

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
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Rate Case Consultant – Regulatory Affairs,
IntegrYS Business Support, LLC

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

August 17, 2009

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 Q. Please state your name.

4 A. My name is Joylyn C. Hoffman Malueg.

5 Q. Are you the same Joylyn C. Hoffman Malueg who submitted Direct Testimony and
6 Rebuttal Testimony on behalf of The Peoples Gas Light and Coke Company (“Peoples
7 Gas”) and North Shore Gas Company (“North Shore”) (together, “the Utilities”) in this
8 consolidated Docket?

9 A. Yes.

10 **B. Purpose of Testimony**

11 Q. What is the purpose of your surrebuttal testimony in this proceeding?

12 A. My surrebuttal testimony responds to a cost allocation issue that has been raised by the
13 Illinois Commerce Commission (“Commission” or “ICC”) Staff (“Staff”) concerning the
14 cost of service studies presented by the Utilities, as well as a cost allocation issue that is
15 created due to a potential change to the sales forecasts of the Utilities raised by The
16 People of the State of Illinois and The Citizens Utility Board (together, “AG-CUB”).
17 Specifically, my testimony addresses the rebuttal testimony of Staff witness Cheri L.
18 Harden regarding the Utilities’ allocation of Account No. 904, Uncollectible Accounts
19 Expense, and the rebuttal testimony of AG-CUB witness David J. Effron regarding sales
20 adjustments to incorporate more recent estimates of the test year price of natural gas for
21 the Utilities. To the extent Ms. Harden adopted Mr. Effron’s adjustment, my testimony is
22 responsive to her adoption.

23

24 **C. Summary of Conclusions**

25 Q. Please summarize the conclusions of your surrebuttal testimony.

26 A. The Utilities have adequately explained through direct testimony their chosen method for
27 classifying Account No. 904 uncollectible costs. The Utilities have further justified
28 through rebuttal testimony their chosen method for classifying Account No. 904 in
29 addition to explaining the lack of definition provided within the final Order of ICC
30 Docket Nos. 07-0241/07-0242 (Cons.) (“2007 Final Order”) for the term “revenue
31 requirement” as it relates to implementation relating to this specific issue, as well as the
32 absence in that 2007 Final Order of a solution to the circular nature of the chosen
33 classification method for Account No. 904.

34 While Ms. Harden provided clarification during the discovery process and her
35 rebuttal testimony of how Staff defines “revenue requirement,” for the specific purpose
36 of Account No. 904 classification, as well as providing a hypothetical arithmetic
37 methodology that is not circular in nature, the fact remains that there is no ICC
38 requirement to address Account No. 904 in a particular way, and the 2007 Final Order
39 did not appear to set a generally applicable policy considering that other gas utilities have
40 not been directed to use the approach stated in the 2007 Final Order.

41 Additionally, the Utilities contend that, although gas usage is one reason that there
42 are uncollectible costs in Account No. 904, there could be many additional reasons as to
43 why a customer does not pay their utility bill. Given varying causes, the Utilities’
44 decision to classify Account 904 to the Customer classification, as the Utilities have
45 done, is an appropriate decision for the reasons described in my rebuttal testimony.
46 Therefore, I would not make any change to the Utilities’ proposed allocation of Account

47 No. 904 in the embedded cost of service studies (“ECOSS”), in which Account No. 904 is
48 functionalized and classified solely as a customer cost.

49 Last, Mr. Effron’s proposed adjustments to the sales forecast (AG-CUB Exhibit
50 (“Ex.”) 4.1, Schedule C-1, and AG-CUB Ex. 4.2, Schedule C-1), which increase the sales
51 amounts of Service Classifications (“S.C.”) 1 and 2 for the Utilities, would cause a shift
52 of additional costs onto S.C. 1 and 2, and decrease costs from the remaining customer
53 classes within the ECOSS.

54 **II. RESPONSE TO STAFF ALLOCATION RECOMMENDATIONS**

55 Q. At page 23, line 492 of her rebuttal testimony, Staff witness Ms. Harden states that the
56 Utilities did not address within their direct testimony the circularity issue of the proposed
57 classification methodology of Account No. 904 Uncollectible Accounts Expense in the
58 2007 Final Order. Do you agree with that statement?

59 A. Yes, I agree that the Utilities did not address the circularity issue of Account No. 904
60 presented by the classification methodology in the 2007 Final Order within direct
61 testimony.

62 Q. Was it necessary for the Utilities to address the circularity issue within their direct
63 testimony?

64 A. No. First, as explained in my direct testimony for the Utilities, PGL Ex. JCHM-1.0 and
65 NS Ex. JCHM-1.0, along with the exhibits to my direct testimony, PGL Exs. JCHM-1.4,
66 1.5, 1.7, 1.8 and NS Exs. JCHM-1.4, 1.5, 1.7, 1.8, it is clearly stated and distinguishable
67 that Account No. 904 is classified to the Customer Classification and allocated to the
68 customer classes using a Bad Debt allocation methodology. Because the Utilities utilized
69 a different methodology in the ECOSS filed in ICC Docket Nos. 09-0166 and 09-0167

70 (Cons.) that is not circular in nature to classify and allocate Account No. 904, there was
71 no need to address the circular formula issue that is encountered with the classification
72 methodology adopted in the 2007 Final Order.

73 Second, to my knowledge there is no ICC requirement to address the
74 classification or allocation methodologies of Account No. 904 in a particular way.
75 Consequently, there was no reason for direct testimony to address circularity or the 2007
76 Final Order.

77 Third, as I had stated in my rebuttal testimony at page 7, line 133, I am not aware
78 of any other Illinois gas utility that has been required to allocate Account No. 904 in the
79 manner prescribed in the 2007 Final Order. I further confirmed this information with
80 Ms. Harden, as shown in the exhibit to my rebuttal testimony NS-PGL Ex. JCHM-2.2.
81 NS-PGL Ex. JCHM-2.2 shows that Ms. Harden is not aware of any other gas utilities in
82 the State of Illinois that utilize the allocation methodology that she is recommending.
83 Given this, it did not appear to the Utilities that the 2007 Final Order set a generally
84 applicable policy, considering that other gas utilities have not been directed to use this
85 approach. Therefore, the Utilities saw no barriers to using what they consider to be the
86 appropriate classification and allocation methodologies for Account No. 904, which are
87 not circular in nature. Again, therefore, there would be no reason for direct testimony to
88 address circularity or the 2007 Final Order.

89 Q. At page 24, starting on line 513, Ms. Harden disagrees with the Utilities' cost causation
90 principles of Account No. 904 and further states that the cost of gas used primarily causes
91 the uncollectible costs recorded in Account No. 904. Do you have any comments on
92 Ms. Harden's statement?

93 A. Yes. Although I agree that a high cost of gas could be one attributable factor as to why a
94 customer does not pay their bill, I do not believe that to be the sole reason a gas utility
95 incurs Account No. 904 uncollectible costs. There could be many reasons as to why a
96 customer does not pay their utility bill. Some examples include:

- 97 • a customer losing their job and/or a partial loss of household income,
- 98 • a customer may have a dispute with the utility and withhold payment of all amounts
99 owed,
- 100 • a customer could be going through a significant life event, such as a divorce or family
101 death, and simply forget to pay their bill or are under the incorrect impression another
102 family member is paying the bill, or
- 103 • a customer may be aware of the winter moratorium rules and simply does not pay
104 their bill during the winter moratorium months because they know their service will
105 not be disconnected for non-payment.

106 None of the above examples for non-payment are attributable to a customer's gas usage
107 amount, nor the cost of gas. As explained in my rebuttal testimony and given the
108 possibility of varying causes, the Utilities' decision to classify Account 904 to the
109 Customer classification was reasonable.

110 **III. RESPONSE TO AG-CUB SALES FORECAST CHANGES**

111 Q. Does AG-CUB witness Mr. Efron propose an adjustment to therm sales for the 2010 test
112 year of the Utilities in his rebuttal testimony and associated exhibits?

113 A. Yes, he does. As shown in Mr. Efron's AG-CUB Ex. 4.1, Schedule C-1 for North
114 Shore, and AG-CUB Ex. 4.2, Schedule C-1 for Peoples Gas, he is recommending the
115 following increases to therm sales for the Utilities and specific customer classes:

North Shore		
S.C. 1	S.C. 2	Total
2,863,000	3,318,000	6,181,000

Peoples Gas		
S.C. 1	S.C. 2	Total
16,024,000	9,867,000	25,891,000

116

117 Q. Would the proposed increase to therm sales for the Utilities' 2010 test year have any
 118 impact upon the ECOSS, its cost allocations, and the resulting revenue requirements by
 119 customer class?

120 A. Yes, it would. The proposed increase to therm sales for the 2010 test year would cause a
 121 change to the following allocation methodologies in the ECOSS for the Utilities:

- 122 • Sales / Commodity
- 123 • Coincident Peak Demand
- 124 • Unbundled Coincident Peak Demand
- 125 • Weighted Peak and Seasonal Volumes, Excess Winter over Summer (i.e. Storage)
- 126 • Average & Peak Demand
- 127 • Unbundled Commodity Standby Volume
- 128 • Municipal Utility Tax

129 Q. Are you able to quantify the impacts that Mr. Effron's proposed increase to therm sales
 130 would have upon the ECOSS revenue requirements by customer class?

131 A. No, I am not. In order to quantify the impacts of Mr. Effron's proposed increase to therm
 132 sales on the ECOSS revenue requirements by customer class, I would need a breakdown
 133 of the proposed increase to therm sales on a monthly basis.

134 Q. Why would you need the proposed increase to therm sales broken down into a monthly
 135 basis?

136 A. As stated in Peoples Gas Ex. JCHM-1.5 and North Shore Ex. JCHM-1.5, the Coincident
137 Peak Demand allocation methodology is derived through the use of regression analyses
138 by customer class upon therm sales for the months of the future test year period January
139 2010 through December 2010. Therefore a monthly breakdown of sales would be needed
140 to recalculate the regression analyses and the subsequent Coincident Peak Demand
141 allocation method. By recalculating the Coincident Peak Demand allocation method, this
142 has a trickle-down affect on the Unbundled Coincident Peak Demand and Average &
143 Peak Demand allocation methodologies.

144 The Weighted Peak and Seasonal Volumes, Excess Winter over Summer (i.e.
145 Storage) allocation methodology takes into account seasonal volumes, which is
146 determined by sales occurring in specific months of the year, as explained in Peoples Gas
147 Ex. JCHM-1.5 and North Shore Ex. JCHM-1.5. Therefore, a monthly breakdown of
148 sales would be needed to recalculate the Weighted Peak and Seasonal Volumes, Excess
149 Winter over Summer (i.e. Storage) allocation method.

150 Q. Does Mr. Effron provide his proposed increase to therm sales for S.C. 1 and 2 of the
151 Utilities on a monthly basis?

152 A. No, he does not. Mr. Effron only provides the proposed increase on an annual basis, not
153 a monthly basis.

154 Q. Would there be any other data requirements in order to quantify the impacts of Mr.
155 Effron's proposed increase to therm sales on the ECOSS revenue requirements by
156 customer class?

157 A. Yes. The ECOSS utilizes the Municipal Utility Tax allocation methodology. This
158 allocation methodology is created from a specific, detailed revenue component taken out

159 of the revenue forecast, as explained in Peoples Gas Ex. JCHM-1.5 and North Shore
160 Ex. JCHM-1.5. This allocation methodology would need to be recalculated based upon
161 Mr. Effron's proposed increase to revenues associated with the proposed increase to
162 term sales for S.C. 1 and 2 of the Utilities.

163 Additionally, please refer to the surrebuttal testimony of Ms. Valerie Grace, who
164 addresses the related issue of Mr. Effron's adjustment and Rider VBA revenues, which
165 could potentially affect data requirements needed to quantify impacts upon the ECOSS.

166 Q. Does Mr. Effron's rebuttal testimony and exhibits take into consideration or address any
167 impacts his proposed increase to term sales for S.C. 1 and 2 of the Utilities, and the
168 associated increase to revenues, would have upon the ECOSS, its cost allocations, and the
169 resulting revenue requirements by customer class?

170 A. No, it does not.

171 Q. Are you able to provide a general viewpoint of what would occur within the ECOSS
172 without quantifying the impacts of Mr. Effron's proposed increase to term sales on the
173 ECOSS revenue requirements by customer class?

174 A. Yes, I am. Mr. Effron's proposed adjustment is to increase the term sales for S.C. 1 and
175 2 customers only, leaving the other customer classes' term sales stationary. Because of
176 this, the allocation methodologies I listed above would change, causing an increase in the
177 allocation percentages of S.C. 1 and 2 customers, while decreasing the allocation
178 percentages of the remaining customer classes. Overall, the increase in allocation
179 percentages will cause an increase in cost allocation within the ECOSS for S.C. 1 and 2
180 and increase their class revenue requirements. It would also cause an associated cost

181 allocation decrease, and decrease in revenue requirements, for the remaining customer
182 classes in the ECOSS.

183 Q. Do you have any further comments regarding Mr. Effron's proposed increase to therm
184 sales for S.C. 1 and 2 of the Utilities?

185 A. No, I do not have any further comments regarding Mr. Effron's proposed increase to
186 therm sales for S.C. 1 and 2 and the impacts upon ECOSS. I would refer to the
187 surrebuttal testimonies of the Utilities' witnesses Ms. Valerie Grace and Mr. David
188 Clabots, who also address impacts that Mr. Effron's proposed adjustment to increase the
189 therm sales for S.C. 1 and 2 could potentially have on other areas of the Utilities' rate
190 case filing.

191 Q. Does this conclude your surrebuttal testimony?

192 A. Yes.