

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY :
 :
Proposed General Increase : No. 11-____
In Rates For Gas Service :

Direct Testimony of
VALERIE H. GRACE
Manager, Gas Regulatory Services
Integrus Business Support, LLC

On Behalf of
North Shore Gas Company

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND WITNESS QUALIFICATIONS	1
A. Identification of Witness	1
B. Purpose of Testimony	1
C. Summary of Conclusions	2
D. Itemized Attachments to Direct Testimony	2
E. Background and Experience	5
II. SCHEDULE OF RATES FOR GAS SERVICE	6
III. RATE DESIGN OBJECTIVES	7
IV. INCREASE AMOUNT AND ALLOCATION OF THE REVENUE REQUIREMENT	7
V. CHANGES TO BASE RATES AND OTHER CHARGES	9
A. S.C. No. 1, Small Residential Service	12
B. S.C. No. 2, General Service	18
C. S.C. No. 3, Large Volume Demand Service	20
D. Other Service Classifications	21
E. Bill Impacts	21
F. Miscellaneous Charges	21
1. Service Activation Charges	21
2. Service Reconnection Charges	22
G. Transportation Rider Charges	23
VI. SUMMARY OF INCREASE	25
VII. OTHER TARIFF REVISIONS	27

A.	General Revisions	27
B.	Terms and Conditions of Service	27
C.	Uniform Numbering of Service Classifications	28
VIII.	UNBUNDLING AND TRANSPORTATION RIDERS	29
A.	Unbundling Proposal Background	29
B.	Current Riders FST, SST and P	30
C.	Proposed Rider SBS, Storage Banking Service	31
D.	Transitional Rider SST	35
E.	Rider FST and Transitional Rider FST-T	36
F.	Riders P and Transitional Rider P-T	38
G.	Rider CFY and Rider AGG	39
H.	Determination of Allowable Bank Days	41
IX.	OTHER NEW AND REVISED RIDERS	41
A.	Summary	41
B.	Proposed Rider SSC, Storage Service Charge	42
C.	Rider 2, Gas Charge	46
D.	Rider 9, Unauthorized Use of Gas Service	48
E.	Rider VBA, Volume Balancing Adjustment	48
F.	Proposed Rider UEA-GC, Uncollectible Expense Adjustment - Gas Costs	52
G.	Rider UEA, Uncollectible Expense Adjustment	53
X.	TEST YEAR REVENUES	55

1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Valerie H. Grace. My business address is 130 E. Randolph Drive, Chicago,
5 Illinois 60601.

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

7 A. I am employed by Integrys Business Support, LLC (“IBS”), a wholly-owned subsidiary
8 of Integrys Energy Group, Inc. (“Integrys”), as Manager of the Gas Regulatory Services
9 Department.

10 **B. Purpose of Testimony**

11 Q. What is the purpose of your testimony?

12 A. The purpose of my testimony is to explain and analyze the changes proposed to North
13 Shore Gas Company’s (“North Shore”) Schedule of Rates for Gas Service, provide
14 support for the proposed changes, and to discuss the new rates and riders that have been
15 filed as a part of this proceeding. I will also address the rate design and tariff aspects of
16 North Shore’s proposals to unbundle standby and storage services in response to the
17 Illinois Commerce Commission’s (“Commission” or “ICC”) directive in its order in
18 Docket Nos. 09-0166/09-0167 (cons.) (the “2009 Rate Case”). In that proceeding, the
19 Commission found that it was reasonable for North Shore to work with the Commission
20 Staff and other stakeholders to develop reasonable proposals for unbundling and to file
21 any agreed upon proposals in its next rate case and, if agreement was not reached, to
22 address the unbundling issue. Mr. Thomas Connery (North Shore Exhibit (“NS Ex.”)
23 14.0) will address the gas supply and operational aspects of North Shore’s unbundling

24 proposals and the rationale underlying such proposals and Mr. John McKendry (NS Ex.
25 15.0) will address related administrative matters. Lastly, I will address a revision
26 affecting a test year billing determinant.

27 **C. Summary of Conclusions**

28 Q. Please summarize your conclusions.

29 A. I conclude that North Shore's proposed rate design is just and reasonable, and while
30 better aligning revenues with costs and recovering the revenue requirement, also
31 comports with the Commission's objectives of continuity and gradualism in changing
32 rate design as well as its directive to present reasonable proposals for unbundling standby
33 and storage service in this rate case. North Shore's proposed changes to its tariffs,
34 charges, and riders are also appropriate and reasonable and meet the objectives set forth
35 in my testimony.

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

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

38 A. Yes. I sponsor the following exhibits:

- 39 1. NS Ex. 12.1 sets forth the tariff sheets which include the proposed revisions to
40 North Shore's Schedule of Rates for Gas Service, ILL. C.C. No. 17 (the "tariff" or
41 "Schedule of Rates").
- 42 2. NS Ex.12.2 is a Summary of Revenues under Present and Proposed Rates for each
43 service classification.
- 44 3. NS Ex. 12.3 reflects North Shore's allocation of its revenue requirement among
45 the various service classifications. Page 1 shows the revenues that would arise
46 without North Shore's proposal to unbundle storage services. Page 2 shows the

47 revenues that would arise from North Shore's proposal to unbundle storage
48 services and with test year transportation storage subscription amounts being
49 based on currently subscribed levels.

50 4. NS Ex. 12.4 reflects a comparison of present and proposed rates for affected
51 North Shore service classifications, current and new riders, and miscellaneous
52 charges.

53 5. NS Ex. 12.5 provides a summary of embedded fixed unit costs for Service
54 Classification ("S.C.") No. 1, Small Residential Service.

55 6. NS Ex. 12.6 provides the bill impacts for the average S.C. No. 1 sales customer
56 and transportation customer under present and proposed rates, assuming normal
57 weather and transportation storage capacity amounts based upon current
58 subscription levels.

59 7. NS Ex. 12.7 provides a summary of embedded fixed unit costs for S.C. No. 2,
60 General Service.

61 8. NS Ex. 12.8 provides North Shore's Schedule E-9 of the Commission's standard
62 filing requirements in this proceeding. It shows bill impacts for S.C. Nos. 1 and
63 2, as well as S.C. No. 3, Large Volume Demand Service, at various usage levels
64 under present and proposed rates.

65 9. NS Ex. 12.9 provides a summary of the cost analysis supporting the proposed
66 rates for miscellaneous charges in North Shore's Terms and Conditions of
67 Service.

68 10. NS Ex. 12.10 provides the cost analysis supporting North Shore's proposed Daily
69 Demand Measurement Device Charge.

- 70 11. NS Ex. 12.11 provides the support for North Shore's proposed Rider SBO
71 Supplier Bill Option Service credit.
- 72 10. NS Ex. 12.12 reflects the gas cost related Account 904 Uncollectible Accounts
73 expenses and revenue requirement amounts that are included in North Shore's
74 proposed rates and the derivation of the Uncollectible Factors for Rider UEA-GC,
75 Uncollectible Expense Adjustment – Gas Costs.
- 76 11. NS Ex. 12.13 provides the methodology which will determine the number of
77 proposed Allowable Bank (Storage) Days for Riders FST, FST-T, AGG, SST and
78 SBS.
- 79 12. NS Ex. 12.14 reflects the methodology which supports the base rate storage
80 charges that would be assessed under proposed Rider SSC, Storage Service
81 Charge. Page 1 reflects the calculation of initial charges that would be assessed
82 based upon current storage subscription levels and test year parameters. Page 2
83 reflects the charges that would arise from fully subscribed storage levels and test
84 year parameters.
- 85 13. NS Ex. 12.15 provides a summary of the Allowable Bank storage capacity
86 amounts that would arise based upon current storage subscription levels, and
87 amounts that would arise from fully subscribed levels based upon test year
88 parameters.
- 89 14. NS Ex. 12.16 reflects the methodology which supports the gas charge storage
90 charges that would be assessed under Rider 2 to transportation customers for
91 storage service.

92 Q. Were NS Exs. 12.1 through 12.16 prepared by you, or under your supervision and
93 direction?

94 A. Yes, they were.

95 **E. Background and Experience**

96 Q. How long have you been employed by IBS?

97 A. I have been employed by IBS since January 2008 and previously was employed by
98 Peoples Energy Corporation (“Peoples Energy”) and its subsidiaries, affiliates of IBS, for
99 over 30 years.

100 Q. What are your responsibilities in your current position?

101 A. As the Manager of the Gas Regulatory Services Department, I am responsible for
102 performing and managing activities related to rate research, rate design, rate and tariff
103 administration, and for developing recommendations regarding rate policies for North
104 Shore and an affiliated company, The Peoples Gas Light and Coke Company (“Peoples
105 Gas”). I also provide assistance as necessary with rate activities for Michigan Gas
106 Utilities Corporation (“MGU”) and Minnesota Energy Resources Corporation
107 (“MERC”), other affiliated companies.

108 Q. Please summarize your educational background and experience.

109 A. In 1980, I graduated from Illinois State University with a Bachelor of Science degree in
110 Business Administration. In 1988, I received a Master of Management Degree from
111 Northwestern University. I have been employed by IBS and two affiliated companies
112 from September 1980 to the present. I began my employment at Peoples Gas in the Gas
113 Supply Planning Department. Since then, I have been employed in various positions and

114 levels of responsibility at Peoples Gas including the Rates Department, the Office of the
115 Chairman, the Executive Office of the Customer Relations Division and the Gas
116 Transportation Services Department. I have also been employed by Peoples Energy as
117 Director of Strategic Development. I have been in my present position since the merger
118 between Peoples Energy and Integrys (formerly, WPS Resources Corporation) in
119 February, 2007.

120 Q. Have you testified before the Commission or any other regulatory commission
121 previously?

122 A. Yes, I have testified in several gas charge reconciliation proceedings, proceedings related
123 to customer choice, the Section 7-204 merger proceeding (Docket No. 06-0540)
124 involving Peoples Energy and Integrys, and general rate increase proceedings for North
125 Shore, Peoples Gas, MGU and MERC.

126 **II. SCHEDULE OF RATES FOR GAS SERVICE**

127 Q. Will North Shore give public notice of the proposed changes it filed?

128 A. Yes. Notice will be published twice in the Lake County News-Sun, a newspaper of
129 general circulation in the area which North Shore serves, in accordance with the
130 provisions of 83 Illinois Administrative Code Part 255. North Shore will submit for the
131 record copies of the Publisher's certification that public notice of the changes was
132 published in the Lake County News-Sun. Copies of the proposed changes are on file and
133 open for public inspection at North Shore's corporate office. North Shore has also posted
134 public notice of the proposed changes in its corporate office.

135 Q. Is North Shore proposing changes to its Schedule of Rates for Gas Service, ILL. C.C.
136 No. 17?

137 A. Yes, NS Ex. 12.1 contains copies of the tariff sheets filed by North Shore in this
138 proceeding. In my testimony and exhibits, the term “proposed changes” will refer to the
139 rate levels and other changes reflected in these tariff sheets.

140 **III. RATE DESIGN OBJECTIVES**

141 Q. What are the objectives that North Shore seeks to achieve through the rate design
142 modifications it is proposing?

143 A. Through the proposed rate design, North Shore would accomplish eight major objectives.
144 They are to (1) recover North Shore’s revenue requirement, (2) better align revenues with
145 underlying costs, (3) send the proper price signals, (4) provide more equity between and
146 within rate classes, (5) maintain rate design continuity, (6) reflect gradualism, (7) retain
147 customers on North Shore’s system, and (8) effectively and fairly unbundle costs and
148 charges for standby and storage services.

149 **IV. INCREASE AMOUNT AND ALLOCATION**
150 **OF THE REVENUE REQUIREMENT**

151 Q. Please describe NS Ex. 12.2, Summary of Revenues under Present and Proposed Rates.

152 A. NS Ex. 12.2 shows revenues arising from present and proposed rates from various
153 revenue sources. Column M of the exhibit shows the increase in base rate revenues
154 arising from proposed charges for North Shore’s various service classifications (\$8.6
155 million, line 21), and from other base rate charges and items (\$0.1 million, line 22), for a
156 total base rate increase of \$8.7 million (line 23). It does not separately show any
157 revenues that would arise from North Shore’s proposed Rider UEA-GC, Uncollectible

158 Expense Adjustment-Gas Costs, as those revenues are reflected in proposed base rates. It
159 also excludes municipal and state taxes and other state charges.

160 Q. Would the revenues shown in NS Ex. 12.2 change if the Commission approved Rider
161 UEA-GC?

162 A. Yes, if the Commission were to approve Rider UEA-GC, the revenue requirement and
163 any resulting revenues would be reduced by the gas cost related Account No. 904
164 Uncollectible Accounts expenses as such costs would be recoverable through the rider.
165 The affected amount is discussed later in my testimony.

166 Q. What is the basis of North Shore's determination of rates to be proposed in this
167 proceeding?

168 A. North Shore uses an Embedded Cost of Service Study ("ECOSS") as the basis for the
169 determination of the revenue requirements for each service classification and the
170 resulting proposed rates in this proceeding. The ECOSS has been submitted as NS Exs.
171 13.1 through 13.8 and is sponsored by Ms. Joylyn Hoffman Malueg (NS Ex. 13.0).

172 Q. How does North Shore use the ECOSS to determine the proposed rates?

173 A. North Shore uses the ECOSS to move toward cost based rates and to better align charges
174 and resulting revenues with like costs. The results of the ECOSS are used to increase
175 rates for S.C. Nos. 1, 2 and 3, setting all at cost. NS Ex. 12.3, page 1 shows the
176 allocation of the revenue requirement and rate increase for all service classes. The
177 revenues shown for each service classification in Column H are prior to North Shore's
178 proposal to unbundle storage services. NS Ex. 12.3, page 2 shows the revenues that
179 would arise from North Shore's proposal to unbundle storage services, and with test year

180 transportation storage subscription amounts being based on currently subscribed levels.
181 Column D reflects embedded production and storage costs allocated to each service
182 classification as determined in the ECOSS. Column E reflects embedded production and
183 storage costs for each rate class arising from currently subscribed transportation levels.
184 Revenues arising from North Shore's proposed rates, including initial charges under
185 proposed Rider SSC, are shown in column G. Unbundled storage charges under Rider
186 SSC charges are set at cost. North Shore has set all its service classifications at cost since
187 its rate case in Docket No. 91-0010.

188 Q. Have any of North Shore's service classifications been omitted from the cost of service
189 analyses filed in this case, and from consideration for an increase in rates?

190 A. Yes, S.C. No. 4, Contract Service to Prevent Bypass, was excluded from consideration,
191 because the revenues from customers served under this service classification are based on
192 a negotiated rate rather than the cost of service analysis filed in this case. These contracts
193 have been filed with the Commission. Revenues arising from S.C. No. 4 are credited
194 back to other service classifications in the ECOSS, thereby lowering their costs. S.C. No.
195 6, Contract Service for Electric Generation, was also excluded as there are currently no
196 customers being served under this service classification, and in any event, this is also a
197 negotiated rate service.

198 **V. CHANGES TO BASE RATES AND OTHER CHARGES**

199 Q. How is North Shore proposing to meet its objective to better align revenues with
200 underlying costs?

201 A. To meet this objective, North Shore is proposing to recover a greater portion of its fixed
202 costs through fixed charges. All of North Shore's costs are fixed, *i.e.*, they do not vary

203 with the volume of gas delivered to customers. However, in the interest of rate design
204 continuity, North Shore has historically recovered a large portion of such fixed costs
205 through non-fixed volumetric charges. Although North Shore has increased its fixed cost
206 recovery in recent rate case proceedings, under present rates, only about 55% of revenues
207 would be recovered through fixed customer, demand, and transportation administrative
208 charges in test year 2012. A continued mismatch of fixed costs and non-fixed charges
209 would, absent a decoupling mechanism to address the mismatch, practically ensures that
210 North Shore will either recover more or less than its Commission approved revenue
211 requirement from customers. To remedy this, at least partially, and to meet its objective
212 to earn its revenue requirement, North Shore is proposing rates that would recover about
213 67% of its fixed costs through fixed charges. North Shore is also proposing to recover its
214 fixed storage costs in a different manner in conjunction with its proposals to unbundle
215 storage services for its large volume transportation programs. Such costs would be
216 recovered from transportation customers on a per therm of storage capacity basis and
217 from retail sales customers on a per therm of gas delivered. However, about 30% of
218 fixed costs would continue to be recovered through volumetric distribution costs, which
219 is much higher than the 20% volumetric cost recovery arising from rate case proceedings
220 for the Ameren Illinois gas utilities and Nicor Gas Company (“Nicor”), where the
221 Commission approved fixed cost recovery of 80%. While not yet completely matching
222 fixed costs and fixed charges, North Shore’s proposed rates will provide more balance
223 than its present rates and will send more appropriate price signals to customers about the
224 largely fixed costs underlying its delivery service.

225 Q. Consistent with the objectives you described above and the move towards placing more
226 fixed cost recovery in fixed charges, what major changes to rates and charges is North
227 Shore proposing?

228 A. In addition to setting all service classifications at cost, North Shore is proposing seven
229 major changes to its base rates and other charges. I will discuss these changes in detail
230 later in my testimony.

231 First, S.C. No. 1, Small Residential Service, will reflect an increase in the
232 monthly customer charges for sales and transportation customers. The distribution
233 charge will reflect decreases in both blocks of the two-block rate structure.

234 Second, S.C. No. 2, General Service, will reflect increases in the monthly
235 customer charge for all three meter classes for sales and transportation customers. The
236 distribution charge will reflect decreases in the front block and middle blocks, and an
237 increase in the end block of the three-block rate structure.

238 Third, for S.C. No. 3, Large Volume Demand Service, the monthly customer
239 charge, will be decreased and the distribution and demand charges will be increased.
240 The standby service charge will be eliminated. Costs that were recovered under this
241 charge will be recovered through a new charge under proposed Rider SSC, Storage
242 Service Charge. Setting this service classification at cost will help North Shore to meet
243 its objective of maintaining customers on the system.

244 Fifth, storage costs will be recovered for S.C. Nos. 1, 2, and 3 through base rate
245 charges under a new proposed Rider SSC, rather than through base rate charges under
246 each individual service classification. For retail sales customers, the charges will be the
247 same and will be assessed on a per therm basis. For transportation customers, the charges

248 will be the same and will be assessed on a per therm of subscribed storage capacity basis.
249 These charges will be addressed in more detail in my testimony introducing Rider SSC.

250 Sixth, certain service reconnection charges and service activation charges will be
251 increased toward cost.

252 Seventh, administrative charges related to North Shore's transportation programs
253 will be adjusted to cost based on a current study and will continue to be recovered from
254 the transportation customers or their alternative gas suppliers. Credits related to storage
255 will be assessed differently under proposed Rider SSC than under the current
256 transportation Riders CFY, FST and SST.

257 Q. Are the present and proposed charges under each service classification summarized in an
258 exhibit?

259 A. Yes. NS Ex. 12.4, Comparison of Present and Proposed Rates shows the proposed
260 charges for each service classification. The exhibit also shows this information for the
261 transportation riders, proposed Rider SSC, and the miscellaneous charges included in the
262 Terms and Conditions of Service. Lastly, the exhibit shows the increase or decrease in
263 proposed rates as compared to present rates.

264 A. **S.C. No. 1, Small Residential Service**

265 Q. Please describe North Shore's proposals for S.C. No. 1 customer and distribution charges.

266 A. North Shore is proposing to recover 100% of its customer related costs, excluding gas
267 cost related Account 904 Uncollectible Accounts expenses and transportation
268 administrative costs, through the customer charge. North Shore is proposing to increase
269 the monthly customer charge for S.C. No. 1 from \$17.80 to \$24.75 for sales customers
270 and from \$17.30 to \$24.20 for transportation customers. This difference of \$0.55 (\$24.75

271 - \$24.20) arises from gas cost related Account No. 904 Uncollectible Accounts expenses
272 (about \$0.50 for sales customers) and some rounding differences. For rate design
273 purposes, North Shore did not allocate any gas cost related Account No. 904
274 Uncollectible Accounts expenses to the transportation customer charge. Because
275 transportation customers purchase most, if not all of their gas supply from alternative gas
276 suppliers, the amount would be minimal, and many transportation customer accounts are
277 aggregated into pools where the suppliers must provide credit assurances such as deposits
278 and letters are credit. To comply with a Stipulation entered into with the Commission
279 Staff and approved by the Commission in Docket Nos. 09-0419/09-0420 (cons.), North
280 Shore is also proposing Rider UEA-GC, Uncollectible Expense Adjustment- Gas Costs.
281 This rider will recover all gas cost related Account No. 904 Uncollectible Accounts
282 expenses from sales customers by applying a factor in the rider rather than through base
283 rates with incremental amounts being recovered or refunded through Rider UEA. If the
284 Commission were to approve this proposal, the customer charge for sales and
285 transportation customers would be the same at \$24.20 per month. This charge reflects the
286 removal of all gas cost related Account No. 904 Uncollectible Accounts expenses from
287 the retail sales customer charge. NS Ex. 12.5 compares proposed monthly customer
288 charges under S.C. No. 1 with the embedded monthly customer and demand costs per
289 customer. As shown in the exhibit, the total monthly embedded customer cost for S.C.
290 No. 1 is \$24.70 and the demand cost per customer is \$10.91 for a total embedded fixed
291 cost per customer of \$35.61 (line 2 + line 6 as shown on line 10). North Shore is
292 proposing to set the customer charges for S.C. No. 1 at its embedded costs. In the interest
293 of rate design continuity, North Shore is proposing to recover all non-storage related

294 demand costs through volumetric distribution rates rather than a fixed charge such as the
295 customer charge. This results in only 69% of fixed costs for S.C. No. 1 being recovered
296 through fixed customer charges. In conjunction with its proposal to unbundle storage,
297 North Shore is proposing to recover all storage related demand costs through proposed
298 Rider SSC. About 2% of fixed costs would be recovered through the rider on a per therm
299 of usage basis for retail sales customers and through a per therm of storage capacity basis
300 for transportation customers. Accordingly, about 29% of fixed costs would continue to
301 be recovered through volumetric distribution charges.

302 Q. Please describe North Shore's proposal for its S.C. No. 1 distribution charge.

303 A. North Shore is proposing to maintain its two declining rate block structure for S.C. No. 1.
304 The front block (0-50 therms) proposed distribution charge will be reduced to 18.089
305 cents per therm, and was computed by allocating about 67% of remaining customer, non-
306 storage related demand and commodity costs to this block, consistent with the percentage
307 allocated in the 2009 Rate Case. The remainder of the S.C. No. 1 revenue requirement
308 will be collected through an end block (over 50 therms) distribution charge of 5.120 cents
309 per therm.

310 Q. Will North Shore's proposals for S.C. No. 1 have any effect on the calculation of
311 adjustments under its decoupling mechanism, Rider VBA, Volume Balancing
312 Adjustment?

313 A. Yes. North Shore is proposing that Rider VBA, which was approved on a pilot basis in
314 Docket Nos. 07-0241/07-0242 (cons.), be approved in this proceeding on a permanent
315 basis. North Shore's proposed revenue increase and rate designs will result in new
316 distribution rates and related distribution revenues, or Rate Case Margins ("RCM") for

317 Rider VBA in this proceeding that would be in effect, as approved by the Commission,
318 until new rates become effective in a subsequent proceeding.

319 Q. Why is North Shore proposing to increase its monthly customer charges for S.C. No. 1,
320 given that it is seeking approval to implement Rider VBA on a permanent basis?

321 A. Increasing the customer charge would better align the charge with its underlying costs
322 and would also reduce the magnitude of adjustments that would need to be generated
323 under Rider VBA. In addition, Rider VBA was approved on a pilot basis, with the pilot
324 set to expire in March, 2012, unless the Commission grants permission for it to be
325 permanent in this rate proceeding. If the Commission does not permanently approve
326 Rider VBA, the S.C. No. 1 customer charge would be well below its embedded fixed cost
327 when the rates approved in this proceeding goes into effect. North Shore's proposal to
328 increase its customer charge is also consistent with policies endorsed by the Commission
329 in several rate proceedings. In Docket No. 95-0032 the Commission urged Peoples Gas
330 to increase its customer charge in future rate proceedings to move it closer to cost. In
331 Docket Nos. 07-0241/07-0242 (Cons.), the Commission found it appropriate that rates
332 reflect a greater recovery of fixed costs in customer charges. In a case involving Union
333 Electric (Docket No. 03-0009), the Commission endorsed the utility's efforts to recover
334 all of a utility's fixed customer related costs of serving residential customers through the
335 customer charge component of rates as well as a gradualism approach to doing so. As
336 mentioned previously, the Commission allowed the Ameren gas utilities and Nicor, to
337 recover, for their residential and small commercial rate classes, 80% of their fixed costs
338 through the customer charge on a permanent, rather than a pilot, basis. Lastly, in North
339 Shore's 2009 Rate Case, the Commission stated that:

340 “The Utilities are correct that the Commission has been increasing the
341 proportion of fixed costs recovered through the customer charge in other
342 proceedings. *See Nicor 2008; In re Central Illinois Light Co., Central Illinois*
343 *Public Serv. Co. and Illinois Power Co., Dockets 07-0588/07-0589/07-0590*
344 *(Consol.) (Order, Sept. 24, 2008). The Commission notes that the Utilities’*
345 *proposal does not approach the level of fixed costs approved in those dockets.*
346 *... Moreover, in the event that Rider VBA is not renewed, the slight increase*
347 *proposed by the Utilities’ here will be a benefit in the long run.”*
348 *(Commission’s Order, page 218).*

349 Q. Why doesn’t North Shore simply propose Straight Fixed Variable (“SFV”) rates that
350 would recover all fixed costs through fixed charges?

351 A. North Shore does consider SFV rates the most appropriate rate design to best align
352 revenue recovery with its mostly fixed costs. However, while SFV rates would offer
353 stability to North Shore and its customers as well as eliminate the need for a decoupling
354 rider such as Rider VBA, some may view SFV rates as too significant a departure from
355 North Shore’s current rate structure. NS Ex. 12.5, line 13, reflects the monthly SFV rate
356 of \$34.91 that would arise from North Shore’s ECOSS and Commission approval of
357 proposed Rider SSC which would recover demand related storage costs. I note that the
358 SFV rate structure is widely used in other industries. For example, many customers are
359 accustomed to paying flat cable, telephone (local, long distance and wireless), internet
360 services, and sewer and waste disposal bills, among others. Many of these service
361 providers, who had traditionally charged on a volumetric basis, have been charging a flat
362 fee for quite some time.

363 Q. What benefits would a flat fee such as a SFV rate offer?

364 A. A SFV rate would be equivalent to putting customers on a budget plan for the delivery
365 service portion of their bill but without any need for a true-up when conditions change.
366 Customers would pay a fixed monthly charge and the delivery portion of their bill would

367 be unaffected by variations in weather or other conditions. As a result, they would not
368 over or under pay for the services that they receive. A SFV rate would also lower the
369 delivery charge portion of a customer's bills during the winter period when gas usage and
370 market commodity prices are typically at their highest. A SFV rate would be especially
371 beneficial to high usage customers who live in energy inefficient housing, particularly
372 those who are low income, as with SFV, the delivery charge portion of the bill would be
373 almost entirely fixed. The largest portion of a small residential customer's bill, the cost
374 of gas, will continue to send the proper signal that higher usage will result in a higher bill
375 due to a greater consumption of gas supplies and related commodity prices which are
376 largely affected by market forces.

377 Q. Would a SFV rate design be a reasonable alternative if Rider VBA is not implemented on
378 a permanent basis?

379 A. Yes.

380 Q. Please describe NS Ex. 12.6.

381 A. NS Ex. 12.6 illustrates the effect of the proposed charges on an average S.C. No. 1 sales
382 customer and an average S.C. No. 1 transportation customer, assuming normal weather
383 and Rider SSC charges arising from transportation storage subscription amounts based
384 upon currently subscribed levels. The average monthly bill for a S.C. No. 1 sales
385 customer and a transportation customer will increase by about \$3.14 and \$1.82,
386 respectively (lines 14 and 28, col. M). The annual bill will increase by about 2.9% for
387 sales customers and about 1.7% for transportation customers (lines 13 and 27, col. N).

388 **B. S.C. No. 2, General Service**

389 Q. Please describe North Shore's proposal for changes in S.C. No. 2 charges.

390 A. North Shore proposes to increase the monthly customer charges for S.C. No. 2, while
391 moving the charges for all three meter classes closer to cost. NS Ex. 12.7 reflects a
392 summary of embedded fixed costs per customer for the three meter classes. North Shore
393 is proposing no changes to the definitions of the meter classes. Fixed costs include
394 customer and demand costs. Customer related costs are allocated to each meter class
395 based on the investment in meters and regulators. Demand related costs are allocated to
396 each meter class based on peak day demand. Based on these allocations, total embedded
397 fixed costs per customer for Meter Classes 1, 2 and 3 are \$33.23, \$133.39 and \$453.77,
398 respectively (line 3). For all Meter Classes, North Shore proposes to recover all customer
399 costs and a portion of non-storage related demand costs through the customer charge to
400 minimize intra-class subsidies. This results in proposed customer charges of \$26.60,
401 \$77.00 and \$212.10, for Meter Classes 1, 2 and 3 sales customers, respectively (line 5)
402 and proposed customer charges of \$25.00, \$75.40 and \$210.40 for Meter Classes 1, 2 and
403 3 transportation customers, respectively (line 6). The proposed customer charges for
404 Meter Classes 1, 2 and 3 recover 95%, 20% and 10% of their respective non-storage
405 related demand costs. The difference of about \$1.60 between sales and transportation
406 customer charges arises from gas cost related Account No. 904 Uncollectible Accounts
407 expenses and some rounding differences. If the Commission were to approve North
408 Shore's proposed Rider UEA-GC, the customer charge would be the same for sales and
409 transportation customers and would be \$25.00, \$75.40 and \$210.40 for Meter Classes 1, 2
410 and 3 customers, respectively. These charges reflect the removal of all gas cost related

411 Account No. 904 Uncollectible Accounts expenses. North Shore is proposing to maintain
412 the three declining block distribution charge for S.C. No. 2 and allocate the remaining
413 customer, demand costs and commodity costs to the front, middle, and end blocks. The
414 front block (0-100 therms) has been decreased to 10.967 cents per therm, the middle
415 block (over 100-3,000 therms) has been decreased to 6.835 cents per therm and the end
416 block (over 3,000 therms) has been increased to 5.928 cents per therm. Under North
417 Shore's proposals, only 58.6% of the revenue requirement for S.C. No. 2 will be
418 recovered through fixed customer charges. In conjunction with its proposal to unbundle
419 storage, North Shore is proposing to recover all storage related demand costs through
420 proposed Rider SSC. About 2.5% of fixed costs would be recovered through the rider on
421 a per therm of usage basis for retail sales customers and through a per therm of storage
422 capacity basis for transportation customers. Accordingly, about 38.9% of fixed costs
423 would continue to be recovered through volumetric distribution charges.

424 Q. Why is a portion of the demand charge recovered through the customer charge for Meter
425 Classes 1 and 2?

426 A. Both demand and customer costs are fixed, meaning they do not vary with the amount of
427 gas that North Shore delivers to its customers. Demand costs are typically recovered
428 from large volume customers through demand charges. This is feasible because such
429 customers normally have demand meters that allow for accurate measurement of daily
430 demand volumes. However, the costs for demand meters would add additional costs to
431 the customer charge. S.C. No. 2 does not require demand metering. As a result, it would
432 be more practical to recover demand costs through a fixed monthly charge such as the
433 customer charge.

434 Q. Will North Shore's proposals for S.C. No. 2 have any effect on the calculation of
435 adjustments under Rider VBA, Volume Balancing Adjustment?

436 A. Yes. If the Commission approves North Shore's proposal to implement Rider VBA on a
437 permanent basis, the S.C. No. 2 RCM for Rider VBA will be revised to reflect the new
438 distribution rates and related distribution revenues that would be approved by the
439 Commission in this proceeding.

440 Q. Why is North Shore proposing to increase its monthly customer charges for S.C. No. 2,
441 given that it is seeking approval to implement Rider VBA on a permanent basis?

442 A. North Shore is proposing to increase its customer charges for S.C. No. 2 for the same
443 reasons described for S.C. No. 1.

444 **C. S.C. No. 3, Large Volume Demand Service**

445 Q. Please describe the changes proposed for S.C. No.3, Large Volume Demand Service.

446 A. The charges for S.C. No. 3 will continue to be the same for sales and transportation
447 customers as no Account 904 Uncollectible Accounts expenses, including gas cost related
448 Uncollectible Accounts expense, are allocated to this service classification. The monthly
449 customer charge will be set at cost and will be reduced to \$510.00. The demand charge
450 will recover 67% of non-storage related demand costs and will be set at 58.479 cents per
451 demand therm. The monthly standby service charge, which currently recovers storage
452 costs on a per therm of standby demand basis will be eliminated in conjunction with
453 North Shore's proposals to unbundle storage service, with storage costs being recovered
454 through a new charge under Rider SSC. The distribution charge, which will recover
455 remaining non-storage related demand costs, will be set at 1.805 cents per therm.

456 **D. Other Service Classifications**

457 Q. Are there any proposed changes to S.C. No. 4, Contract Service to Prevent Bypass and
458 S.C. No. 6, Contract Service for Electric Generation?

459 A. No, North Shore is not proposing any changes to these service classifications.

460 **E. Bill Impacts**

461 Q. Please describe NS Ex. 12.8.

462 A. NS Ex. 12.8 shows North Shore's Schedule E-9 of the Commission's standard filing
463 requirements which provides bill impacts under present and proposed rates for S.C. Nos.
464 1, 2, and 3. The exhibit also reflects the bill impacts of North Shore's rate proposals
465 including the recovery of storage costs under Rider SSC rather than through bundled base
466 rates for S.C. Nos. 1 and 2, and through the standby service charge for S.C. No. 3.

467 **F. Miscellaneous Charges**

468 Q. Please describe the items included in Miscellaneous Charges.

469 A. Miscellaneous Charges include the Service Activation Charges and Service Reconnection
470 Charges as well as other charges. North Shore is proposing changes only to the Service
471 Activation Charges and Service Reconnection Charges.

472 **1. Service Activation Charges**

473 Q. Please describe North Shore's proposal with respect to the Service Activation Charges.

474 A. North Shore is proposing to increase its Service Activation Charges, which recover a
475 portion of the costs related to initiating gas service at a premises. The Service Activation
476 Charges apply to those customers moving into or within North Shore's service territory.
477 There are two types of service activations. A succession turn-on occurs when the

478 customer moving out calls and discontinues gas service at approximately the same time
479 as the applicant moving in calls and requests gas service. In this instance, only a meter
480 reading is taken. A straight turn-on occurs when there has never been gas service at a
481 location, or when the prior customer canceled service some time before the new applicant
482 calls to request gas service and the gas has actually been turned off. In this instance, the
483 gas has to be turned on and appliances have to be relit. An analysis was performed to
484 measure the costs of these activities and is summarized in NS Ex. 12.9. The analysis
485 shows that the cost for a succession turn-on is \$26.77 (column J, line 1), the cost of a
486 straight turn-on is \$64.38 (column J, line 2) and the cost to light an additional appliance
487 over four is \$14.69 (column J, line 3). North Shore's proposed charges, which are
488 increased to collect a greater percentage of costs from customers causing their incurrence
489 but would still recover only a portion of these costs, are \$20.00 for a succession turn-on,
490 \$42.00 for a straight turn-on, and \$10.00 charge for relighting each appliance over four.

491 **2. Service Reconnection Charges**

492 Q. What is the proposal for changes in the Service Reconnection Charges?

493 A. A Service Reconnection Charge is a charge assessed to a customer whose gas has been
494 turned off for any number of reasons. These include disconnections for non-payment of
495 bills and at the customer's request. Each customer is granted a waiver of one
496 reconnection charge each year, except in the situation where the customer voluntarily
497 disconnects and then requests reconnection within twelve months or in the situation in
498 which service is disconnected at the main. An analysis was performed to determine the
499 cost basis of the three types of service reconnections following an involuntary
500 disconnection for which North Shore currently charges customers: basic reconnections

501 which only require a meter turn-on, reconnections which require setting a new meter, and
502 reconnections that involve excavating at the main. The results of this analysis are
503 summarized in NS Ex. 12.9. The analysis shows that the cost for a reconnection at the
504 meter is \$79.93 (column J, line 8); the cost for a reconnection when the meter has to be
505 reset is \$242.50 (column J, line 21); and the cost for a reconnection at the main is
506 \$1,463.91 (column J, line 26). The cost to light each additional appliance over four is the
507 same as under the Service Activation Charge. North Shore proposes to increase each
508 charge, but the charges will still recover only a portion of these costs. North Shore
509 proposes that the basic reconnection charge be \$75.00, that the reconnection charge when
510 the meter has to be reset be \$150.00, and that the reconnection charge when service has to
511 be reconnected at the main be \$425.00. While these charges are still less than cost based,
512 they have been increased to collect a higher percentage of the costs from the customers
513 creating the costs. The charge for relighting each appliance over four will be increased
514 from \$5.00 to \$10.00, as with the Service Activation Charge.

515 **G. Transportation Rider Charges**

516 Q. Please discuss North Shore’s proposals for administrative charges in its transportation
517 riders.

518 A. North Shore proposes to change certain charges in its transportation Rider FST, Full
519 Standby Transportation Service, Rider SST, Selected Standby Transportation Service,
520 Rider P, Pooling Service and Rider AGG, Aggregation Service. Specifically, North
521 Shore proposes to decrease the Administrative Charge for Riders FST, FST-T, Full
522 Standby Service - Transition, and SST from \$7.32 to \$7.14 per account and decrease the
523 Pooling Charge for Rider P from \$3.44 to \$3.37 per account. The Administrative Charge

524 for proposed Rider SBS will be the same as that for Rider SST. North Shore also
525 proposes to decrease the Aggregation Charge for Rider AGG from \$1.41 per account to
526 22 cents per account.

527 Q. Please describe how North Shore developed its proposed transportation administrative
528 charges.

529 A. North Shore relied upon cost studies, as addressed and provided in the direct testimony of
530 Mr. McKendry, to set its proposed administrative charges for its transportation riders at
531 cost, and to assess such charges on cost causation principles. Mr. McKendry explains the
532 role of the Gas Transportation Services (“GTS”) Department in administering North
533 Shore’s small and large volume transportation programs as well as the services that the
534 department currently provides. Mr. McKendry also describes North Shore’s proposed
535 storage subscription process, which will be administered by GTS for transportation
536 customers. It is clear that the current services provided by GTS as well as the proposed
537 new storage subscription process either have been, or will be, provided to transportation
538 customers and suppliers. Accordingly, it also clear who is causing the costs that have
539 been or will be incurred. For these reasons, North Shore is proposing that the
540 administrative charges for its Riders AGG, FST, FST-T, SST, and P continue to be
541 assessed to transportation customers and suppliers who take service under the
542 transportation riders. Similarly, administrative charges that were assessed under Rider
543 SST will be assessed under proposed Rider SBS.

544 Q. Are there any other charges specifically set in the transportation riders that North Shore is
545 proposing to change?

546 A. Yes. Rider SST and proposed Rider SBS require customers to install a Daily Demand
547 Measurement Device so that consumption can be metered on a daily basis. North Shore
548 proposes that the monthly Daily Demand Measurement Device Charge remain unchanged
549 at \$34.00, based upon the cost analysis shown in NS Ex. 12.10. Rider SBO, Supplier Bill
550 Option Service, allows suppliers providing service to Rider CFY customers the option to
551 render their own bills to such customers for their services as well as North Shore's
552 delivery service. In return, North Shore provides a credit to suppliers to compensate
553 them for the avoided cost of the utility rendering a bill. North Shore is proposing to
554 increase the Supplier Bill Option Service credit from 35 cents per bill per month to 46
555 cents per bill per month. The support for the proposed increase in this credit is provided
556 in NS Ex. 12.11.

557 **VI. SUMMARY OF INCREASE**

558 Q. Please summarize the increase in the base rate revenues arising from North Shore's
559 proposals for S.C. Nos. 1, 2, and 3.

560 A. North Shore's proposals for S.C. Nos. 1, 2 and 3 will result in an increase of about \$8.594
561 million (NS Ex. 12.2, line 21, column M).

562 Q. Please describe the revenues that will arise from North Shore's increase in miscellaneous
563 and other charges.

564 A. North Shore will experience an increase in miscellaneous and other revenues of about
565 \$0.134 million (NS Ex. 12.2, line 22, column M). This includes \$104,000 in
566 miscellaneous revenue, including that arising from service activation and service
567 reconnection charges, \$7,000 from accounting charge revenues, which North Shore
568 receives from state and local governments for billing and remitting state and local taxes,

569 and about \$23,000 in forfeited discounts. These increase amounts are reflected in North
570 Shore's Schedule A-2, Overall Financial Summary, of its standard filing requirements
571 (also see NS Ex. 6.1 included with North Shore witness Sharon Moy's direct testimony
572 (NS Ex. 6.0)).

573 Q. Please summarize the total increase in revenues proposed by North Shore.

574 A. The base rate increase of \$8.594 million combined with the increase in miscellaneous and
575 other revenues of \$0.134 million results in a proposed revenue increase of \$8.728 million
576 (NS Ex. 12.2, line 23, column M).

577 Q. Would base rates and the revenue increase amount change if the Commission were to
578 approve Rider UEA-GC?

579 A. Yes. If the Commission were to approve proposed Rider UEA-GC, the revenue
580 requirement would be reduced by gas cost related Account No. 904, Uncollectible
581 Accounts expenses. Base rates would be reduced and there would be a lesser revenue
582 increase. Test year expenses reflect Uncollectible Accounts expenses of \$1.675 million.
583 About \$1.019 million arise from gas costs, of which \$0.809 million and \$0.210 million,
584 respectively are allocated to S.C. Nos. 1 and 2. Total Account 904 Uncollectible
585 Accounts Expenses and gas cost related Account 904 Uncollectible Accounts expenses
586 are shown in North Shore Ex 12.12, line 5, columns A and F, respectively. The expense
587 amounts allocated to S.C. Nos. 1 and 2 are shown in column F, lines 1 and 2,
588 respectively. The revenue requirement of \$1.026 million, which reflects the gas cost
589 related Account 904 Uncollectible Accounts Expense amounts adjusted for taxes and the
590 gross revenue adjustment factor, are shown in column F, line 8. Assuming the gas costs
591 and Account 904 Uncollectible Accounts Expenses proposed by North Shore, revenue

592 requirement amounts of \$0.815 million and \$0.211 million, as shown in column G, lines
593 1 and 2, would be removed from the customer charges proposed for S.C. Nos. 1 and 2 as
594 described previously.

595 **VII. OTHER TARIFF REVISIONS**

596 **A. General Revisions**

597 Q. Please describe any general revisions that were made to the North Shore Schedule of
598 Rates.

599 A. North Shore is proposing to add two new riders, Rider SSC, Storage Service Charge, and
600 Rider UEA-GC, Uncollectible Accounts Expense Adjustment - Gas Costs. North Shore
601 is also proposing to add Rider FST-T, Full Standby Transportation Service - Transition,
602 and Rider P-T, Pooling Service - Transition and to offer Rider SST until proposed Rider
603 SBS becomes effective. Accordingly, any references to these riders are also removed or
604 added to various tariff provisions as appropriate. The reasons for these rider additions
605 and revisions will be discussed later in my testimony.

606 **B. Terms and Conditions of Service**

607 Q. What changes were made to North Shore's Terms and Conditions of Service?

608 A. North Shore is proposing to revise its Service Activation Charges and Service
609 Reconnection Charges as previously discussed. The proposed charges are reflected in
610 their respective sections. North Shore is also proposing to offer Rider SST only until
611 proposed Rider SBS becomes effective on August 1, 2012. Rider SST includes the
612 definition for Critical Day as well as the types of Critical Days (Supply Shortage and
613 Supply Surplus), with the rider and the definition being referenced by other transportation
614 tariffs (Riders AGG, FST and P). North Shore is proposing to include the definition of

615 this condition, which is common to several transportation tariffs, in the Terms and
616 Conditions of Service. The definition of Critical Day is unchanged. North Shore is also
617 proposing a new definition, Operational Flow Order (“OFO”) Day, a condition that will
618 help North Shore operate its system within normal operating parameters. Also, as this
619 type of condition will apply to several transportation tariffs, North Shore is proposing to
620 include the definition in the Terms and Conditions of Service. As with the Critical Day,
621 the OFO Day will include additional definitions for an OFO Supply Shortage Day and an
622 OFO Supply Surplus Day. Mr. Connery describes the OFO Day proposal in more detail.

623 **C. Uniform Numbering of Service Classifications**

624 Q. In the 2009 Rate Case, North Shore said it would assess if it can implement uniform
625 numbering of its service classifications relative to Peoples Gas. Is North Shore proposing
626 service classifications that are uniform in numbering with those for Peoples Gas?

627 A. No, for reasons that are discussed below. North Shore considered this proposal, and
628 determined that in addition to changes which will need to be made to its customer
629 information systems for billing, bill print and data management, changes will also need to
630 be made to its accounting system, sales and revenue forecasting models, and to interfaces
631 linking data between all of these systems as well. North Shore also notes that future tariff
632 changes may be appropriate for one company, but not the other, because of differences
633 among the companies’ customer bases and other existing service classifications. For
634 example, Peoples Gas’ tariff includes S.C. No. 8, Compressed Natural Gas Service, but
635 North Shore’s does not, and one company could propose a new service classification in
636 the future that may not be appropriate for the other. The former example shows that
637 uniformity is already lost, and the latter example shows that uniformity may not be

638 sustainable. Currently, other than Peoples Gas' S.C. No. 8 and the contract service rate
639 classes (which apply to only a handful of customers), the only other distinction between
640 the companies is that North Shore's Large Volume Demand service classification is S.C.
641 No. 3 and Peoples Gas' is S.C. No. 4. Only about 0.2% of their customers are served on
642 these rates. Both companies would need to make substantial changes to their tariffs and
643 training and communications materials for the sake of uniformity for a very small number
644 of customers. Also, very few if any, customers are served by both North Shore and
645 Peoples Gas, two separate companies. Other than the service classifications being
646 uniform between companies if this proposal was adopted, North Shore is unable to
647 identify any additional benefits to justify the time and expense that would be needed to
648 adopt and implement uniform numbering for its service classifications with those for
649 Peoples Gas.

650 **VIII. UNBUNDLING AND TRANSPORTATION RIDERS**

651 **A. Unbundling Proposal Background**

652 Q. Please discuss North Shore's overall proposed changes to its transportation riders.

653 A. In the 2009 Rate Case, Staff witness David Sackett proposed that North Shore unbundle
654 its standby and storage services for its large volume transportation programs. The
655 Commission ordered North Shore to work collaboratively with the Commission Staff and
656 other stakeholders to develop reasonable proposals for unbundling and to file any agreed
657 upon proposals in its next rate case, and, to the extent agreement is not reached, to
658 address the matter in the next rate case. Mr. Connery discusses this requirement in more
659 detail and describes how North Shore addressed it.

660

661 **B. Current Riders FST, SST and P**

662 Q. Please describe North Shore's current large volume transportation services.

663 A. Currently, North Shore offers two transportation services and a pooling service to its
664 large volume customers, those taking service under S.C. Nos. 2 and 3. Under
665 transportation service, customers purchase their gas supplies from a supplier other than
666 North Shore. Rider FST, Full Standby Transportation Service, provides 100% back-up to
667 transportation customers if their supplier does not deliver gas supplies. Rider SST,
668 Selected Standby Transportation Service, allows transportation customers to select their
669 desired level of back-up service, with North Shore providing gas supplies only up to the
670 selected standby levels if a customer's gas supplier does not deliver gas supplies. Under
671 Rider P, Pooling Service, suppliers can aggregate Riders FST and SST customers into
672 pools.

673 Q. Please explain how storage is currently provided under Riders FST and SST.

674 A. Under both riders, storage capacity, known as Allowable Bank, is provided on a "Bank
675 Day" basis, with Total Bank Days being determined by dividing North Shore's total
676 storage capacity by Design Peak Day Supply. There is a distinction between Base Rate
677 Bank Days and Gas Charge Bank Days, with the Base Rate Bank Days being tied to base
678 rate storage costs and Gas Charge Bank Days being tied to purchased off-system storage
679 and related costs. The number of Base Rate Bank Days is set in a general rate proceeding
680 based on the ratio of base rate storage costs to total storage costs (base rate and gas
681 charge costs). Gas Charge Bank Days are determined each year by deducting the Base
682 Rate Bank Days from Total Bank Days. Rider FST customers are entitled to Allowable
683 Bank storage capacity based on Total Bank Days times their Maximum Daily Quantity

684 (“MDQ”). Rider SST customers receive Base Rate Bank Days based upon their
685 respective service classification and the level of standby that they select. For S.C. No. 2,
686 base rate storage costs are bundled into base rate customer and distribution charges, with
687 no separately distinct charge for storage. Accordingly, S.C. No. 2 customers receive the
688 full number of Base Rate Bank Days, with Gas Charge Bank Days being paid for through
689 a Standby Demand Charge under Rider 2, Gas Charge. The Standby Demand Charge is
690 applied to customers’ selected standby levels. For S.C. No. 3, base rate storage costs are
691 “unbundled” and recovered under a distinct charge, the Standby Service Charge. For
692 S.C. No. 3 customers, both Base Rate and Gas Charge Bank Days and the resulting
693 Allowable Bank storage capacity are tied to customers’ selected standby levels. Both the
694 base rate Standby Service Charge and the gas charge related Standby Demand Charge are
695 applied to customers’ selected standby levels.

696 **C. Proposed Rider SBS, Storage Banking Service**

697 Q. Please generally describe North Shore’s proposal to unbundle standby and storage
698 services.

699 A. Mr. Connery explains how North Shore’s assets are used to provide standby and storage
700 services. As explained by Mr. Connery, North Shore’s assets do not support an
701 unbundled standby service. Accordingly, North Shore is proposing to continue service
702 under Rider SST, Selected Standby Transportation Service, which ties storage to selected
703 levels of standby, only until its proposed standalone storage service, Rider SBS, Storage
704 Banking Service, becomes effective on August 1, 2012. North Shore will continue to
705 offer a bundled standby and storage service under Rider FST, Full Standby
706 Transportation, to those customers who desire full standby.

707 Q. Please describe how storage would be provided under North Shore's proposed Rider
708 SBS, Storage Banking Service.

709 A. Proposed Rider SBS will be available to customers taking service under S.C. Nos. 2 and
710 3. Under the rider, North Shore will provide Days of Bank with no distinction between
711 Base Rate Bank Days and Gas Charge Bank Days. Days of Bank will be determined by
712 dividing North Shore's total storage capacity by its Design Peak Day as shown on NS Ex.
713 12.13. The derived Days of Bank would be made available to customers taking service
714 under Rider SBS and provided in full to those customers taking service under Rider FST,
715 Rider CFY, North Shore's small volume transportation program, and sales customers.
716 The amount of storage capacity being made available to Rider SBS customers would be
717 based upon the collective MDQ amounts of Rider SBS customers multiplied by the Days
718 of Bank. If Rider SBS storage capacity is not fully subscribed, Rider SBS customers
719 would have an opportunity to subscribe for additional capacity under the process
720 described by Mr. McKendry. Any unsubscribed capacity will be used by North Shore for
721 sales customers.

722 Q. Please describe the key elements of proposed Rider SBS.

723 A. Rider SBS includes nine sections, alphabetized from Section A through Section I:

- 724 • Section A – Definitions, reflects definitions of key terms that are used throughout
725 the tariff that guide the operations of the rider. These terms are related to the
726 Allowable Bank, indices that are used for pricing daily and monthly cash-outs,
727 parameters related to daily nominations, daily Allowable Bank activity and
728 tolerances, and the types of conditions that may affect daily Allowable Bank
729 activity such as Critical Days and OFO Days.

- 730 • Section B –Rates, reflects the various charges that customers would pay under the
731 rider. These charges include an Administrative Charge, Storage Gas Charge,
732 Daily Cash-out Charge, Monthly Cash-out Charge, Daily Demand Measurement
733 Device Charge, and a Trade Charge. The Administrative Charge was discussed
734 previously in my testimony. The Storage Gas Charge is a gas charge determined
735 according to the provisions in Rider 2, Gas Charge and is applied to each therm of
736 Allowable Bank storage capacity. (The customer will also pay a Storage Banking
737 Charge, which is a base rate charge set under proposed Rider SSC and is also
738 applied to each therm of Allowable Bank storage capacity.) The Daily Cash-out
739 Charge is applied to gas sold to or purchased from North Shore which exceeds the
740 parameters described in Sections C – Order of Deliveries to the Company and D –
741 Order of Deliveries to the Customer. The Monthly Cash-out Charge is applied to
742 gas sold to or purchased from North Shore so that customers meet the monthly
743 inventory targets set in Section E – Inventory / Allowable Bank/ Storage Activity.
744 The Daily Demand Measurement Device Charge is assessed for the daily
745 metering device that customers are required to install. The Trade Charge is
746 applied to trades allowed under the rider.
- 747 • Section C –Order of Deliveries to the Company describes how transportation
748 customers’ gas deliveries to North Shore are accounted for if their deliveries
749 exceed their usage.
- 750 • Section D – Order of Deliveries to the Customer describes how transportation
751 customer’s gas deliveries are accounted for if their usage exceeds the amount of
752 gas delivered to North Shore.

- 753 • Section E – Inventory / Allowable Bank/ Storage Activity provides daily and
754 monthly parameters for storage activity under the rider. This section provides
755 daily withdrawal and daily injection parameters, monthly storage inventory target
756 levels and additional balancing tolerances. The section also describes how these
757 parameters as well as certain conditions, such as Critical and OFO Days (Supply
758 Shortage and Supply Surplus) affect storage activity on a daily basis. Mr.
759 Connery explains the rationale underlying these proposed parameters.
- 760 • Section F –Trading, Daily Reallocations and Critical Day Reallocations, describes
761 how customers can trade bank gas, reallocate nominated gas among their
762 contracts, and change nominations subject to certain parameters.
- 763 • Section G – Contract with the Customer describes the contractual parameters for
764 taking service under the rider.
- 765 • Section H – Terms and Conditions of Service explains the terms and conditions
766 that apply to service under the rider.
- 767 • Section I – Cash-Out explains the treatment for monthly cash-outs.

768 Sections F through H are largely unchanged from identical provisions in Rider SST. One
769 exception is Section G – Contract with the Customer, which has been supplemented to
770 include the new Allowable Bank storage subscription process described in detail by Mr.
771 McKendry and described generally in my testimony. The cash-out tiers and pricing in
772 Section I have been revised from the corresponding section C of Rider SST.

773 Q. When is North Shore proposing to make service available under Rider SBS?

774 A. North Shore proposes that Rider SBS becomes effective on August 1, 2012, to allow
775 customers taking service under Rider SST, which will be phased out, time to effectively

776 transition from their current service to Rider SBS. This date will also allow the time that
777 will be needed to develop and implement the technical programming that will be needed
778 to integrate the new service into North Shore's nomination and billing systems. Lastly,
779 this implementation date will provide additional time to fully develop the appropriate
780 supporting processes and to effectively educate customers, suppliers and employees
781 about the new service.

782 **D. Transitional Rider SST**

783 Q. How will Rider SST, Selected Standby Transportation Service, be affected by North
784 Shore's unbundling proposal?

785 A. As discussed above, Rider SST would remain in effect until Rider SBS becomes effective
786 on August 1, 2012. Until then, the rider would operate as it does today with a few
787 exceptions and clarifications. First, effective the date that North Shore's proposed rates
788 go into effect, as base rate storage costs will be unbundled from the distribution charges
789 for S.C. Nos. 2 and 3 (as well as S.C No. 1), Rider SST customers would pay a Storage
790 Banking Charge for each therm of contracted for Allowable Bank storage capacity as
791 established under Rider SSC for all transportation customers. Second, the current
792 formula for determining Allowable Bank and the number of Allowable Bank Days would
793 remain unchanged until May 1, 2012. Third, the number of Allowable Bank Days that
794 will be reflected in North Shore's April 1, 2012 annual filing with the Commission for
795 Allowable Bank Days effective May 1, 2012 will not show any distinction between Base
796 Rate Days and Gas Charge Days, with the number of Allowable Bank Days being
797 determined using the methodology shown in NS Ex. 12.13. Fourth, in April, 2012,
798 customers will be able to subscribe for Allowable Bank storage capacity from a minimum

799 of one Bank Day up to the full number of available Bank Days, and additional Allowable
800 Bank storage capacity if unsubscribed capacity is available. Fifth, effective May 1, 2012,
801 Allowable Bank storage capacity will be determined by multiplying the customer's MDQ
802 times Allowable Bank Days based upon the number of Bank Days selected in April.
803 Sixth, effective May 1, 2012, standby service will no longer be available. This should
804 have minimal to no impact on Rider SST customers as during the summer months,
805 customers generally consume lesser quantities of gas, are injecting gas into their
806 Allowable Banks, and have shown little or no need for standby service. As a result of the
807 phase out of standby service, any Company supplied gas will be considered authorized or
808 unauthorized use and will be assessed charges detailed under the rider. Seventh, effective
809 May 1, 2012, as Rider SST customers will no longer pay for gas cost related storage
810 through the Standby Demand Charge, which recovers the cost of bundled standby and
811 storage service, they will be assessed a Storage Gas Charge as determined under Rider 2,
812 Gas Charge, for each therm of Allowable Bank storage capacity.

813 **E. Rider FST and Transitional Rider FST-T**

814 Q. How will Rider FST, Full Standby Transportation Service, be affected by North Shore's
815 unbundling proposal?

816 A. North Shore will continue to offer Rider FST under its unbundling proposal, but with
817 certain changes to be reflected in a transitional rider, Rider FST-T, and other changes in
818 Rider FST to be effective August 1, 2012. North Shore's proposed revisions for Rider
819 FST better aligns the operations of the full standby service with North Shore's underlying
820 assets as explained by Mr. Connery, and consequently are aligned where practical with
821 those revisions proposed for Rider SBS. Proposed revisions for Rider FST include:

- 822 • A base rate Storage Banking Charge established under Rider SSC, which is
823 applied to each therm of Allowable Bank storage capacity.
- 824 • Monthly minimum and maximum Storage Inventory Target Levels, as reflected
825 in Section E of the rider.
- 826 • Maximum Daily Nomination (“MDN”) amounts for October through April that
827 are based upon the prior year’s estimated daily usage plus an amount determined
828 by multiplying the Allowable Bank times a monthly Daily Storage Injection
829 Limit, as reflected in Section E of the rider. The MDN for the November through
830 March period remains unchanged.
- 831 • A minimum daily delivery requirement on a Critical Supply Shortage Day and an
832 OFO Supply Shortage Day equal to 39% of the customer’s MDQ.
- 833 • A Daily Delivery Non-Performance Charge for each therm of gas delivered
834 below the minimum daily delivery requirement described above.

835 Mr. Connery provides the rationale for North Shore’s proposed revisions to Rider FST.
836 North Shore is delaying implementation of proposed Rider FST until August 1, 2012, for
837 the same reasons provided for Rider SBS. However, so that customers can continue to
838 receive full standby service in the interim, North Shore proposes to offer transitional
839 service under Rider FST-T, Full Standby Transportation Service-Transition.

840 Q. How will Rider FST-T be affected by North Shore’s unbundling proposal?

841 A. North Shore’s proposed Rider FST-T will be significantly similar to its current Rider FST
842 but with a few exceptions. First, effective the date that North Shore’s proposed rates go
843 into effect, as base rate storage costs will be unbundled from the distribution charges for
844 S.C. Nos. 2 and 3 (as well as S.C No. 1), Rider FST customers would pay a Storage

845 Banking Charge for each term of contracted for Allowable Bank storage capacity as
846 established under Rider SSC. Second, the current formula for determining Allowable
847 Bank and the number of Allowable Bank Days would remain unchanged until May 1,
848 2012. Third, the number of Allowable Bank Days that will be reflected in North Shore's
849 April 1, 2012 annual filing with the Commission for Allowable Bank Days effective May
850 1, 2012 will not show any distinction between Base Rate Days and Gas Charge Days,
851 with the number of Allowable Bank Days being determined using the methodology
852 shown in NS Ex 12.13. Fourth, effective May 1, 2012, Allowable Bank storage capacity
853 will be determined by multiplying the customer's MDQ times total Allowable Bank
854 Days. Fifth, customers will continue to pay for gas charge related storage and standby
855 service through the Standby Demand Charge, but effective May 1, 2012, without the
856 application of a Diversity Factor to the Demand Gas Charge determined under Rider 2.

857 **F. Rider P and Transitional Rider P-T**

858 Q. How will North Shore's unbundling proposal affect Rider P, Pooling Service?

859 A. Rider P is currently available to suppliers who deliver gas to North Shore's transportation
860 customers who take service under Rider FST or SST. It has been revised as a result of
861 North Shore's unbundling proposals, which affects Rider FST and results in a standalone
862 storages service under proposed Rider SBS. As the proposed revisions for Riders FST
863 and SBS will not become effective until August 1, 2012, a transitional pooling service,
864 Rider P-T, Pooling Service-Transition, will need to be made available to suppliers in the
865 interim.

866 Q. Please describe North Shore's proposed revisions for Rider P.

867 A. Rider P has been revised to make it applicable to Riders FST and SBS. It has also been
868 revised to align the terminology, parameters and the operations of the rider with that in
869 Riders FST and SBS, and to remove language which no longer applies.

870 Q. Please describe North Shore's proposed Rider P-T.

871 A. Rider P-T provides interim pooling service for suppliers who will deliver gas to
872 customers taking service under Riders SST and FST-T, until both terminate on July 31,
873 2012. Language in Rider P-T has also been revised to align it with the changes proposed
874 for Riders SST and FST-T.

875 **G. Rider CFY and Rider AGG**

876 Q. Will North Shore's unbundling proposal affect Rider CFY, Choices For Yousm
877 Transportation Service, or customers served under Rider CFY?

878 A. Yes. As discussed above, in conjunction with its unbundling proposals, North Shore is
879 proposing to recover base rate storage costs under Rider SSC and gas charge related
880 storage costs through the Storage Gas Charge for Riders SST, FST, FST-T and SBS.
881 Rider CFY customers currently pay for base rate storage costs through bundled storage
882 costs under their respective service classifications. Under North Shore's unbundling
883 proposal, in the same manner as transportation customers served under Riders SST, FST,
884 FST-T and SBS, Rider CFY customers would pay for base rate storage costs through the
885 Storage Banking Charge under proposed Rider SSC on each therm of Maximum Storage
886 Quantity ("MSQ") storage capacity, a new parameter that will be added to Rider CFY in
887 lieu of a similar parameter in Rider AGG, Aggregation Service. The MSQ will be
888 determined by multiplying the number of Allowable Bank Days times the customer's
889 MDQ. The Storage Banking Charge will become effective on the date that North Shore's

890 proposed rates become effective. Currently, Rider CFY customers pay for gas charge
891 related storage costs through the Aggregation Balancing Gas Charge (“ABGC”)
892 determined under Rider 2, Gas Charge on each therm of delivered gas. Under North
893 Shore’s proposal, effective May 1, 2012, Rider CFY customers will pay for gas charge
894 related storage through the Storage Gas Charge under Rider 2 on each therm of MSQ,
895 rather than through the ABGC.

896 Q. Please describe how North Shore’s unbundling proposal will affect Rider AGG.

897 A. Suppliers providing service to Rider CFY customers must aggregate customer accounts
898 under North Shore’s Rider AGG. Currently, the aggregated “Pool MSQ” is determined
899 in Rider AGG by summing Rider CFY customers’ MDQs and multiplying that sum (Pool
900 MDQ) by the number of days of bank (Allowable Bank Days). As MSQ will be
901 determined for each customer account under Rider CFY, Pool MSQ as currently defined
902 in Rider AGG must be redefined as “the sum of the MSQs determined under Rider CFY”.

903 Q. Is North Shore proposing any other changes affecting Riders CFY and AGG?

904 A. Yes. Currently, under Rider AGG, on March 1 of each year, North Shore files a report
905 with the Commission for the number of days of bank (same as Allowable Bank Days)
906 that would be used to determine the Pool MSQ for Rider CFY customers for an annual
907 period beginning April. Similarly under Rider CFY, North Shore recalculates customer
908 MDQ amounts each March that are effective for an annual period beginning April. For
909 Riders FST, FST-T, SST and SBS, North Shore files a report of Allowable Bank Days
910 with the Commission on April 1, with changes in customers’ MDQ being effective for an
911 annual period beginning May 1. As the “number of days of bank” and the “Allowable
912 Bank Days” are one and the same, North Shore proposes that the March 1 “number of

913 days of bank” requirement filing in Rider AGG be eliminated with the number of days of
914 bank being set based on the Allowable Bank filing in transitional Rider SST and Rider
915 SBS. Similarly, North Shore proposes that Rider CFY be revised to recalculate
916 customers’ MDQ each April to be effective each May 1, consistent with the date for
917 Riders FST, FST-T, SST and SBS.

918 **H. Determination of Allowable Bank Days**

919 Q. What is the number of Allowable Bank Base Rate Days for Riders FST, SST and AGG
920 that would arise from North Shore’s proposed methodology?

921 A. As shown in NS Ex. 12.13, 24 Allowable Bank Days (days of bank for Rider AGG)
922 would arise from North Shore’s proposed methodology, which no longer makes a
923 distinction between Allowable Bank Base Rate Days and Allowable Bank Gas Charge
924 Days. North Shore will continue to file annually with the Commission a report on April
925 1 that would determine the Allowable Bank Days for Riders FST, FST-T, SST, SBS and
926 if approved by the Commission, Rider AGG.

927 **IX. OTHER NEW AND REVISED RIDERS**

928 **A. Summary**

929 Q. Please summarize and describe any other new and revised riders arising from North
930 Shore’s proposals.

931 A. As mentioned previously, in conjunction with its unbundling proposals, North Shore is
932 proposing a new rider, Rider SSC, to recover base rate storage costs from sales and
933 transportation customers served under S.C. Nos. 1, 2, and 3. Paired with the base rate
934 storage proposal, North Shore is also proposing to revise Rider 2, Gas Charge, to add a
935 Storage Gas Charge to recover gas charge related storage costs from transportation

936 customers served under Riders SST, SBS and AGG, and to concurrently eliminate the
937 ABGC, which recovers the same costs in a different manner. North Shore's unbundling
938 proposals also require minor revisions to Rider 9, Unauthorized Use of Gas Service. As
939 Rider VBA has been effective for both North Shore and its customers, North Shore is
940 also proposing that Rider VBA, Volume Balancing Adjustment be implemented on a
941 permanent basis without interruption and that adjustments be determined annually rather
942 than on a monthly basis. To comply with a Stipulation in Docket Nos. 09-0419/09-0420
943 (cons.), North Shore is also proposing new Rider UEA-GC, Uncollectible Expense
944 Adjustment-Gas Costs, which would recover gas cost related Account No. 904
945 Uncollectible Accounts expenses from retail sales customers through the rider rather than
946 base rates and Rider UEA. As incremental gas cost related Account 904 Uncollectible
947 Accounts expenses are recovered under Rider UEA, which was approved in Docket Nos.
948 09-0419/09-0420 (cons.), North Shore is proposing changes to Rider UEA to avoid
949 double recovery after Rider UEA-GC becomes effective.

950 **B. Proposed Rider SSC, Storage Service Charge**

- 951 Q. Please describe North Shore's proposed Rider SSC, Storage Service Charge.
- 952 A. North Shore's proposed Rider SSC unbundles and recovers base rate storage costs from
953 sales and transportation customers through a rider rather than through base rate delivery
954 charges. Under Rider SSC, storage costs are stripped out or unbundled from North
955 Shore's revenue requirement so that such costs are recovered separately.
- 956 Q. Why is North Shore proposing to unbundle storage costs and recover such costs under
957 Rider SSC?

958 A. As discussed previously, in the 2009 Rate Case Order, the Commission ordered North
959 Shore to work collaboratively with the Commission Staff and other stakeholders to
960 develop reasonable proposals for unbundling and to file any agreed upon proposals in its
961 next rate case and, if agreement was not reached, to address the matter. Staff witness Mr.
962 Sackett's testimony supporting unbundling in the proceeding included various formulas
963 and charges that would unbundle standby and storage services, as well as a consideration
964 for a rider equivalent to Nicor's Rider 5, Storage Service Cost Recovery, that would
965 protect against lost revenue arising from an under-subscription of storage capacity. North
966 Shore's proposed Rider SSC effectively addresses Mr. Sackett's proposals by both
967 unbundling the base rate cost of storage from standby service, and recovering the cost of
968 any unsubscribed storage.

969 Q. Please describe how charges would be determined under Rider SSC.

970 A. Initial charges under Rider SSC will be set as described under the rider when proposed
971 rates go into effect. Subsequent charges would also be determined as described under the
972 rider. Charges will be filed with the Commission by May 31 of each year, and will be
973 billed to customers over an annual period beginning June 1 and ending May 31.
974 Annually, by July 31 of each year, North Shore will reconcile expected and actual Rider
975 SSC revenues from the prior recovery period, with any over-or under recovery amounts
976 being amortized over a ten-month period from August 1 through May 31 through the
977 Storage Service Charge. Rider SSC sets and determines a Storage Banking Charge for
978 transportation customers and a Storage Service Charge for sales customers. North Shore
979 is proposing two different names for the unbundled base rate storage charges to maintain
980 the distinction between how the costs are recovered (on a per therm of storage capacity or

981 a per therm delivered basis), and from whom they are recovered (transportation or sales
982 customers). The Storage Banking Charge is charged to transportation customers on each
983 therm of Allowable Bank or per MSQ storage capacity, and to sales customers on each
984 therm of delivered gas.

985 Q. Please describe how the Storage Banking Charge would be determined for transportation
986 customers.

987 A. The Storage Banking Charge, which is determined under Section A(2) of the rider,
988 recovers the production and storage related revenue requirements, excluding the carrying
989 cost of North Shore's investment in top gas storage. As the carrying cost of top gas in
990 storage is not included in the Storage Banking Charge, a separately billed storage credit is
991 not necessary as it is currently provided. NS Ex. 12.14, page 1, reflects the determination
992 of the Storage Banking Charge under test year storage subscription levels as shown in NS
993 Ex. 12.15, column D. As shown in NS Ex. 12.14, page 1, the Storage Banking Charge is
994 determined by dividing North Shore's production and storage related revenue
995 requirements (net of gas in storage) by total storage capacity, and then dividing again by
996 12. The initial Storage Banking Charge, which would be effective when North Shore's
997 proposed rates become effective, is 0.09 cents per capacity therm (column B, line 13).
998 NS Ex. 12.14, Page 2, reflects the same information assuming that storage is fully
999 subscribed under test year parameters as shown in NS Ex. 12.15, column F. If fully
1000 subscribed, the Storage Banking Charge would be unchanged. However, the Storage
1001 Service Charge for sales customers would be lower due to the additional storage being
1002 subscribed by transportation customers.

1003 Q. Please describe how the Storage Service Charge would be determined for sales
1004 customers.

1005 A. NS Ex. 12.14, page 1, also reflects how the Storage Service Charge would be determined
1006 under Section A(3) of the rider at currently subscribed transportation storage levels. As
1007 shown in the exhibit, the Storage Service Charge is calculated by taking the remaining
1008 revenue requirement, or unsubscribed costs to be recovered from sales customers
1009 (column A, line 17) and dividing it by forecasted deliveries to sales customers for the
1010 Annual Recovery Period (column A, line 19). The initial Storage Service Charge
1011 (column A, line 21) would be 0.884 cents per therm. NS Ex. 12.14, page 2 reflects the
1012 same information assuming that storage is fully subscribed. Assuming test year
1013 parameters, if storage is fully subscribed, the Storage Service Charge would decrease to
1014 0.834 cents per therm as less storage capacity would be shifted to sales customers.
1015 Actual charges to sales customers will be affected by actual parameters such as the
1016 number of customers taking transportation service and the aggregate amount of their
1017 MDQs and selected storage capacity.

1018 Q. How long would the initial Rider SSC Charges described above remain in effect?

1019 A. The initial Rider SSC Storage Banking and Storage Service Charges would remain in
1020 effect until North Shore determines and files new charges with the Commission the
1021 following May (of 2012), to be effective on June 1 for a twelve-month period ending
1022 May 31. Each year thereafter, new Storage Banking and Storage Service Charges will be
1023 determined and filed in the same manner. Effective August 1 of each year, the
1024 reconciliation Adjustment (RA) will be added to Storage Service Charge as described in

1025 Section A(3), and amortized over a ten-month period ending May 31 as described in
1026 Section A(4).

1027 Q. Why is North Shore proposing to determine the Rider SSC charges annually?

1028 A. As previously discussed, to effectively unbundle storage and to eliminate the distinction
1029 between Base Rate Bank Days and Gas Charge Bank Days, North Shore proposes to
1030 determine Days of Bank by dividing North Shore's total off-system storage capacity by
1031 its Design Peak Day as shown on NS Ex. 12.13. Although North Shore does not own a
1032 storage field, it does maintain base rate cushion gas to support a storage service it
1033 purchases from Peoples Gas. Total off-system storage capacity is also the divisor used to
1034 determine both the Storage Banking Charge and the Storage Gas Charge as their
1035 respective costs are spread over such capacity. While North Shore's base rate production
1036 and storage costs will not change between rate case filings, its off-system storage
1037 capacity is subject to change. Accordingly, as the off-system storage capacity amount
1038 shown on NS Ex. 12.14 (pages 1 and 2, line 2) and related costs may change over time,
1039 both the number of Days of Bank as well as the charges derived from such capacity, must
1040 be re-determined to reflect such change. An annual determination of Rider SSC charges
1041 will continue the appropriate spreading of underlying costs and the derivation of related
1042 charges.

1043 **C. Rider 2, Gas Charge**

1044 Q. Please discuss North Shore's proposed changes to Rider 2, Gas Charge.

1045 A. In conjunction with its proposal to unbundle standby and storage services, North Shore is
1046 proposing to revise Rider 2 to add a new Storage Gas Charge that will apply to Riders
1047 SST and AGG effective May 1, 2012, when North Shore will phase out standby service

1048 under Rider SST. The Storage Gas Charge would also be applicable to Rider SBS, which
1049 would become effective on August 1, 2012. Currently, Rider 2 includes a Demand Gas
1050 Charge which applies to standby service provided under Rider FST, Full Standby
1051 Transportation Service and Rider SST, Selected Standby Transportation Service. The
1052 Demand Gas Charge recovers the cost of firm transportation and purchased storage
1053 services and is currently assessed on a per MDQ basis for Rider FST customers and a per
1054 therm of Selected Standby Quantity basis for Rider SST customers. As standby service
1055 will not be available under Rider SST effective May 1, 2012, and standby service will not
1056 be provided under Rider SBS, North Shore is proposing to recover gas cost related
1057 storage costs through the Storage Gas Charge. The Storage Gas Charge will recover the
1058 cost of all purchased storage services as well as any transportation service that supports
1059 the storage services. The Storage Gas Charge would recover on each therm of storage
1060 capacity, the same costs that are currently recovered under North Shore's Aggregation
1061 Balancing Charge ("ABGC") from Rider AGG customers on a per therm basis. To
1062 eliminate redundancy for the recovery of such costs and to simplify the Gas Charge,
1063 North Shore proposes that effective May 1, 2012, the Storage Gas Charge also be
1064 assessed to Rider AGG customers on each therm of storage capacity, and that the ABGC
1065 be terminated. NS Ex. 12.16 illustrates how the Storage Gas Charge would be computed
1066 under rules established by the Commission under 83 Illinois Administrative Code, Part
1067 525, Purchased Gas Adjustment Clause ("Part 525"), assuming data from North Shore's
1068 gas charge effective January 1, 2011. For the same reasons described above for the
1069 Storage Service Charge, total storage capacity (on and off-system) will be the divisor
1070 used to determine the monthly Storage Gas Charge (subject to Part 525 and conforming

1071 tariff language in Rider 2). As North Shore proposes to continue to provide bundled
1072 standby and storage service under Riders FST and FST-T, customers will continue to pay
1073 for gas charge related storage and standby service through the Standby Demand Charge,
1074 but without the application of a Diversity Factor to the Demand Gas Charge determined
1075 under Rider 2.

1076 Q. Is North Shore proposing any other changes for Rider 2?

1077 A. Yes. Section D(f) of Rider 2 describes how gas sold and purchased by North Shore under
1078 its transportation riders affects recoverable gas costs. North Shore is proposing to
1079 simplify the language under this section so that it appropriately captures all gas sold and
1080 purchased by North Shore under the various provisions in its transportation riders.

1081 **D. Rider 9, Unauthorized Use of Gas Service**

1082 Q. Please describe North Shore's proposed revisions to Rider 9.

1083 A. North Shore proposes to add language to Rider 9 which defines the charges that will be
1084 applicable to Riders SBS, FST and P for unauthorized use of gas service in conjunction
1085 with North Shore proposals for these riders.

1086 **E. Rider VBA, Volume Balancing Adjustment**

1087 Q. Please describe North Shore's proposals for Rider VBA.

1088 A. North Shore proposes that Rider VBA be implemented on a permanent basis without
1089 interruption and the adjustments under the rider be determined on an annual rather than a
1090 monthly basis, as they are determined today.

1091 Q. Why is North Shore proposing that Rider VBA be implemented on a permanent basis?

1092 A. As discussed earlier, under North Shore's rate design proposals, 30% of fixed costs will
1093 continued to be recovered through volumetric distribution charges. This level of
1094 recovery: (1) is not aligned with the nature of North Shore's fixed cost delivery service,
1095 (2) will ensure that North Shore will either under or over recover its Commission
1096 approved revenue requirement, (3) will ensure that customers will pay more or less than
1097 their share of Commission approved distribution costs, and (4) is far more than the 20%
1098 recovery approved by the Commission in the aforementioned dockets for Ameren and
1099 Nicor. In addition to these reasons, the actual benefits experienced from the pilot
1100 supports permanent implementation.

1101 Q. Please describe how Rider VBA has evolved since initial implementation.

1102 A. Rider VBA was implemented on May 1, 2008, with monthly adjustments and annual
1103 reconciliation amounts under the rider being refunded or charged to customers served
1104 under S.C. Nos. 1 and 2. Initially, there were different monthly adjustments for S.C. No.
1105 1 sales and transportation customers, and S.C. No. 2 sales and transportation customers.
1106 Although the customer charges were the same for sales and transportation customers
1107 within each service classifications, their distribution charges were different because of
1108 Account 904 gas cost related Uncollectible Account expenses that were included in the
1109 distribution charges for sales customers. In the 2009 Rate Case, the Commission
1110 approved North Shore's proposal to recover Account 904 gas cost related Uncollectible
1111 Account expenses in the customer charge, resulting in the same distribution charges and
1112 hence, the same Rider VBA adjustments for sales and transportation customers within the
1113 same service classification.

1114 Q. Please describe how North Shore S.C. No. 1 and 2 customers have been impacted by
1115 Rider VBA to date.

1116 A. From May, 2008 through March, 2011, North Shore will have refunded about \$3.5
1117 million to S.C. Nos. 1 and 2 customers.

1118 Q. Please describe the actual benefits experienced under Rider VBA.

1119 A. The amount above highlights the benefits that customers received under the rider. Absent
1120 the rider, customers would have paid more than their share of the distribution revenues
1121 approved by the Commission in North Shore's two prior general rate proceedings. As the
1122 amounts represent net refunds over time, North Shore benefitted from amounts that were
1123 recovered from customers when their usage and related distribution revenue were less
1124 than at Commission approved levels. Over the pilot period, Rider VBA, a symmetrical
1125 full decoupling mechanism, operated effectively as it was designed, to provide refunds to
1126 customers when distribution revenues (Actual Margin) per customer are greater than
1127 Commission approved per customer levels (Rate Case Margin) and charges to customers
1128 when Actual Margin are less than Rate Case Margin. North Shore has also submitted two
1129 annual reconciliation statements with the Commission for which the accuracy of the
1130 calculations was not contested. Accordingly, for all of the reasons discussed above,
1131 Rider VBA should be implemented on a permanent basis, without interruption.

1132 Q. Why is North Shore proposing that Rider VBA adjustments be determined on an annual
1133 rather than a monthly basis?

1134 A. Rider VBA was initially proposed as a monthly mechanism so that it would provide near
1135 real-time adjustments to customers two months after actual data became available to
1136 determine the adjustments. This resulted in refunds in some months and charges in

1137 others, with any amounts under or over-recovered amounts being trued up in an annual
1138 reconciliation adjustment. North Shore is proposing an annual adjustment to smooth out
1139 the monthly adjustments on customers' bills and to streamline the process for
1140 determining and filing adjustments with the Commission.

1141 Q. Please describe how the annual Rider VBA adjustments will be determined.

1142 A. The annual Rider VBA adjustments would be determined by using the same formula that
1143 is used to determine the monthly Effective Component and simply substituting the
1144 monthly data in the applicable parameters with annual data. The annual adjustments
1145 would be filed with the Commission each March and billed over a nine-month period
1146 beginning April 1. An annual reconciliation adjustment for any under or over-recoveries
1147 arising from the prior year would also be added to the annual adjustment, resulting in one
1148 annual filing that would need to be submitted to the Commission. Under North Shore's
1149 proposal, the final monthly adjustment would be filed in January, 2012 and effective for
1150 the month of February, 2012. The final annual reconciliation adjustment reconciling
1151 annual costs under the monthly adjustment method would be filed in March, 2012 and be
1152 billed over a nine-month period beginning April 1, 2012. The first annual adjustment
1153 using actual data from calendar year 2012 will be filed in March, 2013 and billed over a
1154 nine-month period beginning April 1, 2013. Each subsequent adjustment will follow the
1155 same methodology as for the March 2013 filing. The revisions to Rider VBA which
1156 accomplishes these proposed changes are reflected in NS Ex. 12.1, Rider VBA. In
1157 addition to resetting the baseline RCM per Customer and Rate Case Customers, the
1158 Percentage of Fixed Costs will be set at 100% to reflect North Shore's test year costs,
1159 which are all fixed.

1160 F. **Rider UEA-GC, Uncollectible Expense Adjustment- Gas Costs**

1161 Q. Why is North Shore proposing Rider UEA-GC?

1162 A. As discussed previously, North Shore is proposing Rider UEA-GC to comply with a
1163 Stipulation in Docket Nos. 09-0419/09-0420(cons.).

1164 Q. What is the purpose of Rider UEA-GC?

1165 A. The purpose of Rider UEA-GC is to recover Account No. 904 gas cost related
1166 Uncollectible Accounts expenses through a factor that will be applied to customer bills
1167 rather than through base rates. Rider UEA-GC will apply a service class specific,
1168 Commission approved, factor to the gas charge portion of sales customers' bills.

1169 Q. Please explain how North Shore's proposed Rider UEA-GC will operate.

1170 A. Rider UEA-GC will be applicable to S.C. Nos. 1 and 2 as Account 904 Uncollectible
1171 Accounts expenses have been allocated to these service classifications. The factors
1172 applied to the gas charge portion of sales customers' bills are derived from the allocation
1173 Account 904 Uncollectible Accounts expense for each service classification in North
1174 Shore's ECOSS. The applicable Uncollectible Factor for each service classification is
1175 shown on NS Ex. 12.12 (column H). Under North Shore's proposal, a factor of 0.70% or
1176 .0070 will be applied to the gas charge portion of S.C. No. 1 customers' bills. A factor of
1177 0.72% or .0072 will be applied to the gas charge portion of S.C. No. 2 customers' bills.

1178 Q. Are the revenues that would be recovered through Rider UEA-GC reflected in North
1179 Shore's revenue requirement?

1180 A. Yes. If the Commission were to approve Rider UEA-GC, amounts that would be
1181 recovered under the rider would need to be removed from North Shore's revenue

1182 requirement. As discussed previously, this would amount to about \$1.026 million under
1183 proposed rates.

1184 Q. When will Rider UEA-GC become effective?

1185 A. Adjustments under Rider UEA-GC will become effective when North Shore's proposed
1186 rates go into effect.

1187 **G. Rider UEA – Uncollectible Expense Adjustment**

1188 Q. Please explain how North Shore's proposed Rider UEA-GC would affect Rider UEA.

1189 A. Rider UEA was approved by the Commission in Docket Nos. 09-0419/09-0420 (cons.) to
1190 recover or refund incremental Account 904 Uncollectible Accounts expense amounts
1191 reflected in North Shore's approved base rates. Rider UEA includes three adjustments
1192 that are billed to customers that refund or recover incremental Account 904 Uncollectible
1193 Accounts expense amounts. One of the adjustments, the ISUA (Incremental Supply
1194 Uncollectible Amount) recovers or refunds incremental gas cost related Account 904
1195 Uncollectible Accounts expense amounts. Accordingly, North Shore has revised Rider
1196 UEA to ensure that there is no double counting of gas cost related Account 904
1197 Uncollectible Accounts expenses recovered through this adjustment and through Rider
1198 UEA-GC.

1199 Q. Please describe North Shore's proposed revisions to Rider UEA arising from its proposed
1200 Rider UEA-GC.

1201 A. Rider UEA determines incremental adjustments (refunds or recoveries) based on
1202 differences between the actual Account 904 Uncollectible Accounts expense amount
1203 reported in Form 21 for the previous reporting year and the Account 904 Uncollectible

1204 Accounts expense amounts in base rates. As Rider UEA will need to determine
1205 adjustments for the previous reporting year when Rider UEA-GC goes into effect in
1206 2012, North Shore proposes to make general revisions to the rider so that it will continue
1207 to provide appropriate tariff language for the adjustments which will become effective
1208 June 1, 2012, for the 2011 reporting year. Accordingly, North Shore is proposing
1209 language in Sections A and B of the rider to indicate that effective June 1, 2013, the
1210 ISUA will no longer be calculated under the rider. North Shore is also proposing
1211 language under Section B to specifically cite the amount in base rates that would be
1212 approved by the Commission in this proceeding (which presumably would exclude gas
1213 cost related Uncollectible Accounts expense amounts if Rider UEA-GC is approved).
1214 Lastly, North Shore is proposing language in Section C which redefines “BRR” or “Total
1215 Base Rate Revenues” so that it will exclude those revenues recovered under Rider UEA-
1216 GC, and eliminating Section J in its entirety as it is no longer needed.

1217 Q. Is North Shore proposing any other revisions to Rider UEA?

1218 A. Yes. North Shore is also proposing to eliminate the ITUA, which recovers or refunds
1219 incremental Account 904 Uncollectible Accounts expense amounts related to
1220 transportation service. North Shore is proposing changes in Sections A and B of Rider
1221 UEA to indicate the termination of the ITUA effective June 1, 2013.

1222 Q. Why is North Shore proposing to eliminate the ITUA?

1223 A. As explained previously, many transportation accounts are aggregated into pools where
1224 credit assurances are provided to North Shore. As any uncollectible amounts would be
1225 minimal, North Shore is proposing to eliminate the ITUA.

1226 X. **TEST YEAR REVENUES**

1227 Q. Please describe any matters affecting North Shore's test year revenues.

1228 A. North Shore's test year revenues include revenues arising from each of its service
1229 classifications. While the base rate revenues included for S.C. No. 4, Contract Service to
1230 Prevent Bypass, is \$196,000, it should be \$647,000. Although the rates for this service
1231 classification are not subject to change in this proceeding, the understated revenues has
1232 overstated North Shore's requested increase by about \$451,000 (\$647,000 - \$196,000)
1233 and does not fully reflect the amount that should be credited to customers in North
1234 Shore's ECOSS. Accordingly, this will be reflected in updates in North Shore's rebuttal
1235 testimony.

1236 Q. Does this conclude your direct testimony?

1237 A. Yes, it does.