

**DIRECT TESTIMONY**

**of**

**Dianna Hathhorn  
Accountant**

**Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission**

**Petition Pursuant to Rider VBA of Schedule of Rates for Gas Service to  
Initiate a Proceeding to Determine the Accuracy of the Rider VBA  
Reconciliation Statement**

**North Shore Gas Company**

**Docket No. 09-0123**

**October 28, 2009**

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**ATTACHMENTS**

Attachment A      Company Response to Staff Data Request DLH-7.04  
Attachment B      Company Response to Staff Data Request DLH-8.01 and  
                                 Supplemental Response to Staff Data Request DLH-3.06

**SCHEDULES**

Schedule 1.1      2008 Determination of Reconciliation Adjustment  
Schedule 1.2      2008 Rider VBA Revenues (Factor VBAR)

1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathorn. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5

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

7 A. I am an Accountant in the Accounting Department of the Financial  
8 Analysis Division of the Illinois Commerce Commission ("Commission").

9

10 Q. What is the function of the Accounting Department of the Illinois  
11 Commerce Commission?

12 A. The Accounting Department's function is to monitor the financial condition  
13 of public utilities as part of the Commission's responsibilities under Article  
14 IV of the Public Utilities Act ("Act") and to provide accounting expertise on  
15 matters before the Commission.

16

17 Q. Please describe your background and professional affiliation.

18 A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting  
19 from Illinois State University in 1993. Prior to joining the Commission  
20 Staff ("Staff") in 1998, I worked as an internal auditor for another Illinois  
21 state agency for approximately 3.5 years. I also have 1.5 years  
22 experience in public accounting for a national firm.

23 Q. Have you previously testified before this Commission?

24 A. Yes, I have.

25

26 Purpose of Testimony

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

28 A. The purpose of my testimony is to report the results of my review of North  
29 Shore Gas Company's ("North Shore" or "Company") Volume Balancing  
30 Adjustment ("VBA") Reconciliation for the period March 1, 2008 through  
31 December 31, 2008 as calculated by its witness Valerie Grace, in North  
32 Shore Ex. VG-1.0, and the underlying documents that support the  
33 calculations. I am also presenting recommendations to change the filing  
34 date of the annual reconciliation adjustment and for the Company to work  
35 with Staff to revise the procedures for phasing out the final reconciliation  
36 adjustments of the pilot program. In addition, I am presenting the annual  
37 report required by the Commission in Docket Nos. 07-0241/07-0242  
38 Cons. on the Company's rate of return and the effect of the pilot program  
39 on the Company's rate of return.

40

41 Q. Are you sponsoring any schedules as part of your direct testimony?

42 A. Yes. I prepared the following schedules

43 Schedule 1.1 2008 Determination of Reconciliation Adjustment

44 Schedule 1.2 2008 Rider VBA Revenues (Factor VBAR)

45

46 Attachments

47 Q. Have you included any attachments as part of your direct testimony?

48 A. Yes, I have included the following attachments:

49 Attachment A Company response to Staff Data Request DLH-7.04

50 Attachment B Company response to Staff Data Request DLH-8.01  
51 and supplemental response to Staff Data Request  
52 DLH-3.06  
53

54 Staff Reconciliation Schedules

55 Q. Please describe Schedule 1.1, 2008 Determination of Reconciliation  
56 Adjustment.

57 A. Schedule 1.1 presents Staff’s calculation, by each service classification, of  
58 the reconciliation adjustment to be determined in this proceeding. Rider  
59 VBA requires the reconciliation adjustment to be determined as follows:

60  
61 “Section B -Determination of Adjustment -continued  
62 (2) Reconciliation Adjustment -The reconciliation adjustment  
63 determined for each Service Classification is calculated annually,  
64 amortized over a ten-month period, and represented by the  
65 following formula:

66  $[(RA1 + RA2+ 0) \times (1 + i)] / T \times 100$

67 Where:  
68 **RA1 = an amount due the Company (+RA1) or an amount due**  
69 **the customer (-RA1) arising from the reconciliation of Rate**  
70 **Case Margin revenues and Actual Margin revenues plus**  
71 **revenues arising from application of the Effective Component**  
72 **in subsection B (1) above.**

73  
74 RA1 shall be represented by the following formula:

75 (RCM - (AM / AC x RCC)) x PFC -VBAR

76 Where:

77 RCM represents the Rate Case Margin for the Fiscal Year.

78 AM represents the Actual Margin for the Fiscal Year.

79 AC represents the average number of Actual Customers for the  
80 Fiscal Year.

81 RCC represents the average number of Rate Case Customers for  
82 the Fiscal Year.

83 VBAR represents the sum of the actual monthly revenues arising  
84 from the application of the Effective Component in Section B (1) for  
85 the Fiscal Year.

86 O represents the Ordered adjustment, in dollars (\$), ordered by the  
87 ICC that is to be refunded to or collected from customers as a  
88 result of the reconciliation established in Section C.

89 PFC represents the percentage of the Company's costs that are  
90 fixed as determined and authorized by the Commission in the  
91 Company's most recent rate proceeding." (emphasis added)

92 As 2008 was the first year that Rider VBA was in effect, only an RA1  
93 calculation is necessary. The RA2 factor, which reconciles the RA1  
94 amount billed with actual therms, will be calculated in 2009's  
95 reconciliation. My schedule is consistent with the Company's  
96 presentation with the exception of factor VBAR, discussed below.

97

98 Q. Please describe Schedule 1.2, 2008 Rider VBA Revenues (Factor VBAR).

99 A. Schedule 1.2 presents Staff's calculation, by each service classification, of  
100 factor VBAR, which represents the sum of the actual monthly revenues  
101 arising from the monthly Rider VBA rate for the Fiscal Year. My  
102 schedules include, on lines 2 and 3 by service classification, the revenues

103 for November and December 2008, billed in January and February 2009,  
104 provided in response to Staff Data Request DLH-5.01.

105

106 My adjustment results from comparing (or aligning) ten months of rate  
107 case margin revenues with the same ten months of actual margin  
108 revenues. The Company's presentation reflected ten months of Rate  
109 Case Margin revenues compared to only eight months of Actual Margin  
110 revenues. While the reconciliation adjustment would eventually correct  
111 itself at the end of the Rider VBA pilot program under the Company's  
112 presentation, the reconciliation adjustments for all years of the pilot would  
113 be mismatched with the revenues collected under Rider VBA without my  
114 adjustment. Therefore, I recommend the Commission adopt my  
115 presentation for the 2008 reconciliation.

116

117 Recommendation to Change Filing Date of Annual Reconciliation Adjustment

118 Q. Please explain your recommendation to change the filing date of the  
119 annual reconciliation adjustment.

120 A. Presently, the annual reconciliation adjustment is required to be filed on  
121 February 28, or February 29 in a leap year. However, this cut off date  
122 prevents an accurate calculation of the reconciliation adjustment, as the  
123 revenues for the last actual month of the reconciliation period, December,  
124 are not known until the end of two months later, February. Therefore, with

125 a filing date of February 28, it is impossible to calculate the reconciliation  
126 adjustment including all revenues as of the end of February.

127

128 My recommendation is for the Commission to order the Company to  
129 change its tariff setting the annual filing date to March 31 in order to  
130 incorporate the actual February revenues for the effective period of  
131 December in the reconciliation adjustment. This would have the effect of  
132 changing the amortization period for the reconciliation adjustment from ten  
133 to nine months. I recommend that the Company make this tariff change  
134 as a compliance filing within 15 days of the Final Order in this proceeding.

135

136 Recommendation Regarding the Timeline for End of Pilot

137 Q. Please explain the concerns you have regarding the Company's proposed  
138 timeline of filings at the end of the pilot.

139 A. The Company's response to Staff Data Request DLH-7.04 (Attachment B)  
140 explains that the Company plans no later than March 20, 2012 to make its  
141 last effective component filing for Rider VBA. However, the Company  
142 proposes to refund or collect reconciliation adjustments from ratepayers  
143 through March 2014 at a minimum. Staff is not in agreement that such a  
144 long period of time is necessary for the Company to collect or refund the  
145 final reconciliation adjustment at the end of the pilot. However, the  
146 Company may choose and the Commission may approve continuation of

147 the Rider VBA, making Staff's concerns moot. Staff recommends the  
148 Commission order the Company to work with Staff to revise the  
149 procedures for phasing out the final reconciliation adjustments, ending  
150 Rider VBA in a more efficient and effective manner.

151 Annual Report on Company Rate of Return

152 Q. Please describe the required annual report in this proceeding.

153 A. In Docket Nos. 07-0241/0242 Cons., the Commission directed Staff to  
154 provide the Commission an annual report of the Company's rate of return  
155 and the effect on that return of Rider VBA. (Order, February 5, 2008, page  
156 152) Information on the Company's actual operating results and the  
157 impact of Rider VBA on those results are in the possession of the  
158 Company. Accordingly, I asked the Company to provide a calculation of  
159 its 2008 rate of return a) including Rider VBA results and b) excluding  
160 Rider VBA results. I am providing the Company's response to Staff Data  
161 Request DLH-8.01 and the Company's supplemental response to Staff  
162 Data Request DLH-3.06 as Attachment B in compliance with the directive  
163 to provide the Commission with an annual report of the Company's rate of  
164 return. The report shows the return on equity for 2008 including Rider  
165 VBA results to be 6.66% and the return on equity for 2008 excluding Rider  
166 VBA results to be 7.22%. This means that Rider VBA reduced the return  
167 on equity in 2008 by 0.56% for North Shore. The report also shows the  
168 rate of return for 2008 including Rider VBA results to be 6.08% and the

169 rate of return for 2008 excluding Rider VBA results to be 6.42%. This  
170 means that Rider VBA reduced the rate of return in 2008 by 0.34% for  
171 North Shore.

172

173 Summary of Conclusions and Recommendations

174 Q. Please summarize your recommendation.

175 A. I recommend that the Commission approve the Reconciliation Adjustment  
176 on ICC Staff Exhibit 1.0, Schedule 1.1, which results in Factor O to be  
177 collected (refunded) of \$332,626.17 for SC1 Sales, (\$5,591.67) for SC1  
178 Transportation, \$51,469.40 for SC2 Sales, and \$104,891.75 for SC2  
179 Transportation. These amounts, either in full or amortized up to 11  
180 months, should be included in the Company's calculation of the Effective  
181 Component for the next filing period after the date of the Commission's  
182 Final Order in this case. Further, I also recommend that the Commission  
183 1) order the Company to change its tariff to change the filing date of the  
184 annual reconciliation adjustment and 2) order the Company to work with  
185 Staff to accommodate ending Rider VBA in a more efficient and effective  
186 manner.

187

188 Q. Does this conclude your prepared direct testimony?

189 A. Yes, it does.