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	)	

REPLY BRIEF OF THE RETAIL GAS SUPPLIERS

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ATTORNEYS FOR THE RETAIL GAS SUPPLIERS

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INTRODUCTION

The Initial Brief of Dominion Retail Incorporated, Interstate Gas Supply, and U.S. Energy Savings Corporation, collectively Retail Gas Suppliers ("RGS"), anticipated most of the arguments that Peoples Gas Light and Coke Company and North Shore Gas Company (collectively "Company" unless otherwise noted) would make against the proposals RGS made in this proceeding. Therefore, this Reply Brief will be limited to addressing a few of the more erroneous arguments of the Company, as well as comment upon some of the discussion contained in the Initial Briefs of the Staff of the Illinois Commerce Commission ("Staff"), and Nicor Advanced Energy LLC ("NAE") on the Company's Small Volume Transportation Program (Choices For You)

IX. TRANSPORTATION ISSUES

D. Small Volume Transportation Program - Choices For You ("CFY")

1. Storage Rights and Delivery Flexibility

a. Specific allocation of storage rights and costs to CFY customers and suppliers

RGS proposes changes to the Company's Rider AGG, Aggregation Service, which are designed to allocate seasonal, monthly, and daily storage rights that are commensurate with the storage costs recovered from CFY suppliers and their customers. RGS' proposals are designed to provide to CFY customers with the same level of storage-related benefits that sales service customers receive. This level of services is appropriate given the fact that CFY customers are compelled to pay for the full cost of the assets that could provide these services. Under the current structure, CFY customers pay the full cost, but do not receive the full benefit for upstream and on-system assets; thus there is significant inequity under the current system. RGS' solutions would level the playing field and provide the benefit of the assets for which the CFY customers pay. The Company's existing and proposed storage right allocations fall well short of this goal.

RGS witness Crist originally 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 annual allocations of storage capacity and daily withdrawal rights based on customers' annual usage and peak demand designed to ensure that CFY customers obtain the same amount of usage as that provided by the Company to its sales customers. There is no testimony that effectively refutes Mr. Crist's calculations, which used Company data, and there is no testimony that factually contradicts Mr. Crist's conclusions.

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 storage and delivery rights for the CFY program that mirror the storage and delivery rights in Nicor's Rider 16. Mr. Crist's rebuttal testimony revised the storage and delivery parameters in his proposal based on data request responses from the Company received after the filing of his initial testimony. Those responses provided 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). For example, in response to the Company's criticism of the use of peak day data to formulate daily withdrawal and injection rights and based on the availability of new data obtained from the Company's response to RGS data request 1.14 (CNEG Ex. 3), Mr. Crist formulated monthly storage target levels and daily injection and withdrawal parameters for inclusion in RGS' proposed Rider AGG (RGS Exhibit 2.1). Parenthetically, it is curious that Company would even debate the use of peak day as a means to calculate the parameters of such a program, given Company's use of the same methodology to create its design day forecasts, and that the basis of any system, including costs allocation is based upon peak day calculations.

As shown below, the Company's brief repeatedly ignores RGS' proposed Rider AGG attached to Mr. Crist's rebuttal testimony and instead criticizes Mr. Crist's initial proposal. Thus, the Company's brief sidesteps almost the entirety of RGS's arguments and its final proposal.

The Company opposes RGS' proposed Rider AGG for several reasons. The Company claims: (1) a lack of daily metering prevents the Company from verifying that CFY suppliers' storage activity is within the daily withdrawal and injection parameters in RGS' proposed Rider AGG, (2) RGS' purported use of peak day data results in too great an allocation of storage rights to CFY suppliers, (3) RGS' proposal is somehow problematic because it relies on data from 2006, which was warmer than normal, and (4) RGS' proposal does not quantify any monthly rights that would be allocated to CFY suppliers. (Company IB, p. 202) However, there is either nothing in the record to support these claims or they apply only to RGS' original proposal but not to RGS' revised Rider AGG.

(i) Daily metering should not be a requirement for allocating the appropriate level of daily storage rights - the Company's daily usage estimates substitute for daily meter reads.

The Company claims that "…there is no way to verify CFY supplier injections and withdrawals are within the daily parameters that RGS proposes to establish" because

CFY customers are not metered daily. (Company IB, p. 202) The Company's "lack of daily metering" argument is a red herring. The Company's daily usage estimates for each CFY supplier's pool of customers serve as an accurate measure of actual daily usage against which daily storage parameters can be applied. This is exactly how Nicor verifies that suppliers' injections and withdrawals are within the daily parameters in its small volume transportation program.

The Company estimates the daily usage of each CFY supplier's customer pool under both the current Rider AGG and RGS' proposed Rider AGG. Unlike CFY suppliers, large volume transportation customers without daily metering are not required to adhere to a Company-supplied daily usage estimate. CFY usage estimates are based on weather and other demand related factors. CFY suppliers are required to strictly adhere to those daily usage estimates. Under RGS' proposed Rider AGG, those estimates would serve as a daily meter read and provide a reference point against which to accurately measure storage activity. The usage estimates would allow clear verification that CFY suppliers are within the daily storage parameters.

The usage estimates are calculated at the Company's sole discretion. The Company should be able to accurately estimate the daily usage of each CFY supplier's pool of customers. Sales customers have the use of assets on a daily basis, yet Company would argue that when the customer switches to CFY suppliers, somehow Company's ability to provide CFY customers with the same level of service is somehow impaired. Any forecast error is a result of the Company's estimation techniques and should be mitigated through refinements to the estimation process. If Company is truly unable to permit this, then the fee associated with balancing and related services should be significantly reduced or eliminated, given the significant reduction in access and services CFY customers have under the current service.

Under both the current Rider AGG and RGS' proposed Rider AGG, the combination of a CFY supplier's daily delivery and daily storage activity must be within plus or minus 10 percent of the estimated usage of the CFY supplier's pool of customers. The key difference is that daily storage withdrawals and injections under the current Rider AGG are administratively determined through an algorithm. Daily withdrawals are also limited by the amount of capacity that was administratively allocated to each month well before actual weather during the withdrawal period became known. This process denies CFY suppliers of the daily flexibility associated with the storage assets that CFY customers and suppliers pay for through base rates and the Aggregator Balancing Gas Charge ("ABGC")

(ii) The storage and delivery rights in RGS' proposed Rider AGG reflect the contractual rights of off-system storage and the physical constraints of on-system storage.

The Company claims, "…RGS's proposal uses peak day (maximum) capabilities, even though these maximum capabilities do not exist with respect to the Utilities' storage assets and rights." (Company IB, p. 202) However, this is inconsistent with the information that Company provided in response to data requests related to the storage rights, both injection and withdrawal, related to each asset. Even, assuming arguendo, that the Company was correct, which RGS does not believe to be true, this argument would only apply to RGS' initial proposed allocation of storage rights. Further, RGS' original proposal only used peak day data as an initial starting point from which monthly and daily storage parameters that would apply throughout the course of the year could be developed. RGS' final proposal contained in RGS' proposed RGS Ex. 2.1, is based on the Company's response to RGS data request 1.14. (CNEG Ex.3) The data provided in the Company's response to RGS 1.14 included winter minimum and maximum storage, storage as a percentage of both peak day and annual throughput, and current contractual rights for off-system storage. The storage parameters in RGS' proposed Rider AGG take into account all of the physical and contractual limitations of the on-system and off-system storage facilities that CFY suppliers and their customers pay for the ABGC and base rates. RGS' analysis and proposed storage parameters result in an equitable allocation of the storage rights to CFY suppliers and their customers.

(iii) The Company fails to explain why data from 2006 is problematic.

The Company opposes the storage parameters included in RGS' proposed Rider AGG because they are"…based on 2006, a single, unusually warm year." (Company IB, p. 202) What is perplexing is that the Company provided no follow-up support as to why the use of data from a single, unusually warm year is problematic. Further, the Company only states that 2006 was an "unusually warm year" but does not quantify how much the weather in 2006 was warmer than normal or how that impacted the data used to calculate the storage parameters in RGS' proposed Rider AGG. The Company had ample opportunities to provide an analysis using a series of years in an attempt to demonstrate their claim, but they failed to do so.

Despite the Company's bald claim that 2006 data is somehow problematic, RGS witness Crist pointed out that use of 2006 data was appropriate because it was the most recent data available and provided the most up-to-date customer usage patterns. Further, Mr. Crist testified that "…the use of data from colder years would have resulted in larger allocation of storage rights for the Choice customers, because colder weather would result in even lower load factors for Choice customers, increasing their storage allocation." (RGS Ex. 2.0, p. 8) Mr. Crist testified that RGS would be willing to accept an allocation of storage rights using data from additional years given the Company's opposition to the use of 2006 data. (*Id*.) The Company never replied to Mr. Crist's offer.

(iv) The Company's claim that RGS' proposal does not quantify monthly storage rights for CFY suppliers is false and fails to recognize record evidence in RGS Exhibit 2.1.

In its initial brief, the Company states, "…while the RGS proposal refers to monthly injection and withdrawal rights, the proposal itself does not quantify those monthly rights in any way." (Company IB, p. 202) Again, the Company is ignoring Mr. Crist's rebuttal testimony. It is true that RGS' initial proposal calculated an annual allocation of storage capacity from which monthly rights would need to be derived. However, RGS' final proposal, which is reflected in RGS proposed Rider AGG, includes Storage Quantity Target Levels that must be met by CFY suppliers. (RGS Ex. 2.1) Those Storage Quantity Target Levels are parameters that define a CFY suppliers monthly injection and withdrawal rights. The Company's claim that RGS' proposal does not quantify monthly rights should be disregarded because it clearly does not apply to RGS' final proposal reflected in its proposed Rider AGG.

(v) The Company's attempts to justify the storage and delivery rights in the current Rider AGG are misleading and should be rejected.

The Company claims, "CFY suppliers already have the ability to inject gas into storage in the summer and withdraw it in the winter." (Company IB, p. 202) In reference to tariff provisions that the Company filed following Commission-ordered workshops to address storage related issues, the Company states, "These tariff provisions gave CFY suppliers monthly storage capacity levels and storage withdrawal rights." (Company IB, p. 203) These statements are misleading. The only flexibility provided to CFY suppliers is through the daily and month-end delivery tolerances. Suppliers do not have "the ability" to inject gas in the summer and withdraw gas in the winter. Rather, suppliers are **required** to inject and withdraw administratively specified amounts of gas throughout the course of the year.

The tariff provisions filed by the Company following the Commission-ordered workshops do **not** provide CFY suppliers with storage withdrawal rights. The tariff provisions provide for an algorithm that automatically determines the amount of gas to be withdrawn from storage on every day of the year. CFY suppliers have no right to vary the amount of gas that is withdrawn from or injected into storage during each month over the course of a year. Likewise, CFY suppliers have no right to vary the amount of gas that is injected into or withdrawn from storage on a daily basis. The amount of gas withdrawn from and injected into storage on a monthly basis is administratively determined by the Company several months before the beginning of winter and is never adjusted for changes in price or weather. Regardless of whether a particular month is extremely warm, extremely cold, or normal, the same amount of gas is withdrawn from storage during that month. This lack of flexibility over the use of storage results in significant variances in daily delivery requirements and manifests itself in higher prices charged to CFY customers.

The Company suggests that the ten percent daily delivery tolerance and its proposed five percent month-end delivery tolerance "…are evidence of the existence of generous storage and balancing rights for the benefit of CFY customers." (Company IB,

p. 202) How the Company determined this is a mystery though. There is no support in the record for the current daily and month-end delivery tolerances, and the Company failed to provide any analysis that demonstrates how physical and contractual storage rights are translated into the daily and month-end delivery tolerances.

The Company attempts to malign RGS' storage proposal by comparing the Monthly Storage Target Levels in Nicor's Rider 16 and RGS' proposed Rider AGG. The Company points out that the targeted range for certain months is wider in RGS' proposed Rider AGG. This comparison is not an indictment of RGS' proposal however. The comparison demonstrates that the Company's portfolio of on-system and off-system storage assets supports a wider monthly range than Nicor's storage portfolio. Again, RGS' proposal is designed to provide CFY customers with the same use of storage that the Company has for its sales customers. The fact of the matter is that RGS is the only party to provide a comprehensive analysis of the storage assets that support CFY service. The Company certainly has not done so. Instead, it keeps falling back on its mantra that it is giving CFY the all storage rights they need, without making any effort to prove it. In summary, there is no evidence supporting the Company's objections. RGS' proposed Rider AGG, is reasonable and should be approved.

b. Aggregation Balancing Gas Charge

The ABGC is a non-commodity related gas cost recovery mechanism that the Company uses to recover the costs of off-system storage and balancing assets from CFY suppliers. According to Company witness Zack, "The ABGC is distinct from the Non-commodity Gas Charge ("NCGC"), which is one component of the Gas Charge that applies to sales customers' purchase of gas from the Utilities. The NCGC, as the name applies, includes all non-commodity costs and not just those associated with storage and balancing." (NS-PGL Ex. TZ-2.0, p. 47) The ABGC is defined in Rider 2, Gas Charge, as "a non-commodity related, per therm, gas cost recovery mechanism applied to all therms delivered or estimated to be delivered to all customers served under [CFY]. This charge is equivalent to the NCGC less any costs not associated with balancing and storage."

The Company proposed to assess the ABGC directly to CFY customers instead of to CFY suppliers. (PGL Exhibit TZ-1.0 2REV) No party opposes the Company's proposal to assess the ABGC directly to CFY customers.

There are several other issues surrounding the ABGC, which all trace back to the allocation of storage related costs to CFY suppliers and the need for an equitable allocation of storage rights based on storage cost allocation. These issues are largely addressed in the previous section of this brief.

The Company claims that RGS proposes to eliminate the ABGC altogether. (Company IB, p. 205) However, RGS proposes to eliminate the ABGC only if a more equitable allocation of monthly and daily storage rights is not achieved though approval of RGS' proposed Rider AGG. Very simply, CFY customers do not get what they pay for. If, however, the current system for allocating storage rights is retained, then RGS proposes to eliminate the ABGC altogether because the current system does not provide storage and delivery rights that are commensurate with the storage related costs recovered through the ABGC. (RGS Ex. 1.0, p. 23)

c. Pipeline and Storage Capacity Release

If RGS' proposed Rider AGG is not adopted, then RGS' proposes that the Company be required to release the pipeline and storage capacity that currently flows through the ABGC directly to CFY suppliers. A capacity release program would ensure that CFY suppliers receive the contractual rights that are associated with each storage and pipeline contract that currently flow through the ABGC.

The Company opposes RGS' proposed capacity release program citing administrative burdens. (Company IB, p. 205) Mr. Crist noted, however, that "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 RGS witness 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 the Company's claim that recall rights may be problematic (Company IB, p. 206), Mr. Crist cites 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 suppliers' 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.

In response to RGS' identification of other natural gas utilities that have well functioning capacity release programs for suppliers serving small volume customers, the Company notes that those utilities do not operate in Illinois. (Company IB, p. 206) The Company, however, does not dispute the fact that the very proposal they claim would be administratively burdensome is working well in other utility service territories with small volume transportation programs. Further, a prerequisite for adoption of an innovative program should not be that it is currently offered by a utility that operates in Illinois. Indeed, the Commission has a long track record of looking to other jurisdictions from time to time for innovative regulatory policies. RGS continues to propose that the Company release pipeline and storage capacity to CFY suppliers if RGS' proposed Rider AGG is not adopted.

d. Customer Migration

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) 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). The result of this policy when significant customer migration occurs during the withdrawal period is that CFY suppliers are stuck serving a disproportionate amount of load relative to their storage capacity allocation. CFY suppliers are forced to acquire a greater proportion of their winter supplies from the market rather than from storage withdrawals, which results in overall higher prices for CFY customers. Further, sales customers lose their storage capacity allotment that they pay for through base rates and the NCGC when the switch to a CFY supplier.

The Company, like CFY suppliers, stores gas on behalf of sales service customers during the summer and withdraws gas during the winter. When customers switch from sales service to the CFY program during the withdrawal period, the Company keeps the actual supply and storage capacity that was originally allocated to the customer and uses it to serve the remaining sales service customers at the expense of the customer that switches to the CFY program. The Company does not deny this practice; instead it defends it with the claim that not allowing storage to follow a migrating customer benefits CFY suppliers that lose customers. (Company IB, p. 206)

RGS' proposed Storage In Place/Cash Out provision in Section H of RGS' proposed Rider AGG is designed to rectify the inequitable storage allocation that occurs when customers migrate to a CFY supplier. This proposal ensures that all customers receive the benefits of the storage assets for which they pay and is consistent with tariff provisions already approved by the Commission in Nicor's Rider 16, Supplier Aggregation Service. It should be noted that such a mechanism is especially important at a time like this, when the CFY program is relatively new and growing. Perhaps such a mechanism would not be needed at some time in the future when equilibrium is reached and customers are just as likely to switch back to the Company as they are to switch to CFY providers. But given current conditions, it is important to allow storage rights to follow a customer.

e. Working Capital Related to System Gas Costs/Monthly Per Customer Aggregation Charge

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) The Company does not incur any carrying costs associated with working gas in storage on behalf of CFY customers, so it would be inappropriate to allocate such costs to CFY suppliers. Both RGS and the Company agree on this issue. The rates originally proposed by the Company improperly allocated the Company's working capital costs to CFY customers. Company witness Zack corrected this error in his surrebuttal testimony. (NS-PGL Ex. TZ-3.0 REV, p. 31) The resulting credit was applied 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 to $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.

The Company proposes to return the remaining $0.83 monthly credit to CFY customers as an offset on the customer's bill. (Company IB, p. 207) RGS witness Crist recommended that the credit be applied to the ABGC. An offset to the ABGC would be competitively neutral because suppliers incur working capital costs associated with gas in storage on behalf of CFY customers. (RGS Ex. 1.0, p. 35) The only means for recovering those working capital costs is through the supply charges that CFY suppliers assess to CFY customers. The Company opposes crediting the ABGC, arguing that the ABGC is a tracking mechanism designed to recover only non-commodity related gas costs. (Company IB, p. 207) The ABGC, however, appears in the gas supply portion when the Company issues a bill on behalf of the supplier. Thus, an offset to the ABGC would allow customers to more easily compare the costs of participating in CFY and sales service. RGS continues to propose that the credit apply to the ABGC or in a competitively neutral manner such that the credit offsets a CFY customers supply portion of the bill and not the delivery portion of the bill.

2. Customer Enrollment

a. Customer Data Issues

(i) Customer Lists

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 and the designation of service classification (heating, non-heating). The Company would only provide the data once every six months and RGS accepts that limitation. The Staff does not take issue with this proposal but rather focuses on ensuring customer consent for release of personal information such as billing history. (Staff IB, p. 260; Company IB, p. 208)

(ii) Payment History

The Company, NAE, Staff and RGS all agree that the release of customer payment history is critical to perform credit checks of prospective customers in the absence of a POR program. The Company only agreed to provide payment history information after the customer is "active and flowing" and only if explicit customer consent has been obtained. The release of payment history after the customer is active and flowing defeats the purpose of obtaining the information in the first place. Because of the uneven treatment of supplier receivables created by the lack of a Purchase of Receivables program, CFY suppliers need to perform rigorous credit checks to ensure they enroll customers that will continue to pay their bills. Part of this process includes reviewing the customer's payment history prior to actually providing service to that customer. Staff agrees with this position and "…supports the early release of billing and usage information where specifically authorized by the customer." (Staff IB, p. 262) The Company should be required to release customer payment information immediately upon verification that appropriate customer consent has been obtained.

b. Evidence of Customer Consent

All parties agree that CFY suppliers should obtain customer consent before the Company releases sensitive information such as customer bill payment history and past due amounts. "Staff supports the early release of billing and usage information where specifically authorized by the customer." (ICC Staff Exhibit 24.0 Corrected, p. 19; Staff IB, p. 262) The Company recommends that prior to the release of sensitive customer information such as bill payment history, the Company should be able to review the form contract of a CFY supplier authorizing the supplier to obtain customer payment history and customer past due payment data. The Company wants to be held harmless in disputes between CFY suppliers and customers about the scope or effectiveness of a customer's authorization to provide payment history or past due payment data to a CFY supplier. The Company also wants CFY suppliers to indemnify the Company against any customer damage claim if the CFY supplier receiving the data does not have the requisite authorization, or if the customer revokes the authority. In order to achieve these objectives, the Company proposes a new subsection D in Rider CFY and a new subsection 5 added to the description of the contract in section F of Rider AGG.

Staff provides several means by which a CFY supplier could obtain customer authorization for the release of payment history and other customer-specific data. Staff cites contract elements, voice verification, and electronic verification methods as possible approaches to obtaining customer consent for the release of payment history and other customer-specific information. (Staff IB, p. 262)

Staff witness Rearden testified that 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, written or electronic verifiable record of customer consent, then the Company should release customer-specific information to the CFY supplier. (Tr. 696 - 697) RGS agrees with those conditions.

Nicor currently provides customer-specific data to suppliers as long as the suppliers warrant that they have obtained customer consent. There is no need to prove Nicor with consent for each and every customer with mechanisms such as the provision of written authorizations or third part verification. No party was aware of any problems associated with the Nicor process. This is not surprising. After all, the procedures for obtaining customer consent to provide billing and payment history should be no more stringent than the procedures for obtaining customer consent to switch gas suppliers. RGS recommends that, like Nicor, the Company be ordered to comply with their customers' directives in this matter and that customer consent may be provided to suppliers verbally, electronically, or in written form and only provided to the Companies if issues arise that would require proof of consent.

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 Company originally proposed to maintain this minimum stay requirement but then revised its minimum stay requirement to allow customers to stay on sales service as long as ninety days before being locked into sales service for a period of one year. (Company IB, p. 212).

It is hard to imagine how the movement of individual residential customer to and from sales service is somehow going to impact the supply planning process for nearly one million customers. 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 the Company's proposed 90 days to 120 days before the one-year minimum stay requirement is applied. (RGS Ex. 2.0, p. 27)

3. Rider SBO

Suppliers who elect Rider SBO, Supplier Bill Option Service, issue a single bill that includes both the supplier's supply charges and the Company's delivery charges. The payment application process under Rider SBO results in all current and past due Company receivables being paid before any past due or current amounts are paid to suppliers. The Company, in litigating the terms and conditions of Rider SBO, proposed a change to the current order of payments under the Utility Consolidated Billing ("UCB") process, which is a single bill alternative to the supplier issued single billing option under Rider SBO. Currently, when a customer goes into arrears under UCB, 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.

There are inherent problems with the Company's treatment of supplier receivables that result in a large number of customers being denied the benefits of a competitive market. However, the Company proposes to make that order of payments even less favorable to CFY suppliers and their customers. The Company proposes to pay all Company arrears and all Company current charges before suppliers receive payment for any past due amounts. (Company IB, p. 213) This back door attempt at switching the payment application under UCB should be rejected. Company witness Zack agreed that the reordering of payment application would most likely lead to an increase in CFY providers' receivables. (Tr. 630) Suppliers are already at a significant disadvantage under the current order of payment application and the Company's proposal only serves as a step backward in the drive to bring the benefits of competitive markets to all customers.

4. Purchase of CFY Supplier Receivables

RGS proposes a Purchase of Receivables ("POR") program in order provide all customers with the opportunity to benefit from the CFY program and to rectify the problems created by the current treatment of receivables. 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 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) RGS' primary POR proposal includes a zero percent discount on receivables with recovery of bad debt and start-up and administration costs through base rates. A rate case proceeding is the appropriate forum to institute such a program.

The Company opposes RGS' proposed POR program. The Company states the following reasons for its opposition: (1) it is not in the business of purchasing CFY supplier receivables and its information systems and business processes are not designed to support POR; (2) it results in an inappropriate shift in business risk; (3) Commission rules prevent the utility from disconnecting customers for non-payment of supplier receivables; (4) RGS' proposal provides for no means for the Company to recover the added risks, costs, and expenses associated with POR; (5) legislation requiring Illinois electric utilities to offer POR programs is indicative that POR is inappropriate for Illinois gas utilities. (Company IB, p. 214-217)

Staff opposes POR claiming that it may alter the Company's regulated costs. In addition, Staff questions whether customers should be disconnected for non-payment of supplier services.

Both Staff's and the Company's positions are refuted by record evidence. As described in more detail below, POR programs are an integral part of competitive retail energy markets across North America. POR allows all customers, including customers with low credit scores, to realize the benefits of competition. The Company and Staff do not appear to be interested in the advancement of competitive markets in Illinois given their opposition to POR.

a. POR programs are an integral part of utility service in deregulated retail energy markets across North America/The Company already collects and remits supplier receivables

The Company argues that it is not in the business of purchasing supplier receivables and does not have the business processes and information systems in place to offer the service. (Company IB, pp 214-215). Although the Company does not currently offer a POR program, the Company does collect payments from customers and remit those payments to CFY suppliers as a standard business practice. When customers fall into arrears the Company continues to track and bill those supply-related arrearages to the customer. When customers make payments on supplier arrearages, 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. In fact, Utility Consolidated Billing ("UCB") would be an integral part of a POR program and is already offered by the Company. In short, the processes to support a POR program are already in place. (RGS Ex. 2.0, p. 17)

The necessary changes to implement POR would be minimal. The Company already has in place the necessary billing and collection systems to support a POR program. Despite the fact that such assets are utilized to collect arrearages and bad debt for supply that CFY customers do not consume, CFY customers still pay for the cost of such assets because they are recovered through delivery charges. CFY customers deserve to benefit from those assets, and a POR program would provide benefits that justify the recovery of collection costs from CFY customers. (RGS Exhibit 1.0, pp. 31-32)

The Company argues that POR is not a utility service. Then, citing *Lowden v. Illinois Commerce Commission*, 376 Ill. 225, 231 (1941) for the proposition that "within the boundaries of governing law, a utility has discretion to manage the conduct of its business," the Company claims that RGS has not provided valid grounds to support the Commission's ordering it to go into this non-utility line of business. (Company IB, p. 215)

The Company is wrong. First, the purchase of receivables in this context **is** a utility line of business because the collection of receivables is integral to the provision of utility business. In fact, the Company's expenses for purposes of setting its allowed revenue requirement includes collection costs and its revenue requirement includes an allowance for uncollectibles. Here, the customers whose receivables are being purchased very well may have been customers of the Company not long ago. Moreover, in a recent ICC case when Commonwealth Edison Company opposed a purchase of receivable proposal, it argued that Section 16-103(e) of the Public Utilities Act prohibits the Commission from requiring electric utilities to offer a "new *utility* service." *Commonwealth Edison Company*, ICC Docket No. 05-0597, ICC Order, p. 287. (Emphasis added) Thus, that company understood that the purchase of receivables is a utility service.

Second, while the Company certainly retains some discretion to conduct its business, it cannot do so in a manner that inhibits competition. As shown in RGS' Initial Brief, the institution of a purchase of receivables program will level the playing field by eliminating the Company's ability to leverage its superior collection ability through the threat of service termination. Thus, even if the purchase of receivables is seen as something other than a traditional utility service, it should be adopted in this proceeding as a means of encouraging competition for gas supply to residential and small commercial customers.

b. POR mitigates bad debt risks and provides for equal treatment of both supplier and utility receivables

The Company opposes POR calling it an attempt by CFY suppliers to shift business risk to the Company. (Company IB, p. 215) However, the Company fails to recognize that it is guaranteed to be made financially whole in the long-run. Under either a zero percent discount program where bad debt costs are recovered through base rates or a discount off of receivables program where suppliers are reimbursed for less than 100% of their receivables, the Company is guaranteed to recover the cost of bad debt. Risks are eliminated through the regulatory process. Further, the Company is provided with the incentive to profit from reducing the overall amount of uncollectibles relative to the approved discount rate or base rate expense. Alternatively, a bad debt rider, such as the Company's proposed Rider UBA, can guarantee recovery and be adjusted on a periodic basis so that the Company never over or under recovers uncollectible costs.

The Company also fails to recognize that POR actually reduces the overall risk of non-payment because, similar to the treatment of sales customers, it subjects CFY customers to the threat of disconnection for non-payment of supply-related charges. Customers that are subject to disconnection for non-payment are more likely to pay their bills. Thus, the total amount of uncollectibles should be reduced if POR is adopted.

The Company argues that the "…utilities do not now have the risks associated with collecting the receivables in question." (Company IB, pp. 214-215) Despite the fact that POR reduces the overall risk of non-payment and guarantees that the Company recovers its uncollectibles costs, it is worth noting that the utility was responsible for all

CFY customer receivables before they switched to the CFY program. In the absence of the CFY program, the Company would be responsible for the delivery and supply related uncollectibles of all customers just as they would under a POR program.

c. POR is consistent with Commission Rules and promotes equal treatment of sales service and CFY customers

The Company argues that 83 Ill. Adm. Code Part 280.130(a) prevents the Company from disconnecting customers for non-payment of supplier receivables. What the Company fails to recognize is that, under POR, the receivables associated with CFY supplier charges are actually the Company's and not the CFY supplier's receivables. The Company takes ownership of the receivables through the POR program and the receivables are for the provision of natural gas supply, which is a utility service. Thus, the Company can disconnect for non payment of the supplier's portion of a bill under Code part 280.130(a)(1)(E), the failure to "pay a past due bill owed to the utility. . ." Having purchased the receivables, the utility would be owed the bill.

Even if one decides that purchased receivables do not fit the definition of a bill owed to the utility, Code part 280.130(A)(1)(E) provides a mechanism to accomplish the task. That section states that a customer can be disconnected for failure to "comply with any rules of the utility on file with the Commission for which the utility is authorized by tariff to discontinue service for noncompliance on the part of the customer or user." The Company merely needs to add a provision to its tariff allowing disconnection in the event all of its bills, including the purchased receivables, are not paid.

Both the Company and Staff claim that it is inappropriate to disconnect customers for non-payment of CFY supplier gas charges. (Company IB, p. 215; Staff IB, p. 264) The exact opposite is true. It is inappropriate to treat customers differently depending on their choice of natural gas supplier. Both the Company and CFY suppliers are in the business of selling natural gas commodity to retail customers. There is no difference between the actual physical product that is provided to customers. Why should customers be treated differently depending on their choice of supplier? Neither the Company nor Staff explain why it is appropriate to disconnect customers for non-payment of the Company's gas supply charges but inappropriate to disconnect customers when they fail to pay a CFY supplier's gas supply charges. POR provides for equal treatment of customers regardless of their choice of supplier.

The Company also argues that disconnecting service for non-payment of CFY supplier charges may create confusion. Again, the exact opposite is true. A single policy for disconnection that applies to customers regardless of their choice of supplier is likely to reduce customer confusion.

d. RGS' proposal includes all of the necessary elements to implement a POR program

The Company claims that RGS' proposal "…provides for no discount, no other compensation, and no means for the utilities to recover the added risks, costs, and expenses that would be taken on by the utilities." (Company IB, p. 216) This is simply not the case. As explained above, there are essentially no added risks associated with POR programs because utilities are guaranteed recovery of their costs through base rates, riders, or a discount off of receivables. RGS witness Crist outlined two different methods for implementing a POR program. Both methods account for recovery of start-up and administrative costs and costs associated with uncollectibles. RGS' primary proposal includes a zero percent discount on receivables. Under a zero percent discount POR program, the Company recovers uncollectible and any start-up and administrative expenses from CFY customers and sales customers through base rates. If the Company's proposed bad debt rider is approved, then all uncollectibles, including uncollectibles associated with CFY supplier supply and Company supply, would be recovered through that rider while the start-up and administrative costs would be recovered through base rates.

e. POR legislation for Illinois electric utilities outlines the need for POR programs for Illinois Gas Utilities

The Company argues that the Commission should not consider Senate Bill 1299 because it only applies to electric utilities and the General Assembly "chose not to extend the requirement of a purchase of receivables program to gas utilities." (Company IB, p. 216).

The Company misses the point. RGS did not cite Senate Bill 1299 for the proposition that it requires the adoption of RGS' proposal. Rather, Senate Bill 1299 demonstrates that a purchase of receivables program is not as radical a step as the Company would have the Commission believe. If Illinois electric utilities can implement such a program, so can the Company. As for the second point, of course the General Assembly did not extend the program to gas utilities because Senate Bill 1299 was an amendment to the portion of the Public Utilities Act addressing competition in the electric industry. That bill was a response to a specific issue raised in the Commonwealth Edison case cited above. In *Commonwealth Edison Company*, ICC Docket No. 05-0597, the Commission agreed with the utility's argument that Section 16-103(e) of the Public Utilities Act, a provision that applies only to electric utilities, prohibits the Commission from requiring it to offer new services. Senate Bill 1299 eliminates that barrier – a barrier that does not exist for gas utilities. Thus, this Commission has the authority to direct the Company to adopt such a program without waiting for specific legislative directive such as the one provided by Senate Bill 1299 for electric utilities.

4. PEGASys and Customer Information

PEGASys is the electronic bulletin board through which the Company conducts daily transactions with CFY suppliers. There is general agreement among the parties that PEGASys needs to be improved. The parties differ as to the implementation date of the Company's proposed improvements. The Company proposes to implement changes to PEGASys no later than August 2008. RGS continues to propose that PEGASys enhancements thirty days of the date that the final order is entered in the instant proceeding.

CONCLUSION

For the reasons stated above, the Commission should adopt the recommendations made in the Retail Gas Suppliers' Initial Brief.

Dated: October 23, 2007

Respectfully submitted,
Retail Gas Suppliers

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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 23, 2007.

*s/ Stephen J. Moore*___________________

Stephen J. Moore