STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company	))	
	)	Docket No. 08-0363
Proposed general increase in rates, and revisions to other terms and conditions	))	

ADDITIONAL DIRECT TESTIMONY OF

SCOTT J. RUBIN

On behalf of the People of the State of Illinois
and the Citizens Utility Board

September 4, 2008

AG/CUB Exhibit 3.0

OFFICIAL FILE
ICC Docket No. 08-0363
AG/CUB Exhibit No. 3.0-3.07
Witness Scott Rubin
Date 11/18/08 Reporter CC

Q. Please state your name and business address.

A. My name is Scott J. Rubin. My business address is 333 Oak Lane, Bloomsburg, Pennsylvania 17815. I previously submitted Direct Testimony on September 2, 2008.

Q. What is the purpose of this Additional Direct Testimony?

A. This testimony will address residential rate design, including related impacts on Nicor's proposed Volume Balancing Adjustment Rider (Rider VBA). I was provided with additional time to prepare this testimony largely because of my receipt last week of very large data files from Nicor. Those files contain consumption data for each residential (Rate 1) customer from May 2006 through July 2008, without any customer-identifying information.

Q. Please summarize your major findings and conclusions.

A. I have reached the following conclusions about residential rate design in this case:

1. Nicor's residential rate design proposal represents a dramatic change in rates, including a 60% increase in the customer charge and decreases in the per-therm distribution charges.

2. Nicor's proposed rate design would have the effect of asking many low-consumption customers to pay more – in some cases increases of 40% or more – in order for some high-consumption customers to pay less – in some cases hundreds of dollars less per year.

3. Nicor's suggested alternative of a Straight Fixed Variable (SFV) rate would be even worse than Nicor's residential rate design proposal. SFV rates would result in a tremendous redistribution of costs within the residential class, with some customers seeing their base rate bills double, while others would receive reductions of hundreds of dollars per year.

4. I conclude that neither Nicor's proposed residential rate design nor its suggested SFV alternative is equitable. Neither Nicor proposal should not be adopted by the Commission. Instead I recommend that each residential base rate (the customer charge and three distribution block charges) should be increased by the same percentage.

5. I also conclude that Nicor has not justified the need for its proposed Volume Balancing Adjustment Rider (Rider VBA). The actual data provided by Nicor shows that Nicor actually over-recovered its fixed costs from residential customers during the past two years. As such, there is no need to provide any special ratemaking treatment, or to radically restructure the residential rates, in order to ensure that Nicor has a reasonable opportunity to earn its allowed rate of return.

Q. Please summarize your understanding of Nicor's existing residential rate design.

A. Nicor's existing residential rates consist of a customer charge of $8.40 per month and a three-step declining block rate. A customer pays $0.1473 per therm for the first 20 therms per month, $0.0579 per therm for the next 30 therms per month, and $0.0519 per therm for all usage in excess of 50 therms per month.

Q. How does Nicor propose to change these rates?

A. Nicor is proposing a 31.36% increase in rates to the residential class. Rather than increasing each rate element by the same percentage, however, Nicor is proposing a fairly radical restructuring of the rate. Specifically, Nicor is proposing to increase the customer charge by more than 60% to $13.55 per month. It then proposes to *reduce* the charge for the first 20 therms per month by more than 13% to $0.1271 per therm. Finally, Nicor proposes to consolidate the last two rate blocks into one (all usage in excess of 20 therms per month) with a charge of $0.0519. This represents a reduction of more than 10% in the price for usage between 20 and 50 therms per month.

Q. Why is the Company proposing such a dramatic re-design of its rates?

A. Nicor claims that it is not recovering its fixed costs through its existing rate design. Nicor is trying to recover more of the fixed costs through the customer charge so that its revenue stream is less dependent on gas consumption.

55 **Q. Did Nicor make any other residential rate proposal?**

56 A. While Nicor did not propose it in its tariffs, the Company suggested in testimony that it
57 would be willing to implement full Straight Fixed Variable ("SFV") rates. SFV rates
58 recover all fixed costs through the customer charge. The rate also would include a very
59 low per-therm distribution charge to recover variable costs. Nicor states that its SFV
60 residential rates would be a customer charge of $18.66 per month with a usage charge of
61 $0.014 per therm for all gas delivery.

62 **Q. Has Nicor evaluated the actual impact of its proposals on residential customers?**

63 A. No, it has not. Nicor presents information about average bill impacts, but its filing and
64 testimony do not evaluate the actual impact of its proposals on its approximately
65 2 million residential customers.

66 **Q. Have you performed a customer impact analysis for Nicor's proposals?**

67 A. Yes, I have. I used the data that Nicor provided during discovery (response to AG 4.01)
68 about its customers' actual consumption. The data are voluminous, amounting to roughly
69 100 megabytes of information per month for 27 months.

70 **Q. How did you conduct your analysis?**

71 A. The first step was to consolidate multiple entries for a customer account into a single
72 entry for each account in each month.[1] I selected data for the most recent 24 months –
73 August 2006 through July 2008. I imported the data into a statistical analysis program
74 that matched each month's data to the customer identification number in the Nicor file. I
75 then calculated an average amount of consumption for each calendar month (that is, a

[1] Multiple entries exist for some customers in some months because of corrected bills, final bills, and similar routine billing matters.

76 January average, a February average, and so on). Because of the limited amount of time I
77 had to analyze the data, I simplified my analysis by eliminating customer records that had
78 more than two months with average usage that was zero, and I also eliminated any
79 records that had one month or more with a negative average.[2] The resulting data set
80 consists of data for more than 1.3 million Nicor residential customers for the past 24
81 months.

82 Using this data set, I calculated the bill each customer would pay under Nicor's
83 existing rates and under Nicor's proposed rates. I also calculated each customer's bill
84 under two other options: (1) the SFV rate I mentioned above and (2) the rates that would
85 result from increasing each rate by the average increase for the residential class (31.36%).

86 **Q. How did you use this information?**

87 A. From the calculation of customers' bills, I developed distribution curves that show how
88 customers are affected by the various rate options. The first curve is shown in AG/CUB
89 Exhibit 3.01. This curve shows the distribution of the percentage increases that
90 customers would actually see under the Nicor proposal, the SFV rate option, and the
91 equal percentage increase option.

92 **Q. How do you interpret (or read) a distribution curve like this?**

93 A. On the bottom (or x) axis, I show the percentage change in a customer's bill for
94 distribution service (that is, the base rate portion of the bill). The side (y) axis shows the

[2] Accounts with more than two months of zero bills could be new customers, customers who left the system, or seasonal customers. I eliminated these because I am trying to determine the annual impact on customers and because time constraints did not make it possible to evaluate whether a customer is a seasonal customer. Negative bills would reflect corrected bills or bills that were over-estimated in a previous month. These were eliminated because it would be time-consuming to determine the appropriate consumption blocks to which the negative usage should be credited.

95 cumulative percent of customers, ranging from zero to 100 percent. The curves show the
96 cumulative percentage of customers whose bills would increase by a given percentage or
97 less.

98 Let's start with the red (dashed) curve, which shows Nicor's proposed rates. The
99 curve starts along the bottom almost at zero. The starting point is actually a 3% increase.
100 Two customers – a tiny fraction of the customer base – would see their bills increase by
101 only 3% under Nicor's proposal, even though the class's rate increase is more than 31%.
102 The red curve continues to the right and begins to slope upward just past the 20% change
103 in bills. Near a 25% increase in bills, the curve crosses the 10% of customers line from
104 the side axis. This means that about 10% of Nicor's residential customers would have
105 their annual bills increase by 25% or less under Nicor's proposed rates.

106 The curve continues sloping upward steeply and reaches a 30% change in bills at
107 about the 50th percentile of customers. That is, about 50% of Nicor's customers would
108 see their bills increase by 30% or less under Nicor's proposed rate design. (The actual
109 figure is 51.2% of customers.) The average increase is 31% and while it isn't easy to see
110 on the graph, the data show that 61% of Nicor customers would have increases of this
111 amount or less. Obviously, the other 39% of Nicor's residential customers would face
112 larger than average increases because of the proposed new rate design. In fact, about
113 36% of customers would see their annual bills increase by between 31% and 40%.[3]

[3] The curve intersects the 40% bill change on the bottom axis and about 97% on the left axis; 97% of customers have 40% increases or less; 61% had 31% increases or less, so the difference – 97 - 61, or 36% of customers – have annual increases between 31% and 40%.

114 The remaining 3% of customers – nearly 40,000 customers in my sample, likely
115 representing more than 60,000 customers overall – would have their annual bills increase
116 by between 40% and 60% because of Nicor's rate design proposal.

117 **Q. What are the characteristics of customers who would face increases of 40% or more**
118 **under Nicor's rate proposal?**

119 A. Nicor's rate proposal imposes the largest percentage increases on customers with the
120 lowest levels of consumption. For example, a customer who uses 20 therms per month
121 pays $11.35 per month now and would pay $16.09 per month – a 41.8% increase – under
122 Nicor's proposed rates.

123 **Q. What are the other two curves shown on AG/CUB Exhibit 3.01?**

124 A. The blue (solid) curve represents the effect of adopting Nicor's calculated SFV rate; that
125 is, a rate that recovers all fixed costs through the customer charge. The effects of this
126 type of rate are even more dramatic than Nicor's proposed rate. Two percent of Nicor's
127 customers – the largest residential gas users – would have their annual bills for
128 distribution service decrease – even in the face of a 31% rate increase overall. More than
129 20% of customers' annual bills would increase by 20% or less, only 2/3 of the average
130 class increase.

131 These lower-than-average increases must be made up by someone paying higher
132 rates. And under the SFV rate, fully one in every four customers would pay more than a

133 40% increase on an annual basis, with the lowest-use customers seeing their annual bills
134 double.[4]

135 The last curve on the graph is simple. It's a vertical black (dotted) line just to the
136 right of 30%. This represents the effect of each rate being increased by the same
137 percentage – approximately 31%. Since all rates are being increased by the same
138 percentage, the impact on all customer bills is also the same.

139 **Q. What do you conclude from this first part of your analysis?**

140 A. I conclude that Nicor's proposed rate design clearly creates winners and losers. About
141 one in every five customers would receive an increase of 25% or less, and that would be
142 paid for by about 10% of customers who would receive increases of more than 35%. A
143 few "lucky" customers (the largest gas users) would see their bills increase by less than
144 5%, while the "unluckiest" customers (the smallest users) would see increases of 50% or
145 more.

146 I also conclude that the impact of a full SFV rate would be so radical – and would
147 have such disparate impacts on customers in the same class – that it should not even be
148 considered. The rate impacts are so severe and so disparate – ranging from bills being
149 reduced by 50% or more, to other bills more than doubling – that in my opinion it should
150 not even by considered by a regulatory commission.

151 Indeed, I find that the SFV rate directly and dramatically conflicts with several
152 well-established ratemaking principles, such as the principles of gradualism, rate
153 continuity, equity, and non-discrimination. These principles tell us that changes in rates

[4] About 1% of customers would have annual increases of 90% or more in their distribution bills.

154 should be as gradual as possible (given the exigencies of changing costs), that the
155 structure of rates should not change dramatically so that customers receive a consistent
156 set of price signals (that can influence spending on long-term investments such as heating
157 systems), that all customers should be treated fairly, and that similarly situated customers
158 should not be treated in a disparate manner.

159 While Nicor's proposed rate is less dramatic than the full SFV rate, Nicor's
160 proposal shares many of the same characteristics, including disparate impacts on
161 customers. Nicor has chosen "winners" and "losers" and, as I explain below, it is not
162 necessary to do so for Nicor to achieve its stated purpose.

163 **Q. You mentioned that the "losers" under Nicor's proposal or the SFV rate would be**
164 **smaller users, while the "winners" would be larger users. Have you evaluated the**
165 **dollar impacts on customers' bills from these proposals?**

166 A. Yes, I have. On AG/CUB Exhibit 3.02 I show another set of distribution curves. In this
167 exhibit, I am showing the dollar change as compared to the equal percentage increase.
168 That is, on this chart, a $0 impact is the same as a 31.36% rate increase from existing
169 rates. If a customer pays more than the zero dollar impact, he or she is paying a higher-
170 than-average percentage increase.

171 It should be noted that the curves on this exhibit are exactly the same shape as the
172 curves on AG/CUB Exhibit 3.01. The difference is that this chart translates those curves
173 into dollar amounts. It shows that under Nicor's proposal, most customers who would
174 pay higher-than-average increases would pay an extra $10 per year or less, but some
175 customers would pay as much as $30 per year over and above the 31% rate increase.

Most customers who would pay lower-than-average increases would pay about $10 per year less than they would under an equal percentage increase, but some customers would receive a benefit of many times that amount. In fact, to make this chart readable, I had to truncate the left side – there actually would be some customers whose annual bills would decline by hundreds of dollars (under Nicor's proposal the largest reduction compared to the 31% increase is $543 per year).

For the SFV rates, the impacts are far more severe. Thousands of lower-use customers would pay an extra $70 per year or more above the 31% increase. On the flip side, thousands of higher-use customers would receive benefits in the hundreds of dollars per year (about a dozen customers would see their bills decline by more than $1,000 annually under SFV as compared to a 31% increase).

There appears to be an assumption that moving toward SFV rates may just be a form a budget billing – making customers pay more in the summer but less in the winter. That is an interesting theory, and I suppose it could be true for some utilities. But my analysis shows that this is not true for Nicor. The impacts on customers are real – many low-use customers would pay more on an annual basis so that some high-use customers can pay less. In some cases, the impacts are quite extreme. Any proposal to dramatically change residential rate design must be accompanied by a customer-impact analysis that shows the effects of the proposal on real customers.

195 **Q. You stated earlier that Nicor is proposing dramatic changes in residential rate**
196 **design because Nicor alleges it has under-collected its fixed costs through its current**
197 **rate design. Did Nicor's billing data allow you to analyze the extent of the under-**
198 **collection, if any, for the residential class?**
199 A. Yes, it did. I used the same data set to analyze Nicor's revenue collections by
200 consumption block and compare that to what Nicor assumed in its last rate case when the
201 current rates were set.

202 **Q. Please begin by describing the assumptions used when Nicor's current rates were**
203 **established.**
204 A. In Docket No. 04-0779, Nicor used a test year ending December 31, 2005. In AG/CUB
205 Exhibit 3.03, I have reproduced two pages from Nicor's Schedule E-5 from that case.
206 These pages show that Nicor projected it would have 1,933,771 residential customers on
207 average during 2005 and that it would sell 2,256,096,000 therms to those customers that
208 year. Importantly, it also shows how much of those sales Nicor projected would be in
209 each consumption block. The per-block breakdown is very important because Nicor
210 recovers a much greater proportion of its fixed costs in the first block than it does in the
211 second and third consumption blocks.

212 Specifically, Nicor projected that it would sell 419,938,000 therms in the first
213 block, 409,096,000 therms in the second block, and 1,427,062,000 therms in the third
214 block.

Q. Have you estimated Nicor's fixed cost recovery in each consumption block?

A. Yes. I do not believe that Nicor calculated that figure in its last rate case. Under Nicor's proposed revenue requirement, however, Nicor states that its variable distribution cost to the residential class is 1.4 cents per therm. Nicor Ex. 14.0, lines 357-359. In order to estimate Nicor's variable distribution cost under current rates, I have reduced this by the residential average increase proposed by Nicor (31.36%). Thus, I estimate that Nicor's variable distribution cost in current rates is approximately 1.07 cents per therm. The difference between this variable cost and the rate that Nicor charges in each block would be Nicor's fixed-cost recovery in that block. I show these calculations on AG/CUB Exhibit 3.04.

Q. Using this information, can you calculate the fixed cost recovery from gas sales that Nicor assumed, on a per-customer basis?

A. Yes, I can. From this information, I can calculate Nicor's assumed average level of sales per-customer in each consumption block. When this is multiplied by the estimated fixed cost recovery in each block and totaled, I can estimate the assumed level of fixed cost recovery per customer from gas sales under Nicor's existing rates. I show this calculation on AG/CUB Exhibit 3.05. The result of the calculation is that Nicor assumed it would recover an average of $70.05 per year in fixed costs per residential customer from the per-therm gas distribution charges.

Q. From Nicor's actual sales data, have you estimated Nicor's actual level of fixed cost recovery per customer from distribution charges during the past 24 months?

A. Yes. I show this analysis on AG/CUB Exhibit 3.06. My analysis of the data set of more than 1.3 million Nicor residential customers shows that Nicor actually recovered <u>more</u>

238 fixed costs from these customers, on average, than it assumed it would in its last rate
239 case. Specifically, in AG/CUB Exhibit 3.06 I show that Nicor recovered an average of
240 $72.89 in fixed costs from gas distribution charges. This exceeds its assumed level of
241 collection of $70.05 per customer by more than $2.80 per customer per year.

242 **Q. AG/CUB Exhibit 3.06 shows that Nicor sold more gas per customer, on average,**
243 **over the past 24 months than it projected in its last rate case. Can you reconcile that**
244 **with the Nicor data response you provided as AG/CUB Exhibit 2.04 in your Direct**
245 **Testimony?**

246 A. I cannot completely reconcile the two figures. We asked Nicor to provide the complete
247 data set for its residential customer class, going back to January 2006, so that I could try
248 to match data for two complete calendar years, as well as the first six months of 2008.
249 Nicor was only able to provide data going back to May 2006, so I only have one
250 complete calendar year (2007). Further, there is a difference between the billing month
251 and the time period over which consumption occurs. For example, bills rendered in
252 January include some consumption from December of the previous year. Thus, I would
253 always expect there to be some difference between billing data for a time period and
254 consumption data for the same time period.

255 The differences between Nicor's data file and its summary in AG/CUB Exhibit
256 2.04, however, appear to be more pervasive than a simple timing difference. Specifically,
257 in AG/CUB Exhibit 2.04, Nicor showed that it had 1,958,838 residential customers, on
258 average, during 2006. But the billing data Nicor provided to me contains data for no
259 more than 1,790,048 residential customers in any one month. Similarly, in 2007, Nicor
260 says it had 1,969,805 residential customers, but the data I received had no more than

261 1,834,081 customers in any one month. I show a summary of the data I received from
262 Nicor – before eliminating accounts because of negative or zero entries, as I explained
263 above – on AG/CUB Exhibit 3.07.

264 There are also discrepancies in consumption that I cannot explain. For 2007, the
265 Nicor summary shows usage of 2,215,475,000 therms, while the complete data set shows
266 2,173,810,544 therms. Part of this difference of 41.7 million therms would be explained
267 by the type of timing difference I discussed between billing months and consumption
268 months. In this instance, the January 2007 bill would include some consumption from
269 December 2006, while some December 2007 consumption would not be billed until
270 January 2008. It can be seen from AG/CUB Exhibit 3.07 that consumption was about 34
271 million therms higher in December 2007 than it was in December 2006. So this means
272 that more 2007 consumption was billed in January 2008 than there was 2006
273 consumption billed in January 2007. On average, I would expect about one-half of the
274 consumption in each month to be billed in the following month, so the timing difference
275 would account for about 17 million therms of the difference. I cannot explain the
276 remaining difference of approximately 24 to 25 million therms.

277 Because of the lateness of my receipt of the data set from Nicor, I have not been
278 able to follow up to determine the reasons for these discrepancies. Around the date of
279 filing this testimony, I will be preparing a set of data requests for Nicor to try to
280 determine the reasons for these differences.

281 In any event, based on the best information I have available at this time, I
282 conclude that for at least the past 24 months, Nicor has been selling slightly more gas per

283 customer than it projected it would sell in its last rate case. Further, because of the
284 pattern of those gas sales, Nicor has sold slightly more gas in the first consumption block
285 – where it recovers the greatest amount of fixed costs – than it projected. The result is
286 that Nicor has recovered about $2.80 more in fixed costs from each residential customer
287 than it projected it would recover in its last rate case.

288 **Q. Did your elimination of customer accounts based on zero and negative values, as you**
289 **discussed earlier, affect your conclusion?**

290 A. Obviously, eliminating any records from an analysis will have some impact on the
291 precise calculation, but it does not affect my conclusion. If I were to include the
292 complete data set, I would not have been able to do accurate calculations of customers'
293 bills or usage per block in the time period available. But I can readily calculate the
294 average number of customers, average annual consumption, and consumption per
295 customer, as I do at the bottom of AG/CUB Exhibit 3.07. This shows that the full data
296 set contains average consumption of 1,238.90 therms per customer per year. This is even
297 higher than the 1,217.26 annual therms per customer I calculated for the set of 1.3 million
298 customers on AG/CUB Exhibit 3.06. I conclude, therefore, that my results from
299 AG/CUB Exhibit 3.06 are reasonable and are representative of the entire Nicor
300 residential customer class.

301 **Q. Assuming hypothetically that Nicor actually had sold <u>less</u> gas per customer than it**
302 **projected in its last rate case, would it be reasonable to assume that Nicor seriously**
303 **under-recovered its fixed costs?**
304 A. No, it would not. If we were to assume that Nicor's calculation of sales per customer on
305 AG/CUB Exhibit 2.04 is accurate, it still would not mean that Nicor suffered a serious
306 under-recovery of its fixed costs.

307 In particular, from AG/CUB Exhibit 2.04, Nicor states that it sold 1,131 therms
308 per customer in 2005, 1,036 therms per customer in 2006, and 1,125 therms per customer
309 in 2007. In its last rate case, Nicor assumed that it would sell 1,167 therms per customer
310 annually. So the under-recovery, using these figures, would be 36 therms per customer
311 for the entire year in 2005, 131 therms in 2006, and 42 therms in 2007, or an average of
312 70 therms per customer per year during this three-year period.

313 In terms of fixed cost recovery, however, it must be recalled that Nicor recovers
314 most of its additional fixed costs through the first consumption block (the first 20 therms
315 per month). It is unlikely that sales in this consumption block are going to decrease very
316 much. Certainly, they would hardly decrease at all during the winter months, when
317 nearly every customer uses more than 20 therms per month regardless of the weather.[5]
318 Indeed, very few Nicor customers have no consumption in the third block (more than 50
319 therms per month) during these winter months.[6] I conclude, therefore, that any weather-
320 related differences in consumption are going to affect consumption almost entirely in the

[5] The billing data set shows that only approximately 1.6% of winter bills (November through March) in 2006-2008 were for less than 20 therms per month.
[6] The billing data set shows that only approximately 6.2% of winter bills in 2006-2008 had consumption of less than 50 therms per month.

321 third block. In that consumption block, however, Nicor recovers only 4.12 cents per
322 therm for fixed costs, as I showed on AG/CUB Exhibit 3.04.

323 Thus, if we assume that Nicor sold 70 therms less per customer annually, it would
324 under-recover fixed costs by 70 x $0.0412 = $2.88 per customer. During 2007, Nicor had
325 1,969,805 customers, so its total hypothetical under-recovery of fixed costs would be no
326 more than $5.67 million annually.

327 **Q. Hypothetically, if Nicor had a fixed-cost under-recovery from residential customers**
328 **of $5.67 million annually, would that require any special ratemaking treatment,**
329 **such as a dramatic re-design of residential rates or the adoption of a Volume**
330 **Balancing Adjustment Rider?**

331 A. No, absolutely not. Under existing rates, Nicor projects it will recover $354 million in
332 base rate revenues from residential customers. *See* Nicor Ex. 14.3 which reproduces
333 Nicor Sch. A-3. Thus, the hypothetical shortfall would only be about 1.5% of Nicor's
334 base rate revenues. I consider such a difference to be well within the range of reasonable
335 risks that Nicor assumes and for which it is compensated by receiving a return on
336 common equity that greatly exceeds a risk-free cost of capital.

337 Moreover, even if the Commission wished to remove this completely manageable
338 risk from Nicor – which I would strongly oppose – it could do so by simply increasing
339 Nicor's residential customer charge by about 24 cents per month.[7]

[7] The hypothetical shortfall is $2.88 per customer per year. Dividing this amount by 12 months yields 24 cents per customer per month.

340 **Q. If the Commission were to increase the customer charge by an additional 24 cents**
341 **per month, how would that affect the distribution block charges?**
342 A. First, I would reiterate that I do not recommend such an increase in the customer charge.
343 I do not consider it appropriate to completely insulate Nicor from the risk of the relatively
344 minor change in gas sales that it alleges to have occurred. This is especially true since
345 my analysis of the actual customer billing data Nicor provided does not support Nicor's
346 assertion that it has suffered ***any*** loss of fixed cost recovery during the past two years. In
347 fact, those data show that Nicor actually recovered more in fixed costs from residential
348 customers – at least from the 1.3 million customers in my data set – than it projected it
349 would recover in the last rate case.

350 If the Commission were to disagree with me, however, and find that a further
351 increase in the customer charge were appropriate, then I would recommend that the
352 charge in the third consumption block should be reduced to offset the customer charge
353 increase ***plus*** an additional $1 million to reflect the reduction in risk to Nicor from
354 residential customers. With projected consumption of 1,304,454,000 therms in the third
355 consumption block, this would translate into a reduction of $0.0052 in the otherwise
356 applicable third block charge.[8]

357 **Q. What do you recommend?**
358 A. I recommend that the Commission reject Nicor's proposal to dramatically increase the
359 residential customer charge. My analysis of actual Nicor billing data shows that such an
360 increase would have a disparate impact on various types of residential customers –
361 increasing annual bills to lower-use customers while decreasing annual bills to high-use

[8] 1,304,454,000 x $0.0052 = $6,783,161.

362 customers. Moreover, such a radical re-design of residential rates is not required. Nicor
363 has not demonstrated that it is failing to recover its fixed costs under the existing rate
364 structure. In fact, my analysis shows that during the past 24 months Nicor has recovered
365 more fixed costs, on average, from residential customers than it assumed it would in its
366 last rate case.

367 I recommend, therefore, that the Commission increase each element of Nicor's
368 residential rates (the customer charge and three distribution block charges) by the same
369 percentage increase as the residential class's overall rate increase. Under the Company's
370 proposed revenue requirement, this would mean a 31.36% increase in each residential
371 charge. This would result in a customer charge of $11.03 per month and distribution
372 charges of approximately $0.1935, $0.0760, and $0.0682 for the three residential
373 consumption blocks.

374 **Q. If the Company is authorized to increase rates by less than its request, what do you**
375 **recommend?**

376 A. If the Company receives a smaller increase than it requested, then I recommend that each
377 of the residential rates should be increased by the overall percentage increase that the
378 Commission finds is reasonably assigned to the residential class.

379 **Q. Can you provide an example using the rate increase recommended by AG/CUB**
380 **witness Effron?**

381 A. Yes. Mr. Effron has recommended an increase of $54.59 million. Under Nicor's
382 proposed rates, 71.9% of the increase would be assigned to the residential (Rate 1) class.
383 So the residential increase would be $43.19 million. This represents a 12.2% increase

over pro forma revenues under present rates of $354.00 million for the residential class. Under this example, therefore, I would recommend that each element of existing residential rates should be increased by 12.2%. This would result in a customer charge of $9.42 per month and distribution charges of approximately $0.1653, $0.0650, and $0.0582 for the three residential consumption blocks.

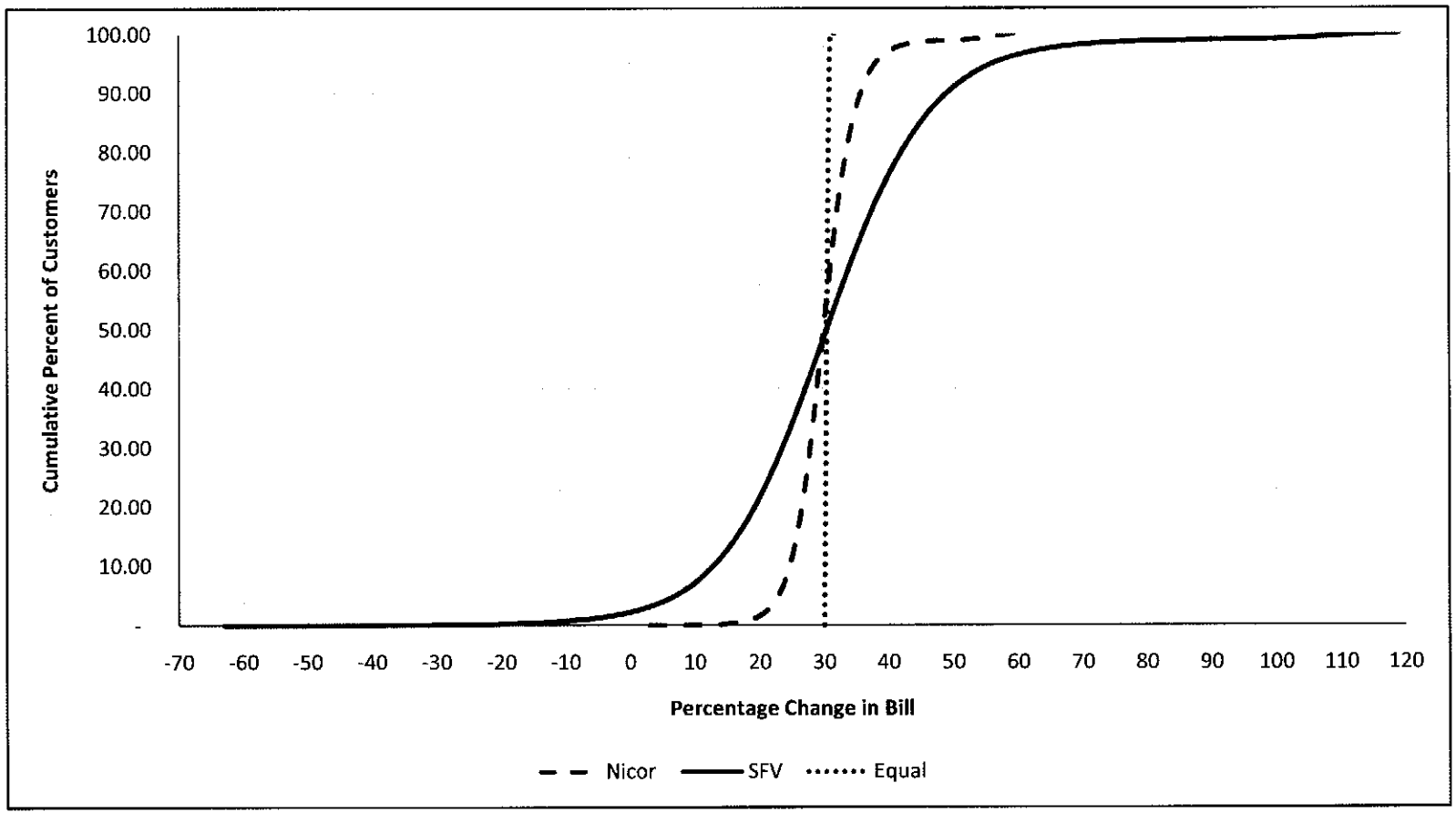
Q. Does this conclude your Additional Direct Testimony and your direct presentation in this case?

A. Yes, it does.

Northern Illinois Gas Company d/b/a Nicor Gas Company
ICC Docket No. 08-0363

AG/CUB Exhibit 3.01

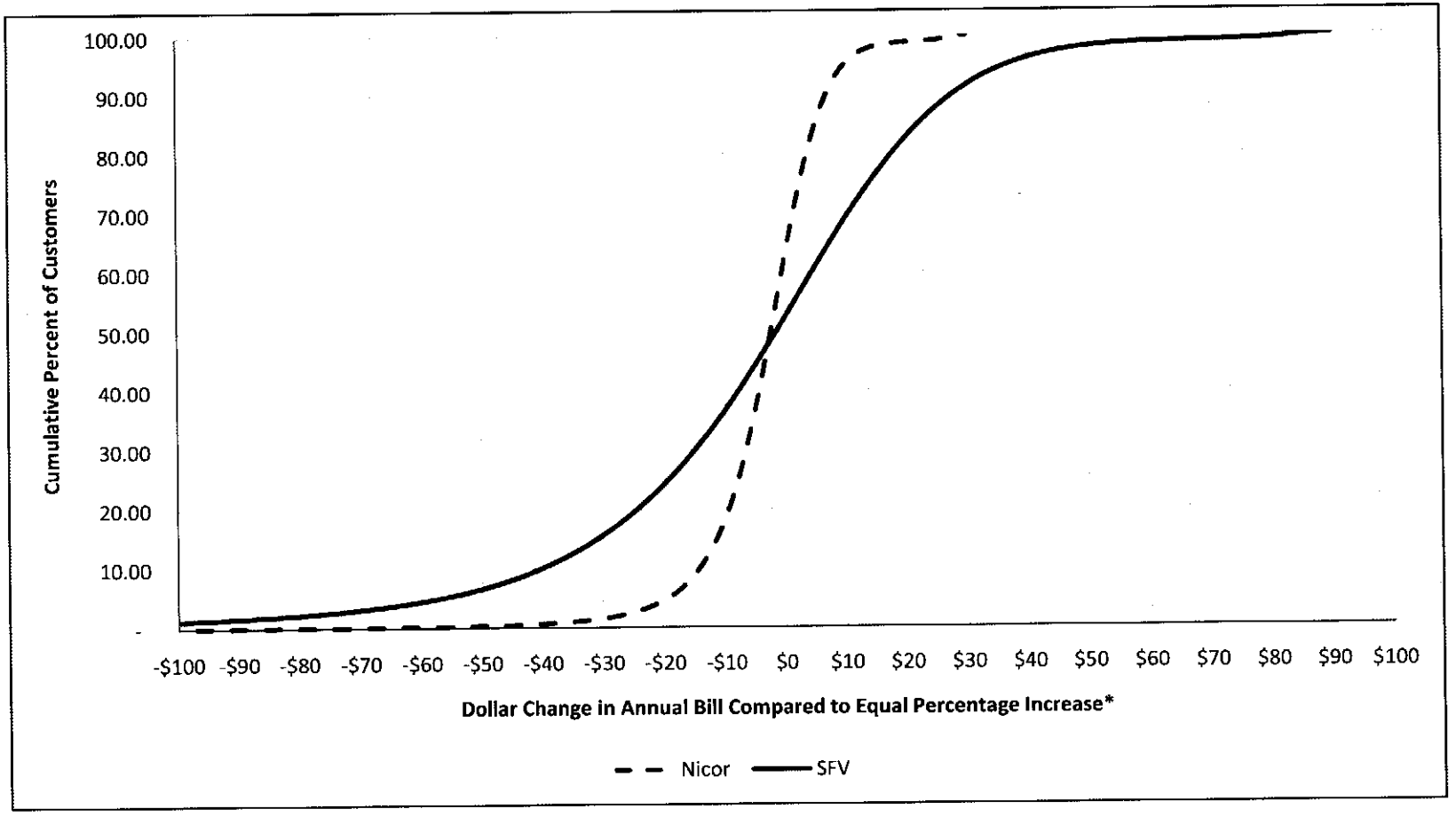
Customer Impact Analysis - Residential Class - Distribution of Percent Increase in Annual Bills
Nicor Rate Design, SFV Rate Design, and Equal Percentage Increase



Northern Illinois Gas Company d/b/a Nicor Gas Company
ICC Docket No. 08-0363

AG/CUB Exhibit 3.02

Customer Impact Analysis - Residential Class - Distribution of Dollar Increase in Annual Bills
Nicor Rate Design and SFV Rate Design Compared to Equal Percentage Increase*



* Equal percentage increase ($0 on the chart) is equal to 31.36% increase, which is Nicor's proposed increase to the Residential class under Nicor's proposed revenue requirement.

Section 285.5105
Schedule E-5
Jurisdictional Operating Revenue

Utility: Northern Illinois Gas Company d/b/a Nicor Gas Company

Test Year: 12 Months Ended 12/31/05

Line No.	Rate Classification	Therms (000)	Average Number of Customers	Revenue-Present Rates ($000) Base Rates	ECR	PGA	Tax Charges	Total	Revenue-Proposed Rates ($000) 1/ Base Rates	ECR	PGA	Tax Charges	Total
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)
1	***Rate 1 - Residential***	*2,256,096*	*1,933,771*	*322,468*	*11,732*	*1,301,964*	*95,964*	*1,732,128*	*365,561*	*11,732*	*1,314,259*	*97,135*	*1,788,687*
2	**Nonresidential Rates:**												
3	Rate 4 - General Gas Service	870,350	181,512	115,154	3,394	325,196	37,541	481,285	133,536	3,394	326,350	37,973	501,253
4	Rate 6 - Large General Gas Service	7,867	7	219	6	2,045	185	2,455	274	6	2,045	186	2,511
5	Rate 7 - Large Volume Service	0	0	0	0	0	0	0	0	0	0	0	0
6	Rate 10 - Compressed Natural Gas	190	11	11	1	118	8	138	21	1	118	8	148
7	Rate 11 - Energy	131	55	69	1	65	9	144	55	1	65	9	130
8	Rate 17 - Contract Service	*392,710*	*24*	*11,169*	*0*	*544*	*1,447*	13,160	11,169	0	544	1,445	13,158
9	Rate 74 - General Transportation	591,737	8,555	38,391	2,308	5,483	9,768	55,950	43,651	2,308	5,538	9,895	61,392
10	Rate 76 - Large General Transportation	329,401	206	8,750	264	2,730	3,871	15,615	9,921	264	2,731	3,899	16,815
11	Rate 77 - Large Volume Transportation	323,616	35	5,525	259	923	1,526	8,233	6,976	259	923	1,562	9,720
12	Rate 81 - Energy Transportation	21,573	31	573	84	0	62	719	800	84	0	68	952
13	Total - Nonresidential	2,537,575	190,436	179,861	6,317	337,104	54,417	577,699	206,403	6,317	338,314	55,045	606,079
14	**Other - Rider 13 & 16**	0	0	1,780	0	0	0	1,780	1,738	0	0	0	1,738
15	**Total -- All Rates**	4,793,671	2,124,207	504,109	18,049	1,639,068	150,381	2,311,607	573,702	18,049	1,652,573	152,180	2,396,504
16	Add: Other Revenues												18,833
17	Less: Tax Charges												(152,180)
18	**Total Revenue**												2,263,157
19	Schedule C-1, Column L: Operating Revenues												2,263,161

1/ Proposed rates include proposed changes to Rider 6, Gas Supply Cost.

Section 285.5105
Schedule E-5
Jurisdictional Operating Revenue at Proposed Rates
(Therms and Dollars in Thousands)

Utility: Northern Illinois Gas Company d/b/a Nicor Gas Company
Test Year: 12 Months Ended 12/31/05

Line No. (A)	Current Rate (B)		Test Year Billing Units (C)	Proposed Charge (D)	Proposed Revenue (E)
1	**Rate 1**				
2	Customer Charge		23,151,170	$ 8.40	$ 194,470
3	Distribution				
4		First 20	419,938	$ 0.1612	$ 67,694
5		Next 30	409,096	$ 0.0717	$ 29,332
6		Over 50	1,427,062	$ 0.0519	$ 74,065
7	Rate 1 Therms and Base Revenue		2,256,096		$ 365,561
8	Other Revenue				
9	Gas Supply Cost		2,055,422	$ 0.6367	$ 1,310,246
10	Customer Select Therms		200,674	$ 0.0200	$ 4,013
11	Rider 12 Therms		2,256,096	$ 0.0052	$ 11,732
12	Total Other Revenue				$ 1,325,991
13	Total Rate 1 Revenue				$ 1,691,552
14	**Rate 4**				
15	Customer Charge	Meter Class A	1,665,353	$ 15.50	$ 25,813
16		Meter Class B	466,433	$ 50.00	$ 23,322
17		Meter Class C	46,358	$ 100.00	$ 4,636
18			2,178,144		$ 53,770
19	Distribution	First 150	179,912	$ 0.1474	$ 26,519
20		Next 4,850	557,115	$ 0.0826	$ 46,018
21		Over 5,000	133,323	$ 0.0482	$ 6,426
22		Space cooling	-	$ -	$ -
23	Rate 4 Therms and Base Revenue		870,350		$ 132,733
24	Rider 25				
25	Transportation Administration Charge				
26		Individual	18,844	$ 25.00	$ 471
27		Group	40,756	$ 7.00	$ 285
28		Minimum	1,452	$ 32.00	$ 46
29	Total Rate 4 Base and Rider 25 Revenue				$ 133,536
30	Other Revenue				
31	Gas Supply Cost		499,460	$ 0.6367	$ 316,551
32	Customer Select Therms		255,499	$ 0.0200	5,110
33	Rider 25 Backup Service		-	$ -	4,689
34	Transportation Therms		115,391	-	-
35	Rider 12 Therms		870,350	$ 0.0039	$ 3,394
36	Total Other Revenue				$ 329,744
37	Total Rate 4 Revenue				$ 463,281

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AG/CUB Exhibit 3.04

Estimated Fixed Cost Recovered Through Nicor Existing Residential Rates

Block	Current Rate	Estimated Variable Cost	Estimated Fixed Cost
First 20 therms	0.1473	0.0107	0.1366
Next 30 therms	0.0579	0.0107	0.0472
All over 50 therms	0.0519	0.0107	0.0412

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AG/CUB Exhibit 3.05

Assumed Fixed Cost Recovery per Residential Customer from Gas Sales Under Nicor's Existing Rates

Block	Sales	Customers	Sales per Customer	Fixed Cost per Therm	Fixed Cost Recovery
First 20 therms	419,938,000	1,933,771	217.16	0.1366	$ 29.66
Next 30 therms	409,096,000	1,933,771	211.55	0.0472	9.99
All over 50 therms	1,427,062,000	1,933,771	737.97	0.0412	30.40
Total	2,256,096,000		1,166.68		$ 70.05

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AG/CUB Exhibit 3.06

Actual Fixed Cost Recovery per Residential Customer from Gas Sales Under Nicor's Existing Rates - August 2006 through July 2008

Block	Sales	Customers	Sales per Customer	Fixed Cost per Therm	Fixed Cost Recovery
First 20 therms	292,080,359	1,308,810	223.16	0.1366	$ 30.48
Next 30 therms	318,098,308	1,308,810	243.04	0.0472	11.47
All over 50 therms	982,993,852	1,308,810	751.06	0.0412	30.94
Total from Sample	1,593,172,519		1,217.26		$ 72.89

Note: See testimony (AG/CUB Exhibit 3.0) for discussion of data set

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AG/CUB Exhibit 3.07

Total Customer Count and Consumption (Therms) from Entire Data Set

Billing Month	Customers	Therms	Therms per Customer
Aug2006	1,236,160	48,669,844.12	
Sep2006	1,158,514	43,103,478.22	
Oct2006	1,790,048	108,496,677.90	
Nov2006	1,787,516	186,561,030.38	
Dec2006	1,731,739	261,426,691.60	
Jan2007	1,817,251	312,622,538.31	
Feb2007	1,780,157	465,557,980.83	
Mar2007	1,820,241	377,900,478.21	
Apr2007	1,779,266	213,229,236.07	
May2007	1,821,895	117,715,711.90	
Jun2007	1,387,051	42,558,146.26	
Jul2007	1,211,706	42,638,545.22	
Aug2007	1,261,871	46,091,947.84	
Sep2007	1,097,997	39,013,885.92	
Oct2007	1,834,081	75,311,141.65	
Nov2007	1,825,442	145,523,708.50	
Dec2007	1,776,916	295,647,223.02	
Jan2008	1,859,199	384,607,250.93	
Feb2008	1,851,115	451,092,000.61	
Mar2008	1,821,127	380,092,378.80	
Apr2008	1,853,564	254,982,534.33	
May2008	1,912,872	127,631,679.58	
Jun2008	1,960,486	74,853,882.59	
Jul2008	1,954,522	44,198,151.79	
Annual average	1,832,080	2,269,763,072.29	1,238.90

Average number of customers excludes summer months (June - Sept.) in 2006 and 2007 because of bimonthly billing

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company Proposed general increase in rates, and revisions to other terms and conditions	)))))	Docket No. 08-0363

AFFIDAVIT OF SCOTT J. RUBIN

I, Scott J. Rubin, being duly sworn and on oath, state that I am the same Scott J. Rubin identified in the attached Additional Direct Testimony of Scott J. Rubin on behalf of the People of the State of Illinois, and that I prepared that testimony and am familiar with the contents of them. My pre-filed Direct Testimony, with accompanying exhibits, is true and correct to the best of my knowledge and belief.

Scott J. Rubin

Signed and sworn to
before me this 28 day of Aug, 2008.

Erica L Dellegrotto
Notary Public

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Erica L. Dellegrotto, Notary Public
Town of Bloomsburg, Columbia County
My Commission Expires Nov. 3, 2008
Member, Pennsylvania Association of Notaries