STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	Nos. 09-0166, 09-0167 Cons.
	:	
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	

Surrebuttal Testimony of

VALERIE H. GRACE

Manager, Gas Regulatory Services
Integrys Business Support, LLC

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

August 17, 2009

NS-PGL Ex. VG-3.0

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. Please state your name.

A. My name is Valerie H. Grace.

Q. Are you the same Valerie H. Grace who submitted Direct and Rebuttal Testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (together, "the Utilities") in this consolidated Docket?

A. Yes.

B. Purpose of Surrebuttal Testimony

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond, in part, to the rebuttal testimonies of Illinois Commerce Commission ("ICC" or "Commission") Staff ("Staff") witnesses Cheri L. Harden, David Sackett, Richard W. Bridal II, and Dianna Hathhorn; Illinois Attorney General, Citizens Utility Board and City of Chicago ("AG/CUB/City") witness Scott J. Rubin; Illinois Attorney General and Citizens Utility Board ("AG/CUB") witnesses Scott J. Rubin and David J. Effron; and Retail Gas Suppliers ("RGS") witness James L. Crist. In their respective rebuttal testimonies, the other Utilities' witnesses will also address some of these witnesses' testimonies.

C. Summary of Conclusions

Q. Please summarize your conclusions.

A. Based on my review of the above mentioned testimonies, I have reached the following conclusions:

1. Ms. Harden mischaracterizes the Account 904 and customer migration issues.

2. Ms. Harden's proposed rate design methodologies are inconsistent with her direct and rebuttal testimonies.
3. Ms. Harden's proposed rate design methodologies improperly derive and allocate Account 904 Costs.
4. Ms. Harden's proposed rate design methodologies reflect errors, are too simplistic, not based on cost of service principals, and could not be used to accurately reflect the Commission's final Order in these proceedings.
5. Mr. Rubin presents no new arguments to support his rate design proposals, and his criticisms of the observations made in my rebuttal testimony are without merit.
6. Certain rate proposals related to Mr. Sackett's unbundling proposal are problematic and are not fully developed.
7. Mr. Crist's proposals are unfair to retail sales customers and are without merit.
8. An exhibit sponsored by Mr. Rubin does not accurately reflect Peoples Gas' proposed Rider ICR.
9. The revenue adjustments proposed by Mr. Effron and supported in principle by Ms. Harden should be adjusted downward to reflect the Rider VBA revenues under existing rates in the Utilities' test year forecast.

D. <u>**Itemized Attachments to Surrebuttal Testimony**</u>

Q. Are you sponsoring any attachments to your surrebuttal testimony?

A. Yes. I am sponsoring the following exhibits:

1. NS-PGL Exhibit ("Ex.") VG-3.1P shows the improper allocation of gas cost related Account 904 Costs that would arise for Peoples Gas from Ms. Harden's

proposed rate design methods, and a comparison of the amount of gas cost related Account 904 Costs that should be recovered through volumetric distribution charges with that proposed by Ms Harden. NS-PGL Ex. VG-3.1N shows the same information for North Shore[1].

2. NS-PGL Ex. VG-3.2P reflects the reduction that would need to be made to present rate revenues if the sales volume adjustment proposed by Mr. Effron and supported in principle by Ms. Harden is accepted by the Commission. NS-PGL Ex. VG-3.2N provides the same type of comparison for North Shore.

3. NS-PGL Ex. VG-3.3P is a portion of Peoples Gas' response to data request AG-2.17.

II. RESPONSES TO STAFF WITNESS MS. HARDEN

A. Account 904 Uncollectible Accounts Expense – Conceptual Issues

Q. Do you agree with Staff witness Ms. Harden's statement that "Ms. Grace proposes to change the allocation method [for Account No. 904 Costs] from the current allocation based on the respective customer, demand and commodity charges to a customer charge allocation only." (Staff Exhibit 24.0, p. 2)?

A. No. My direct and rebuttal testimonies propose how to differentiate the recovery of *gas cost related* Account 904 Uncollectible Accounts Expense ("Account 904 Costs") in the Utilities' rates for sales and transportation customers, and not how total Account 904 Costs should be allocated. Ms. Harden proposes an allocation of Account 904 Costs as the basis for its classification into customer, demand and commodity components. The Utilities' witness Ms. Hoffman Malueg addresses in her direct and rebuttal testimonies,

[1] An "N" or a "P" at the end of the name of an exhibit means that it applies to North Shore or Peoples Gas, respectively.

the appropriate classification of Account 904 Costs as a customer cost. In my direct and rebuttal testimonies, I explain that because such costs are customer related, the differentiation of *gas cost related* Account 904 Costs should be reflected in different customer charges instead of different distribution charges for sales and transportation customers.

Q. Did you offer any other support for the differentiation of gas cost related Account 904 Costs through the customer charge?

A. Yes. Currently the differentiation of gas cost related Account 904 Costs is reflected in different distribution charges for sales and transportation customers. I explained that the migration of customers from sales to transportation service has skewed the differentiation of revenues between sales and transportation service. Accordingly, these different distribution charges have resulted in different Rider VBA charges and credits for sales and transportation customers who are served under the same service classification. Recovery of gas cost related Account 904 Costs through the customer charges would eliminate this Rider VBA difference.

Q. Does Ms. Harden distinguish between the issue of the classification of Account 904 Costs and the issue of the Utilities' proposals to differentiate the recovery of gas cost related costs?

A. No. Ms. Harden continues to treat these two matters as a single issue, when in fact they are different but related issues. By conflating these issues, Ms. Harden implies that the Commission also previously rejected the Utilities' concern about migration as a valid reason to differentiate recovery of gas cost related Account 904 Costs through the customer charge.

Q. Do you agree with Ms. Harden's implication that the Commission addressed and rejected the migration issue in the Utilities' most recent rate case (Staff Exhibit 24.0, pp. 2-3)?

A. No. In ICC Docket Nos. 07-0241/07-0242 (Cons.), the Commission's Order did not dismiss nor cite the migration issue raised in my surrebuttal testimony in that proceeding as a factor in its decision to allow for the differentiation of gas cost related Account 904 Costs through the distribution charge. It appears that this concern was not a factor in the Commission's decision, and evidence in the current case has shown that different distribution charges and customer migration has resulted in questions that could be easily resolved by differentiating for gas cost related Account 904 Costs through the customer charge. It is thus appropriate that the Commission now consider, in this case, the issues arising from different distribution charges, including those arising from customer migration.

Q. Does any other witness in this proceeding share the Utilities' concern about the effect that customer migration would have on adjustments computed under Rider VBA?

A. Yes. Staff witness Mr. Sackett agrees to certain eligibility requirements proposed for Peoples Gas Service Classification ("S.C.") Nos. 2 and 4 and for North Shore S.C. Nos. 2 and 3 and, in this context, agrees that the migration of these customers would have an unfavorable impact on Rider VBA and the Utilities.

Q. Do you agree with Ms. Harden that you are attempting to rectify any perceived shortcoming in the current Rider VBA program by changing the rate design of classes that are subject to Rider VBA (Staff Exhibit 24.0, p. 4)?

A. No. Rider VBA operates exactly as approved by the Commission, and it is theoretically sound and all calculations computed under the rider are accurate. What the Utilities are trying to address is that the different distribution charges for sales and transportation customers produce different adjustments under Rider VBA. Ms. Harden's proposal is inconsistent with underlying costs. Also, different distribution charges present challenges for customers, transportation customers' gas suppliers, and others who are trying to compare the delivery charge costs of the Utilities' sales service versus its transportation service. Reducing the number of Rider VBA baselines from four to two is an ancillary, but worthwhile, benefit.

Q. How are the different distribution charges proposed by Ms. Harden inconsistent with underlying costs?

A. Under the Utilities' proposed rates and its proposal to classify Account 904 Costs as customer costs (as sponsored by the Utilities' witness Ms. Hoffman Malueg), only 2% of Peoples Gas' total revenue requirement would be classified as commodity related, or costs that are caused by the amount of gas consumed. For North Shore, only 1% would be classified as such. Under Staff's proposed revenue requirements, which is the basis of Ms. Harden's rate proposals, total Account 904 Costs represents only 5.9% of Peoples Gas' revenue requirement, and only 2.1% of North Shore's. The gas cost related portion of Account 904 Costs would be even less than the percentages cited above. Although nearly 100% of the total revenue requirement would be fixed under all of these situations, Ms. Harden still recommends that the differentiation of Account 904 Costs be reflected through volumetric distribution charges. This mismatch is exacerbated in Ms. Harden's proposed rate design methodology, which allocates too much Account 904 Costs to the Utilities' retail sales customers, and incorrectly allocates such costs to the affected rate classes, as discussed later in my testimony.

Q. Would it be reasonable for the Commission to approve the differentiation of gas cost related Account 904 Costs through the customer charge even if the Commission agrees with Ms. Harden's Account 904 Costs allocation proposal?

A. Yes. The revenue requirement for each utility is largely fixed. As the largely fixed revenue requirements would be the basis of the Account 904 Costs allocation, most of its costs would also be allocated as fixed costs. For this reason, as well as the other reasons discussed above, it would be reasonable for the Commission to approve differentiation of gas cost related Account 904 Costs through the customer charge.

B. Increase in Fixed Cost Recovery

Q. Ms. Harden points out that other Illinois gas utilities that recover 80% of their fixed costs through a fixed charge do not have a decoupling mechanism (Staff Ex. 24.0, p. 6). Does that fact change your opinion about increasing the amount of fixed costs that the Utilities recover through their customer charges?

A. No. The increased cost recovery of 80% granted to other Illinois utilities was not on a pilot basis, unlike Rider VBA, which is limited to a 4-year pilot period, which will be about half completed when the rates from this proceeding go into effect. Under Ms. Harden's proposals in her rebuttal testimony, the Utilities' customer charges would be significantly under cost at the end of the pilot period with no way to increase recovery of their fixed costs without another rate proceeding. Interestingly, although Ms. Harden opposes increased fixed cost recovery for Peoples Gas, her proposed rate design methodology results in 51% of fixed costs being recovered through fixed rates, which is slightly higher than Peoples Gas' proposal.

Q. What percentage of fixed costs do you recommend be recovered through Peoples Gas' fixed charges?

A. Under the rate design proposals made in my direct testimony, Peoples Gas would recover 54% and 35%, respectively, of its fixed costs for S.C. Nos. 1 and 2 through fixed charges. The customer charges for S.C. Nos. 4 and 8 would be set at cost. No witness other than Ms. Harden opposes Peoples Gas' customer charges although Mr. Rubin proposed a completely different rate structure for S.C No. 1. Ms. Harden does not oppose the customer charges for S.C. Nos. 4 and 8. Under its rate design proposals, Peoples Gas, overall, would recover only 48% of its total fixed costs through fixed charges.

Q. What percentage of fixed costs do you recommend be recovered through North Shore's fixed charges?

A. Under the rate design proposals made in my direct testimony, North Shore would recover 55% and 54%, respectively, of its fixed costs for S.C. Nos. 1 and 2 through fixed charges. The customer charge for S.C. No. 3 would be set at cost. No witness other than Ms. Harden opposes North Shore's customer charges, although, as with Peoples Gas, Mr. Rubin proposed a completely different rate structure for S.C No. 1. Ms. Harden does not oppose the customer charge for S.C. No. 3. Under its rate design proposals, North Shore would, overall, recover only 55% of its total fixed costs through fixed charges.

C. <u>Uniform Tariff Numbering</u>

Q. Do the Utilities accept Ms. Harden's recommendation that they assess their customer information systems regarding uniform numbering of their service classifications and adopt a uniform set of service classifications in their next rate cases (Staff Ex. 24.0, pp. 7-8)?

A. The Utilities accept Ms. Harden's recommendation to assess their customer information systems to determine if they can implement uniform numbering of their service classifications. If those assessments yield no identifiable problems, the Utilities will propose uniform service classification numbering in their next rate cases.

D. Proposed Rate Design Methodology

Q. Ms. Harden included proposed rates with her rebuttal testimony (Staff Exs. 24.1N and 24.1P Corrected). Do you have any comments on the methodology described in Ms. Harden's testimony and reflected in these exhibits?

A. Yes. Ms. Harden took a ratio of Staff's proposed revenue requirement to each of the Utilities' proposed revenue requirements and according to her rebuttal testimony, applied it to the Utilities' proposed rates as an across the board modification to each rate within each service classification. Unfortunately, this approach is much too simplistic and not based upon cost of service principles. In addition, there are conceptual problems and formulaic errors reflected in the electronic format of the exhibits, as well as formulas and outcomes that are not consistent with Ms. Harden's direct and rebuttal testimonies.

Q. Please explain why Ms. Harden's proposed rate design methodology is much too simplistic and not based upon cost of service principles.

A. Unlike the Utilities' rate design methodology, Ms. Harden's proposed methodology is not based upon costs or revenue requirements arising from an embedded cost of service study (an "ECOSS"). Her proposal to apply across the board adjustments ignores the cost differences and cost allocations between rate classes and assumes that all adjustments proposed by Staff could be equally applied to customer, demand, and commodity related costs, although Staff's proposed adjustments were specific and not derived on an across the board basis. Adjustments affecting rate base and expense items are treated equally and lumped together in one revenue requirement number, without any consideration to the type of costs affected by each adjustment. That is not only inconsistent with the Utilities' cost of service based revenue requirements, it also ignores Account specific costs and makes it impossible to render Account specific adjustments for certain rates. For example, the Utilities and Staff witness Mr. Sackett agreed that it would be appropriate to remove Account 304 costs from the Standby Service Charge. This would not be possible with an across the board adjustment to that charge. Also, an across the board adjustment would not allow the Utilities to properly reflect final Account 904 Costs arising from updated gas costs or any other relevant factors that may be ordered in this proceeding.

Q. Are there other conceptual problems with Ms. Harden's proposed rate design methodology?

A. Yes. Ms. Harden's across the board adjustments also adjust charges that the Utilities have not proposed to change, charges based on specific cost-based revenue requirement components, and cost-based charges that are based on expenses that would be unaffected by Staff's proposed adjustments. For example, the Utilities did not propose to revise their Second Pulse or Rider SBO, Single Billing Option, charges. Yet, Ms. Harden's across the board adjustments would adjust those charges although she has not provided a reason for doing so. The Utilities also proposed to set their Standby Service Charges based on the Production and Storage revenue requirements arising from their ECOSS as have been approved by the Commission in their last two rate cases, along with certain adjustments supported by Staff witness Mr. Sackett. An across the board adjustment would render the cost of service derived costs useless, as well as the Account 304 adjustments described above. The Utilities also proposed changes to various cost-based administrative charges related to their transportation programs. These charges are supported by expenses detailed in Peoples Gas Ex. VG-1.10 and North Shore Ex. VG-1.10, and would not be affected by any of Staff's proposed adjustments, yet Ms. Harden proposes across the board adjustments to these charges.

Q. Do you agree with Ms. Harden's claim on page 18 of her rebuttal testimony that her Schedule 24.1 (Staff Exs. 24.1N and 24.1P Corrected) can be modified to show the rates that would result from the revenue requirement adopted in the final order and that the worksheet can automatically calculate final rates?

A. No, for all of the reasons cited above. Also, although Ms. Harden claims that the spreadsheet can automatically calculate final rates, all of the exceptions arising from the problems described above would not be accommodated by her spreadsheets. In addition, Ms. Harden's spreadsheet does not compute rounded rates. As a result, multiplying her proposed rates by the applicable billing units do not result in the revenues shown for certain charges, by rate class, or in total.

Q. Please describe the formulaic errors reflected in Ms. Harden's rate design exhibits.

A. The formulaic errors in Ms. Harden's exhibits, which relate to specific service classifications, are discussed below under each affected service classification.

E. S.C. No. 1 – Small Residential Service

Q. Do you agree with the rate design proposals made by Ms. Harden for Peoples Gas' S.C. No. 1?

A. No. First, Ms. Harden does not apply Peoples Gas' proposed Equal Percentage of Embedded Cost Methodology ("EPECM") that she supported in her direct testimony (Staff Exhibit 10.0, p. 36). Instead, Ms. Harden applied the across the board adjustment described above to the Embedded customer charge although she states she made an adjustment to the Allocated customer charge. Ms. Harden assumes that applying the ratio to Peoples Gas' proposed S.C. No. 1 revenue requirement would automatically result in the EPECM being reflected in the allocation of Staff's proposed revenue requirement. However, as described above, this method is not cost-based and ignores how Staff's proposed adjustments would affect each service classification. Second, Ms. Harden did not take into consideration the sales adjustment proposed by AG/CUB witness Mr. Effron, which she supports in principle, which would shift costs caused by additional S.C. No. 1 sales volumes to S.C. No. 1. The Utilities oppose this proposal, and this cost shifting is addressed in the surrebuttal testimony of the Utilities' witness Ms. Hoffman Malueg. Third, Ms. Harden's proposed rates also result in higher distribution charges arising from her proposed lower customer charges. The effect of a lower customer charge was discussed in my rebuttal testimony. However, Ms. Harden does not provide any bill impacts which would show how such rate shifting from a higher customer charge/lower distribution charge to a lower customer charge/higher distribution charge would affect customers.

Q. Do you agree with the rate design proposals made by Ms. Harden for North Shore's S.C. No. 1?

A. No. My concerns are largely the same as those I expressed for Peoples Gas, except that the EPECM is not an issue for North Shore, as all its service classifications are set at cost. In addition, North Shore's S.C. No. 1 is set at cost based upon its ECOSS. Ms. Harden's simplistic across the board rate adjustments do not take that into consideration and could result in S.C. No. 1 being either above or below cost, with the magnitude being determined by a mathematical exercise rather than a meaningful ECOSS. This would have implications for North Shore's next rate case, especially if S.C. No. 1 is far removed from cost of service.

F. <u>S.C. No. 2 – General Service</u>

Q. Do you agree with the rate design proposals made by Ms. Harden for Peoples Gas' S.C. No. 2?

A. Not completely. First, similar to her methodology for S.C No. 1, Ms. Harden does not apply Peoples Gas' proposed EPECM. Instead, she applied the across the board adjustment described above to the Allocated customer charges for each of the S.C. No. 2 meter classes. Ms. Harden assumes that applying the ratio to Peoples Gas' proposed S.C. No. 2 revenue requirement would automatically result in the EPECM being reflected in the allocation of Staff's proposed revenue requirement. However, as described above, this method is not cost-based and ignores how Staff's proposed adjustments would affect each service classification. Second, Ms. Harden did not take into consideration the sales adjustment proposed by Mr. Effron and disputed by the Utilities, which she supports, which would shift costs caused by additional S.C. No. 2 sales to S.C. No. 2. This cost shifting is addressed in the surrebuttal testimony of the Utilities' witness Ms. Hoffman Malueg. Third, despite Staff's lower proposed revenue requirement, Ms. Harden's across the board adjustment methodology results in a proposed customer charge for Meter Class 3 of $371.81, which is 78% higher than Peoples Gas' proposed customer charge of $209.20. Ms. Harden does not explain why this higher customer charge for Meter Class 3 is appropriate and this casts further doubt on the correctness or usefulness of her proposed across the board adjustments. Finally, as with S.C. No. 1, Ms. Harden did not provide any bill impact analysis for her rate proposals. Ms. Harden's proposal would increase fixed cost recovery for S.C. No. 2 to 50%. Although I do not agree with Ms. Harden's proposed methodology, Peoples Gas would support fixed cost recovery of 50% for S.C. No. 2. However, such fixed cost recovery should be accommodated by increasing the customer charges for all of the meter classes, with the largest increase going to Meter Class 3.

Q. Do you agree with the rate design proposals made by Ms. Harden for North Shore's S.C. No. 2?

A. No. North Shore's S.C. No. 2 is set at cost based upon its ECOSS. Ms. Harden's simplistic across the board rate adjustments do not take that into consideration and could result in S.C. No. 2 being either above or below cost, with the magnitude being determined by a mathematical exercise rather than a meaningful ECOSS. This would have implications for North Shore's next rate case, especially if S.C. No. 2 is far removed from cost of service. Ms. Harden applied an across the board adjustment to the Embedded customer charges for each of the S.C. No. 2 meter classes. However, as described above, this method is not cost based and ignores how Staff's proposed adjustments would affect each service classification. Also, as explained above, Ms. Harden did not take into consideration the sales adjustment proposed by Mr. Effron. Ms. Harden's proposed rates would result in higher distribution charges in the middle and third blocks for sales customers and decreases in all blocks for transportation customers. These inconsistent effects on North Shore's S.C. No. 2 distribution charges cast additional doubts about the correctness or usefulness of Ms. Harden's proposed across the board adjustments. Finally, as with S.C. No. 1, Ms. Harden did not provide any bill impact analysis for her rate proposals.

G. S. C. No. 3 (North Shore) and S.C. No. 4 (Peoples Gas)
<u>Large Volume Demand Service</u>

Q. Do you have any concerns about Ms. Harden's rate design proposals for North Shore's S.C. No. 3 and Peoples Gas' S.C. No. 4?

A. Yes. North Shore's S.C. No. 3 and Peoples Gas' S.C. No. 4 are both set at cost based upon their respective ECOSS. Ms. Harden's across the board rate adjustments do not take that into consideration and could result in S.C. Nos. 3 (North Shore) and 4 (Peoples Gas) being either above or below cost, with the magnitude being determined by a mathematical exercise rather than a meaningful ECOSS. This would have implications for the Utilities' next rate cases, especially if the rate classes are far removed from cost of service. As discussed previously, Ms. Harden's proposed across the board adjustment would also not allow the Utilities to set their proposed Standby Service Charges based upon the Production and Storage revenue requirements as such charges have been approved by the Commission in the past, and would not allow removal of Account 304 costs. In addition, Ms. Harden accepted the Utilities' proposals to set the customer charges for these service classifications at cost in her direct testimony. Her across the board adjustments conflicts with that proposal as well.

H. <u>Account 904 Uncollectible Accounts Expense – Computational Issues</u>

Q. Do you agree with Ms. Harden that her proposed rates for Peoples Gas take into account her recommendation for Account 904 Costs, and that such costs have been recovered in a manner consistent with the Commission's order in the Utilities' last rate cases (Staff Exhibit 24.0, p. 16)?

A. No. Ms. Harden used a simple across the board formulaic methodology, which does not utilize specific Account 904 Costs, and does not reflect the methodology proposed by Staff and approved by the Commission in Peoples Gas' last rate case. For reasons I and Ms. Hoffman Malueg explained, both of these methods are equally problematic and inferior to the methodology that Peoples Gas employed in this proceeding, which allocated specific Account 904 Costs on a per customer basis to derive the differentiation of gas cost related Account 904 Costs for sales and transportation customers. Ms. Harden's approach is problematic for the following reasons:

- First, there is no way to determine the specific amount of total Account 904 Costs that is allocated to each service classification as proposed distribution rates are a result of Ms. Harden's across the board adjustments rather than specific Account 904 Cost amounts.

- Second, although gas cost related Account 904 Costs can be mathematically "backed into" by taking the difference between Ms. Harden's proposed distribution charges for sales and transportation customers, gas cost related

Account 904 Costs are higher than that included in Staff's proposed revenue requirement as shown in Staff Ex. 15.0, Schedule 15.1P Corrected (line 6, column i). This exhibit reflects Account 904 Costs of $28.9 million, of which $16.7 million represents gas cost related Account 904 Costs.[2] NS-PGL Ex. VG-3.1P shows the "backed into" derivation of gas cost related Account 904 Costs from Ms. Harden's rate proposals for Peoples Gas, and a comparison of the amount of gas cost related Account 904 Costs that should be recovered through volumetric distribution charges with that proposed by Ms. Harden. As shown, Ms. Harden's calculation derives $18.9 million in gas cost related Account 904 Costs (line 8, column F), which is $2.2 million more than what is reflected in Staff's own adjusted gas cost related Account 904 Costs (line 8, column H).

- Third, Ms. Harden's methodology shifts too much gas cost related Account 904 Costs to S.C. No. 1 and not enough to S.C. No. 2. Under Ms. Harden's methodology, 94.4% of Account 904 Costs is allocated to S.C. No. 1 instead of the 86.6% reflected in Peoples Gas' ECOSS (NS-PGL Ex. VG-3.1P, line 3, columns I and J, respectively). Ms. Harden's methodology also allocates only 5.6% of Account 904 Costs to S.C. No. 2 instead of the 13.3% reflected in Peoples Gas' ECOSS (NS-PGL Ex. VG-3.1P, line 7, columns I and J, respectively). Neither Ms. Harden nor any other party has contested Peoples Gas' allocation of Account 904 Costs to applicable rate classes. Ms. Harden has not provided any evidence or explained why her allocations of Account 904 Costs for

[2] Total and gas cost related Account 904 Costs were provided in Peoples Gas' response to Staff data request RWB-3.02.

Peoples Gas' S.C. Nos. 1 and 2, which differ from Peoples Gas' ECOSS, is appropriate.

- Fourth, Ms. Harden's methodology shifts too much gas cost related Account 904 Costs to Peoples Gas' S.C. No. 1 retail sales customers, and apparently none to S.C. No. 1 transportation customers although a small amount of gas cost related Account 904 Costs should be allocated to them. Conversely, Ms. Harden shifts too little gas cost related Account 904 Costs to Peoples Gas' S.C. No. 2 retail sales customers, and apparently none to S.C. No. 2 transportation customers although a small amount of gas cost related Account 904 Costs should be allocated to them.

Q. Do you agree with Ms. Harden that her proposed North Shore rates take into account her recommendation for Account 904 Costs, and that such costs have been recovered in a manner consistent with the Commission's order in the Utilities' last rate cases (Staff Exhibit 24.0, page 16)?

A. No, for much the same reasons as I described for Peoples Gas. Also, specific data for North Shore show that:

- First, although gas cost related Account 904 Costs can be mathematically "backed into" by taking the difference between Ms. Harden's proposed distribution charges for sales and transportation customers, gas cost related Account 904 Costs are higher than that included in Staff's proposed revenue requirement as shown in Staff Ex. 15.0, Schedule 15.1N Corrected (line 6, column i). This exhibit reflects Account 904 Costs of $1.625 million, of which $1.142 million represent gas cost related Account 904 Costs.[3] NS-PGL Ex. VG-3.1N shows the "backed into" derivation of gas cost related Account 904 Costs from Ms. Harden's rate proposals for North Shore, and a comparison of the amount of gas cost related Account 904 Costs that should be recovered through volumetric distribution charges with that proposed by Ms. Harden. As shown, Ms. Harden's calculation derives about $1.769 million in gas cost related Account 904 Costs (line 8, column F), which is about $628,000 more than what is reflected in Staff's own adjusted Account 904 Costs (line 8, column H).

- Second, Ms. Harden's methodology shifts too little gas cost related Account 904 Costs to S.C. No. 1 and too much to S.C. No. 2. Under Ms. Harden's methodology, 72.7% of Account 904 Costs is allocated to S.C. No. 1 instead of the 81.2% reflected in North Shore's ECOSS (NS-PGL Ex. VG-3.1N, line 3, columns I and J, respectively). Ms. Harden's methodology also allocates 27.3% of Account 904 Costs to S.C. No. 2 instead of the 18.8% reflected in North Shore's ECOSS (NS-PGL Ex. VG-3.1N, line 7, columns I and J, respectively). Neither Ms. Harden nor any other party has contested North Shore's allocation of Account 904 Costs to applicable rate classes. Ms. Harden has not provided any evidence or explained why her allocations of Account 904 Costs for North Shore's S.C. Nos. 1 and 2, which differ from the Utility's ECOSS, are appropriate.

[3] Total and gas cost related Account 904 Costs were provided in North Shore's response to Staff data request RWB-11.05.

Q. Why is it important that Account 904 Costs that are recovered through base rates be identifiable and accurately quantified?

A. The recent enactment of Senate Bill 1918 (Public Act 096-0033) allows utilities to recover, through an automatic adjustment clause tariff, the incremental difference between its actual uncollectible amount as set forth in Account 904 in the utility's most recent Form 21 IlCC and the uncollectible amount included in the utility's base rates. Due to this new law, the Utilities are withdrawing their respective Rider UEA tariffs and will propose a tariff pursuant to the legislation to recover its incremental Account 904 Costs. As a result, the Account 904 Costs that are recovered through base rates need to be accurately quantified and specifically identifiable for each affected rate class. Unlike Ms. Harden's proposed rate design methodologies which are fraught with problems, the Utilities' proposed rate design methodologies, including the recovery and differentiation of gas cost related Account 904 Costs, result in Account 904 Costs which meet the above criteria. As discussed above, Ms. Harden's proposed rate design methodologies do not provide the actual Account 904 Costs that are recovered through rates. Her formulaic methodology, which treats all expenses equally, is akin to a black box that would not allow the Utilities to accurately quantify nor identify the amount of total Account 904 Costs which are included in their base rates. Using Ms. Harden's gas cost related Account 904 Costs alone would cause the Utilities to incorrectly refund amounts below the artificially derived and much too high, Account 904 Costs arising from her rate design proposals. This is evidenced in Ms. Harden's Account 904 Costs shown in NS-PGL Exs. VG-3.1N and VG-3.1P, which show that Account 904 Costs from her rate proposals exceed that in Staff's proposed revenue requirements, which underlie her rates.

III. RESPONSES TO AG/CUB WITNESS MR. EFFRON AND STAFF WITNESS MS. HARDEN– SALES AND REVENUE ADJUSTMENTS

Q. Mr. Effron has proposed an update to the Utilities' sales forecast, which he states is to reflect a lower price of gas. Ms. Harden supports Mr. Effron's proposal and states that higher sales volume will not affect the Utilities' total revenue requirement, nor the revenue allocated to class and would result in a revenue neutral outcome (Staff Exhibit 24.0, pp. 19-20). Do you agree with Ms. Harden?

A. Not completely. As explained by Ms. Hoffman Malueg, an update to the sales forecast would require a reallocation of the revenue requirement due to changes in cost allocation factors. Also, although the total revenue requirement will not change, an increase in present rate revenues would decrease the Utilities' test year revenue deficiencies as well as their proposed increases. The Utilities' test year revenues include revenues arising from Rider VBA which were derived based upon forecasted test year sales. Any increase in forecasted test year sales would lower the amount of revenues that would need to be recovered through Rider VBA. Peoples Gas has included $5.1 million of Rider VBA revenues under present rates, and North Shore has included $769,000 in their test year present rate operating revenues, thereby lowering their revenue deficiencies and their requested increases. These Rider VBA amounts are shown in the Utilities' E-5 schedules for S.C. Nos. 1 and 2, and are captioned as "Rider VBA" under present rate base rate revenues. If the Commission agrees with Mr. Effron's proposal, the Utilities' Rider VBA revenues would need to be adjusted downward to reflect the additional distribution revenue arising from Mr. Effron's proposed sales and revenue increases. Adding Mr. Effron's proposed revenue amounts without reducing the Utilities' present rate Rider VBA revenues to recognize higher test year sales would incorrectly impute another reduction in the Utilities' revenue deficiencies, and would not be revenue neutral as claimed by Ms. Harden.

Q. What would be the impact on present rate revenues of updating test year sales as proposed by Ms. Harden and reflecting the additional present rate revenues as proposed by Mr. Effron?

A. NS-PGL Ex. VG-3.2P shows the impact on present rate revenues that would be caused by increasing test year sales for Peoples Gas. As shown, if Peoples Gas were to increase their present rate revenues by the amounts proposed by Mr. Effron (line 2b), their Rider VBA revenues would decrease to $146,147 (line 7). As a result, Peoples Gas would need to decrease its present rate revenues by about $4.0 million (line 11), which will reduce Mr. Effron's proposed base rate revenue adjustment to about $489,000 (line 13). NS-PGL Ex. VG-3.2N shows the impact on present rate revenues that would be caused by increasing test year sales for North Shore. As shown, if North Shore were to increase its present rate revenues by the amounts proposed by Mr. Effron (line 2b), their Rider VBA revenues would decrease to $261,477 (line 7). As a result, North Shore would need to decrease its present rate revenues by about $521,000 (line 11), which will reduce Mr. Effron's proposed base rate revenue adjustment to about $28,000 (line 13).

Q. Ms. Harden recommends on page 21 of her rebuttal testimony that the Utilities revise their proposed rate schedules after their sales forecasts have been updated per Mr. Effron's proposal, and provide new rates in the surrebuttal testimony. Please respond to Ms. Harden's recommendation.

A. As explained by the Utilities' witnesses Mr. Clabots and Ms. Hoffman Malueg, Mr. Effron proposes annual sales and revenue adjustment amounts for S.C. Nos. 1 and 2, and does not provide any monthly sales or revenue data. Due to the lack of detail supporting Mr. Effron's proposal, the Utilities were unable to update their respective ECOSS to reflect the cost shifting and new rate class revenue requirement allocations that would arise from increased sales volumes for S.C. Nos. 1 and 2. In addition to needing monthly sales data to properly allocate costs as described by Ms. Hoffman Malueg, if the Utilities are required to update their sales volumes to determine new rates, monthly sales detail by sales type (sales and transportation), and by usage block would be needed to update the monthly Rider VBA baselines that would arise from proposed rates. The data by sales type would be needed to accommodate Ms. Harden's proposals, if accepted by the Commission, to differentiate for gas cost related Account 904 Costs through the distribution charge, and to establish the four Rider VBA baselines. Mr. Clabots describes the Utilities' proposals for determining the needed detailed sales data if the Commission accepts Mr. Effron's or Ms. Harden's proposals.

IV. RESPONSES TO AG/CUB/CITY WITNESS MR. RUBIN

A. Data Analysis

Q. Do you agree with Mr. Rubin's statement that his tiered rate proposal "successfully melds the Companies' desire for greater certainty with a sensitivity to the needs of residential customers" (AG/CUB/City Ex. 5.0, p. 2)?

A. No. As explained in great detail in my rebuttal testimony, Mr. Rubin's tiered rate proposal adds a significant amount of uncertainty for the Utilities, and results in many problems that have not yet been specifically addressed by Mr. Rubin.

Q. Do you agree with the points Mr. Rubin makes in response to your criticism of his use of data sets provided by the Utilities (AG/CUB/City Ex. 5.0, pp. 2-5)?

A. No. Mr. Rubin's points are unfounded and without merit.

Q. Please respond to Mr. Rubin's complaint that based on Peoples Gas' response to Staff data request CLH-1.01, he "believed that while the Companies may have adjusted overall class consumption levels for weather normalization, they did not anticipate any significant differences…" (AG/CUB/City Ex. 5.0, p. 3).

A. From the uncertainty in Mr. Rubin's own statements on lines 43-45, as quoted, in part, in the question, it appears that Mr. Rubin did not closely review the data request or the criterion that Peoples Gas (and North Shore in an identical response) had to rely upon in providing actual historical data. For example, part C of the data request states "calculate the typical customer's monthly bill <u>for the twelve months preceding the rate filing</u> at the present and proposed rates" (emphasis added). Peoples Gas and North Shore provided data for an actual historical period as requested. Contrary to Mr. Rubin's implication, there was no request for weather normalized data and Peoples Gas did not suggest that it had provided weather normalized data, in lieu of the actual historical data that was being requested. Also, part D requests that "For each month of the test year and for each customer class and each subgroup at present rates, please provide a billing comparison for an actual customer from the 1% customer class cumulative billing frequency, 20% customer class cumulative billing frequency, the 50% customer class cumulative billing frequency, the 80% cumulative customer class cumulative billing frequency, and the 100% customer class cumulative billing frequency." Finally, the last two paragraphs of the data request states:

> "In selecting customers for the response to part D., the customer class cumulative billing frequency should be similar to Schedule E-8 in that the billing frequency begins with zero or low usage or demand, and is completed at 100 percent with the highest end of usage or demand. <u>Customers from each customer class and each subgroup should be selected based upon usage or demand at present rates depending upon whether usage charges, excluding gas supply, or demand charges was responsible for the larger percentage of revenues from the customer class as a whole during the test year.</u>
>
> For example, if a People's customer served under S.C. No. 4 during the test year paid both a demand charge and distribution charge where the distribution charge results in more revenues under present rates than the demand charge, then therms billed under the distribution charge would serve as the basis for determining a customer's place in the billing frequency." (emphasis added)

The portion of Peoples Gas' data request response quoted by Mr. Rubin ("details present and proposed rate charges for accounts at different frequency level using <u>their usage and billing determinants from the Test Year 2010</u>" (emphasis added by Mr. Rubin, AG/CUB/City Ex. 5.0 at lines 40-42)) showed that test year usage and billing determinants for each rate class were used, as requested, to serve as the basis for determining a customer's place in their billing frequency (e.g., test year usage or a billing determinant, such as billing demand for S.C. No. 4). I also note that data request AG-2.17 specifically requested that Peoples Gas provide "…an electronic file showing for each and every Peoples Gas SC 1 customer the customer's consumption in each month from the January 2006 meter reading through the December 2008 meter reading … ." It is difficult to understand why Mr. Rubin would believe that Peoples Gas had provided weather normalized data instead of the historical meter reading data that he requested. It is even harder to understand why he did not submit a follow up data request, especially if the Utility was not compliant with his request.

Q. Please respond to Mr. Rubin's statement that he finds it "quite telling" that you did not provide "corrected" data for the test year (AG/CUB/City Ex. 5.0, p. 4).

A. This is a very puzzling statement. There was no need to provide "corrected" data as the Utilities provided the actual data that was requested in data requests CLH-1.01 and AG-2.17 for Peoples Gas and AG-4.14 for North Shore. I note that the Utilities' witness Mr. Clabots describes in his direct testimony how test year normalized sales were developed for S.C. No. 1, which is on an aggregate, rather than a customer specific, basis. Also, I cannot understand how Mr. Rubin leaped to the conclusion that Peoples Gas had individually weather normalized actual monthly historical sales for 770,000 customers when the Utility clearly stated in response to AG-2.17 that the consumption is "per books".

Q. Please respond to Mr. Rubin's rebuttal testimony, which blames the Utilities for providing incomplete data, and implies that the Utilities misrepresented data provided in the response to AG-2.17 (AG/CUB/City Ex. 5.0, p. 4).

A. As explained in my rebuttal testimony, Mr. Rubin's proposals would have been more problematic if he had been provided incomplete billing history data for customer accounts, without him having any knowledge of how to use such data. As to Mr. Rubin's statement that the Utilities represented that the data had been analyzed and adjusted to address billing problems, there were no such claims in the Utilities' responses. NS-PGL Ex. VG-3.3 is a copy of Peoples Gas' response, without the voluminous attachments, to AG-2.17. A similar response was provided for North Shore.

B. <u>Proposed Rate Designs</u>

Q. Is Mr. Rubin's explanation for how he developed the number of tiers and range of those tiers persuasive (AG/CUB/City Ex. 5.0, p. 5)?

A. No. As Mr. Rubin relied upon incomplete customer consumption data, a distribution of actual customer consumption reflecting colder than normal weather, as well as revenues arising from his problematic use of such data, I am not persuaded that the number of tiers or the ranges for those tiers, are reasonable.

Q. Do you agree that Mr. Rubin's tiered rate proposal addresses the Utilities' concerns about revenue stability (AG/CUB/City Ex. 5.0, pp. 5-6)?

A. Absolutely not. As discussed at length in my rebuttal testimony, Mr. Rubin's proposal would cause significant instability.

Q. Do you continue to believe that Mr. Rubin's tiered rate proposal includes an unnecessarily large number of rates (AG/CUB/City Ex. 5.0, p. 6)?

A. Yes. Although Mr. Rubin has proposed 7 tiered rates, he no longer disputes that 14 tiered rates would be required under his proposal. Instead, he justifies his tiered rate proposal by comparing it to large water utilities, and the charges for different meter sizes. However, he does not correct his proposals for the 7 tiered rates proposed in his direct testimony, which do not differentiate for gas cost related Account 904 Costs between sales and transportation customers, and he does not provide any tiered rates for the additional 7 tiered charges. He also does not offer any guidance on how rates for those additional 7 tiered rates would be derived. With so much added uncertainty, it is unclear how the Utilities could possibly derive rates that would be based upon the final revenue requirement approved in this proceeding. Moreover, he does not address the fundamental point that S.C. No. 1 would now have 7 (or 14) distinct sets of rates, instead of one (or two). That is a vast increase in complexity.

Q. Previously in your testimony, you described the difficulty in quantifying and identifying Account 904 Costs under Ms. Harden's proposed rate design methodology if the Utilities were to propose an Uncollectible Accounts Expense rider pursuant to enacted Senate Bill 1918. Would the Utilities face difficulties under Mr. Rubin's tiered rate proposal?

A. Yes, even more so. It is very unclear how the Utilities could determine how much Account 904 Costs are reflected in base rates for 14 tiered rates, especially since Mr. Rubin only offered problematic proposals for 7 tiered charges. It is also unclear how the incremental Account 904 costs for each tier would be determined if the Utilities could not determine such costs in their base rates.

Q. Is Mr. Rubin's explanation for why he selected the 1,000 - 1,500 therm tier as the default tier for new customers persuasive (AG/CUB/City Ex. 5.0, p. 7)?

A. No. Mr. Rubin proposes to place customers in a tier that reflects more than the typical customer uses. However, Mr. Rubin uses colder than normal weather to determine typical consumption, and does not explain why that would be fair. He also hypothesizes that such placement would deter inappropriate conduct by customers, and suggests that such gaming could also be prevented with increased policing by the Utilities. Rather than solving the problems detailed in my rebuttal testimony, Mr. Rubin's default tier proposal is a recipe for increased customer confusion, complaints and dissatisfaction, and for placing an increased burden on the Utilities.

Q. Do you agree with Mr. Rubin's rebuttal to your contention that he ignored the typical customer (AG/CUB/City Ex. 5.0, p. 8)?

A. No. Based on my analysis of the data used by Mr. Rubin, he cherry picked customers to buttress the points made in his direct testimony. I describe this in detail in my rebuttal testimony.

Q. Is Mr. Rubin's demand-based proposal "much fairer" to customers than the Utilities' proposed S.C. No. 1 distribution charge blocks (AG/CUB/City Ex. 5.0, p. 8)?

A. No. As explained in my rebuttal testimony, Mr. Rubin's demand-based rate proposals are problematic for the Utilities as well as for higher usage customers.

Q. Please respond to Mr. Rubin's comments concerning the rate impact of straight fixed variable ("SFV") rates (AG/CUB/City Ex. 5.0, p. 9).

A. As with Mr. Rubin's tiered rate and demand-based rate proposals, SFV rates may have a greater impact on certain customers. However, unlike Mr. Rubin's experimental tiered rate proposal, which has not been tested by, nor implemented for, energy services companies (by Mr. Rubin's own admission, see AG/CUB/City Ex. 2.0 at lines 557-558), SFV rates have historical roots in the energy services industry. An SFV rate design is also a cost-based rate design, and the potentially disparate impact on different customers would result from moving to a cost-based rate and not from arbitrarily placing customers in rate tiers.

V. RESPONSES TO STAFF WITNESS MR. SACKETT

A. Rate Proposals

Q. Mr. Sackett discusses the Utilities' agreement to provide a storage credit for large volume transportation customers similar to that provided for small volume transportation customers (Staff Ex. 26.0, pp 4-6). Would these credits, as illustrated in NS-PGL Exs. 2.5N, 2.5P, 2.6N and 2.6P, need to be updated to reflect the Commission's final Order?

A. Yes. The Utilities would need to update these credits to reflect the commodity portion of the LIFO rate and the rate of return reflected in the Commission's final Order.

Q. Is Rider TB the only unbundled storage service that the Utilities have offered (Staff Ex. 26.0, p. 21)?

A. No. As discussed in my rebuttal testimony (NS-PGL Ex 2.0 Rev., lines 1259-1273), the Utilities have offered several types of unbundled storage services. Although all of these services were discontinued due to lack of customer interest, Staff witness Mr. Sackett hypothesizes that Rider TB was too restrictive and provided little value to customers. He offers no support for his hypothesis and he does not address the lack of customer interest for the other unbundled storage services listed in my rebuttal testimony.

Q. Did the Commission approve the terms and conditions of Rider TB, including the imbalance charges?

A. Yes.

Q. Did the Commission approve the rates, terms and conditions of the other unbundled storage services that the Utilities have offered?

A. Yes.

Q. Please comment on Mr. Sackett's proposal to unbundle standby and storage services for Rider SST but not for FST.

A. Mr. Sackett's unbundling proposal is inconsistent as well as unusual considering that S.C. No. 2 is a fully bundled rate class. I would expect an unbundling proposal to address assets and costs underlying the rate class rather than a rider which offers an optional service that is available to the rate class.

Q. Are you addressing the charges proposed by Mr. Sackett, which are related to his unbundling proposal?

A. Yes. As discussed by Mr. Dobson, the Utilities believe that Mr. Sackett's proposal to unbundle standby and storage services is not sufficiently developed. Those concerns also extend to his proposed charges including the derivation of those charges. Although my testimony addresses issues related to certain charges, it does not imply the Utilities' support for Mr. Sackett's unbundling proposal.

Q. Mr. Sackett proposed what he called a "System Banking Charge" (Staff Ex. 26.0, pp. 31-32). Please comment.

A. Mr. Sackett states that his proposed System Banking Charge ("SBC") is to recover the cost of Base Rate Bank, presumably for Peoples Gas' and North Shore's Rider SST customers. As I understand it, the SBC will not apply to Rider FST customers as Mr. Sackett is not proposing to unbundle storage and services for that transportation rider.

Mr. Sackett states that his proposed charge "appropriately excludes the costs associated with production and storage commodity that are in the SSC [Standby Service Charge] and unused for banking services. This statement is erroneous as the SSC recovers unbundled supply related base rate costs that support the Utilities' storage ("banking") and balancing services. Accordingly, the SSC recovers both demand and commodity classified costs. Commodity classified costs are not "unused for banking services". As Mr. Sackett's proposed SBC does not reflect such costs, it would need to be updated to include the Commodity classified Production and Storage revenue requirements.

Q. Mr. Sackett also proposes that Peoples Gas' hub capacity be made available to transportation customers to make up for any over-subscription of bank, and that the hub capacity be included in the divisor to determine his proposed SBC. Do you agree with this approach?

A. No. The Utilities' witness Mr. Dobson addresses operational issues related to Mr. Sackett's proposal and consistency with prior Commission orders. However, there are also troubling aspects related to cost recovery and fairness. As ordered on rehearing in Docket No. 07-0241/07-0242 (cons.), Peoples Gas changed the method by which it refunds revenues arising from interstate services (also called "hub" services) to transportation customers through credits provided for in Peoples Gas' Rider 2. If Peoples Gas uses hub capacity to make up for over-subscribed bank, and then refunds hub revenues to transportation customers, these customers would enjoy the storage as well as the credit. This would provide benefits to transportation customers that are not available to retail sales and Rider CFY customers. Mr. Sackett has not considered this, and has not proposed a way to prevent any such inequities. Mr. Sackett also proposes to include hub capacity in the divisor of the SBC. However, other than the amount that was transferred to Peoples Gas' customers in 2008, hub capacity is not considered in any ECOSS allocations, and if used in the SBC, would artificially lower charges for transportation customers. Accordingly, hub capacity volume should not be included in the divisor. Assuming Peoples Gas' proposed revenue requirement, including Commodity classified Storage and Production costs as described above, and reducing the divisor by the hub capacity, would result in a much higher charge than that shown on page 32 of Mr. Sackett's rebuttal testimony ($0.0103). If the Commission were to approve Mr. Sackett's proposed SBC for Peoples Gas, its derivation should reflect corrections for the issues described above, and as shown below:

Annual charges- 2010 Storage Revenues - All Costs		$	52,027,081
Compressor O&M			4,104,774
Total			56,131,855
Manlove capacity therms (Including LNG)			298,366,000
	Annual Costs	**$**	**0.1881**
	SBC Per Therm	**$**	**0.0157**

Using hub capacity to support incremental storage that would be made available to large volume transportation also results in another inequity. It would deprive retail sales and Rider CFY transportation customers of revenues that would otherwise be generated from the hub.

Q. Mr. Sackett stated that he is proposing to treat the service that North Shore purchases from Peoples Gas as "on-system capacity" in his calculation (Staff Ex. 26.0, p. 32). Is his reasoning correct?

A. No. Mr. Sackett admits that North Shore has no on-system capacity, and that it would be impossible to recover the charge if there was no capacity to divide it by. Yet he creates a divisor by using the off-system capacity purchased from Peoples Gas to determine his proposed charge for non-existent on-system capacity.

Q. Mr. Sackett proposed what he called a "Leased Storage Charge" (Staff Ex. 26.0, pp. 33-34). Please comment.

A. Mr. Sackett's proposed Leased Storage Charge ("LSC") uses the costs reflected in the determination of the Aggregation Balancing Gas Charge ("ABGC") that is assessed to Rider CFY customers, and divides it by off-system capacity volumes to determine a charge. Mr. Sackett's proposal is problematic for a few reasons. As described in Mr. Dobson's testimony, the Utilities use their entire supply portfolios to provide storage and balancing services to Rider SST transportation customers, including any incremental bank that would be offered under Mr. Sackett's proposal. While Mr. Sackett assumes that ABGC amounts would be appropriate to price his proposed service for Rider SST, he does not recognize the differences in the programs. The operational parameters for Rider SST are different than those for Riders CFY and AGG, and the Utilities make greater use of the services for which they recover costs through the Gas Charge to support service to Rider SST customers. Accordingly, the numerator for Mr. Sackett's proposed LSC, if approved by the Commission, should be those amounts reflected in the Standby Demand Charge, which includes costs for storage, balancing and firm transportation services. Also, although Mr. Sackett's proposed LSC reflects March 2009 data, his proposed divisor, which is annual, does not reflect the declining base period required by Part 525 of the Commission's rules and reflected in the Utilities' Rider 2.

Q. Mr. Sackett proposed to mitigate the Utilities' cost recovery risk caused by under-subscription to the unbundled bank through a mechanism equivalent to Nicor Gas' Rider 5 (Staff Ex. 26.0, p. 37). Please comment on this mechanism.

A. As I stated above, Mr. Sackett's proposal is not sufficiently developed. For example, he states that the Utilities would "need to calculate a capacity cost of storage service" as well as a few other items, and provide it in their surrebuttal testimony. That would be difficult to do considering various issues raised in my surrebuttal testimony as well as Mr. Dobson's. Also, although Mr. Sackett provides a description of the Nicor Gas process, he does not explain or justify why this particular process and mechanism would be most appropriate for the Utilities.

B. <u>Tariff Matters</u>

Q. Do you have any other concerns about Mr. Sackett's proposals?

A. Yes. If the Commission were to approve Mr. Sackett's proposals, the Utilities will need to make compliance filings within a short timeframe, but with limited guidance due to the incompleteness of the proposals. Mr. Sackett did not provide any specific tariff language, and did not consider how many additional tariff provisions or sheets would be impacted by his proposals. Mr. Sackett's proposals also lack billing determinants which would be needed to derive revenues, and the Utilities have no way to determine such billing determinants, such as how much storage would be subscribed for. As the Utilities have not investigated nor fully understand the mitigation process and mechanism proposed by Mr. Sackett, it cannot be assumed that such a mechanism would make the Utilities whole in recovering their revenue requirements. In addition to implementing new base rates and gas charge rates that would require billing system modifications, the Utilities would need to implement new gas charge factors, which are not currently modeled into their gas charge models. Also, Mr. Sackett's suggestion that only Sections A and B of Rider SST would need to change (Staff Ex. 26.0, p. 10) is incorrect. At a minimum, there would also need to be changes in Riders 2 to include the new charges and explain how, if at all, they interact with existing charges, and P, which would need to reflect terms that, under his proposal, would be unique to Rider SST.

VI. RESPONSES TO RGS WITNESS MR. CRIST – RIDER CFY

Q. Is Mr. Crist's speculation that the Utilities are double recovering certain administrative costs correct (RGS Ex. 2.0, p. 10)?

A. No. The Utilities' proposed customer charges for S.C. Nos. 1 and 2 have been reduced by test year revenues arising from administrative costs related to their transportation programs. If the Utilities were "double dipping" as speculated by Mr. Crist, their proposed revenues would exceed their revenue requirements, which is not the case.

Q. Is Mr. Crist correct that there are not sufficient cost data to support the Rider AGG charges (RGS Ex. 2.0, pp. 14)?

A. No. Costs supporting Rider AGG administrative charges are provided in 21 lines of detail in Peoples Gas Ex. VG-1.10, and 19 lines of detail in North Shore Ex. VG-1.10. Mr. Crist makes his arguments in an effort to shift these costs to retail sales customers, who are not causing such costs. He does this although the departments and related cost categories are clearly labeled in column [A] of those exhibits. The Gas Transportation Services Department provides services for the Utilities' gas transportation programs and not for their retail sales customers. Also, the CFY billing and PEGASys systems are not used to service retail sales customers.

Q. Please comment on Mr. Crist's proposal to reduce the "overall revenue requirement" by about $1.3 million (RGS Ex. 2.0, p. 15)?

A. Mr. Crist's proposal is based upon his misunderstanding of how the Utilities' proposed charges were derived. As stated above, customer charges have been reduced by administrative costs related to the Utilities' transportation programs and the Utilities' revenues arising from their proposed charges equals their proposed revenue requirements. These reductions, including a reconciliation of proposed revenue requirements and revenues arising from the Utilities' proposed charges, are reflected in workpapers PGL VG-1.6-1.10 WP for Peoples Gas and NS VG-1.6-1.9 WP for North Shore.

VII. PROPOSED RIDERS

A. Response to Staff Witness Ms. Hathhorn – Rider ICR

Q. Ms. Hathhorn continues to recommend including additional tariff language concerning the periodic determination of the Rider ICR "actual savings" factor (Staff Ex. 15.0, pp. 34-35). Do the Utilities agree that the additional language is needed?

A. No. The reasons stated in my rebuttal testimony adequately respond to Ms. Hathhorn's recommendation.

B. Response to AG/CUB Witness Mr. Rubin – Rider ICR

Q. Mr. Rubin, in AG/CUB Ex. 6.06, illustrates his understanding of the recovery of costs for Peoples Gas' accelerated main replacement program. Does this illustration accurately reflect how accelerated costs would be recovered under Peoples Gas' proposed Rider ICR?

A. No. Mr. Rubin's exhibit reflects revenue requirement amounts derived by using investment costs for each year. However, revenue requirements under Rider ICR are computed by averaging year end cost data for the prior and effective year of the Rider ICR charge. Mr. Rubin's exhibit also does not reflect the 5% cap on base rate revenues.

Based on the data provided in Peoples Gas' supplemental response to DLH-10.05, the revenue requirement would be $9.6 million in year 2011, and capped at $29.8 million in years 2012 and 2013.[4] These amounts are much lower than the $28.1 million, $43.6 million, and $60.0 million shown in years 2011, 2012, and 2013 of AG/CUB Ex. 6.06.

C. <u>Response to Staff Witness Mr. Bridal II – Rider UEA</u>

Q. Do the Utilities agree to withdraw their proposed Rider UEA (Staff Ex. 19.0, p. 5)?

A. Yes.

Q. Is it necessary in this proceeding to address any issues that may pertain to any uncollectible expense recovery rider that the Utilities may file under provisions of enacted Senate Bill 1918 (Public Act 096-0033) (Staff Ex. 19.0, pp. 6-7)?

A. No. The proposal made by Staff witness Mr. Bridal II in regard to Rider UEA is extraneous. I am advised by counsel that the Utilities would file any such rider under the terms of Section 19-145 of the Public Utilities Act, which describes the rider and certain matters that may be relevant in rate cases filed subsequent to the effective date of the rider.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

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[4] Derived by multiplying the ICR Charge Percentage (ICR%) for each year by ICR Base Rate Revenues (BRR).