

DIRECT TESTIMONY

of

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Rates Department  
Financial Analysis Division  
Illinois Commerce Commission

Proposed General Increase in Natural Gas Rates

North Shore Gas Company and  
The Peoples Gas Light and Coke Company

Docket Nos. 09-0166 and 09-0167 Consolidated

June 10, 2009

1 **Q. Please state your name and business address.**

2 A. My name is Cheri L. Harden. My business address is 527 East Capitol Avenue,  
3 Springfield, Illinois 62701.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Illinois Commerce Commission (“Commission”) as a Rate  
7 Analyst in the Rates Department of the Financial Analysis Division. My  
8 responsibilities include rate design and cost-of-service analyses for electric, gas  
9 and water utilities and the preparation of testimony on rates and rate-related  
10 matters.

11

12 **Q. How long have you been employed by the Illinois Commerce Commission?**

13 A. I have been employed by the Commission since September 2000.

14

15 **Q. Please briefly state your qualifications.**

16 A. I graduated from the University of Maryland in 1993, with a Bachelor of Science  
17 degree in Management Studies.

18

19 Previously, I worked for the Wyoming Public Service Commission for almost  
20 seven years. The last two positions I held with the Wyoming Public Service  
21 Commission were as the Consumer Services Coordinator and as a Rate Analyst.

22 I have been employed by the Commission as a Rate Analyst since September 1,

23 2000.

24

25 **Q. Have you testified in other Commission proceedings?**

26 A. Yes, I have testified on several occasions before the Illinois Commerce  
27 Commission and the Wyoming Public Service Commission.

28

29 **Q. What area does your testimony address?**

30 A. I am addressing the cost of service and rate design proposals of North Shore  
31 Gas Company ("North Shore") and The Peoples Gas Light and Coke Company  
32 ("Peoples Gas") (individually, the "Company" and collectively, the "Companies")  
33 for natural gas service. First, I will address issues that apply collectively to both  
34 Companies and, secondly, I will address issues that apply separately for North  
35 Shore and Peoples Gas.

36

37 **Q. Are you sponsoring any schedules as part of your testimony?**

38 A. No, I am not sponsoring any schedules as part of my testimony.

39

40 **North Shore and Peoples Gas**

41 Uncollectible Account Expenses ("Account 904")

42 **Q. What is Account 904?**

43 A. As indicated in the Uniform System of Accounts, Account 904 reflects the losses

44 incurred by a utility from unpaid customer bills that are deemed uncollectible.

45

46 **Q. How do the Companies propose to recover their Account 904 costs for S.C.**  
47 **No. 1 (Small Residential Service) and S.C. No. 2 (General Service) in this**  
48 **case?**

49 A. The Companies propose to recover gas costs related to Account 904 solely  
50 through the customer charge rather than continuing the current practice of  
51 allocating them according to the blend of fixed and variable charges that  
52 comprise the bills of uncollectible customer accounts for sales and transportation  
53 customers. (North Shore Ex. VG-1.0, p. 11; Peoples Gas Ex. VG-1.0, pp.12 - 13)  
54 The Companies continue to assert this position despite the Commission's  
55 rejection of that position in Docket Nos. 07-0241 and 07-0242 (Consolidated).  
56 (the Companies "last rate case")

57

58 **Q. What was the ruling on this issue in the Final Order of the last rate case?**

59 A. At page 201 of the Final Order in the Companies' last rate case (Docket Nos. 07-  
60 0241/07-0242 Cons.), the Commission accepted Staff's recommendation to  
61 allocate the Account 904 uncollectible costs based on the origin of the  
62 uncollectible charges; that is, according "to the respective demand, customer and  
63 commodity classifications by the relative weight or percentage of revenue  
64 requirement from each customer class resulting from various categories of

65 costs.” (07-0241c Order, p. 201) The Commission also approved differentiated  
66 distribution rates for sales and transportation customers. The differentiation was  
67 approved so that transportation customers would not be charged for costs that  
68 were only applicable to non-transportation customers, such as uncollectibles  
69 costs associated with purchased gas costs.

70

71 **Q. Did the Companies support Staff’s recommendation in the last rate case?**

72 A. No. In the last rate case, the Companies asserted that gas costs related to  
73 Account 904 should be classified as solely customer costs and, therefore,  
74 proposed to recover such costs only through the customer charge. The  
75 Companies viewed these costs as a function of customers’ unpaid bills rather  
76 than a function of the underlying components of those unpaid bills which are  
77 comprised of both fixed and variable charges, i.e., the customer charge,  
78 distribution charge and demand charge, as Staff asserted. (*North Shore Gas Co.*  
79 *et al.*, ICC Docket Nos. 07-0241 and 07-0242 Cons., (Order, February 5, 2008),  
80 p. 199 (“07-0241c Order”))

81

82 **Q. Have the Companies presented any new information on the Account 904**  
83 **issue in this docket?**

84 A. No. The Companies have provided a new argument, but have not provided any  
85 new information that indicates the Commission’s ruling on this issue in the last

86 rate case needs to be revisited.

87

88 The Companies now argue that since their last rate case, S.C. No. 1 customers  
89 have migrated in large numbers from sales to transportation service. Since the  
90 current difference in distribution charges is based on sales and transportation  
91 volumes in fiscal year 2006, they assert that the current cost recovery is skewed.  
92 The Companies claim their proposal would assure “that gas cost related Account  
93 No. 904 Uncollectible Accounts expenses would properly migrate with the  
94 customer.” (North Shore Ex. VG-1.0, p. 12; Peoples Gas Ex. VG-1.0, p.13)

95

96 **Q. Is the Companies’ argument persuasive?**

97 A. No. As affirmed by the Commission’s decision on this issue in the last rate case,  
98 Account 904 uncollectible costs should be recovered from the blend of charges  
99 that comprise the uncollectible bills. Accordingly, it is irrelevant how many  
100 customers have moved from the sales class to the transportation class.

101

102 The Companies’ new argument appears to incorrectly imply that sales customers  
103 who have migrated to transportation are somehow paying less than they ought to  
104 simply because Account 904 costs are not solely allocated to the customer  
105 charge. This implication is false because the Companies’ current distribution  
106 rates are designed such that transportation class customers’ rates do not reflect

107 gas-related uncollectible costs.

108

109 Moreover, adopting the Companies' proposal would mean that uncollectible costs  
110 associated with purchased gas costs would be recovered through the customer  
111 charge which is a fixed charge. That result does not make sense because  
112 purchased gas costs, which account for approximately two-thirds of a customer's  
113 bill, vary with usage and are not fixed per customer. Thus, it would be  
114 inappropriate to recover Account 904 costs solely through a non-usage based  
115 charge such as a customer charge.

116

117 **Q. What do you recommend in regards to the Account 904 issue?**

118 A. I recommend the Commission reject the Companies' proposal to change the  
119 existing manner through which Account 904 costs are recovered through rates  
120 for the reasons stated above.

121

122 Volume Balancing Adjustment ("Rider VBA")

123 **Q. Was Rider VBA an issue in the last rate case for the Companies?**

124 A. Yes. In the Companies' last rate case, the Commission approved the  
125 implementation of a four-year pilot program for Rider VBA and instructed the  
126 Companies to set the Rider VBA formula to recover only its fixed costs. The  
127 Companies' fixed costs, for purposes of Rider VBA, were set at 99% for North

128 Shore and 95% for Peoples Gas. (07-0241c Order, p. 152) The Commission  
129 further ordered that “a general rate case needs to be filed if Rider VBA is to  
130 become effective upon the conclusion of the pilot program.” *Id.* Thus, if the  
131 Companies file a general rate case to continue Rider VBA at the conclusion of  
132 the pilot program, the operation of Rider VBA is to be analyzed and the  
133 Commission will determine whether Rider VBA should continue.

134

135 **Q. Which rate classes are affected by Rider VBA?**

136 A. Rider VBA applies to the S.C. No. 1 Small Residential and S.C. No. 2 General  
137 Service rate classes for each Company. According to Companies’ witness  
138 Valerie Grace, between May 2008 and February 2009, North Shore S.C. No. 1  
139 customers were refunded \$475,000 and S.C. No. 2 customers were refunded  
140 \$397,000. Similarly, she asserts that Peoples Gas S.C. No. 1 customers were  
141 refunded \$1.7 million and S.C. No. 2 customers were refunded \$2.3 million.  
142 (North Shore Ex. VG-1.0, pp. 14, 20; Peoples Gas Ex. VG-1.0, pp. 15-16, 21) I  
143 would note that in Ms. Grace’s testimony in North Shore’s first Rider VBA  
144 Reconciliation Proceeding (ICC Docket No. 09-0123 Ex. NS VG-1.1, lines 8, 12),  
145 the results show S.C. No. 1 monthly refunds of about \$198,000 and an annual  
146 reconciliation refund adjustment of approximately \$358,000. For Peoples Gas,  
147 she presents a schedule indicating that S.C. No. 1 customers were charged  
148 approximately \$459,000 through the monthly charges under Rider VBA during

149 2008, and that the annual reconciliation adjustment for 2008 to be effective in  
150 2009 is a credit to customers of approximately \$2.573 million. (ICC Docket No.  
151 09-0124, Ex. PGL VG-1.1, lines 8, 12) I do not contest Ms. Grace's numbers, but  
152 merely point out that the refunds she discusses do not appear to have occurred  
153 through the monthly volume balancing adjustments, but rather appear to have  
154 occurred through the annual reconciliation adjustments.

155

156 **Q. Does this impact the rate design the Companies propose?**

157 A. Yes. The Companies indicate that they propose to increase the customer charge  
158 to better align the charge with its underlying costs. The Company states that  
159 their proposal would reduce the magnitude of adjustments noted previously, that  
160 would need to be generated under Rider VBA. The Companies claim their  
161 proposal would set rates looking toward the future when the pilot program is  
162 scheduled to end in March 2012. (North Shore Ex. VG-1.0, p. 14; Peoples Gas  
163 Ex. VG-1.0, p. 16) The Companies also state that their proposal will collect more  
164 revenue from the customer charge and is more similar to the Commission's  
165 decisions in other recent cases for other utilities.

166

167 **Q. Does this information have an impact on your rate design recommendation**  
168 **for S.C. No. 1 and S.C. No. 2?**

169 A. No. In the Companies last rate case they proposed, and the Commission

170 approved, Rider VBA in order to provide a more stable and reliable revenue  
171 stream. One of the reasons given in support of that proposal was that a  
172 significant portion of fixed costs are recovered through volumetric charges and  
173 may be over- or under-recovered based on actual volumes. An alternative to the  
174 Rider VBA program is to recover more of the fixed costs in the customer charge.  
175 However, as stated previously, the Commission approved the Rider VBA as a  
176 four-year pilot program. As a pilot program, the program should be maintained  
177 as designed so that its success, or lack thereof, can be measured as it  
178 progresses and at its end. Increasing the customer charge simply raises the  
179 issue of whether the Company needs Rider VBA, and the Commission has  
180 already decided to adopt Rider VBA as a pilot program for the Companies. I also  
181 note that Peoples' Rider VBA fixed cost percent recovered could rise from 95%  
182 to 98% based on their testimony in this case, so they may obtain more fixed  
183 costs revenues through Rider VBA if the higher percent is approved. North  
184 Shore's Rider VBA fixed cost percent would stay the same at 99%.

185

186 **Q. What is your recommendation?**

187 A. I recommend that the Companies' proposal to increase the percentage of fixed  
188 costs recovered from the customer charge be rejected. North Shore proposes  
189 recovery of 56% in this docket but I recommend maintaining the current 50%  
190 based on the last rate case when Rider VBA was designed. Peoples Gas

191 proposes recovery of 48% in this docket but I recommend maintaining the current  
192 t 43% based on the last rate case when Rider VBA was designed.

193

194 Uniform Numbering of Service Classifications

195 **Q. Please discuss the uniform numbering of service classifications.**

196 A. As can be seen in Table 1, North Shore and Peoples Gas have almost the same  
197 customer classes, but the Companies have different service classification  
198 numbers to identify the customer classes.

199

200 **Q. What is the benefit of moving to a uniform set of service classification**  
201 **numbers?**

202 A. There would be less confusion for customers with accounts in both service  
203 territories and it could simplify the rate-making process because each service  
204 classification number would identify the same customer class in both  
205 Companies. Additionally, there would be no revenue impact as only the number  
206 of the service classification would change.

207

208 **Q. What do you propose with regard to the numbering of service**  
209 **classifications?**

210 A. I propose that, in the next rate case, the Companies adopt a uniform set of  
211 service classification numbers such as the one set forth in Table 1.

212

213

Table 1

<b>Service Classification</b>	<b>Current North Shore</b>	<b>Current Peoples Gas</b>	<b>Staff Proposed for both Companies</b>
<b>Small Residential Service</b>	1	1	1
<b>General Service</b>	2	2	2
<b>Large Volume Demand Service</b>	3	4	3
<b>Contract Service to Prevent Bypass</b>	4	7	4
<b>Standby Service</b>	5	6	Staff accepts the Companies' proposal to eliminate this service class
<b>Contract Service for Electric Generation</b>	6	5	5
<b>Compressed Natural Gas Service</b>	N/A	8	6 <sup>1</sup>

214

215

Recommendations

216

**Q. Please summarize your recommendations that apply to both Companies.**

217

A. I recommend the Commission reject the Companies' proposal to recover Account

218

904 costs solely through the customer charge. Account 904 costs should

219

continue to be recovered through the customer charge, the distribution charge

220

and the demand charge as was ordered in 07-0241c.

221

222 I recommend the Commission reject the Companies' proposal to increase the  
223 percentage of fixed costs recovered in the customer charges since the  
224 Commission has already determined to address fixed cost recovery issues  
225 through the Rider VBA pilot program.

226  
227 Finally, I recommend the Companies adopt a uniform set of service classification  
228 numbers in their next rate case.

229

230 **North Shore**

231 Cost of Service Study

232 **Q. Did North Shore provide a cost of service study (COSS) with its filing?**

233 A. Yes. The Company's COSS is presented in Schedule E-6.

234

235 **Q. How was the Company's COSS prepared?**

236 A. The Company's COSS shows the distribution of revenue responsibility, by  
237 customer class, necessary to achieve equalized rates of return on investment for  
238 North Shore's proposed revenue requirement. The COSS identifies the  
239 revenues, costs and profitability for each class of service and is the basis for the  
240 Company's proposed rate design. Generally, the Company prepared the COSS  
241 utilizing three major steps: (1) cost functionalization; (2) cost classification; and

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<sup>1</sup> This service classification applies only to Peoples Gas.

242 (3) cost allocation of all the costs of the utility's system to customer classes.  
243 (North Shore Ex. JCHM-1.0, pp. 2, 7 - 8)

244

245 **Q. What do you conclude from your review?**

246 A. I find the Company's embedded COSS to be an acceptable guidance tool for  
247 setting rates in this case.

248

249 Rate Design

250 **Q. What is the Company's proposal for designing rates in this docket?**

251 A. North Shore states it is proposing six major changes to its base rates and other  
252 charges. (North Shore Ex. VG-1.0, p. 10) I will discuss four of these changes in  
253 my testimony as I discuss each North Shore service class. Staff witness  
254 Christopher Boggs (ICC Staff Ex. 11.0) will testify on the sixth change involving  
255 tariff language and Staff witness Sackett (ICC Staff Ex. 12.0) will testify on the  
256 seventh change involving transportation programs.

257

258 Service Class No. 1 - Small Residential Service ("S.C. No. 1")

259 **Q. Please discuss the first change North Shore is proposing.**

260 A. As discussed earlier, North Shore proposes to recover gas costs recorded under  
261 Account 904 solely through the customer charge. Accordingly, North Shore is  
262 proposing differentiated customer charges for sales and transportation

263 customers. (North Shore Ex. VG-1.0, p. 10)

264

265 **Q. What does North Shore propose for the S.C. No. 1 customer charge?**

266 A. North Shore proposes to increase the monthly customer charge from \$13.50 to  
267 \$19.90 for sales customers and from \$13.50 to \$19.00 for transportation  
268 customers. If the proposed Rider UEA (Uncollectible Expense Adjustment) is  
269 approved by the Commission, the Company alternatively proposes that the  
270 customer charge be \$19.00 per month for both sales and transportation  
271 customers. The Company states that these proposed customer charges results  
272 in 55% recovery of the fixed costs for the S.C. No. 1 class and is set in the  
273 interest of gradualism and rate design continuity. (North Shore Ex. VG-1.0, pp.  
274 12 – 13)

275

276 **Q. Do you agree with the Company's proposed rates for the S.C. No. 1**  
277 **customer charge?**

278 A. No. The Company's proposed customer charges arise from its proposals to: a)  
279 recover gas related Account 904 costs solely through the customer charge and  
280 differentiate such charges between sales and transportation customers; and b)  
281 increase the percentage of fixed costs recovered in the customer charges. As  
282 discussed earlier, those proposals should be rejected.

283

284 **Q. What do you recommend for the S.C. No. 1 customer charge?**

285 A. First, I recommend that the customer charge for the sales and transportation  
286 customers remain equal to each other, consistent with the Commission's Order in  
287 the last rate case. Second, I recommend maintaining the same percentage of  
288 fixed costs recovered in the customer charges as ordered in the last rate case,  
289 i.e., 50% for North Shore. Accordingly, I propose that the customer charge for  
290 sales and transportation customers be set at 50% of the class revenue  
291 requirement determined in this docket.

292  
293 If the Commission agrees with the Company's proposal to increase the  
294 percentage of fixed costs recovered in the customer charge, then I recommend  
295 that the customer charge for both sales and transportation customers be set the  
296 same regardless if Rider UEA is approved in this docket. This would be  
297 determined as 55% of the class fixed costs. (North Shore Ex. VG-1.0, p. 13)

298  
299 **Q. What does North Shore propose for the S.C. No. 1 distribution charge?**

300 A. North Shore proposes to maintain its two-step declining block rate structure.  
301 After the customer charge revenues have been subtracted from the class  
302 revenue requirement, North Shore proposes the first block of 0 – 50 therms,  
303 would recover two-thirds of the customer, demand and commodity costs. The  
304 remaining revenue requirement would be recovered in the second block for

305 usage over 50 therms. (North Shore Ex. VG-1.0, pp. 13 - 14)

306

307 In addition, consistent with its proposal to recover Account 904 costs solely  
308 through the customer charge (as opposed to through the customer charge,  
309 distribution charge and demand charge); the Company also proposes to remove  
310 Account 904 costs currently being recovered from the distribution charge.

311

312 **Q. Do you agree with the Company's proposal for S.C. No. 1 distribution**  
313 **charges?**

314 A. I agree with maintaining the current two-step declining block rate structure. This  
315 is consistent with the last rate case's Final Order on this issue. However, for the  
316 reasons discussed earlier that supports rejection of the Company's Account 904  
317 recovery proposal, I disagree with the Company's proposal to remove Account  
318 904 costs from the distribution charge.

319

320 **Q. What do you recommend for the S.C. No. 1 distribution charges?**

321 A. I recommend that the Commission reject the Company's proposal to remove  
322 Account 904 costs from the distribution charge. I recommend that North Shore's  
323 proposal to maintain its current two-step declining block structure for distribution  
324 charges be approved. After the customer charge revenues have been  
325 subtracted from the class revenue requirement, the first block should recover

326 two-thirds of the remaining customer, demand and commodity costs. The  
327 remaining one-third should be recovered in the second block.

328

329 Service Class No. 2 – General Service (“S.C. No. 2”)

330 **Q. Please discuss the changes that North Shore is proposing to S.C. No. 2.**

331 A. North Shore proposes to add a Meter Class 3 to S.C. No. 2. Currently, North  
332 Shore has two meter classes with the break between meter classes at 700 cubic  
333 feet per hour. Meter Class 1 currently includes customers with meters up to 700  
334 cubic feet per hour and Meter Class 2 currently includes customers with meters  
335 over 700 cubic feet per hour. (North Shore Ex. VG-1.0, p. 17)

336

337 The Company is proposing to maintain the first two meter classes and add a  
338 Meter Class 3 for customers with large meters over 2,300 cubic feet per hour.  
339 The Company states that, at this time, the smaller meter customers are  
340 subsidizing the customers with large meters that use over 2,300 cubic feet per  
341 hour. (North Shore Ex. VG-1.0, pp. 17 - 18)

342

343 **Q. Does the Company’s testimony discuss the bill impact of adding a Meter**  
344 **Class 3?**

345 A. No, the Company’s testimony does not provide any discussion of the bill impacts  
346 on S.C. No. 2 customers that would migrate to Meter Class 3. However, the bill

347 impact for S.C. No. 2 customers that would move to Meter Class 3 is reflected on  
348 Schedule E-9, page 4 of 10. Schedule E-9 reflects a 210.0% total increase for  
349 sales customers with no usage in a given month. Yet, if a sales customer uses  
350 at least 300 therms in a month, the percentage increase becomes 26.7% or less.  
351 For transportation customers either on Rider CFY or Rider SST, a similar  
352 increase pattern is shown on Schedule E-9 in columns [I] and [M], lines 1 and 2.

353

354 **Q. Do you agree with the Company's proposal to add a Meter Class 3 for S.C.**  
355 **No. 2?**

356 A. Yes. I agree it is appropriate to add the Meter Class 3 to address the interclass  
357 subsidy the Company discusses in testimony, but I am concerned with the bill  
358 impact for low usage customers.

359

360 **Q. Do you have other information related to the bill impacts of adding a Meter**  
361 **Class 3 to S.C. No 2?**

362 A. Yes. The Company's responses to Staff Data Request CLH 1.01 provided  
363 additional information using actual customer billings, thus, supplementing details  
364 of the potential bill impacts of the Company's proposed rates in this docket.

365

366 The bill impact summaries for S.C. No. 2 sales and transportation customers,  
367 Meter Class 3, indicate a high percentage increase for low usage customers with

368 decreasing percentage increases proportionately to usage. However, upon  
369 review of the monthly bills for individual customers at the Company's proposed  
370 rates, it is apparent that many monthly bills would have a large increase and  
371 would constitute rate shock for many low usage customers. For instance, a sales  
372 customer using 80 therms per year (1% cumulative frequency range or low  
373 usage) would see an increase of almost 200% for five months in the twelve  
374 months of actual data provided at the Company's proposed rates. For the other  
375 seven months of the year the increase would continue to be over 100% each  
376 month for these low usage sales customers. The data responses provided also  
377 indicate some high usage customers would see very high increases as well. In  
378 one instance, a sales customer using almost 35,000 therms per year (80%  
379 cumulative frequency range or high usage) would see almost a 200% increase  
380 for three months in the twelve months of information provided. (Company  
381 response to Data Request CLH 1.01, attachment 13)

382

383 **Q. Is there other bill impact information that affects S.C. No. 2?**A. Yes. As I will  
384 discuss later, the Company proposes to eliminate S.C. No. 5, Standby Service.  
385 The Company proposes that S.C. No. 5 customers would be better served under  
386 S.C. No. 2. As I indicate later in my testimony, some customers moving from  
387 S.C. No. 5 to S.C. No. 2 would also see very high increases if the Company's  
388 proposed rates for S.C No. 2 are approved. A summary of S.C. No. 5 customers

389 indicates thirty-two S.C. No. 5 customers could move to Meter Class 1 and might  
390 see a decrease of 38.5%, with no usage or an increase of 4% with some usage  
391 in a month. Thirty-two S.C. No. 5 customers might also move to Meter Class 2  
392 and see an increase of 78.7% with no usage or an increase of 10% with some  
393 usage in a month. And finally, fifteen S.C. No. 5 customers might move to Meter  
394 Class 3 and could see an increase of 390.5% with no usage or an increase of  
395 27% – 28% with some usage in a month.

396

397 **Q. What do you recommend in view of this information regarding bill impacts**  
398 **on Meter Class 3 customers?**

399 A. I propose implementing the cost recovery for Meter Class 3 at an even slower  
400 pace for the customer charge due to the bill impacts to low usage customers in  
401 particular. Although the Company highlighted the intraclass subsidy currently  
402 existing in the present rates, it would be appropriate to gradually increase the  
403 Meter Class 3 customer charge as it moves toward recovering the cost to provide  
404 service. By adding another step increase into the Company's proposal, the  
405 addition of Meter Class 3 and setting the rates at the cost of providing service  
406 would not happen simultaneously and will avoid or mitigate rate shock.

407

408 **Q. Do you recommend adding a Meter Class 3 for S.C. No. 2?**

409 A. Yes. However, I do not believe the rates for Meter Class 3 should be set to

410 recover close to 100% of the attendant costs as the Company has proposed in its  
411 direct testimony. I recommend the Company distribute the S.C. No. 2 class  
412 revenue requirement more evenly over the customers. The Company should  
413 provide in its rebuttal testimony additional steps to mitigate the bill impacts for  
414 these customers.

415

416 **Q. Does the Company propose different S.C. No. 2 customer charges?**

417 A. Yes. As discussed earlier for S.C. No. 1, North Shore proposes different  
418 customer charges for sales and transportation customers in relation to its  
419 proposal for recovery of Account 904 costs. However, North Shore states that if  
420 Rider UEA is approved by the Commission, the monthly customer charge would  
421 be the same for S.C. No. 2 sales and transportation customers at \$19.80, \$65.40  
422 and \$187.10 respectively for Meter Classes 1, 2 and 3. (North Shore Ex. VG-  
423 1.0, p. 18)

424

425 **Q. Does the Company also propose to recover more fixed costs in S.C. No. 2**  
426 **customer charges as it did in S.C. No. 1?**

427 A. Yes. North Shore proposes to increase the monthly customer charges for S.C.  
428 No. 2, while moving the charges for all three meter classes closer to cost. The  
429 Company proposes to recover all of the customer costs and 30% of their  
430 respective demand costs for Meter Classes 1 and 2, but Ms. Grace states that in

431 the interest of gradualism the Company proposes to only recover 18% of demand  
432 costs through the proposed Meter Class 3 customer charge. The remainder of  
433 the class revenue requirement will be recovered through the distribution charges.  
434 (North Shore Ex. VG-1.0, p. 18)

435

436 **Q. Do you agree with the Company's proposed rates for the S.C. No. 2**  
437 **customer charges?**

438 A. No. The Company's proposed customer charges arise from its proposals to: a)  
439 recover gas related Account 904 costs solely through the customer charge and  
440 differentiate such charges between sales and transportation customers; and b)  
441 increase the percentage of fixed costs recovered in the customer charges. As  
442 discussed earlier, those proposals should be rejected.

443

444 **Q. What is your recommendation?**

445 A. I recommend the Company redistribute the class revenue requirement more  
446 evenly over the S.C. No. 2 customers and between the customer charge and  
447 distribution charge for the 3 meter classes. The Company should provide in its  
448 rebuttal testimony additional steps to mitigate the bill impacts for these  
449 customers. Additionally,, the rates to be provided in rebuttal testimony should  
450 maintain, as close as possible, the same percentage of fixed costs recovered  
451 through the customer charge as those approved in the Company's last rate

452 case. Maintaining this same percentage will allow a better analysis of the impact  
453 of the Company's Rider VBA pilot program.

454

455 **Q. What is the Company's proposal for S.C. No. 2 distribution charges?**

456 A. North Shore proposes to maintain its distribution rate structure comprised of a  
457 three-step declining block rate structure. After the customer charge revenues  
458 have been subtracted from the class revenue requirement, the Company  
459 proposes to allocate the remaining customer, demand and commodity costs to  
460 the first block (0 – 100 therms), the second block (over 100 – 3,000 therms) and  
461 third block (over 3,000 therms). The Company proposes to decrease the first  
462 block by 26%, to decrease the second block by 1%, and to increase the third  
463 block by 132% for sales customers.

464

465 For transportation customers, the Company proposes to decrease the first block  
466 by 25%, to increase the second block by 5% and to increase the third block by  
467 183%. (North Shore Ex. VG-1.0, pp. 18 - 19)

468

469 The Company states that fewer demand costs were allocated to the Meter Class  
470 3 customer charges, so the larger increase was added to the third block because  
471 most Meter Class 3 customers would typically exceed the first two blocks. North  
472 Shore states that its proposal recovers 54% of the S.C. No. 2 revenue

473 requirement through fixed charges. (North Shore Ex. VG-1.0, p. 19)

474

475 **Q. Do you recommend that the Commission approve North Shore's proposal**  
476 **for the S.C. No. 2 distribution charges?**

477 A. No. The Company's proposal produces percentage increases that would result  
478 in rate shock for Meter Class 3 customers. I recommend that the S.C. No. 2  
479 class revenue requirement should be distributed more evenly among the three  
480 blocks of S.C. No. 2 in order to mitigate the bill impacts in S.C. No. 2, Meter  
481 Class 3 customers. However, maintaining the three-step declining block rate  
482 structure provides continuity to this service class. The Company should provide,  
483 in its rebuttal testimony, information on how the class revenue requirement could  
484 be spread more evenly over the 3 meter classes.

485

486 **Q. Are there any other proposals for S.C. No. 2?**

487 A. Yes. North Shore proposes to limit S.C. No. 2 to those customers who consume  
488 an average of 41,000 monthly therms or less during the previous 24 months.  
489 (North Shore Ex. VG-1.0, p. 20) Staff witness Sackett (ICC Staff Ex. 12.0)  
490 addresses this issue in his testimony.

491

492 Service Class No. 3 – Large Volume Demand Service ("S.C. No. 3")

493 **Q. Please discuss the changes that North Shore is proposing to S.C. No. 3.**

494 A. North Shore proposes to change the demand charge per therm for S.C. No. 3.  
495 The Company proposes a change from a two-step declining block rate structure  
496 consisting of a first block for usage up to 10,000 therms and a second block for  
497 usage over 10,000 therms, to a flat rate of 61.719 cents per therm. The  
498 Company states this proposed rate recovers 67% of costs. (North Shore Ex. VG-  
499 1.0, p. 21)

500  
501 North Shore proposes these changes in order to mitigate the bill impacts for the  
502 S.C. No. 2 customers that will be transferred to S.C. No. 3 if the Company's  
503 proposal to set an eligibility limit, as discussed by Staff witness Sackett, is  
504 approved. (North Shore Ex. VG-1.0, p. 22)

505  
506 **Q. Please further discuss the impact of the Company's proposal for a flat**  
507 **demand charge in S.C. No. 3.**

508 A. If a customer is presently an S.C. No. 2 customer and is moved to S.C. No. 3,  
509 Company Schedule E-9, p. 5 of 10, shows a sales customer's bill would increase  
510 over 1,000% if there was no usage for the month. However, if that customer  
511 used 1,000 therms during the month, the increase would be 48%. A usage of  
512 5,000 therms in a month would bring the increase down to 10%. Schedule E-9,  
513 column [M], lines 1, 2 and 3 show similar results for transportation customers  
514 who would be required to move from the S.C. No. 2 rate class to the S.C. No. 3

515 rate class.

516

517 The Company proposes that S.C. No. 2 customers would move to S.C. No. 3 if  
518 they have an average of more than 41,000 monthly therms during the previous  
519 24 months. These customers would likely see an increase of about 10%, as  
520 shown in Company Schedule E-9, p. 5, line 3, columns [E], [I] and [M],

521

522 **Q. Do you recommend approval of a flat demand charge for S.C. No. 3**  
523 **customers?**

524 A. Yes. After reviewing the Company's Schedule E-9 and other Company  
525 responses to data requests, I agree that implementing a flat demand charge will  
526 help to mitigate bill impacts for customers forced to move from S.C. No. 2 to S.C.  
527 No. 3. A flat demand charge also avoids encouraging greater consumption by  
528 removing the lower demand charge on usage greater than 10,000 therms.

529

530 **Q. What other changes is North Shore proposing for S.C. No. 3?**

531 A. North Shore proposes to set the customer charge at cost, which would be \$760  
532 for both sales and transportation customers, which is a 15% increase. The  
533 Company also proposes to more than double the standby service charge to 11  
534 cents and to recover the remaining demand and commodity costs in the  
535 distribution charge which also almost doubles the distribution charge per therm.

536 (North Shore Ex. VG-1.0, p. 21)

537

538 **Q. Do you recommend approval of North Shore's proposed customer charge**  
539 **for S.C. No. 3 customers?**

540 A. Yes. At this time the Company does not forecast any S.C. No. 3 sales customers  
541 for 2010. The Company forecasts 7 transportation customers for the 2010 test  
542 year but only has 1 current customer. Therefore, setting the charge at cost will  
543 better ensure that, if a new S.C. No. 3 customer begins to take service, it will not  
544 be subsidized by another customer class.

545

546 **Q. Do you recommend approval of North Shore's proposed standby service**  
547 **charge for S.C. No. 3 customers?**

548 A. Yes. For the same reasons as stated above, I believe it is best to set rates for  
549 future S.C. No. 3 customers at the cost of providing service.

550

551 **Q. Do you recommend approval of North Shore's proposed distribution**  
552 **charge for S.C. No. 3 customers?**

553 A. Yes. As stated for both the customer charge and the standby charge, I believe it  
554 is best to set all components of this class at the rates that will recover the cost of  
555 providing service to Large Volume Demand Service customers.

556

557 **Q. Are there any other changes proposed by the Company for S.C. No. 3?**

558 A. Yes. North Shore proposes to eliminate the requirement for S.C. No. 3  
559 customers to sign a contract. The Company states that a contract will no longer  
560 be necessary if the Commission approves the proposed eligibility requirements  
561 for S.C. No. 2 customers to use 41,000 therms or less based on a 24-month  
562 average. The contract requirement included a 12-month term and the  
563 responsibility to pay the unexpired portion of the term's fixed charges. The  
564 contract requirement did not limit movement within classes as initially intended,  
565 therefore, the Company proposes what it hopes will be a simpler and more  
566 effective mechanism to keep customers within the class that will recover the cost  
567 of providing service to each customer. The Company also proposes various tariff  
568 revisions related to the proposed elimination of the contract requirement. (North  
569 Shore Ex. VG-1.0, p. 22)

570

571 **Q. What is the term of service for S.C. No. 3 customers under the Company's**  
572 **proposed tariff revisions?**

573 A. A customer must finish an initial term of service through April 30<sup>th</sup> after service  
574 has commenced. After the initial term, service shall extend automatically for  
575 additional 12-month periods. If service terminates prior to the end of the initial  
576 term or any 12-month period, then all amounts due the Company shall be paid,  
577 including the demand charge for the unexpired portion of the remaining initial or

578 12-month period. If the customer transfers to S.C. No. 2 because the customer  
579 no longer meets the minimum usage requirement of 41,000 therm average per  
580 month over the last 24-month period, the Company will waive the remaining fixed  
581 cost charges.

582

583 **Q. Do you recommend approval of this contract requirement change for S.C.**  
584 **No. 3 customers?**

585 A. Yes. I recommend approval of the Company's proposal to discontinue the  
586 requirement for a signed contract with S.C. No. 3 customers. Eliminating the  
587 requirement for a signed contact could result in a savings of time and expense  
588 for both the Company and customers since they will no longer need to execute a  
589 formal contract.

590

591 **Q. Do you recommend approval of the proposed tariff language revisions for**  
592 **S.C. No. 3 customers?**

593 A. Yes. The proposed tariff language provides a simpler mechanism for the 1-year  
594 contract provision which was already in place via the signed contract between  
595 two parties. The proposed tariff language imposes a cost on the customer for the  
596 unexpired term; however, this cost was also already imposed on the customer  
597 through the signed contract. The remaining cost of the unexpired term is not a  
598 new proposal by the Company and recovers the cost to provide the service.

599

600 Service Class No. 5 – Standby Service (“S.C. No. 5”)

601 **Q. Please discuss the changes that North Shore is proposing to S.C No. 5.**

602 A. North Shore proposes to eliminate S.C. No. 5. This service is available to any  
603 customer that agrees, in a written contract with the Company, to use gas service  
604 in alternation with, or as standby, or as a supplement to, other sources of energy.  
605 The Company states that customers in this service class do not share any similar  
606 usage patterns or cost characteristics other than they are standby customers.  
607 The Company proposes these customers should be served under the S.C. No. 2  
608 tariff for general services. (North Shore Ex. VG-1.0, p. 23) Under S.C. No. 2  
609 these customers will be grouped with others that share similar cost  
610 characteristics such as meter size.

611

612 **Q. How many customers would be affected by this proposed change?**

613 A. There are 79 customers who would move from S.C. No. 5 to S.C. No. 2 under  
614 the Company’s proposal. (North Shore Ex. VG-1.0, p. 35) The Company’s  
615 Schedule E-5, Section B, page 3 of 3, reflects the Company’s proposal that thirty-  
616 two S.C. No. 5 standby sales customers would take service under Meter Class 1,  
617 thirty-two S.C. No. 5 standby sales customers would take service under Meter  
618 Class 2, and fifteen S.C. No. 5 standby sales customers would take service  
619 under Meter Class 3.

620

621 **Q. Does the Company's testimony discuss the bill impact of eliminating S.C.**  
622 **No. 5?**

623 A. No, the Company's testimony does not provide any discussion of the bill impacts  
624 on customers who would move from S.C. No. 5 to S.C. No. 2. However, the bill  
625 impact is reflected on Schedule E-9, pages 8, 9 and 10 of 10. For S.C. No. 5  
626 sales customers moving to S.C. No. 2, Meter Class 1, Schedule E-9, page 8,  
627 reflects a 38.5% decrease for customers with no usage in a given month. For  
628 transportation customers either on Rider CFY or Rider SST, a similar decrease  
629 pattern is shown on Schedule E-9 in columns [I] and [M], lines 1 and 2 assuming  
630 no usage. As these customers add usage to their bill, a rate increase of 4% or  
631 less is reflected for both sales and transportation customers.

632

633 For S.C. No. 5 sales customers moving to S.C. No. 2 Meter Class 2, Schedule E-  
634 9, page 9, reflects a 78.7% increase for customers with no usage in a given  
635 month. For transportation customers on Rider CFY a 72% increase is shown,  
636 and for Rider SST a 32.8% increase is shown on Schedule E-9 in columns [I] and  
637 [M], lines 1 and 2, assuming no usage. As these customers add usage to their  
638 bill a rate increase of 10% or less is reflected for both sales and transportation  
639 customers.

640

641 For S.C. No. 5 sales customers moving to Meter Class 3, Schedule E-9, page 10,  
642 reflects a 390.5% increase for customers with no usage in a given month. For  
643 transportation customers on Rider CFY a 384% increase is shown and for Rider  
644 SST a 181.3% increase is shown on Schedule E-9 in columns [I] and [M], lines 1  
645 and 2, assuming no usage. A customer using 300 therms per month would see  
646 an increase of about 40% and a customer using 500 therms per month would  
647 see a rate increase of 27% – 28% according to Schedule E-9 for both sales and  
648 transportation customers.

649

650 **Q. Do you recommend approval of the elimination of S.C. No. 5?**

651 A. Yes. The proposal to incorporate S.C. No. 5 customers into S.C. No. 2 is  
652 appropriate as it will bring these customers together with other customers that  
653 have similar usage patterns or cost characteristics. However, the increase in  
654 S.C. No. 2 should be more evenly spread over all of the customers as bill  
655 impacts that I have discussed in this section, for S.C. No. 5 customers moving to  
656 S.C. No. 2 have shown both decreases and high increases, which further justify  
657 my proposal for the Company to re-evaluate their rate proposals in S.C. No. 2.

658

659 Service Class No. 6 – Contract Service for Electric Generation (“S.C. No. 6”)

660 **Q. Does North Shore propose any changes for Service Class No. 6?**

661 A. No. The rates for this class are negotiated between two parties as a contract.

662 There are no customers currently taking service under S.C. No. 6. (North Shore  
663 VG-1.0, p.8)

664

665 Conclusions and Recommendations for North Shore

666 **Q. Please summarize your recommendations that apply only to North Shore.**

667 A. I recommend that the Commission reject the Company's proposal to differentiate  
668 the S.C. No. 1 and S.C. No. 2 customer charges for sales and transportation  
669 customers. I recommend that the customer charge for sales and transportation  
670 customers be set at 50% of the class revenue requirement determined in this  
671 docket. However, if the Commission agrees with the Company's proposal to  
672 increase the percentage of fixed costs recovered in the customer charge, then I  
673 recommend that the customer charge for both sales and transportation  
674 customers be set the same regardless if the Rider UEA is approved in this  
675 docket. This would be determined as 55% of the class fixed costs.

676

677 I recommend approval of North Shore's proposal to maintain the two-step  
678 declining block rate structure for S.C. No. 1 distribution charges, with the first  
679 block recovering two-thirds of the remaining class' revenue requirement after the  
680 customer charge revenues have been removed.

681

682 I recommend that the Commission reject the Company's proposal to remove

683 Account 904 costs from the distribution charge.

684

685 I recommend S.C. No. 2 distribution charges spread the allotted revenue  
686 requirement more fairly over the 3 declining distribution blocks. Furthermore, in  
687 its rebuttal testimony, I recommend that the Company propose revised  
688 distribution charges that reflect gradualism.

689

690

691 I recommend the Commission approve the addition of a Meter Class 3 for S.C.  
692 No. 2 but implement the move to cost of service gradually. I also recommend that  
693 the Company, in its rebuttal testimony, propose revised rates that reflect  
694 gradualism.

695

696 I recommend approval of the Company's proposal to set the customer charge,  
697 standby service charge and distribution charge at cost and to implement a flat  
698 demand charge for S.C. No. 3. I also recommend approval of the Company's  
699 proposal to eliminate a contract requirement and the associated tariff language  
700 changes related to this proposal.

701

702 I recommend approval of the Company's proposal to eliminate S.C. No. 5  
703 Standby Service.

704

705 **Peoples Gas**

706 Cost of Service Study

707 **Q. Did Peoples Gas provide a cost of service study (COSS) with its filing?**

708 A. Yes. The Company's COSS is presented in Schedule E-6.

709

710 **Q. How was the Company's COSS prepared?**

711 A. The Company's COSS shows the distribution of revenue responsibility by  
712 customer class necessary to achieve equalized rates of return on investment by  
713 customer class for the Company's proposed revenue requirement. The COSS  
714 identifies the revenues, costs and profitability for each class of service and is the  
715 basis for the rate design. Generally, the Company prepared the COSS utilizing  
716 three major steps: (1) cost functionalization; (2) cost classification; and (3) cost  
717 allocation of all the costs of the utility's system to customer classes. (Peoples  
718 Gas Ex. JCHM-1.0, pp. 2, 7 - 8)

719

720 **Q. Does the Company use the COSS to determine the proposed rates?**

721 A. Yes. The COSS provides the cost basis for setting many service classes' rates  
722 at the cost to provide service. The COSS also provides the cost basis for  
723 determining the revenue requirement for the small residential and general service  
724 classes using the Equal Percentage of Embedded Cost Method ("EPECM").

725 (Peoples Gas Ex. VG-1.0, pp. 7 - 8)

726

727 **Q. What is EPECM?**

728 A. Peoples Gas uses EPECM to proportionally allocate the proposed increase for  
729 the small residential and general service classes. Peoples Gas has used  
730 EPECM in its last three rate cases, Docket Nos. 91-0586, 95-0032 and 07-0242.

731 (Peoples Gas Ex. VG-1.0, p. 8) The EPECM provides a gradual increase  
732 toward the cost to provide service for the small residential class by balancing the  
733 percentage increase with the general service class.

734

735 **Q. Do you agree with the Company's proposal to proportionally allocate the**  
736 **proposed increase?**

737 A. Yes, I agree that the use of EPECM is appropriate for Peoples Gas.  
738 Proportionally allocating the increase over the two classes helps to mitigate the  
739 bill impact on small residential customers.

740

741 **Q. What do you conclude from your review of the COSS?**

742 A. I find the Company's embedded COSS to be an acceptable guidance tool for  
743 setting rates in this case. The same methodology was used in the last rate case.

744

745 Rate Design

746 **Q. What is the Company’s proposal for designing rates in this docket?**

747 A. Peoples Gas is proposing seven major changes to its base rates and other  
748 charges. (Peoples Gas Ex. VG-1.0, p. 11) I will discuss five of these changes in  
749 my testimony as I discuss each Peoples Gas service class. Staff witness Boggs  
750 (ICC Staff Ex. 11.0) will testify on the sixth change involving tariff language and  
751 Staff witness Sackett (ICC Staff Ex. 12.0) will testify on the seventh change  
752 involving the transportation programs.

753

754 Service Class No. 1 – Small Residential Service (“S.C. No. 1”)

755 **Q. Please discuss the changes that Peoples Gas is proposing to S.C. No. 1.**

756 A. As discussed earlier, Peoples Gas proposes to recover gas costs recorded under  
757 Account 904 solely through the customer charge. Accordingly, Peoples Gas is  
758 proposing differentiated customer charges for sales and transportation  
759 customers. (Peoples Gas Ex. VG-1.0, p. 11)

760

761 **Q. What does Peoples Gas propose for the S.C. No. 1 customer charge?**

762 A. Peoples Gas proposes to increase the monthly customer charge from \$15.50 to  
763 \$23.30 for sales customers and from \$15.50 to \$20.50 for transportation  
764 customers. Company witness Grace states that if the Rider UEA (Uncollectible  
765 Expense Adjustment) is approved by the Commission the customer charge  
766 would be the same at \$20.40 per month. This results in 54% recovery of the

767 fixed costs for S.C. No. 1 in the interest of gradualism and rate design continuity.  
768 (Peoples Gas Ex. VG-1.0, pp. 13 – 14)

769

770 **Q. Do you agree with the Company's proposed rates for the S.C. No. 1**  
771 **customer charge?**

772 A. No. The Company's proposed customer charges arise from its proposals to: a)  
773 recover gas related Account 904 costs solely through the customer charge and  
774 differentiate such charges between sales and transportation customers; and b)  
775 increase the percentage of fixed costs recovered in the customer charges. As  
776 discussed earlier, those proposals should be rejected.

777

778 **Q. What do you recommend for the S.C. No. 1 customer charge?**

779 A. First, I recommend that the customer charge for the sales and transportation  
780 customers remain equal to each other, consistent with the Commission's Order in  
781 the last rate case. Second, I recommend maintaining the same percentage of  
782 fixed costs recovered in the customer charges as ordered in the last rate case,  
783 i.e., 50% for Peoples Gas. (07-0241c, p. 250) Accordingly, I propose that the  
784 customer charge for sales and transportation customers be set at 50% of the  
785 final class revenue requirement determined in this docket.

786

787 If the Commission agrees with the Company's proposal to increase the

788 percentage of fixed costs recovered in the customer charge, then I recommend  
789 that the customer charge for both sales and transportation customers be set the  
790 same regardless if Rider UEA is approved in this docket. This would be  
791 determined as 54% of the class fixed costs. (Peoples Gas Ex. VG-1.0, p. 14)

792

793

794 **Q. What does Peoples Gas propose for the S.C. No. 1 distribution charge?**

795 A. Peoples Gas proposes to maintain its two-step declining block rate structure.  
796 After the customer charge revenues have been subtracted from the class  
797 revenue requirement, Peoples Gas proposes the first block of 0 – 50 therms,  
798 would recover 65% of the customer, demand and commodity costs. The  
799 remaining revenue requirement would be recovered in the second block for  
800 usage over 50 therms. (Peoples Gas Ex. VG-1.0, p. 15)

801

802 In addition, consistent with its proposal to recover Account 904 costs solely  
803 through the customer charge (as opposed to through the customer charge,  
804 distribution charge and demand charge), the Company also proposes to remove  
805 Account 904 costs currently being recovered from the distribution charge.

806

807 **Q. Do you agree with the Company's proposal for S.C. No. 1 distribution**  
808 **charges?**

809 A. I agree with maintaining the current two-step declining block rate structure. This  
810 is consistent with the last rate case's Final Order on this issue. However, for the  
811 reasons discussed earlier that supports rejection of the Company's Account 904  
812 recovery proposal, I disagree with the Company's proposal to remove Account  
813 904 costs from the distribution charge. I also agree with the division of the class  
814 revenue requirement being determined based on EPECM for these two blocks.  
815 EPECM is an equitable way to implement the Company's increase from this  
816 docket.

817

818 **Q. What do you recommend for the S.C. No. 1 distribution charges?**

819 A. I recommend that the Commission reject the Company's proposal to remove  
820 Account 904 costs from the distribution charge. After the customer charge  
821 revenues have been subtracted from the class revenue requirement, the first  
822 block should recover 65% of the remaining, customer, demand and commodity  
823 costs. The remaining 35% should be recovered in the second block.

824

825 Service Class No. 2 – General Service ("S.C. No. 2")

826 **Q. Please discuss the changes that Peoples Gas is proposing to S.C. No. 2.**

827 A. Peoples Gas proposes to add a Meter Class 3 to S.C. No. 2. Currently Peoples  
828 Gas has two meter classes with the break between meter classes at 700 cubic  
829 feet per hour. Meter Class 1 currently includes customers with meters up to 700

830 cubic feet per hour and Meter Class 2 currently includes customers with meters  
831 over 700 cubic feet per hour. (Peoples Gas Ex. VG-1.0, p. 18)

832

833 The Company is proposing to maintain the first two meter classes and add a  
834 Meter Class 3 for customers with large meters over 3,000 cubic feet per hour.

835 The Company states that, at this time, the smaller meter customers are  
836 subsidizing the customers with large meters that use over 3,000 cubic feet per  
837 hour. (Peoples Gas Ex. VG-1.0, pp. 18 - 20)

838

839 **Q. Does the Company's testimony discuss the bill impact of adding a Meter**  
840 **Class 3?**

841 A. No, the Company's testimony does not provide any discussion of the bill impacts  
842 on S.C. No. 2 customers who would migrate to Meter Class 3. However, the bill  
843 impact for S.C. No. 2 customers that would move to Meter Class 3 is reflected on  
844 Schedule E-9, page 4 of 11. Schedule E-9 reflects a 239.6% increase for  
845 customers with no usage in a given month. Yet, if a sales customer uses at least  
846 300 therms the increase goes down to 32% or less. For transportation  
847 customers either on Rider CFY or Rider SST, a similar increase pattern is shown  
848 on Schedule E-9 in columns [I] and [M], lines 1 and 2.

849

850 **Q. Do you agree with the Company's proposal to add a Meter Class 3 for S.C.**

851 **No. 2?**

852 A. Yes. I agree it is appropriate to add the Meter Class 3 to address the interclass  
853 subside the Company discusses in testimony, but I am concerned about the bill  
854 impact for low usage customers.

855

856 **Q. Do you have other information related to the bill impacts of adding a Meter**  
857 **Class 3 to S.C. No 2?**

858 A. Yes. The Company responses to Staff Data Request CLH 1.01 provided  
859 additional information representing actual customer billings, thus supplementing  
860 details of the potential bill impacts of the Company's proposed rates in this  
861 docket.

862

863 The bill impact summaries for S.C. No. 2 sales and transportation customers,  
864 Meter Class 3, indicate a high percentage increase for low usage customers with  
865 decreasing percentage increases proportionately to usage. However, upon  
866 review of the monthly bills for individual customers at the Company's proposed  
867 rates, it is evident that some months would see a large increase that would  
868 constitute rate shock for these customers especially for low usage customers.  
869 For instance, a sales customer using 540 therms per year (or 1% cumulative  
870 frequency range or low usage) would see an increase over 80% every month in  
871 the twelve months of actual data provided at the Company's proposed rates.

872 The data responses provided also indicate some high usage customers would  
873 see very high increases as well. In one instance, a sales customer using almost  
874 470,000 terms per year (or 100% cumulative frequency range) would see an  
875 increase from 50% to 207% for three months in the 12 months of information  
876 provided. These three months for a high usage customer as well as many other  
877 low usage customers reflect proposed increases of over 50% in these data  
878 responses. (Company response to Data Request CLH 1.01, attachment 13)

879

880 **Q. Is there other bill impact information that affects S.C. No. 2?**

881 A. Yes. As I will discuss later, the Company proposes to eliminate S.C. No. 6,  
882 Standby Service. The Company proposes that S.C. No. 6 customers would be  
883 better served under S.C. No. 2. As I indicate later in my testimony, some  
884 customers moving from S.C. No. 6 to S.C. No. 2 would also see very high  
885 increases if the Company proposed rates for S.C. No. 2 are approved. A  
886 summary of S.C. No. 6 customers indicates no S.C. No. 6 customers would  
887 move to Meter Class 1 and might see a decrease of 70.9%, with no usage or an  
888 increase of 10% with some usage in a month. Three S.C. No. 6 customers might  
889 also move to Meter Class 2 and see a decrease of 13.8% with no usage or an  
890 increase of 1% - 3% with some usage in a month. And finally, one S.C. No. 6  
891 customers might move to Meter Class 3 and could see an increase of 101.4%  
892 with no usage or an increase of 18% with some usage in a month.

893

894 **Q. What do you recommend in view of this information regarding bill increase**  
895 **impacts on Meter Class 3 customers?**

896 A. I propose implementing the cost recovery for Meter Class 3 at an even slower  
897 pace for the customer charge due to the bill impacts to low usage customers in  
898 particular. Although the Company highlighted the intraclass subsidy currently  
899 existing in the present rates, it would be appropriate to gradually increase the  
900 Meter Class 3 customer charge as it moves toward recovering the cost to provide  
901 service. By adding another step into the Company's proposal, the addition of  
902 Meter Class 3 and setting the rates at the cost of providing service would not  
903 happen simultaneously and will avoid or mitigate rate shock.

904

905 **Q. Do you recommend adding a Meter Class 3 for S.C. No. 2?**

906 A. Yes. However, I do not believe the rates for Meter Class 3 should be set to  
907 recover close to 100% of the attendant costs as the Company has proposed in its  
908 direct testimony. I recommend the Company distribute the S.C. No. 2 class  
909 revenue requirement more evenly over the customers. The Company should  
910 provide in its rebuttal testimony additional steps to mitigate the bill impacts for  
911 these customers.

912

913 **Q. Does the Company propose different S.C. No. 2 customer charges?**

914 A. Yes. As discussed earlier for S.C. No. 1, Peoples Gas proposes different  
915 customer charges for sales and transportation customers in relation to its  
916 proposal for recovery of Account 904 costs. However, Peoples Gas states that if  
917 Rider UEA is approved by the Commission, the monthly customer charge would  
918 be the same for S.C. No. 2 sales and transportation customers at \$22.95, \$82.85  
919 and \$203.85 for Meter Classes 1, 2 and 3 respectively per month. (Peoples Gas  
920 Ex. VG-1.0, p. 20)

921

922 **Q. Does the Company also propose to recover more fixed costs in S.C. No. 2**  
923 **customer charges as it did in S.C. No. 1?**

924 A. Yes. Peoples Gas proposes to increase the monthly customer charges for S.C.  
925 No 2, while moving the charges for all three meter classes closer to cost. The  
926 Company proposes to recover all of the customer costs and 20% of their  
927 respective demand costs for Meter Classes 1 and 2, but Ms. Grace states that in  
928 the interest of gradualism the Company proposes to only recover 18% of demand  
929 costs through the proposed Meter Class 3 customer charge. The remainder of  
930 the class revenue requirement will be recovered through the distribution charges.  
931 (North Shore Ex. VG-1.0, p. 18)

932

933 **Q. Do you agree with the Company's proposal for S.C. No. 2 customer**  
934 **charges?**

935 A. No. The Company's proposed customer charges arise from its proposals to: a)  
936 recover gas related Account 904 costs solely through the customer charge and  
937 differentiate such charges between sales and transportation customers; and b)  
938 increase the percentage of fixed costs recovered in the customer charges. As  
939 discussed earlier, those proposals should be rejected.

940

941 **Q. What is your recommendation?**

942 A. I recommend the Company redistribute the class revenue requirement more  
943 evenly over the S.C. No. 2 customers and between the customer charge and  
944 distribution charge for the 3 meter classes. The Company should provide in its  
945 rebuttal testimony additional steps to mitigate the bill impacts for these customers  
946 while maintaining as close to the same percentage of fixed costs approved in the  
947 Company's last rate case as possible so that the fixed costs recovered through  
948 the volumetric charges will be similar in percentage recovered of fixed costs  
949 during the four year pilot program for Rider VBA as discussed earlier in my  
950 testimony. The Company's proposals to reclassify the meter class costs due to  
951 the addition of Meter Class 3 and the additional customers resulting from the  
952 elimination of S.C. No. 5 Standby Service, if approved by the Commission,  
953 hamper any attempt to maintain the original S.C. No. 2 design when Rider VBA  
954 was implemented in the last rate case.

955

956 **Q. What is the Company's proposal for S.C. No. 2 distribution charges?**

957 A. Peoples Gas proposes to maintain its distribution rate structure comprised of a  
958 three-step declining block rate structure. After the customer charge revenues  
959 have been subtracted from the class revenue requirement, the Company  
960 proposes to allocate the remaining customer, demand and commodity costs to  
961 the first (0 – 100 therms) block, the second (over 100 – 5,000 therms) and third  
962 (over 5,000 therms) block. The Company proposes to increase the first block by  
963 1%, increase the second block by 10% and increase the third block 67% for  
964 sales customers.

965  
966 For transportation customers, the Company proposes to increase the first block  
967 by 4%, increase the second block by 18% and increase the third block by 90%.  
968 (Peoples Gas Ex. VG-1.0, p. 20)

969  
970 The Company states that no demand costs were allocated to the Meter Class 3  
971 customer charges so the larger increase was added to the third block as most  
972 Meter Class 3 customers would typically exceed the first two blocks. Peoples  
973 Gas states that its proposal recovers 35% of the S.C. No. 2 revenue requirement  
974 through fixed charges. (Peoples Gas Ex. VG-1.0, p. 20)

975  
976 **Q. Do you recommend the Commission approve Peoples Gas' proposal for the**

977 **S.C. No. 2 distribution charges?**

978 A. No. The Company's proposal produces percentage increases that would result  
979 in rate shock for Meter Class 3 customers. I recommend that the S.C. No. 2  
980 class revenue requirement should be distributed more evenly among the three  
981 blocks of S.C. No. 2 in order to mitigate the bill impacts in S.C. No. 2, Meter  
982 Class 3 customers. However, maintaining the three-step declining block rate  
983 structure provides continuity to this service class. The Company should provide,  
984 in its rebuttal testimony, information on how the class revenue requirement could  
985 be spread more evenly over the 3 meter classes.

986

987 **Q. Are there any other proposals for the S.C. No. 2?**

988 A. Yes. Peoples Gas proposes to limit S.C. No. 2 to those customers who consume  
989 an average of 41,000 monthly therms or less during the last 24 months.  
990 (Peoples Gas Ex. VG-1.0, p. 22) Staff witness Sackett addresses this issue in  
991 his testimony.

992

993 Service Class No. 4 – Large Volume Demand Service ("S.C. No. 4")

994 **Q. Please discuss the changes that Peoples Gas is proposing to S.C. No. 4.**

995 A. Peoples Gas proposes to change the demand charge per therm for S.C. No. 4.  
996 The Company proposes a change from a two-step declining block rate structure  
997 consisting of a first block for usage up to 7,500 therms and a second block for

998 usage over 7,500 therms, to a flat rate of 66.707 cents per therm. The Company  
999 states this proposed rate recovers 55% of costs. (Peoples Gas Ex. VG-1.0, p.  
1000 23)

1001  
1002 Peoples Gas proposes these changes in order to mitigate the bill impacts for the  
1003 S.C. No. 2 customers who will be transferred to S.C. No. 4 if Peoples Gas  
1004 proposal to set an eligibility limit, as discussed by Staff witness Sackett, is  
1005 approved. (Peoples Gas Ex. VG-1.0, p. 23)

1006  
1007 **Q. Please further discuss the impact of the Company's proposal for a flat**  
1008 **demand charge in S.C. No. 4?**

1009 A. If a customer is presently an S.C. No. 2 customer and has to move to S.C. No. 4,  
1010 Company Schedule E-9, p. 5 of 11, shows a sales customer's bill would increase  
1011 over 1,000% if there was no usage for the month. However, if that customer  
1012 used 1,000 therms during the month the increase would be 47.2%. A usage of  
1013 5,000 therms in a month would bring the increase down to 9.4%. In Schedule E-  
1014 9, column [M], lines 1, 2 and 3 show similar results for the affected  
1015 Transportation customers who would be required to move from the S.C. No. 2  
1016 rate class to the S.C. No. 4 rate class.

1017  
1018 The Company proposes that S.C. No. 2 customers would move to S.C. No. 4 if

1019 they have an average of more than 41,000 monthly therms during the previous  
1020 24 months. These customers would likely see an increase of about 10%, as  
1021 shown in Company Schedule E-9, p. 5, line 3, columns [E], [I] and [M],  
1022

1023 **Q. Do you recommend approval of a flat demand charge for S.C. No. 4**  
1024 **customers?**

1025 A. Yes. After reviewing the Company's Schedule E-9 and other Company Data  
1026 Responses, I agree that implementing a flat demand charge will help to mitigate  
1027 bill impacts for customers forced to change from S.C. No. 2 to S.C. No. 4. A flat  
1028 demand charge is also preferable so as not to encourage greater consumption  
1029 by offering a lower demand charge on usage greater than 7,500 therms.  
1030

1031 **Q. What other changes is Peoples Gas proposing for S.C. No. 4?**

1032 A. Peoples Gas proposes to set the customer charge at cost, which would be \$750  
1033 for both sales and transportation customers, which is a 33% increase. The  
1034 Company also proposes to increase the standby service charge by 59% and to  
1035 recover the remaining demand and commodity costs in the distribution charge for  
1036 a 65% increase. (Peoples Gas Ex. VG-1.0, pp. 22 - 23)  
1037

1038 **Q. Do you recommend approval of Peoples Gas customer charge for S.C. No.**  
1039 **4 customers?**

1040 A. Yes. At this time there is only one customer taking service under S.C. No. 4;  
1041 however, there are 7 sales customers forecasted for 2010. Therefore, setting the  
1042 class at cost will only affect one current customer and this rate will better ensure  
1043 that the new S.C. No. 4 customers will not be subsidized by another customer  
1044 class. (Peoples Gas Ex. VG-1.0, p. 23)

1045

1046 **Q. Do you recommend approval of Peoples Gas standby service charge for**  
1047 **S.C. No. 4 customers?**

1048 A. Yes. For the same reasons as stated above, I do believe it is best to set rates for  
1049 S.C. No. 4 at the cost of providing service.

1050

1051 **Q. Do you recommend approval of Peoples Gas' proposed distribution charge**  
1052 **for S.C. No. 4 customers?**

1053 A. Yes. As stated for both the customer charge and the standby charge, I believe it  
1054 is best to set all components of this class at the rates that will recover the cost of  
1055 providing service to Large Volume Demand Service customers.

1056

1057 **Q. Are there any other changes proposed by the Company for S.C. No. 4?**

1058 A. Yes. Peoples Gas proposes to eliminate the requirement for S.C. No. 4  
1059 customers to sign a contract. The Company states that a contract will no longer  
1060 be necessary if the Commission approves the proposed eligibility requirements

1061 for S.C. No. 2 customers to use 41,000 therms or less based on a 24-month  
1062 average. The contract requirement included a 12-month term and the  
1063 responsibility to pay the unexpired portion of the term's fixed charges. The  
1064 contract requirement did not limit movement within classes as initially intended,  
1065 therefore, the Company proposes what it hopes will be a simpler and more  
1066 effective mechanism to keep customers within the class that will recover the cost  
1067 of providing service to each customer. The Company also proposes various tariff  
1068 revisions related to the proposed elimination of the contract requirement  
1069 (Peoples Gas Ex. VG-1.0, p. 24)

1070

1071 **Q. What is the term of service for S.C. No. 4 customers under the Company's**  
1072 **proposed tariff revisions?**

1073 A. A customer must finish an initial term of service through April 30<sup>th</sup> after service  
1074 has commenced. After the initial term, service shall extend automatically for  
1075 additional 12-month periods. If service terminates prior to the end of the initial  
1076 term or any 12-month period, then all amounts due the Company shall be paid,  
1077 including the demand charge for the unexpired portion of the remaining initial or  
1078 12-month period. If the customer transfers to S.C. No. 2 because the customer  
1079 no longer meets the minimum usage requirement of 41,000 therm average per  
1080 month over the last 24-month period, the Company will waive the remaining fixed  
1081 cost charges.

1082

1083 **Q. Do you recommend approval of this contract requirement change for S.C.**  
1084 **No. 4 customers?**

1085 A. Yes. I recommend approval of the Company's proposal to discontinue the  
1086 requirement for a signed contract with S.C. No. 4 customers. Eliminating the  
1087 requirement for a signed contract could result in a savings of time and expense  
1088 for both the Company and customers since they will no longer need to execute a  
1089 formal contract.

1090

1091 **Q. Do you recommend approval of the proposed tariff language revisions for**  
1092 **S.C. No. 4 customers?**

1093 Yes. The proposed tariff language provides a simpler mechanism for the 1-year  
1094 contract provision which was already in place via the signed contract between  
1095 two parties. The proposed tariff language imposes a cost on the customer for the  
1096 unexpired term; however, this cost was also already imposed on the customer  
1097 through the signed contract. The remaining cost of the unexpired term is not a  
1098 new proposal by the Company and recovers the cost to provide the service.

1099

1100 Service Class No. 5 – Contract Service for Electric Generation (“S.C. No. 5”)

1101 **Q. Does Peoples Gas propose any changes for S.C. No. 5?**

1102 A. No. The rates for this class are negotiated between two parties as a contract.

1103 There are no customers currently taking service under S.C. No. 5. (Peoples Gas  
1104 VG-1.0, p.8)

1105

1106 Service Class No. 6 – Standby Service (“S.C. No. 6”)

1107 **Q. Please discuss the changes that Peoples Gas is proposing to S.C. No. 6.**

1108 A. Peoples Gas proposes to eliminate S.C. No. 6. This service is available to any  
1109 customer that agrees, in a written contract with the Company, to use gas service  
1110 in alternation with or as standby or as a supplement to other sources of energy.  
1111 The Company states that customers in this service class do not share any similar  
1112 usage patterns or cost characteristics other than they are standby customers.  
1113 The Company proposes these customers should be served under the S.C. No. 2  
1114 tariff for general services. (Peoples Gas Ex. VG-1.0, p. 24) Under S.C. No. 2  
1115 these customers will be grouped with others if they share similar cost  
1116 characteristics such as meter size.

1117

1118 **Q. How many customers are affected by this change?**

1119 A. There are 35 customers being transferred from S.C. No. 6 to S.C. No. 2.  
1120 (Peoples Gas Ex. VG-1.0, p. 38) The Company’s Schedule E-5, Section B, page  
1121 3 of 3, reflects the Company’s proposal that 6 S.C. No. 6 sales customers would  
1122 take service under Meter Class 1, 13 S.C. No. 6 sales customers would take  
1123 service under Meter Class 2 and 12 S.C. No. 6 Standby sales customers would

1124 take service under Meter Class 3. The Company's Schedule E-5, Section C,  
1125 page 5 of 6, reflects the Company's proposal that 3 S.C. No. 6 transportation  
1126 customers would take service under Meter Class 2 and 1 S.C. No. 6 Standby  
1127 transportation customer would take service under Meter Class 3.

1128

1129 **Q. Does the Company's testimony discuss the bill impact of eliminating S.C.**  
1130 **No. 6?**

1131 A. No, the Company's testimony does not provide any discussion of the bill impacts  
1132 on customers who would move from S.C. No. 6 to S.C. No. 2. However, the bill  
1133 impact is reflected on Schedule E-9, pages 7, 8 and 9 of 11. For S.C. No. 6  
1134 sales customers moving to S.C. No. 2, Meter Class 1, Schedule E-9, page 7,  
1135 reflects a 70.9% decrease for customers with no usage in a given month. For  
1136 transportation customers on Rider CFY, a 76% decrease is shown and for Rider  
1137 SST a 55.7% decrease is shown on Schedule E-9 in columns [I] and [M], lines 1  
1138 and 2, assuming no usage. As these customers add usage of up to 3,000  
1139 therms per month to their bill, a rate decrease of 10% or less is reflected for both  
1140 sales and transportation customers.

1141

1142 For S.C. No. 6 sales customers moving to S.C. No. 2 Meter Class 2, Schedule E-  
1143 9, page 8, reflects a 13.8% decrease for customers with no usage in a given  
1144 month. For transportation customers on Rider CFY, a 19% decrease is shown

1145 and for Rider SST a 14.1% decrease is shown on Schedule E-9 in columns [I]  
1146 and [M], lines 1 and 2, assuming no usage. As these customers add usage to  
1147 their bill a rate increase of 1% to 3% is reflected for both sales and transportation  
1148 customers.

1149  
1150 For S.C. No. 6 sales customers moving to Meter Class 3, Schedule E-9, page 9,  
1151 reflects a 101.4% increase for customers with no usage in a given month. For  
1152 transportation customers on Rider CFY, a 98% increase is shown and for Rider  
1153 SST a 69.8% increase is shown on Schedule E-9 in columns [I] and [M], lines 1  
1154 and 2, assuming no usage. A customer using 300 therms per month is reflected  
1155 as an increase of about 27% and a customer using 500 therms per month would  
1156 see their rates increase by 18% according to Schedule E-9 for both sales and  
1157 transportation customers. The high increases shown on page 9, coupled with  
1158 decreases on page 7 on Schedule E-9 further support my proposal for the added  
1159 Meter Class 3 increase to be more evenly spread over S.C. No. 2 as previously  
1160 discussed in my testimony.

1161  
1162 **Q. Do you recommend approval of the elimination of S.C. No. 6, Standby**  
1163 **Service?**

1164 A. Yes. The proposal to incorporate S.C. No. 6 customers into S.C. No. 2 is  
1165 appropriate as it will bring S.C. No. 6 customers together with other customers

1166 that have similar usage patterns or cost characteristics. However, the increase in  
1167 S.C. No. 2 should be more evenly spread over all of the customers as bill  
1168 impacts that I have discussed in this section, for S.C. No. 6 customers moving to  
1169 S.C. No. 2 have shown both decreases and high increases, which further justify  
1170 my proposal for the Company to re-evaluate their rate proposals in S.C. No. 2.

1171

1172 Service Class No. 8 – Compressed Natural Gas Service (“S.C. No. 8”)

1173 **Q. Please discuss the change that Peoples Gas is proposing to S.C. No. 8.**

1174 A. Peoples Gas proposes to decrease the customer charge by 2% and increase the  
1175 distribution charge by 44% for S.C. No. 8. The Company proposes to set this  
1176 service classification at cost. (Peoples Gas Ex. VG-1.0, p. 25)

1177

1178 **Q. Does the Company’s testimony discuss the bill impact of this increase on**  
1179 **S.C. No. 8 customers?**

1180 A. No, the Company’s testimony does not provide any discussion of the bill impacts  
1181 on S.C. No. 8 customers. However, the bill impact is reflected on Schedule E-9,  
1182 page 11 of 11. For retail customers, Schedule E-9 reflects a 2.7% decrease for  
1183 customers with no usage in a given month. Any other usage appears to cause  
1184 no more than a 2.5% increase for retail customers according to Schedule E-9  
1185 column [E]. For transportation customers, Schedule E-9 reflects a 2.31%  
1186 decrease for Rider CFY customers with no usage in a given month and a 16.7%

1187 decrease for Rider SST customers with no usage in a given month. Any other  
1188 usage appears to cause no more than a 3% increase for transportation  
1189 customers according to Schedule E-9 columns [I] and [M].  
1190

1191 **Q. Do you have other information related to the bill impacts of S.C. No 8**  
1192 **customers?**

1193 A. Yes. As discussed previously for other service classes, the Company's  
1194 responses to Staff Data Request CLH 1.01 provided additional information  
1195 representing actual customer billings.  
1196

1197 The bill impact summaries and individual customer bill impact information for  
1198 S.C. No. 8 sales and transportation customers indicate that customers would see  
1199 an impact of a 3% increase or less.  
1200

1201 **Q. Do you recommend approval of the Company's proposed changes for S.C.**  
1202 **No. 8 customers?**

1203 A. Yes. Setting S.C. No. 8 at the cost to provide service is appropriate. The bill  
1204 impact appears to be reasonable based on Schedule E-9 and Company  
1205 responses to Staff Data Request CLH 1.01.  
1206

1207 Conclusions and Recommendations for Peoples Gas

1208 **Q. Please summarize your recommendations that apply only to Peoples Gas.**

1209 A. I recommend that the Commission reject the Company's proposal to differentiate  
1210 the S.C. No. 1 and S.C. No. 2 customer charges for sales and transportation  
1211 customers. I recommend that the customer charge for sales and transportation  
1212 customers be set at 50% of the class revenue requirement determined in this  
1213 docket. However, if the Commission agrees with the Company's proposal to  
1214 increase the percentage of fixed costs recovered in the customer charge, then I  
1215 recommend that the customer charge for both sales and transportation  
1216 customers be set the same regardless if the Rider UEA is approved in this  
1217 docket. This would be determined as 54% of the class fixed costs.

1218  
1219 I recommend approval of North Shore's proposal to maintain the two-step  
1220 declining block rate structure for S.C. No. 1 distribution charges, with the first  
1221 block recovering two-thirds of the remaining class' revenue requirement after the  
1222 customer charge revenues have been removed.

1223  
1224 I recommend that the Commission reject the Company's proposal to remove  
1225 Account 904 costs from the distribution charge.

1226  
1227 I recommend S.C. No. 2 distribution charges spread the allotted revenue  
1228 requirement more fairly over the 3 declining distribution blocks. Furthermore, in

1229 its rebuttal testimony, I recommend that the Company propose revised  
1230 distribution charges that reflect gradualism.

1231

1232 I recommend the Commission approve the addition of a Meter Class 3 for S.C.  
1233 No. 2 but implement the move to cost of service gradually. I also recommend that  
1234 the Company, in its rebuttal testimony, propose revised rates that reflect  
1235 gradualism.

1236

1237 I recommend approval of the EPECM for Peoples Gas.

1238

1239 I recommend approval of the Company's proposal to set the customer charge,  
1240 standby service charge and distribution charge at cost and to implement a flat  
1241 demand charge for S.C. No. 4. I also recommend approval of the Company's  
1242 proposal to eliminate a contract requirement and the associated tariff language  
1243 changes related to this proposal.

1244

1245 I recommend approval of the Company's proposal to eliminate S.C. No. 6  
1246 Standby Service.

1247

1248 I recommend approval of the Company's proposal to set S.C. No. 8 rates at cost.

1249

1250 **Q. Does this conclude your prepared direct testimony in this proceeding?**

1251 A. Yes, it does.