

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	No. 09-_____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of  
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Rate Case Consultant – Regulatory Affairs,  
IntegrYS Business Support, LLC

On Behalf of  
The Peoples Gas Light and Coke Company

February 13, 2009

## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND BACKGROUND	1
A. Identification of Witness	1
B. Purpose of Testimony	1
C. Summary of Conclusions	2
D. Itemized Attachments to Direct Testimony	2
E. Background and Experience	5
II. PEOPLES GAS' EMBEDDED COST OF SERVICE STUDY AND ALLOCATION OF REVENUE REQUIREMENT	7
A. Purpose of an Embedded Cost of Service Study ("ECOSS")	7
B. Principles of ECOSS Preparation	7
C. Procedures Used in Developing the ECOSS	7
D. Allocation of Distribution Costs	11
E. Allocation of Transmission Costs	16
F. Allocation of Production Costs	16
G. Allocation of Storage Costs	16
H. Allocation of Customer Costs	18
I. Allocation of Administrative and General Expenses	18
J. Allocation of General Plant	20
K. Unique Allocations	21
L. Peoples Gas' ECOSS	25
M. Results of Peoples Gas' ECOSS	36

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Joylyn C. Hoffman Malueg. My business address is Integrys Energy Group,  
5 Inc. (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001.

6 Q. Ms. Hoffman Malueg, by whom are you employed and in what capacity?

7 A. I am a Rate Case Consultant in the Regulatory Affairs Department of Integrys Business  
8 Support, LLC (“IBS”). Both The Peoples Gas Light and Coke Company (“Peoples Gas”)  
9 and IBS are wholly-owned subsidiaries of Integrys. Integrys resulted from the  
10 February 21, 2007, merger between WPS Resources Corporation (now known as  
11 Integrys) and Peoples Energy Corporation (“PEC”). Peoples Gas is a wholly-owned  
12 subsidiary of PEC, which in turn is a wholly-owned subsidiary of Integrys.

13 **B. Purpose of Testimony**

14 Q. What is the purpose of your direct testimony in this proceeding?

15 A. My direct testimony and its attachments describe and present Peoples Gas’ embedded  
16 cost of service study (the “ECOSS”) for the 2010 future test year.

17 Peoples Gas witness Valerie Grace’s direct testimony and some of her exhibits  
18 (Peoples Gas Exhibit (“Ex.”) VG-1.0, VG-1.1, et seq.) will use the results of the ECOSS  
19 to discuss the proposed changes in the Peoples Gas rate schedules through which it seeks  
20 to recover its base rate revenue requirement.

21 **C. Summary of Conclusions**

22 Q. Please summarize the fundamental conclusions to be drawn from the results of the  
23 ECOSS, as presented in your direct testimony.

24 A. The results of the ECOSS show the distribution of revenue responsibility by customer  
25 class necessary to achieve equalized rates of return on investment by customer class at  
26 Peoples Gas' proposed revenue requirement.

27 Q. Please summarize the results of the ECOSS.

28 A. As stated by Peoples Gas witness Sharon Moy in her direct testimony (Peoples Gas  
29 Ex. SM-1.0), Peoples Gas, overall, is showing a revenue deficiency (cost recovery  
30 shortfall) of \$161,920,000, or 36.86%. The results of the ECOSS with respect to revenue  
31 deficiency at present rates by customer class based on the requested revenue requirement  
32 for Peoples Gas are summarized below.

Peoples Gas Service Classification	Revenue Deficiency / (Surplus)	
	\$	%
S.C. 1 – Small Residential	125,574,199	43.60%
S.C. 2 – General Service	30,410,521	21.36%
S.C. 4 – Large Volume Demand	5,936,204	67.41%
S.C. 6 – Standby Service	(6,234)	(11.14%)
S.C. 8 – CNG Service	4,478	31.87%

33 Q. How should the Illinois Commerce Commission (the “Commission” or “ICC”) reflect the  
34 results of your ECOSS in rate design?

35 A. In her direct testimony, Ms. Valerie Grace presents Peoples Gas' requested rate design,  
36 based in part upon the results of my ECOSS.

37 **D. Itemized Attachments to Direct Testimony**

38 Q. Are you sponsoring any attachments to your direct testimony?

39 A. Yes. I am sponsoring, and have attached hereto, the following exhibits, which were  
40 prepared by me and/or under my direction and supervision:

- 41 • Peoples Gas Ex. JCHM-1.1 Embedded Class Cost of Service Study Summary
- 42 • Peoples Gas Ex. JCHM-1.2 Functional Revenue Requirements—at Present Rates,  
43 Functional Rate Base—at Present Rates, and Unit  
44 Costs—at Present Rates along with Summary and  
45 Detail by Customer Class
- 46 • Peoples Gas Ex. JCHM-1.3 Detailed Cost of Service Study Allocation Results
- 47 • Peoples Gas Ex. JCHM-1.4 Functionalized and Classified Rate Base and  
48 Expenses
- 49 • Peoples Gas Ex. JCHM-1.5 Allocation Factors and Related Information
- 50 • Peoples Gas Ex. JCHM-1.6 Embedded Class Cost of Service Study Summary  
51 with Proposed Rate Design Changes
- 52 • Peoples Gas Ex. JCHM-1.7 Functional Revenue Requirements—under Proposed  
53 Rate Design Transfers, Functional Rate Base—under  
54 Proposed Rate Design Transfers, and Unit Costs—  
55 under Proposed Rate Design Transfers along with  
56 Summary and Detail by Customer Class
- 57 • Peoples Gas Ex. JCHM-1.8 Detailed Cost of Service Study Allocation Results –  
58 with Proposed Rate Design Transfers
- 59 • Peoples Gas Ex. JCHM-1.9 Allocation Factors and Related Information – with  
60 Proposed Rate Design Transfers

61 Q. Please briefly describe the exhibits attached to your direct testimony.

62 A. Peoples Gas Ex. JCHM-1.1 presents the revenue requirement, rate base, and rate of  
63 return summary results of Peoples Gas' ECOSS at present rates.

64 Peoples Gas Ex. JCHM-1.2 presents both summary information, as well as  
65 detailed information, on functionalized and classified revenue requirements, rate base,  
66 and unit costs by customer class at present rates.

67 Peoples Gas Ex. JCHM– 1.3 presents the cost allocation details of the summary  
68 classified revenue requirements and rate base shown in Peoples Gas Ex. JCHM–1.1. The  
69 cost allocation detail shown in Peoples Gas Ex. JCHM–1.3 is provided at the Federal  
70 Energy Regulatory Commission (“FERC”) primary account (the Uniform System of  
71 Accounts) level. (References to Accounts in my direct testimony are FERC accounts as  
72 adopted and modified by the Commission for Gas Utilities Operating in Illinois.)

73 Peoples Gas Ex. JCHM–1.4 presents the functionalization and classification of the  
74 revenue requirements and rate base information that was utilized for allocation purposes  
75 within Peoples Gas Ex. JCHM–1.3. The functionalization and classification detail shown  
76 in Peoples Gas Ex. JCHM–1.4 is provided at the FERC primary account level.

77 Peoples Gas Ex. JCHM–1.5 presents the external allocation factors used within  
78 the ECOSS, along with related information that is required to be filed with an ECOSS in  
79 accordance with the Commission’s rules (Section 285.5110 of Title 83 of the Illinois  
80 Administrative (“Ill. Admin.”) Code).

81 Peoples Gas Ex. JCHM–1.6 presents the revenue requirement, rate base, and rate  
82 of return summary results of Peoples Gas’ ECOSS under the Proposed Rate Design  
83 changes. Workpaper WPE-6.16, which is part of Peoples Gas’ materials being made  
84 available under 83 Ill. Admin. Code Section 285.150(b), shows a reconciliation of the  
85 information presented in Peoples Gas Ex. JCHM–1.6 with Ms. Moy’s information  
86 presented in Schedule C-1.

87 Peoples Gas Ex. JCHM–1.7 presents both summary information, as well as  
88 detailed information, on functionalized and classified revenue requirements, rate base,

89 and unit costs by customer class incorporating the proposed rate design customer  
90 transfers.

91 Peoples Gas Ex. JCHM-1.8 presents the cost allocation details of the summary  
92 classified revenue requirements and rate base shown in Peoples Gas Ex. JCHM-1.6. The  
93 cost allocation detail shown in Peoples Gas Ex. JCHM-1.8 is provided at the FERC  
94 primary account level.

95 Peoples Gas Ex. JCHM-1.9 presents the external allocation factors used within  
96 the ECOSS as shown incorporating the proposed rate design customer transfers.

97 **E. Background and Experience**

98 Q. Please summarize your qualifications.

99 A. I am a 1999 graduate of the University of Wisconsin – Green Bay where I received a  
100 Bachelor of Science Degree in Mathematics with a Statistical emphasis. I received my  
101 Master of Business Administration degree from Cardinal Stritch University, Milwaukee,  
102 Wisconsin, in February 2006. I am currently working towards the professional  
103 designation of Certified Management Accountant through the Institute of Management  
104 Accountants. As of December 2008, I have completed three of the four professional  
105 examinations required to obtain the certification, and plan on testing for the fourth  
106 examination in April 2009.

107 Q. Please summarize your experience.

108 A. From 1999 to 2001, I worked for two separate companies performing retirement benefits  
109 analysis and valuation. In March 2001, I was hired by Wisconsin Public Service  
110 Corporation (“WPSC”) as a Revenue Requirements Forecaster in the Rates and  
111 Economic Evaluation Department. While working as a Revenue Requirements

112 Forecaster, I was primarily responsible for revenue requirements and cost of service  
113 analyses pertaining to WPSC's wholesale jurisdiction. In October 2003, my job title  
114 changed to Rate Analyst within the Regulatory Affairs Department. My primary job  
115 responsibilities during that time related to revenue requirements analyses for WPSC's  
116 Michigan retail jurisdiction, as well as performing revenue requirement analyses and cost  
117 of service studies for WPSC's sister company, Upper Peninsula Power Company  
118 ("UPPCO"). In December 2006, I became a Rate Case Consultant within the Regulatory  
119 Affairs Department.

120 Q. What are your duties in your current position?

121 A. Currently, my primary job duties consist of performing cost of service study analyses for  
122 all regulated Integrys subsidiaries. I am also responsible for conducting the revenue  
123 requirement analyses for WPSC's Michigan retail electric and gas jurisdictions.

124 Q. Have you previously testified before any regulatory agency?

125 A. Yes, I have. I have filed testimony before the Michigan Public Service Commission  
126 ("MPSC") in Case Nos. U-14410, U-14745, U-15352, and U-15549. I have filed  
127 testimony before the Public Service Commission of Wisconsin ("PSCW") in Docket  
128 No. 6690-UR-119 and also before the Minnesota Public Utilities Commission ("MPUC")  
129 in Docket No. G007,011/GR-08-835. In addition, I have participated in the preparation  
130 of various accounting and filing exhibits for WPSC, UPPCO, Michigan Gas Utilities  
131 Corporation, and Minnesota Energy Resources Corporation for presentation to the  
132 PSCW, MPSC, MPUC, and FERC.

133 Q. Have you testified previously before the Commission?

134 A. No, I have not.

135 **II. PEOPLES GAS' EMBEDDED COST OF SERVICE STUDY**  
136 **AND ALLOCATION OF REVENUE REQUIREMENT**

137 **A. Purpose of an Embedded Cost of Service Study ("ECOSS")**

138 Q. What is the purpose of an ECOSS?

139 A. The purpose of an ECOSS is to identify the revenues, costs and profitability for each  
140 class of service, as required by 83 Ill. Admin. Code Section 285.5110. The results of the  
141 ECOSS provide the data necessary to design cost-based rates using an embedded cost  
142 methodology.

143 **B. Principles of ECOSS Preparation**

144 Q. How should an ECOSS be performed?

145 A. Cost causation is the fundamental principle applicable to all cost studies for purposes of  
146 allocating costs to customer classes. The most important theoretical principle underlying  
147 an ECOSS is that cost incurrence should follow historical embedded cost causation. The  
148 costs that customers become responsible to pay should be those costs that the particular  
149 customers caused the utility to incur because of the characteristics of the customers'  
150 usage of utility service. By performing an ECOSS in this manner, it can then be used in  
151 determining how costs should be recovered from customer classes through rate design.

152 **C. Procedures Used in Developing the ECOSS**

153 Q. Would you please explain the procedures used to develop the ECOSS shown in Peoples  
154 Gas Exs. JCHM-1.1 through 1.9?

155 A. In general, preparing an ECOSS involves three major steps: (1) cost functionalization;  
156 (2) cost classification; and (3) cost allocation of all the costs of the utility's system to the  
157 customer classes.

158 The first step, cost functionalization, identifies and separates plant and expenses  
159 into specific categories based on their purpose and various characteristics of utility  
160 operation. Typically, these plant and expenses are functionalized by the Uniform System  
161 of Accounts. These accounts group plant and expenses into their various functions,  
162 which for Peoples Gas includes Production, Storage, Transmission, Distribution, and  
163 Customer.

164 Step two, cost classification, further separates the functionalized plant and  
165 expenses into the categories based upon how they are incurred. These classifications  
166 consist of: (1) commodity related; (2) demand, or capacity related; and (3) customer  
167 related.

168 Customer related costs are incurred to extend service to and attach a customer to  
169 the distribution system, meter any gas usage, and maintain the customer's account.  
170 Customer related costs are found to vary with the number and density of customers,  
171 regardless of the customers' gas consumption (except to some extent for bad debt costs in  
172 Account 904, which are discussed further below). Examples of costs classified to the  
173 customer classification include distribution services, meters, regulators, customer billing  
174 and accounting, and customer information expenses.

175 Demand related costs are incurred to service the peak demand of the system.  
176 Examples of costs classified to the demand classification include transmission and

177 distribution mains, and localized distribution facilities designed to meet customer  
178 maximum peak day demand

179 Commodity related costs are those costs that vary with the throughput sold to, or  
180 transported for, customers. For example, included in the ECOSS are commodity related  
181 costs such as compressor fuel and gas stored underground. However, when, as is the case  
182 with Peoples Gas, a gas utility's cost of gas is not recovered through its base rates, very  
183 little of its remaining delivery service cost structure is commodity related.

184 The final step of preparing an ECOSS is allocation of each functionalized and  
185 classified cost element to the customer classes. Costs that are classified to the customer  
186 cost element are typically allocated to the rate classes using an allocation factor based  
187 upon customer counts and, in some instances, customer counts that are weighted to  
188 reflect, for example, differences in metering costs amongst rate classes. Costs that are  
189 classified to the demand cost element are typically allocated to the rate classes using an  
190 allocation factor based upon the rate classes' demand imposed upon the system during  
191 specific peak days. Costs that are classified to the commodity cost element are typically  
192 allocated to the rate classes using an allocation factor based upon the rate classes' energy  
193 usage, or throughput.

194 Q. Does the ECOSS allocate costs to the customer classes as defined in present rates?

195 A. The ECOSS submitted for the 2010 future test year in this proceeding is based upon rates  
196 that are currently in effect, or present rates as they were referred to above. All values in  
197 the ECOSS are allocated to each customer class as described in the far right-hand column  
198 of each page titled "Source or Allocation Factor". Direct assignment of values to the  
199 appropriate customer classes was conducted whenever possible, as recommended by the

200 American Gas Association (“AGA”) in their Fourth Edition of Gas Rate Fundamentals  
201 (1987), page 140.

202 Q. Please describe how you defined the customer classes in Peoples Gas’ ECOSS.

203 A. The customer classes that were utilized in the ECOSS follow the rate classes under which  
204 Peoples Gas currently provides service in Illinois.

205 The classes (referred to in my direct testimony as “Service Classes” or “Rates”  
206 and referenced above as “S.C.”) shown in the Peoples Gas ECOSS consist of the  
207 following:

- 208 1. Service Classification 1: Small Residential,
- 209 2. Service Classification 2: General Service,
- 210 3. Service Classification 4: Large Volume Demand Service,
- 211 4. Service Classification 6: Standby Service, and
- 212 5. Service Classification 8: Compressed Natural Gas (“CNG”) Service.

213 Q. Please explain the considerations relied upon in determining the cost allocation  
214 methodologies that are used to perform an ECOSS.

215 A. As stated above, in order to allocate costs within any cost of service study, the factors that  
216 cause the costs to be incurred must be identified and understood. Additionally, the cost  
217 analyst needs to develop data in a form that is compatible with and supportive of rate  
218 design proposals. The availability of data for use in developing alternative cost allocation  
219 factors is also a consideration. In evaluating any cost allocation methodology,  
220 appropriate consideration should be given to whether it provides a sound rationale or  
221 theoretical basis, whether the results reflect cost causation and are representative of the

222 costs of serving different types of customers, as well as the stability of the results over  
223 time.

224 **D. Allocation of Distribution Costs**

225 Q. How does Peoples Gas allocate distribution costs to customers in the ECOSS?

226 A. In the case of distribution costs, Peoples Gas has identified two significant cost causation  
227 relationships. Some distribution costs are incurred in order for customers simply to be  
228 connected to the distribution system. Other distribution costs are incurred due to the  
229 level of the demand of the customers.

230 Some gas distribution demand related costs are influenced by both the average  
231 customer usage and the customer's peak demand, such as Account 376, Gas Mains.  
232 These costs are allocated based upon a form of demand allocation method called the  
233 Average and Peak methodology.

234 Q. What is the Average and Peak methodology?

235 A. The Average and Peak methodology is a simplified version of the Average and Excess  
236 demand allocation methodology. The Average and Excess demand allocation  
237 methodology allocates demand related costs to the classes of service on the basis of  
238 system and class load factor characteristics. Specifically, the portion of utility facilities  
239 and related expenses required to service the average load is allocated on the basis of each  
240 class' average demand and is derived by multiplying the total demand related costs by the  
241 utility's system load factor. The remaining demand related costs are allocated to the  
242 classes based on each class' excess or unused demand, i.e., total class non-coincident  
243 demand minus average demand. The Average and Peak demand allocation methodology  
244 often gives equivalent weight to peak demands and average demands. As is the case with

245 the Average and Excess method, it has the effect of allocating a portion of the utility's  
246 capacity costs on a commodity-related basis.

247 Q. Why does Peoples Gas choose to utilize the Average and Peak demand allocation  
248 methodology within its ECOSS?

249 A. In Peoples Gas' last rate case filing, a variety of demand allocation methodologies were  
250 presented within the ECOSS, and Peoples Gas proposed rates based upon a Coincident  
251 Peak demand allocation methodology. While there are sound arguments to utilize  
252 various demand allocation methodologies, including the Coincident Peak demand  
253 methodology, the Commission directed that the Average and Peak demand allocation  
254 methodology be used to allocate system distribution costs (please see ICC Docket Nos.  
255 07-0241/07-0242/Cons., Order Feb. 5, 2008, p. 199). Therefore, in an effort to limit the  
256 scope of contested issues in this proceeding, Peoples Gas has utilized the Average and  
257 Peak demand allocation methodology to allocate system distribution demand costs, as it  
258 was recently required to do by the Commission.

259 Q. What is the Coincident Peak methodology?

260 A. The Coincident Peak demand allocation methodology is premised on the notion that  
261 investment in capacity is determined by the peak load(s) of the utility. Under this  
262 methodology, demand related costs are allocated to each customer class in proportion to  
263 the demand coincident with the system peak of that customer class. The Coincident Peak  
264 demand allocation process might focus on a single system peak, such as the highest daily  
265 demand occurring during the test period. Alternatively, it might include the average of  
266 several cold days, either consecutive or occurring over a period of several years, or it

267 could be the expected contribution to the system peak under weather conditions for which  
268 the system was designed to serve, commonly referred to as a “design day.”

269 Q. Does Peoples Gas utilize the Coincident Peak Demand allocation methodology to  
270 allocate any distribution costs within its ECOSS?

271 A. No. Peoples Gas does not allocate any costs in the ECOSS based upon the Coincident  
272 Peak demand allocation methodology. Peoples Gas does show the Coincident Peak  
273 demand allocation methodology in Peoples Gas Ex. JCHM-1.5, but that is only because  
274 it is utilized in the creation of the Average and Peak demand allocation methodology.

275 Q. Were there any special analyses conducted for purposes of allocating distribution plant  
276 investment?

277 A. Yes. Regarding Peoples Gas’ major plant accounts, customer weighting factors were  
278 developed to allocate the following plant accounts: Account 380: Services, Account 381:  
279 Meters, Account 382: Meter Installations, and Account 383: House Regulators. These  
280 weighting factors reflect any differences in the current unit costs that particular customer  
281 groups cause Peoples Gas to incur. For example, a 3/4-inch plastic service line that could  
282 serve a residential customer costs less, on a per unit basis, than a 4-inch steel service line  
283 to serve a larger industrial customer. The use of weighting factors takes these unit cost  
284 differences into account when assigning costs to the various customer classes.

285 Q. Please continue with your description of how Peoples Gas allocates distribution costs  
286 within its ECOSS.

287 A. Specifically, distribution costs are allocated to the customer classes within the ECOSS  
288 based on the following methods:

- 289 1. Account 303 Intangible Plant, which was first split into three categories of  
290 Intangible Plant relating to 1) Customer, 2) Plant, and 3) Distribution Plant. This  
291 categorization was based on actual Plant-in-Service in Account 303 as of June 30,  
292 2008. This is consistent with the Commission Order in Peoples Gas' last rate  
293 case, ICC Docket Nos. 07-0241/07-0242/Cons., Order dated Feb. 5, 2008, page  
294 191. The Customer category was directly assigned to the Customer classification.  
295 The Plant category was classified to the Commodity, Demand, and Customer  
296 classifications based upon Gross Plant (not including any intangible amounts or  
297 general amounts). The Distribution Plant category was classified to the  
298 Commodity, Demand, and Customer classifications based upon Distribution Plant  
299 (not including any intangible amounts). Once classified to the Commodity,  
300 Demand, and Customer classifications, Intangible Plant was then allocated to the  
301 customer classes using the Sales, Average and Peak, and Customer allocation  
302 methodologies, respectively.
- 303 2. Accounts 374 Land and Land Rights, 375 Structures and Improvements, 376 Gas  
304 Distribution Mains, 378 Measuring & Regulation Equipment – General, and 379  
305 Measuring & Regulation Equipment – Gate Station were allocated to all service  
306 classifications based on the Average and Peak demand allocator.
- 307 3. Account 380 Services was allocated on a customer basis, using a weighting factor  
308 of Cost Per Customer for Services which was derived from actual plant  
309 investment as of the 12 months ending June 30, 2008.
- 310 4. Account 381.0 Meters, Account 382.0 Meter Connections & Installations, and  
311 Account 383 House Regulators were allocated on a customer basis, using a  
312 weighting factor of Cost Per Meter & Regulator which was based on actual plant  
313 investment as of the 12 months ending June 30, 2008.
- 314 5. Account 381.2 Automated Meter Reading and Account 382.2 Automated Meter  
315 Installations were allocated on a customer basis, using a weighting factor of  
316 Average ERT Per Customer which was based on actual average number of ERT's  
317 as of the 12 months ending June 30, 2008. ("ERT" means encoder-receiver-  
318 transmitter, which are devices that are part of Peoples Gas' automated meter  
319 reading system.)
- 320 6. Account 381.3 Demand Devices and Account 382.3 Demand Device Installations  
321 were allocated based upon the demand device counts forecasted in the future test  
322 year ending December 31, 2010.
- 323 7. Account 385 Industrial Metering & Regulating Station Equipment and Account  
324 386 Other Property on Customer Premises were allocated based on the customer  
325 counts of those customer classes with large industrial metering and regulator  
326 station equipment.

327 Q. How does the ECOSS allocate distribution-related Operation and Maintenance (“O&M”)  
 328 expenses?

329 A. In general, these expenses should be allocated in the same manner as how the distribution  
 330 plant investment costs are allocated, as stated above. A gas utility’s distribution-related  
 331 O&M expenses generally are thought to support the utility’s corresponding plant-in-  
 332 service accounts. In order to allocate distribution O&M costs in a similar manner as the  
 333 distribution plant investment, a translation was performed to convert the FERC O&M  
 334 distribution Accounts 870 through 894 to FERC Plant Distribution Accounts 303, and  
 335 374 through 386. The translation workpaper can be found in Workpaper WPE-6.13,  
 336 which is part of Peoples Gas’ materials being made available under 83 Ill. Admin. Code  
 337 Section 285.150(b), and a summary of the translation can be found in the table below.

O&M Distribution Account	Translated to:	Distribution Plant Account
Account 870: Supervisory & Engineering Account 871: Load Dispatch Account 880: Other Account 881: Rents Account 885: Supervisory & Engineering		Accounts 303, and 374-386 on the basis of Distribution Plant Investment in Accounts 303, and 374-386 for the future test year 2010
Account 874: Mains & Services Expense		Accounts 376 and 380, on the basis of Distribution Plant Investment in Accounts 376 and 380, which are Mains and Services
Account 877: Measuring & Regulating Expense-Gate Station		Account 379, Measuring & Regulation Equipment-Gate Station
Account 878: Meter & House Regulators Account 879: Customer Installations Account 893: Meter & House Regulators		Accounts 381.0, 381.2, 381.3, 383 and 385, on the basis of Distribution Plant Investment in Accounts 381.0, 381.2, 381.3, 383 and 385 which are all Metering and Regulator related
Account 886: Structures & Improvements		Account 375: Structures & Improvements
Account 889: Measuring & Regulating Expense-General		Account 378: Measuring & Regulation Equipment - General
Account 892: Services		Account 380: Services

338

339 **E. Allocation of Transmission Costs**

340 Q. How does Peoples Gas allocate transmission costs to each of the customer classes in the  
341 ECOSS?

342 A. Peoples Gas first classifies transmission costs to the demand classification, and then  
343 utilizes the Average and Peak demand allocation methodology to allocate transmission  
344 costs within its ECOSS to the customer classes. This classification to demand is  
345 consistent with the AGA's assignment of transmission costs, as stated in their 1987 text  
346 titled Gas Rate Fundamentals, 4<sup>th</sup> edition. The Average and Peak demand allocation  
347 methodology was used in an effort to limit the scope of contested issues in this rate case  
348 proceeding.

349 **F. Allocation of Production Costs**

350 Q. How does Peoples Gas allocate production costs to customer classes within the ECOSS?

351 A. In the Peoples Gas ECOSS, production costs are classified to demand and allocated to the  
352 customer classes based upon the Unbundled Coincident Peak allocation methodology.  
353 This classification to demand is consistent with the AGA's assignment of production  
354 costs, as stated in their 1987 text titled Gas Rate Fundamentals, 4<sup>th</sup> edition. The  
355 production costs in Peoples Gas' ECOSS relate to manufactured gas production plants,  
356 and these types of costs have historically, since 1995, been allocated to the customer  
357 classes on the basis of the Unbundled Coincident Peak demand allocation methodology.

358 **G. Allocation of Storage Costs**

359 Q. How does Peoples Gas allocate storage costs to the customer classes within the ECOSS?

360 A. Peoples Gas first classifies storage costs within the appropriate categories of Commodity  
361 or Demand. The only costs that are classified to Commodity are O&M expenses relating

362 to Compressor Station Fuel and Power in Account 819, LNG Fuel in Account 842.1, and  
363 the rate base related item of Gas Stored Underground in Account 164. These Commodity  
364 classified items are allocated to the customer classes based upon Unbundled Commodity  
365 Standby Volume. The stored gas in Account 164 is related to LNG and Top Gas. Using  
366 the Unbundled Commodity Standby Volume allocation methodology to allocate these  
367 costs is consistent with the manner in which this stored gas is utilized to serve both sales  
368 and unbundled transportation customers.

369 Q. Please describe the method used to allocate Peoples Gas' investment in its underground  
370 storage plant that is classified to Demand in FERC Plant Accounts 350 - 357.

371 A. The FERC Plant Account Series 350-357 Underground Storage represents Peoples Gas'  
372 investment in its underground storage facility, Manlove Field. This underground storage  
373 was allocated to the customer classes based upon the Storage allocator, which is a  
374 weighted combination of Unbundled Coincident Peak demand and incremental seasonal  
375 sales corresponding to the winter withdrawal period for the storage facility. These two  
376 system load characteristics are representative of the functions that I understand the  
377 underground storage facility was designed to provide, namely peak day deliverability and  
378 incremental capacity on Peoples Gas' system. These functions support the unbundled  
379 day-to-day incremental demand during the winter withdrawal period. Mr. Thomas  
380 Puracchio (Peoples Gas Ex. TLP-1.0) testifies that the storage field's withdrawal period  
381 generally begins with the first or second week of December and continues through the  
382 first or second week of March.

383 Q. Please describe the method used to allocate Peoples Gas' investment in local storage  
384 plant that is classified to Demand in FERC Plant Accounts 361 - 363.

385 A. The FERC Plant Account Series 361-363 Other Storage, or Local Storage, represents  
386 Peoples Gas' investment in LNG facilities. This local storage was allocated to the  
387 customer classes based upon Unbundled Coincident Peak demand and has been  
388 historically allocated by Peoples Gas in this manner since 1995.

389 **H. Allocation of Customer Costs**

390 Q. How does Peoples Gas allocate customer costs to each of the customer classes within the  
391 ECOSS?

392 A. The customer costs in O&M Accounts 900 through 905, with the exception of  
393 Uncollectible Expense in Account 904, are allocated based on average customer counts  
394 by customer class. Uncollectible Expense in Account 904 is allocated to the customer  
395 classes on the basis of a Bad Debt allocation methodology. The Bad Debt allocation  
396 methodology was calculated by taking the average historical bad debt net write-offs per  
397 customer by customer class as of the 12 months ending June 30, 2008, and applying that  
398 average to the customer counts by customer class for the future test year ending  
399 December 31, 2010. Customer costs in O&M Accounts 907 through 910 are allocated to  
400 the customer classes based on average customer counts by customer class.

401 **I. Allocation of Administrative and General Expenses**

402 Q. How does Peoples Gas allocate Administrative and General ("A&G") expenses to each  
403 customer class in the ECOSS?

404 A. A&G expenses are first functionalized using: (1) a Labor function, as to Accounts 925  
405 and 926; (2) a General – O&M function, as to Accounts 920-923, and 927-931; and (3) a  
406 Plant function, as to Accounts 924 and 932. This functionalization is in accordance with  
407 the Commission's findings in Peoples Gas' last two rate cases.

408           The Labor function was then classified to the Commodity, Demand, and  
409 Customer classifications based upon Salaries and Wages, which can be found in Peoples  
410 Gas Ex. JCHM-1.5, Page 3, lines 11 – 18. The Salaries and Wages allocation  
411 methodology is based upon the functional breakdown of Labor-related O&M, including  
412 cross-charged labor, by FERC primary account. The Labor relating to Compressor  
413 Station Fuel is classified to Commodity. The Labor relating to Production, Non-  
414 Compressor Station Fuel Related Storage, and Distribution-Demand is classified to  
415 Demand. The Labor relating to Distribution-Customer, Customer Accounting, Customer  
416 Service and Customer Sales is classified to Customer.

417           The General – O&M function was classified to the Commodity, Demand, and  
418 Customer classifications based upon Total O&M, not including A&G, as shown on  
419 Peoples Gas Ex. JCHM-1.4, Page 5, line 45. Total O&M, not including A&G, as shown  
420 on Peoples Gas Ex. JCHM-1.4, Page 5, line 44 is derived from the summation of lines 3,  
421 10, 13, 36 and 42 on Peoples Gas Ex. JCHM-1.4.

422           The Plant function was classified to the Commodity, Demand, and Customer  
423 classifications based upon Gross Plant, not including General or Intangible Plant  
424 amounts, as shown on Peoples Gas Ex. JCHM-1.4, Page 1, line 40. Total Gross Plant,  
425 not including General or Intangible Plant amounts, as shown on Peoples Gas Ex. JCHM-  
426 1.4, Page 1, line 39 is derived from the summation of lines 2, 7, 10, and 36 on Peoples  
427 Gas Ex. JCHM-1.4.

428           Once these three functions of A&G were classified and summed, the total  
429 Commodity classification was allocated to the customer classes on the basis of the Sales  
430 allocator. The Demand function was broken down further among the Distribution that is

431 related to Demand and the Distribution that is related to Customer. This Demand and  
432 Customer breakdown was arrived at by taking the ratio of Demand and Customer  
433 classified Distribution O&M to Total Distribution O&M, as found on Peoples Gas Ex.  
434 JCHM-1.4, Page 5, line 36 (i.e. [E36] / [C36] and [F36] / [C36]). The Distribution-  
435 Demand classification was then allocated to the customer classes based on the  
436 Distribution Demand O&M allocation methodology, and the Distribution-Customer  
437 classification was then allocated to the customer classes on the basis of the Distribution  
438 Customer O&M allocation methodology. The Distribution Demand O&M and  
439 Distribution Customer O&M allocation methodologies can be found on Peoples Gas Ex.  
440 JCHM-1.3, Page 2, line 24 and 37, respectively. Lastly, the Customer classification was  
441 allocated to the customer classes based upon the Customer O&M allocation  
442 methodology, which can be found on Peoples Gas Ex. JCHM-1.3, Page 2, line 51.

443 **J. Allocation of General Plant**

444 Q. How is General Plant investment classified and allocated to the customer classes within  
445 Peoples Gas' ECOSS?

446 A. General Plant investment is classified to Commodity, Demand and Customer  
447 classifications on the basis of Gross Plant, not including General or Intangible Plant  
448 amounts, as shown on Peoples Gas Ex. JCHM-1.4, Page 1, line 40. Then the  
449 Commodity portion of General Plant was allocated to the customer classes using the  
450 Sales allocation methodology, and the Customer portion of General Plant was allocated  
451 to the customer classes using the Customer allocation methodology.

452 The amount classified to Demand was further broken down into the detailed  
453 functions of Production, Underground Storage, Local Storage, Transmission and

454 Distribution. This detailed breakdown was based on the ratio of each corresponding  
455 amount of Plant-in-Service to Total Plant-in-Service, not including Intangible or General  
456 Plant. For example, to calculate the ratio for the Demand portion of General Plant –  
457 Production, the Production Plant-in-Service of \$3,000,000 (Peoples Gas Ex. JCHM–1.4,  
458 Page 1, cell [E2]) was divided by Total Plant-in-Service of \$1,438,521,435, not including  
459 Intangible or General Plant (Peoples Gas Ex. JCHM–1.4, Page 1, cell [E39]). This  
460 calculated ratio of 0.2085% was then multiplied against the amount classified to Total  
461 Demand General Plant of \$43,323,654 (Peoples Gas Ex. JCHM–1.4, Page 1, cell [E42])  
462 to arrive at General Plant – Production Demand of \$90,350 (Peoples Gas Ex. JCHM-1.3,  
463 Page 6, cell [B37]). The calculations were also performed to arrive at the Underground  
464 Storage, Local Storage, Transmission and Distribution Demand related portions of  
465 General Plant.

466 **K. Unique Allocations**

467 Q. Please describe the remaining components of the Peoples Gas ECOSS that have unique  
468 allocators and why these unique allocators are appropriate.

469 A. The remaining components of Peoples Gas’ ECOSS which have unique allocators are as  
470 follows:

- 471 1. Income Taxes, Taxes other than Income Taxes (“TOTI”) associated with  
472 Unauthorized Insurance Tax, Real Estate-Other, Invested Capital Tax-Other,  
473 Federal Excise Tax, State Franchise Tax, and Property Tax, as well as  
474 Miscellaneous Revenues in Account 493 were allocated to the customer classes  
475 based upon a Rate Base allocator, which is shown on Peoples Gas Ex. JCHM-1.1,  
476 line 36. The Rate Base allocator was utilized because these items follow cost-  
477 causation theory from various Rate Base investments.
- 478 2. Miscellaneous Revenues in Account 487, Forfeited Discounts, was allocated to  
479 the customer classes using a Delayed Payment allocator, which was based upon  
480 forecasted delayed payment charges, by customer class, for the future test year

481 2010. The Delayed Payment allocator was utilized because it has a direct  
482 causation relationship with forfeited discounts.

483 3. Miscellaneous Revenues in Account 495 pertaining to the Municipal Utility Tax,  
484 was allocated to the customer classes using a Municipal Utility Tax allocator  
485 which was based upon forecasted municipal utility taxes, by customer class, for  
486 the future test year 2010. The Municipal Utility Tax allocator was utilized  
487 because it has a direct causation relationship with Municipal Utility Tax revenues.

488 4. TOTI relating to Payroll Taxes and Other Taxes were allocated to the customer  
489 classes based upon a Salaries and Wages allocator, which can be found in Peoples  
490 Gas Ex. JCHM-1.5, page 3, line 38. The Salaries and Wages allocator was  
491 utilized because these TOTI items are payroll related and therefore follow  
492 cost-causation theory.

493 5. Rate Base related item Customer Deposits was allocated to the customer classes  
494 using a Customer Deposits allocator which was based upon the average of actual  
495 Customer Deposits for the 12 months ending June 30, 2008. The Customer  
496 Deposits allocator was utilized because the historical basis of this allocator is  
497 proficient for allocating forecasted Customer Deposit amounts.

498 6. Rate Base related item Budget Plan Balances was allocated to the customer  
499 classes using Budget Plan allocator which was based upon the average of budget  
500 plan debit balances for the 12 months ending June 30, 2008. The Budget Plan  
501 allocator was utilized because the historical basis of this allocator is proficient for  
502 allocating forecasted amounts Budget Plan balance amounts.

503 Q. Are there any other unique allocations used within the Peoples Gas ECOSS that merit  
504 explanation?

505 A. Yes. I would like to explain the methods used to classify the rate base components of  
506 Cash Working Capital, Materials & Supplies (“M&S”), Accumulated Deferred Taxes,  
507 Net Retirement Benefits, and Reserve for Injuries and Damages and why these  
508 allocations are appropriate. These classification methodologies used for these rate base  
509 components are in accordance with the Commission’s findings in Peoples Gas’ last rate  
510 case.

511 Cash Working Capital is classified to Commodity, Demand and Customer  
512 classifications based upon Total O&M, not including A&G, as shown on Peoples Gas

513 Ex. JCHM-1.4, Page 5, line 45. Total O&M, not including A&G was utilized as the  
514 classification methodology because Cash Working Capital provides support for O&M  
515 utility functions. Once classified, the Commodity and Customer portions are allocated to  
516 the customer classes based upon the Sales and Customer allocation methodologies,  
517 respectively. The portion classified to Demand was further broken down into detailed  
518 functions of Production, Underground Storage, Local Storage, Transmission and  
519 Distribution. This detailed breakdown was based on the ratio of each corresponding  
520 amount of O&M to Total O&M, not including A&G. The calculation of the ratios  
521 follows the same calculation performed for General Plant as I describe earlier in my  
522 testimony, except the O&M amounts shown on Peoples Gas Ex. JCHM-1.4, Page 5, were  
523 utilized rather than the Plant-in-Service amounts. Once further classified into the  
524 functions of Production, Underground Storage, Local Storage, Transmission and  
525 Distribution, the amounts were allocated to the customer classes based upon the  
526 Unbundled Coincident Peak, Storage, Unbundled Coincident Peak, Average and Peak,  
527 and Average and Peak allocation methodologies, respectively.

528 M&S is classified to Commodity, Demand and Customer classifications based  
529 upon Distribution Plant, not including Intangible Plant amounts, as shown on Peoples  
530 Gas Ex. JCHM-1.4, Page 1, line 37. M&S is classified according to Distribution Plant,  
531 not including Intangible Plant amounts, because M&S are used to support  
532 Plant-in-Service functions, and Distribution comprises the majority of Plant-in-Service.  
533 Once classified, the Commodity, Demand and Customer portions are then allocated to the  
534 customer classes based upon the Sales, Average and Peak, and Customer allocation  
535 methodologies, respectively.

536           Accumulated Deferred Taxes is classified to Commodity, Demand and Customer  
537           classifications based upon Depreciation Reserve, not including General or Intangible  
538           Plant amounts, as shown on Peoples Gas Ex. JCHM-1.4, Page 2, line 50. Accumulated  
539           Deferred Taxes are allocated according to Depreciation Reserve, not including General or  
540           Intangible Plant amounts because Accumulated Deferred Taxes follow the same type of  
541           cost-causation theory as Accumulated Depreciation Reserve. Once classified, the  
542           Commodity and Customer portions are then allocated to the customer classes based upon  
543           the Sales and Customer allocation methodologies, respectively. The portion classified to  
544           Demand was further broken down into detailed functions of Production, Underground  
545           Storage, Local Storage, Transmission and Distribution. This detailed breakdown was  
546           based on the ratio of each corresponding amount of Depreciation Reserve to Total  
547           Depreciation Reserve, not including General. The calculation of the ratios follows the  
548           same calculation performed for General Plant as I describe earlier in my testimony,  
549           except that the Depreciation Reserve amounts shown on Peoples Gas Ex. JCHM-1.4,  
550           Page 2 were utilized rather than Plant-in-Service amounts. Once further detailed into the  
551           functions of Production, Underground Storage, Local Storage, Transmission and  
552           Distribution, the amounts were allocated to the customer classes based upon the  
553           Unbundled Coincident Peak, Storage, Unbundled Coincident Peak, Average and Peak,  
554           and Average and Peak allocation methodologies, respectively.

555           Both Net Retirement Benefits and Reserve for Injuries and Damages are classified  
556           to Commodity, Demand and Customer classifications based upon Total O&M, not  
557           including A&G, as shown on Peoples Gas Ex. JCHM-1.4, Page 5, line 45. These rate  
558           base components were classified according to Total O&M, not including A&G because

559 they are a function of various O&M accounts. Once classified, the Commodity and  
560 Customer portions are allocated to the customer classes based upon the Sales and  
561 Customer allocation methodologies, respectively. The Demand classified portion was  
562 further broken down into detailed functions of Production, Underground Storage, Local  
563 Storage, Transmission and Distribution. This detailed breakdown was based on the ratio  
564 of each corresponding amount of O&M to Total O&M, not including A&G. The  
565 calculation of the ratios follows the same calculation performed for General Plant as I  
566 describe earlier in my testimony, except the O&M amounts shown on Peoples Gas  
567 Ex. JCHM-1.4, Page 5, were utilized rather than Plant-in-Service amounts. Once  
568 classified as Production, Underground Storage, Local Storage, Transmission and  
569 Distribution, the amounts were allocated to the customer classes based upon the  
570 Unbundled Coincident Peak, Storage, Unbundled Coincident Peak, Average and Peak,  
571 and Average and Peak allocation methodologies, respectively.

572 **L. Peoples Gas' ECOSS**

573 Q. What is the source of the cost data analyzed in Peoples Gas' ECOSS?

574 A. All cost of service data have been extracted from Peoples Gas' revenue requirements and  
575 rate base contained in the instant filing. Where more detailed information was required  
576 to perform various subsidiary analyses related to certain plant and expense elements, the  
577 data were either taken directly from Peoples Gas' various software systems or derived  
578 from the historical books and records of Peoples Gas.

579 Q. Did you make any changes to the classes of service included in the ECOSS you prepared  
580 compared to the cost study submitted in Peoples Gas' last general rate case proceeding?

581 A. Yes, I made two changes. First, in Peoples Gas' last rate case, the Commission approved  
582 the combination of customer class Rate 3 – Large Volume Service into customer class  
583 Rate 4 – Large Volume Demand Service. Therefore, the ECOSS I prepared for Peoples  
584 Gas in this proceeding does not show a Rate 3. Second, customer class Rate 1 – Small  
585 Residential is not split between Heating and Non-Heating customers. Bifurcation of  
586 customer class Rate 1 between Heating and Non-Heating was not approved by the  
587 Commission in Peoples Gas' last rate case. Therefore, customer class Rate 1 is shown as  
588 stated in Peoples Gas' current schedule of rates filed with the Commission.

589 Q. Please describe Peoples Gas Ex. JCHM– .1.

590 A. Peoples Gas Ex. JCHM–1.1 consists of one page and shows the summarized results of  
591 Peoples Gas' ECOSS for the 2010 future test year under present rates. Line 38 of  
592 Peoples Gas Ex. JCHM–1.1 shows the rate of return resulting from operations. Line 50  
593 shows the revenue deficiency by customer class based on the required rate of return on  
594 common equity of 12.0%, which is Peoples Gas' requested return on common equity in  
595 this proceeding and is supported by the testimony of Peoples Gas witness Mr. Paul Moul  
596 (Peoples Gas Ex. PRM-1.0). Lastly, line 54 of Peoples Gas Ex. JCHM–1.1 shows the  
597 revenue requirements under present rates. I also note that the internal allocation  
598 methodology of rate base is created on Peoples Gas Ex. JCHM–1.1; the Rate Base  
599 allocator is used throughout other sections of the ECOSS.

600 Q. Please describe Peoples Gas Ex. JCHM–1.2.

601 A. Peoples Gas Ex. JCHM–1.2 consists of eight pages. Pages one and two provide a  
602 summary of revenue requirements and rate base, respectively, shown by functional and  
603 classification breakdown. Page three of Peoples Gas Ex. JCHM–1.2 shows the unit costs

604 by customer class for the 2010 future test year, which was calculated by taking the  
605 revenue requirements under present rates on page one and dividing by the appropriate  
606 denominator shown in Lines 38-43 of Peoples Gas Ex. JCHM-1.2, Page 3. Pages 4 - 8 of  
607 Peoples Gas Ex. JCHM-1.2 provide the detail behind the creation of the summaries  
608 shown on pages one and two.

609 Q. Is there anything you would like to highlight with respect to Peoples Gas Ex. JCHM-1.2?

610 A. Yes. As can be seen on Peoples Gas Ex. JCHM-1.2, page 3, cell [F29], the ECOSS is  
611 calculating a lower customer charge for Rate 6 than the customer charge that is currently  
612 in effect. In investigating this issue further, it was determined that the Customer Deposits  
613 allocator, Meters & Regulators allocator, and Service Installations allocator formulated  
614 and used in the ECOSS at Present Rates in Peoples Gas' last rate case filing were  
615 incorrect. Therefore, there was over-allocation of Customer Deposit, Meters &  
616 Regulators, and Service Installation costs to Rate 6. This over-allocation to Rate 6 was  
617 entirely off-set by an under-allocation of these costs to all of the other Service Classes.  
618 In this proceeding, the Customer Deposits allocator, Meters & Regulators allocator, and  
619 Service Installations allocator have been formulated accurately and are reflecting the  
620 appropriate allocation of these respective costs to all of the Service Classes.

621 Q. Please describe Peoples Gas Ex. JCHM-1.3.

622 A. Peoples Gas Ex. JCHM-1.3 consists of nine pages and contains the detailed allocation of  
623 all investment and expenses to the customer classes of Peoples Gas. This exhibit  
624 provides the detail behind the figures shown in the summary presented as Peoples Gas  
625 Ex. JCHM-1.1. All of the investment and expenses were allocated to the customer

626 classes using the allocation methodologies listed in the far right column labeled “Source  
627 or Allocation Factor”.

628 Page 1 contains the Operating Revenues for Peoples Gas by customer class based  
629 on the rates authorized in Peoples Gas’ last general rate case proceeding in ICC Docket  
630 No. 07-0242.

631 Page 2 contains the allocation of Total O&M Expenses, both Labor and  
632 Non-Labor related, to Peoples Gas’ customer classes. Page 2 also contains the creation  
633 of the internal allocation methodologies Distribution-Demand O&M, Distribution-  
634 Customer O&M, and Customer O&M, which are used to allocate Distribution and  
635 Customer classifications of A&G expense, respectively.

636 Page 3 contains the allocation of Depreciation and Amortization expenses to  
637 Peoples Gas’ customer classes.

638 Page 4 contains the allocation of TOTI expense to Peoples Gas’ customer classes.

639 Page 5 contains the allocation of Other Income and Adjustments, for both Before  
640 Income Taxes as well as After Income Taxes, for Peoples Gas. In the 2010 future test  
641 year, there were no Other Income and Adjustments.

642 Page 6 contains the allocation of investment in Plant in Service to Peoples Gas’  
643 customer classes.

644 Page 7 contains the allocation of Accumulated Reserve for Depreciation and  
645 Amortization to Peoples Gas’ customer classes.

646 Page 8 contains the allocation of Construction Work in Progress to Peoples Gas’  
647 customer classes.

648                   Page 9 contains the allocation of Other Rate Base Components to Peoples Gas'  
649 customer classes.

650 Q.     Please describe Peoples Gas Ex. JCHM-1.4.

651 A.     Peoples Gas Ex. JCHM-1.4 consists of five pages and contains the functionalization and  
652 classification detail of the ECOSS. This exhibit provides the detail behind the figures  
653 shown in the cost allocation to customer classes presented as Peoples Gas Ex. JCHM-1.3.

654                   Page 1 contains the functionalization and classification of investment in Plant-in-  
655 Service. These figures were utilized in the costs allocation to customer classes shown on  
656 page 6 of Peoples Gas Ex. JCHM-1.3. Page 1 also contains the creation of the  
657 classificational allocation methodology for Gross Plant, not including Intangible or  
658 General Plant amounts, and Distribution Plant, not including Intangible amounts, which  
659 were used throughout other sections of the ECOSS.

660                   Page 2 contains the functionalization and classification of Accumulated Reserve  
661 for Depreciation and Amortization. These figures were utilized in the costs allocation to  
662 customer classes shown on page 7 of Peoples Gas Ex. JCHM-1.3. Page 2 also contains  
663 the creation of the classificational allocation methodology for Depreciation Reserve, not  
664 including Intangible or General Plant amounts, which is used throughout other sections of  
665 the ECOSS.

666                   Page 3 contains the functionalization and classification of Construction Work in  
667 Progress. These figures were utilized in the costs allocation to customer classes shown  
668 on page 8 of Peoples Gas Ex. JCHM-1.3.

669 Page 4 contains the functionalization and classification of Depreciation and  
670 Amortization Expense. These figures were utilized in the costs allocation to customer  
671 classes shown on page 3 of Peoples Gas Ex. JCHM-1.3.

672 Page 5 contains the functionalization and classification of Total O&M Expense,  
673 including both Labor and Non-Labor. These figures were utilized in the cost allocation  
674 to customer classes shown on page 2 of Peoples Gas Ex. JCHM-1.3. Page 5, also  
675 includes the creation of the classificational allocation methodology titled Total O&M, not  
676 including A&G amounts, which is used in other sections of the ECOSS.

677 Q. Please describe Peoples Gas Ex. JCHM-1.5.

678 A. Peoples Gas Ex. JCHM-1.5 contains a summary of most of the allocation methodologies  
679 used within the ECOSS exhibits shown in Peoples Gas Ex. JCHM-1.1 through 1.4.  
680 Peoples Gas Ex. JCHM-1.5 consists of 10 pages.

681 Page 1 shows the development of the following allocation factors:

- 682 1. The Average Customer allocation factor, which is based on simple  
683 12 month average of customer counts for all customer classes,
- 684 2. The Services allocation factor for Account 380, which is based on average  
685 customer counts and utilizes a Cost Per Customer for Services weighting  
686 factor,
- 687 3. The Meters & House Regulators allocation factor for Account 381.0 and  
688 383, which is based on average customer counts and utilizes a Cost Per  
689 Customer for Meters & Regulators weighting factor,
- 690 4. The Automated Meter Devices allocation factor for Account 381.2 and  
691 382.2, which is based on average customer counts and utilizes an Average  
692 Count of Encoder/Receiver Transmitters weighting factor,
- 693 5. The Bad Debt allocation factor for Account 904, which is based on  
694 average customer counts and utilizes an Average Cost per Customer – Bad  
695 Debt weighting factor,

- 696 6. The Demand Gas Measurement Devices allocation factor for Account  
697 381.3 and 382.3, which is based on the demand device counts forecasted  
698 in the future test year ending December 31, 2010,
- 699 7. The Municipal Utility Tax allocation factor which is based on the total  
700 forecasted municipal utility taxes, by customer class, for the future test  
701 year 2010,
- 702 8. The Delayed Payment Charges allocation factor for Account 487, which is  
703 based on the total forecasted delayed payment charges, by customer class,  
704 for the future test year 2010.

705 Page 2 shows the development of the following allocation factors:

- 706 1. The Budget Plan Debit Balances allocation factor, which is based on the  
707 12 month average of budget plan debit balances for the 12 months ending  
708 June 30, 2008,
- 709 2. The Customer Deposits allocation factor, which is based upon the  
710 12 month average of actual Customer Deposits for the 12 months ending  
711 June 30, 2008,
- 712 3. Sales, or Commodity, allocation factor, which is the annual total of  
713 forecasted sales of all customers, including transportation sales, for the  
714 future test year 2010,
- 715 4. The Coincident Peak Demand allocation for class coincident demand for  
716 each of the customer classes,
- 717 5. The Unbundled Coincident Peak Demand allocation, which consists of the  
718 class coincident demand for each customer class multiplied against the  
719 customer classes' selected standby percentage ("SSP"),
- 720 6. The Weighted Peak and Seasonal Volumes Excess Winter over Summer  
721 Demand allocation, or Storage allocator, which consists of a combination  
722 of the utility's unbundled coincident peak and incremental seasonal sales  
723 corresponding to the winter withdrawal period for storage facilities,
- 724 7. The Average and Peak Demand allocation, which consists of a  
725 combination of the utility's average sales and coincident peak demand,  
726 calculated in accordance with Commission Staff's methodology as  
727 presented in Peoples Gas' last rate case.

728 Page 3 shows the development of the following allocation factors:

- 729 1. The Unbundled Commodity Standby Volumes allocation, which consists  
730 of the annual sales volume for each customer class multiplied against the  
731 customer classes' SSP,

- 732                   2.     The Accounts 385 and 386 allocation, which consists of the average  
733                   customer counts of only those customer classes that utilize demand gas  
734                   measurement devices,
- 735                   3.     The Salaries and Wages functional allocation factor, and
- 736                   4.     The Salaries and Wages customer class allocation factor.

737                   Pages 4 through 10 contain a list of all of the externally generated allocation  
738                   factors in the ECOSS and also provide a full narrative description of the derivation of all  
739                   the externally generated allocation factors, as required by the 83 Ill. Admin. Code  
740                   Section 285.5110.

741    Q.     Can you please explain the significance of the far right column labeled “Source or  
742                   Allocation Factor” on each of the pages 1 – 3 of Peoples Gas Ex. JCHM–1.5?

743    A.     The far right column labeled “Source or Allocation Factor” represents the name that was  
744                   given to each of the specific allocators created within Peoples Gas Ex. JCHM–1.5. Each  
745                   of these names shown in the “Source or Allocation Factor” column is what is used  
746                   throughout the ECOSS for Peoples Gas when referencing the allocation methodology that  
747                   was used to allocate costs to the customer classes.

748    Q.     Can you please describe Peoples Gas Ex. JCHM–1.6?

749    A.     Peoples Gas Ex. JCHM–1.6 shows the summarized results of Peoples Gas’ ECOSS for  
750                   the 2010 future test year under the proposed changes in rate design as proffered by  
751                   Peoples Gas witness Ms. Valerie Grace. Peoples Gas Ex. JCHM–1.6 consists of one  
752                   page. Line 38 of Peoples Gas Ex. JCHM–1.6 shows the Rate of Return resulting from  
753                   operations. Line 50 shows the revenue deficiency by customer class based on the  
754                   required rate of return on common equity of 12.0%, which is Peoples Gas’ requested  
755                   return on common equity in this general rate case proceeding and is supported by the

756 testimony of Peoples Gas witness Mr. Paul Moul (Peoples Gas Ex. PRM-1.0). Line 54 of  
757 Peoples Gas Ex. JCHM-1.6 shows the revenue requirements taking into consideration the  
758 customer transfers between Service Classes that would occur under proposed rate design  
759 and the proposed Other Revenues in Accounts 487-495 that would be received under the  
760 proposed rate design. Lines 58-64 present the proposed revenue requirement required as  
761 proffered by Ms. Grace.

762 Q. Specifically, what changes can be seen between Peoples Gas Ex. JCHM-1.1 and Peoples  
763 Gas Ex. JCHM-1.6?

764 A. Based upon the proposed rate design of Ms. Grace, there are shifts in customers between  
765 Rate 2 and Rate 4, and also between Rate 6 and Rate 2. As a result, the tariff revenues  
766 presented on Peoples Gas Ex. JCHM-1.6, line 2, and the revenue requirement presented  
767 in Peoples Gas Ex. JCHM-1.6 at line 54 for Rate 2, Rate 4, and Rate 6 account for these  
768 customer transfers and differ from what is shown in Peoples Gas Ex. JCHM-1.1 under  
769 present rates. The revenues and revenue requirement presented in Peoples Gas Ex.  
770 JCHM-1.6 for Rate 6 is presented as zero, due to Ms. Grace's rate design proposal to  
771 eliminate Rate 6, which differs from what is shown in Peoples Gas Ex. JCHM-1.1 under  
772 present rates.

773 The Other Revenues in Accounts 487-495 have been updated to include increased  
774 revenues arising from proposed increases in certain miscellaneous charges as discussed in  
775 Ms. Grace's direct testimony. The increase in Other Revenues in Accounts 487-495  
776 lowers the amount that would need to be recovered via base rates in tariff revenue.  
777 Accordingly, an adjustment was made to account for the reduction to tariff revenues (see  
778 line 3 of Peoples Gas Ex. JCHM-1.6). Lastly, Ms. Grace is proposing a cross-

779 subsidization among Rate 1 and Rate 2, as shown at lines 61-64 on Peoples Gas  
780 Ex. JCHM-1.6.

781 Q. Please describe Peoples Gas Ex. JCHM-1.7.

782 A. Peoples Gas Ex. JCHM-1.7 consists of eight pages. Page one provides a summary of the  
783 revenue requirement reflecting the customer transfers between Service Classes that would  
784 occur under the proposed rate design (see Peoples Gas Ex. JCHM-1.6, line 54). This  
785 summary is shown by functional and classification breakdown. Page two provides a  
786 summary of rate base shown by functional and classification breakdown. Page three  
787 shows the unit costs by customer class for the 2010 future test year, which was calculated  
788 by taking the revenue requirement on page one and dividing by the appropriate  
789 denominator shown in Lines 38-43 of Peoples Gas Ex. JCHM-1.7, Page 3. Pages 4 - 8  
790 provide the detail behind the creation of the summaries shown on pages one and two.

791 Q. Please describe Peoples Gas Ex. JCHM-1.8.

792 A. Peoples Gas Ex. JCHM-1.8 consists of nine pages and contains the detailed allocation of  
793 all investment and expenses to the customer classes of Peoples Gas taking into account  
794 the customer transfers among Service Classes due to rate design proposals. This exhibit  
795 provides the detail behind the figures shown in the summary presented as Peoples Gas  
796 Ex. JCHM-1.6. All of the investment and expenses were allocated to the customer  
797 classes using the allocation methodologies listed in the far right column labeled "Source  
798 or Allocation Factor".

799 Page 1 contains the Operating Revenues for Peoples Gas by customer class based  
800 on the rates authorized in Peoples Gas' last general rate case proceeding, but taking into  
801 account the customer transfers amongst Service Classes that would occur under the

802 proposed rate design. Lines 4 – 12 also reflect the proposed Other Revenues that would  
803 be recovered via the proposed rate design.

804 Page 2 contains the allocation of Total O&M Expenses, both Labor and  
805 Non-Labor related, to Peoples Gas' customer classes taking into account the customer  
806 transfers among Service Classes that would occur under the proposed rate design. Page 2  
807 also contains the creation of the internal allocation methodologies Distribution-Demand  
808 O&M, Distribution-Customer O&M, and Customer O&M, which were used to allocate  
809 Distribution and Customer classifications of A&G expense, respectively.

810 Page 3 contains the allocation of Depreciation and Amortization expenses to  
811 Peoples Gas' customer classes taking into account the customer transfers among Service  
812 Classes that would occur under the proposed rate design.

813 Page 4 contains the allocation of TOTI expense to Peoples Gas' customer classes  
814 taking into account the customer transfers among Service Classes that would occur under  
815 the proposed rate design.

816 Page 5 contains the allocation of Other Income and Adjustments, for both Before  
817 Income Taxes as well as After Income Taxes, for Peoples Gas. In the 2010 future test  
818 year, there were no Other Income and Adjustments.

819 Page 6 contains the allocation of investment in Plant in Service to Peoples Gas'  
820 customer classes taking into account the customer transfers among Service Classes that  
821 would occur under the proposed rate design.

822 Page 7 contains the allocation of Accumulated Reserve for Depreciation and  
823 Amortization to Peoples Gas' customer classes taking into account the customer transfers  
824 among Service Classes that would occur under the proposed rate design.

825 Page 8 contains the allocation of Construction Work in Progress to Peoples Gas'  
826 customer classes taking into account the customer transfers among Service Classes that  
827 would occur under the proposed rate design.

828 Page 9 contains the allocation of Other Rate Base Components to Peoples Gas'  
829 customer classes taking into account the customer transfers among Service Classes that  
830 would occur under the proposed rate design.

831 Q. Please describe Peoples Gas Ex. JCHM-1.9.

832 A. Peoples Gas Ex. JCHM-1.9, which consists of three pages, contains a summary of most  
833 of the allocation methodologies used within the ECOSS exhibits shown in Peoples Gas  
834 Ex. JCHM-1.6 through 1.8.

835 Q. Are the allocation methodologies presented in Peoples Gas Ex. JCHM-1.9 the same  
836 methodologies presented in Peoples Gas Ex. JCHM-1.5?

837 A. Yes, they are. The only difference between Peoples Gas Ex. JCHM-1.9 and Peoples Gas.  
838 Ex. JCHM-1.5 is that the allocation methodologies presented in Peoples Gas Ex. JCHM-  
839 1.9 take into consideration the customer transfers that would occur given the proposed  
840 rate design.

841 **M. Results of Peoples Gas' ECOSS**

842 Q. Based on the ECOSS filed by Peoples Gas, do you have any comments with respect to  
843 the ECOSS results at present rates?

844 A. Yes. Referring to Peoples Gas Ex. JCHM-1.1, the following results at present rates from  
845 the ECOSS are indicated on Line 38:

846 1. The average system rate of return is 2.53%.



- 870                   3.     The general service class (Rate 2) exhibits a rate of return of 13.27%.
- 871                   4.     The large volume demand service class (Rate 4) shows a rate of return of
- 872                             9.34%.
- 873                   5.     The standby service class (Rate 6) has been combined with Rate 2.
- 874                   6.     The CNG service class (Rate 8) shows a rate of return of 9.34%.

875    Q.     In your opinion, does the ECOSS provide a reasonable basis for establishing rates in this

876             case?

877    A.     Yes. The ECOSS for Peoples Gas is a reasonable estimate of revenue requirements by

878             customer class, given the total revenue requirement, and supports the rates requested in

879             this case, as explained further by Ms. Grace.

880    Q.     Does this complete your direct testimony?

881    A.     Yes.