposed on customers that return to the utility from service with a CFY supplier.

a. Customer Data Issues

It appears that the parties have reached an agreement on the provision of residential customer lists. It is RGS's understanding that the Company has agreed to provide residential customer lists to at no cost to alternative retail gas suppliers certified by the Commission pursuant to Illinois Administrative Code Part 551. The Company would provide customer names, service address and billing address, as well as tier one and tier two data and the designation of service classification (heating, non-heating). The Company would only provide the data once very six months and RGS accepts that limitation.

The contentious issue regarding customer data is the provision of individual customer data. RGS proposes that the Company provide customer payment history and other information to CFY suppliers as long as the supplier obtains consent from the customer to access payment history information. (RGS Ex. 1.0, p. 38) RGS witness Crist provided specific tariff language to facilitate the release of customer payment information to CFY suppliers. (RGS Ex. 2.0, p. 24)

Mr. Crist also proposed that the Company provide customer service classification, rider information, customer's Maximum Daily Quantity, customer Selected Standby Percentage, and customer's Allowable Bank at no cost and immediately upon obtaining customer consent. Company witness Zack agreed to provide this information as soon as the supplier has customer authorization. There was no opposition to this proposal. (NS-PGL Ex. TZ-3.0 REV, p. 33)

The Company currently refuses requests from its customers to provide their payment history to CFY suppliers even though suppliers routinely gain consent from customers to access the information. The need to access payment history arises from the current treatment of suppliers receivables under the CFY program, which is discussed in detail under Section X(D)(4), Purchase of CFY Supplier Receivables, in this brief. In short, the Company's treatment of CFY supplier receivables is prone to creating bad debt for CFY suppliers if they do not perform rigorous credit checks of potential customers before they sign up a new customer.

Payment histories help CFY suppliers assess creditworthiness and may help suppliers avoid the expense of an outside credit report. (RGS Ex. 2.0, p. 23) The issues with respect to release of customer payment history come down to timing and customer consent. Customer consent is addressed below. It should be noted, however, that RGS' need to obtain customer payment history would be entirely eliminated if the Commission orders the Company to implement a POR program.

Mr. Zack agreed to provide customer payment history to CFY suppliers so long as the CFY supplier warrants that it obtained the appropriate consent from the customer. The problem with the Company's proposal is that payment history would be provided after the customer is "active and flowing". (NS-PGL Ex. TZ-2.0, p. 56) That is, the Company proposes to provide customer payment data **after** the customer is already being served by the CFY supplier. This timing greatly diminishes the value of the data and appears to be anti-competitive given the Company's stance on RGS' proposed POR program. (RGS Ex. 2.0, pp. 23-24) The Commission should order the Company to provide any available data, including customer payment history, as long as the CFY supplier has obtained appropriate customer consent to obtain the data.

b. <u>Evidence of Customer Consent</u>

The Company created an issue by their refusal to provide customer billing and payment history data in a timely fashion to the suppliers who have obtained a customer's permission to view such data. In Mr. Crist's Direct testimony and Rebuttal testimony he provided an example of clear and explicit language used by RGS member Dominion Retail:

> **Authority:** You acknowledge that you are the account holder, or a person legally authorized to execute a contract on behalf of the account holder. You authorize Peoples Gas to release to the Company or its authorized representatives all information relating to your historical and current gas usage, billing, and payment history. The Company shall not release any customer data including account number or social security number without your written consent.
> RGS Ex. 1.0, p. 38; RGS Ex. 2.0, p. 23
>
> Such language is clear and explicit. Staff witness Dr. Rearden agreed that his concerns would be satisfied:
>
> If a supplier, number one, warrants and represents that it has explicit customer consent, two, agrees to hold the companies harmless from a customer's damage claims in the event it does not have such explicit customer consent, and, three, can produce an audible verifiable record of customer consent, would your concerns be satisfied?
>
> (Tr. 697)

RGS recommends that the Company be ordered to comply with customers' directives in this matter and that customer consent may be provided to suppliers verbally, electronically, or in written form.

c. **Minimum Stay Requirement**

The Company currently imposes a minimum stay requirement of one year on customers that return to sales service for longer than sixty days. That is, if the customer cancels service with a CFY supplier and returns to sales service, the customer will be required to remain on sales service for the period of one year unless that customer switches to another CFY supplier within sixty days of returning to sales service. (RGS Ex. 1.0, p. 41)

The minimum stay requirement can prevent customers from entering the competitive market for a period of up to one year. RGS witness Crist argued that the minimum stay requirement is anticompetitive because it is too restrictive and limits customer mobility. (*Id.*) As an alternative to the minimum stay requirement, RGS witness Crist proposed a maximum of two switches per customer per year with no minimum stay requirement. (*Id.*) A two switch maximum would avoid gaming through frequent customer switching but would not be so restrictive as to prevent customers from enjoying the benefits of a competitive market.

Mr. Zack argued that a two switch maximum "…would be little different than have no limits at all. There is still substantial opportunity for arbitrage and disruption of the supply planning process" (NS-PGL – Ex. TZ-2.0, p. 58) However, he provided no support for his claim that a single small volume customer switching from sales service to a CFY supplier after remaining on sales service for more than 60 days is somehow going to disrupt the supply planning process for hundreds of thousands of customers. Further, it would be difficult for customers to successfully predict price trends, switch service and realize savings because there is too much lag built into the switching process. (RGS Ex. 2.0, p. 26) Arbitrage opportunities would be difficult to come by because market prices would likely change in between the time the customer signs up with a supplier and gas actually flows to that customer. (*Id.*) In addition, supplier contracts are usually one year in length or more and impose exit fees that discourage customers from switching back and forth between suppliers and the Company to capitalize on arbitrage opportunities. (RGS Ex. 1.0, P. 41)

RGS proposes elimination of the minimum stay requirement in favor of a two-switch maximum per year. The Company's claim that the minimum stay requirement somehow provides protection against gaming and preserves the supply planning process is wholly unsupported by record evidence. The minimum stay requirement is anti-competitive, prevents customers from realizing the benefits of a competitive market, and should be replaced with a two switch maximum. If RGS' two switch minimum proposal is rejected, then RGS recommends extending the time that a customer has to switch from 60 days to 120 days before the one-year minimum stay requirement is applied. (RGS Ex. 2.0, p. 27)

3. Rider SBO

RGS did not take any position on Rider SBO.

4. Purchase of CFY Supplier Receivables

One of the most significant issues facing CFY suppliers relates to the uneven treatment of supplier and utility receivables under the CFY program and the unfair allocation of costs associated with the utility's collection processes. This uneven treatment tilts the competitive playing field in favor of the Company. In order to rectify this competitive disadvantage and provide additional benefits to all customers, RGS proposes a Purchase of Receivables ("POR") program similar to those in place in other market and approved by the Illinois General Assembly for the Illinois retail electricity market.

a. Current Treatment of Receivables and Disconnection

The majority of CFY suppliers, including RGS, utilize the Company's Utility Consolidated Billing ("UCB") option. Under UCB, the Company includes the supplier's charges on the Company's bill and sends the bill to the customer. The customer is required to remit payment to the Company for both the supplier's supply-related charges and the Company's delivery charges. The Company, in turn, remits the supply-related portion of the customer's payment to the supplier. This process is workable as long as customers pay their bills in a timely fashion. Unfortunately, the process breaks down when customers fail to pay their bills in a timely fashion and amass arrearages that eventually may result in disconnection.

When a customer goes into arrears under the Company's current treatment of receivables, payments are first applied to the Company's oldest receivables, then to the supplier's oldest receivables. Additional payments are applied to the next oldest set of the Company's receivables and, then, to the next oldest set of supplier receivables. (RGS Ex. 2.0, p. 18) This process is continued until the customer is current with both the utility and the supplier.

If the customer fails to pay enough to cover the Company's arrears and is facing disconnection, then the Company begins applying the customer's entire payment to utility arrears and none to supplier arrears. This process will continue as long as the customer pays enough to prevent the utility from disconnecting service to the customer for non-payment but not enough to cover supplier arrears. When this situation arises, the supplier has two choices (1) continue to supply the customer despite that the customer is not remitting payments for the gas he has already consumed, or (2) return the customer to utility sales service and attempt to collect the amounts owed by the customer. In either case, the customer will not be disconnected as long as they continue to pay amounts owed to the utility.

Suppliers who elect Rider SBO, Supplier Bill Option Service, issue a single bill that includes both the suppliers supply charges and the Company's delivery charges. The payment application process under Rider SBO is even less favorable. Under Rider SBO, all current and past due Company receivables are paid before any past due amounts to suppliers.

NAE pointed out the disadvantage under Rider SBO relative to the treatment under UCB and proposed that customer payments under Rider SBO should be treated in a similar manner to customer payments under UCB. Under NAE's proposal, the suppliers aged receivables would be paid before the Company's current receivables are paid just as they are under UCB. Unfortunately, the Company's response to NAE's proposal was that all Company charges (aged and current) be paid prior to any supplier charges being paid for both UCB and SBO options. This was made clear during the cross examination of Mr. Zack by Judge Gilbert:

> Q Okay. My impression there is that NAE requested equality. And the Company essentially said, All right, you want equality, we'll give you equality. We'll make the distribution of partial payment flow entirely to the companies first.
>
> (Tr. 650).

Under further cross examination, Mr. Zack admitted the expected disadvantageous result of his proposed reordering of payment application would include an increase in CFY providers' receivables. (Tr. 630) The disadvantage to suppliers is obvious. Mr. Zack's back door attempt at changing the application of payments under UCB should be rejected.

Both the current and proposed allocations of payments create a situation that is ripe for gaming. The Company's delivery charges account for approximately 30% of the customer's bill while the CFY suppliers' charges account for approximately 70% of the customer's bill. As noted earlier, customers will not be disconnected for non-payment of supplier charges. So, a customer only needs to pay a relatively smaller amount of the arrears in order to avoid disconnection and receive continued service.

Under both the Company's proposed method of payment application and the current method of payment application, customers inclined not to pay their utility bills have an incentive to switch to a CFY supplier and, then, discontinue payment until the CFY supplier returns the customer to sales service. Once returned to sales service, the customer only needs to ensure that he avoids non-payment of utility charges in order to continue receiving service. CFY suppliers must then resort to costly collection efforts. However, without the threat of disconnection, customers are much less likely to pay past due amounts. CFY suppliers are forced to undertake rigorous credit checks of customers and reject customers that may have benefited from switching simply because suppliers have no choice but to treat customers with low credit scores as a credit risk. (RGS Ex. 1.0, p. 34) The availability of choice is limited and the market suffers because market potential is less than it would otherwise be if suppliers' receivables were treated the same as the Company's receivables.

Under the Company's current treatment of receivables, customers are never disconnected for non-payment of a CFY supplier's supply related charges. This uneven treatment of supplier and utility receivables has far reaching consequences that result in duplicative costs being recovered from CFY suppliers, subsidies from CFY customers to sales customers, limitations on the potential growth of the CFY program, and an uneven playing field that favors the Company over CFY suppliers.

The Company currently has a debt collection apparatus in place that it uses to pursue customers that are in arrears or have been disconnected for non-payment and have outstanding debt owed to the Company. (RGS Ex. 1.0, pp. 31-32) The costs associated with this debt collection apparatus are recovered through base rates from all customers regardless of whether they are on sales service or switch to service with a CFY supplier. The Company's debt collection efforts are aimed at recovering only amounts owed to the Company. Suppliers must have their own debt collection apparatus in place. The only way that suppliers can recover the cost of debt collection is through the price they charge to CFY customers for natural gas. So, CFY customers pay twice for debt collection efforts – once when the utility recovers the costs through base rates and once when suppliers build the cost of debt collection into their rates. To add insult to injury, CFY customers are paying for the utility's cost of recovering bad debt associated with a supply service that CFY customers do not utilize.

The recovery of collection costs through base rates leverages the utility's position as monopoly provider of delivery services and places CFY suppliers at a competitive disadvantage. The Company not only has an advantage related to its ability to disconnect the customer for non-payment, the Company also is guaranteed recovery of its cost of collections through base rates that are charged to CFY customers and sales customers alike. (RGS Ex. 1.0, p. 33)

b. <u>RGS' POR proposal provides benefits to</u>

In order to rectify the problems created by the current treatment of receivables and the allocation of costs associated with credit and collection, RGS witness Crist proposed a POR Program. Under a POR program, the Company would reimburse CFY suppliers for all or a percentage of their total receivables associated with natural gas supply regardless of whether CFY customers pay their bill. "The utility is made financially whole, however, by recovering the uncollectible amounts and program administration expenses through one of two options: (1) a discount rate equal to the utility's actual uncollectible amount that offsets the payments to the supplier and is subject to a periodic reconciliation process; or (2) an element of the utility's base rates." (RGS Ex. 1.0, p. 31)

Mr. Crist explained that the preferred POR program that should be implemented as a result of this base rate proceeding would be a program with a zero discount rate for receivables. (Tr. 1026) Mr. Crist testified that bad debt should not increase as a result of POR, and there is no evidence in the record that demonstrates otherwise. (RGS Ex. 1.0, p. 33) Mr. Crist testified that, under a zero percent discount POR program, the Company would only need to extrapolate the current rate of bad debt to cover the small percentage of CFY customers that would otherwise not have been included in the Company's calculation. (Tr. 1026) Mr. Crist identified a general rate case proceeding as the appropriate proceeding to implement a zero percent discount POR program because bad debt expense can be built into CFY customers' rates. (*Id.*)

While RGS would prefer the second option, the important message is that some sort of POR is necessary in order to eliminate the significant inefficiencies created by the current treatment of supplier receivables.

POR would place CFY suppliers on a level playing field with the Company, eliminate duplication of collection costs and credit checks, reduce instances where customers credit scores are negatively impacted, capitalize on the existing utility infrastructure that CFY customers and sales customers already pay for in base rates, and open up the competitive market to more customers that would otherwise be rejected for credit risk.

In addition, POR eliminates the need to obtain customer payment histories. The issues of whether to release customer payment history and how to obtain customer consent to release a customer's payment history would be eliminated. It would no longer be necessary for CFY suppliers to examine customer payment histories or perform credit checks on potential customers because, under POR, CFY suppliers would be guaranteed payment of all of their customers' receivables at a discounted rate. Thus, POR opens up the competitive market to all customers in Peoples service territory and brings choice to customers where it was previously unavailable. Finally, POR provides an opportunity for the Company to earn a profit.

c. <u>The Company's Opposition to POR is misplaced and anti-competitive</u>

Company witness Lawrence T. Borgard opposed POR and listed a number of concerns that he has with POR in his direct and rebuttal testimony. However, most of those concerns were rebutted with record evidence.

For example, Mr. Borgard claimed that "Peoples Gas and North Shore are not in the business of providing third-party billing or bad debt collection service, they do not wish to offer this service, and their information systems and business processes are not set up to enable them to provide this service. (NS-PGL Ex. 2.0, p. 15) Mr. Borgard's claim was, of course, factually incorrect. Record evidence demonstrates that the Company is, in fact, in the business of providing third-party billing service to tens of thousands of CFY customers each month and does have the information systems and business processes in place to provide the third-party billing service. (RGS Ex. 2.0, p. 17) In his surrebuttal testimony, Mr. Borgard acknowledged that the Company's information systems were indeed revised to provide third party billing service but, curiously, went on to claim that the revisions did not enable provision of collection services for CFY suppliers. (NS-PGL Ex. LTB-3.0, p. 9) Again, this statement is factually incorrect and refuted by record evidence. The Company does collect payments from customers and remit those payments to CFY suppliers as a standard business practice. If customers fall into arrears for amounts owed to CFY suppliers the Company continues to bill those supply-related arrearages to the customer. When customers that are in arrears make payments, the Company collects those payments on behalf of suppliers and applies them to utility and supplier arrearages in accordance with the current payment ordering method. The processes to support a POR program are already in place. (RGS Ex. 2.0, p. 17) There is no evidence that the Company would incur a significant level of incremental costs associated with implementing POR. However, it should be noted that RGS is willing to pay any administrative costs associated with POR through a discount to supplier receivables approach. (RGS Ex. 1.0, p. 31)

Mr. Borgard also argued that POR is an attempt by CFY suppliers to shift business risk to the utilities. What Mr. Borgard fails to realize is that POR simply eliminates, rather than shifts, the business risk faced by CFY suppliers under the current treatment of CFY receivables. POR keeps the Company financially whole through the regulatory process by either (1) allowing the utility to purchase supplier receivables at a discounted rate that is reflective of the actual percentage of uncollectibles plus administrative costs; or (2) allowing the Company to recover the cost of uncollectibles through base rates. Under either type of POR program, the utility is guaranteed to be made financially whole in the long-run and provided with the incentive to profit from reducing the overall amount of uncollectibles relative to the approved discount rate or base rate expense. (Tr. Borgard Cross by Gilbert)

Despite the fact that POR does not shift risk from CFY suppliers to the Company, it is worth mentioning that Company witness Zack took the exact opposite position of Mr. Borgard when addressing the issue of which party should bear the risk of non-payment under Rider SBO. When asked whether it would be better for both the utility and the supplier to each bear the risk associated with their own charges if a customer provides a non-sufficient funds check, Mr. Zack replied, "It's our opinion that the party responsible for the billing should bear that risk. The [billing party has] control over the payment options that their customers have and that it seems reasonable to us that the party that is billing carries the risk." (Tr. 619-620) Instead of employing a consistent policy with respect to the treatment of receivables, the Company promotes diametrically opposed policies, which, in the case of both billing options, places CFY suppliers at a competitive disadvantage relative to the Company.

In Mr. Borgard's opinion, it is inappropriate to expect the Company to disconnect customers when the customers are current on their obligations to the utility. (NS-PGL Ex. LTB-2.0, p. 15) Again, Mr. Borgard fails to grasp the concept of POR. Under POR, a customer's obligations to the utility include both the Company's delivery charges and the receivables that the Company purchased from the CFY supplier. So, under POR, a customer would not be disconnected if they were current on their obligations (i.e. delivery and supply charges) to the utility. Mr. Borgard's position on this matter is a concern though. It is consistent with the anti-competitive positions that the Company takes on other matters related to customer choice, such as the allocation of storage rights and costs. Mr. Borgard does not appear to have any interest in the advancement of retail competition. Mr. Borgard's position on POR favors the utility over CFY suppliers and creates an uneven playing field for competitors.

The Company attempts to create the impression that POR is some new and untried program that is wrought with implementation problems. However, the Company conveniently ignores that "POR is not a new concept but rather a standard practice in states with competitive retail energy markets." (RGS Ex. 1.0, p. 34) POR is already in place in other jurisdictions with competitive retail energy markets such as Indiana, New York, New Jersey, Pennsylvania, Ohio, Virginia, Maryland, Michigan, and the Canadian provinces of Quebec, Ontario, Alberta, and British Columbia. Utilities that offer POR programs include Consolidated Edison, Rochester Gas and Electric, NYSEG, National Grid, National Fuel Gas, Central Hudson, Orange and Rockland Utilities, PSEG, PECO, New Jersey Natural Gas, Nipsco, Dominion East Ohio, Columbia Gas, Consumers Energy, Michigan Consolidated, Terasen, and others. (*Id*.)

In addition to the jurisdictions listed above, the Illinois General Assembly recently passed Senate Bill 1299, which requires Commonwealth Edison, AmerenCILCO, AmerenCIPS, and AmerenIP to offer a POR program. SB 1299 is currently awaiting the Governor's signature. "[T]he concept of POR is recognized by the Illinois legislature as fair and as an appropriate service that should be provided by utilities in the overall goal of expanding customer choice and competition (RGS Ex. 2.0, p. 21)

d. <u>POR Conclusion</u>

POR is a tried and tested method for the treatment of supplier receivables. POR can be designed in a competitively neutral matter to create a level playing field for CFY suppliers and the utility. POR has been shown to provide benefits to suppliers, the customers and the utility. POR capitalizes on assets that customers already pay for through base rates, provides the utility company with an opportunity to generate additional profits, and opens the market to all customers regardless of credit scores and payment histories. RGS urges the Commission to require the Company to implement a POR program.

5. PEGASys and Customer Information

The Company, RGS, and NAE all agree that improvements to the PEGAsys customer information system are necessary and desirable. There is a difference of opinion regarding the timeliness of initiating improvements to the system however. The Company wishes to delay any work on improving the system until the fall of 2008, while RGS and NAE want such improvements completed within 30 days following the issuance of the final order in this proceeding.

Because all parties agree that work must be done and CFY is an ongoing program and suppliers are suffering today as a result of poor performance of the PEGAsys system, the Company should have an on-going system improvement process. Even if this base rate proceeding had not occurred, the Company still should be working on PEGAsys improvements. For these reasons it is important to notify the Company that they should initiate such work immediately and complete such work within 30 days of the issuance of the final order. Not to do so simply allows the Company to continue their tactics aimed at limiting the participation in CFY and will not enable the program participation to rise significantly above the current 3-4% rate, one of the lowest in the region.

X. CONCLUSION AND SUMMARY OF RECOMMENDATIONS

RGS proposes several revisions to the CFY program that are designed to level the playing field for CFY suppliers and create a valuable service that is commensurate with the costs that are borne by CFY suppliers and their customers. The current CFY program clearly subsidizes other service provided by the Company and is plagued with design problems that prevent customers from realizing the full benefits of competition. RGS' proposals mirror improvements that the Commission has already approved in Nicor's choice program and practices that are already in place in jurisdictions where robust competition exists.

RGS' proposed revisions to the CFY program will eliminate disparities between sales service and the CFY program, provide residential and small commercial customers with the opportunity to fully benefit from competition, and offer valuable alternatives to traditional sales service. RGS recommends that the Commission:

1. Adopt RGS' proposed Rider AGG (RGS Exhibit 2.1), which is based on Nicor's Rider 16, Supplier Aggregation Service and includes storage

parameters that reflect the physical and contractual constraints of the assets that CFY suppliers and customers pay for the ABGC and base rates.

2. If RGS' proposed Rider AGG is rejected, then adopt a capacity release program and an allocation of rights associated with on-system storage as a second best alternative to RGS' proposed Rider AGG.

3. Adopt RGS' proposed storage treatment for customer migration, which mirrors the tariff language already approved by the Commission in Nicor's Rider 16.

4. Eliminate the month-end delivery tolerance and replace it with monthly storage target levels consistent with RGS' proposed Rider AGG.

5. If both RGS' proposed Rider AGG and RGS' proposed capacity release program are rejected, then increase the month-end delivery tolerance to plus or minus 10%.

6. Approve the Company's proposed adjustment to the per customer aggregation charge based on an offset of the working capital associated with gas in storage that was improperly allocated to CFY customers.

7. Offset Peoples' ABGC with the credit that results from the working capital adjustment or ensure that the credit appears on the bill in a competitively neutral manner.

8. Implement a purchase of receivables program that treats sales service customers and CFY customers equally.

9. If the Commission does not adopt a zero percent purchase of receivables program, then adopt either Staff's or the Company's treatment of bad debt related to system supply.

10. Supply a mailing list for CFY-eligible customers at no cost to CFY suppliers.

11. Adopt RGS' proposed approach for handling customer authorizations to release information.

12. Improve the PEGAsys data management system and implement those improvements within 30 days of the issuance of the Final Order in this proceeding.

13. Replace the one-year minimum stay requirement with a two-switch maximum per year.

14. Adopt the Company's proposal to eliminate the 120-day meter read requirement currently required prior to a customer switch.

15. Reject the Company's proposal to change the application of payments under the utility consolidated billing service if a purchase of receivables program is not adopted.

Dated: October 12, 2007

Respectfully submitted,
Retail Gas Suppliers

s/ *Stephen J. Moore* _
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BEFORE THE
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company and	)	
The Peoples Gas Light	)	
And Coke Company	)	Docket No. 07-0241
	)	Docket No. 07-0242
Proposed General Increase	)	
In Rates for Gas Service	)	

CERTIFICATE OF SERVICE

I, Stephen J. Moore, hereby certify that the foregoing brief, together with this Certificate of Service, were sent to all parties of record listed on the attached service list by e-mail or U.S. Mail on October 12, 2007.

*s/ Stephen J. Moore*___________________

Stephen J. Moore