

DIRECT TESTIMONY

of

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Proposed General Increase in Natural Gas Rates

North Shore Gas Company

The Peoples Gas Light and Coke Company

Docket Nos. 11-0280 and 11-0281 (Consolidated)

June 15, 2011

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

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

4

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

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

11

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

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

14

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

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

18

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

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

23 2000.

24

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

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

28

29 **Q. What is the purpose of your testimony?**

30 A. The purpose of my testimony is to present my analysis of the cost of service and  
31 rate design proposals of North Shore Gas Company ("North Shore") and The  
32 Peoples Gas Light and Coke Company ("Peoples Gas") (individually, the  
33 "Company" and collectively, the "Companies") for natural gas service. My  
34 testimony also addresses the uniform numbering of service classifications, bill  
35 impacts and the Companies' proposed changes to the Terms and Conditions of  
36 the Companies' tariffs.

37

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

39 A. No.

40

41 I. Uniform Numbering of Service Classifications

42

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

44 A. North Shore and Peoples Gas have very similar customer classes, but the

45 Companies have different service classification numbers (“S.C. Nos.”) to identify  
46 some of the customer classes, which are shown in Table 1 below. In Docket  
47 Nos. 09-0166 and 09-0167 (“Companies’ 2009 rate case”), Staff recommended  
48 that to limit confusion for customers with accounts in both service territories, and  
49 to simplify the ratemaking process, it would be beneficial for the Companies to  
50 adopt a uniform set of S.C. Nos. In the Commission’s Final Order at p. 211 of  
51 the Companies’ 2009 rate case, the Commission accepted the Companies’  
52 proposal to assess their customer information systems to determine if they could  
53 implement uniform numbering of their service classifications.

54

55 Table 1 below shows the Companies current service classifications.

56

Table 1

<b>Service Classification</b>	<b>Current North Shore S.C. No.</b>	<b>Current Peoples Gas S.C. No.</b>
<b>Small Residential Service</b>	1	1
<b>General Service</b>	2	2
<b>Large Volume Demand Service</b>	3	4
<b>Contract Service to Prevent Bypass</b>	4	7
<b>Standby Service</b>	5	6
<b>Contract Service for Electric Generation</b>	6	5
<b>Compressed Natural Gas Service</b>	N/A	8

57

58 **Q. Did the Companies propose changing to a uniform set of S.C. Nos. in these**

59           **dockets?**

60    A.    No. Companies' witness Valerie H. Grace states that the Companies determined  
61           that changes would need to be made to its customer information systems for  
62           billing, bill print and data management, as well as changes to its accounting  
63           system, sales and revenue forecasting models and to interfaces linking data  
64           between all of these systems. (NS Ex. 12.0, p. 28 and PGL Ex. 12.0, p. 31)

65  
66           Companies' witness Grace also provides information that indicates that if  
67           uniformity were established, that it may not be sustainable for both Companies  
68           on a going-forward basis due to future tariff changes. The Companies' have  
69           determined that the time and expense necessary to make this change cannot be  
70           justified and therefore, the Companies do not propose to change to a uniform set  
71           of S.C. Nos. (NS Ex. 12.0, pp. 28 - 29 and PGL Ex. 12.0, p. 31)

72  
73    **Q.    Do you recommend that the Companies provide uniform numbering of their**  
74           **service classifications in their tariffs?**

75    A.    No. I accept that the Companies have reviewed the issue and found that uniform  
76           numbering of the S.C. Nos. is not feasible at this time.

77  
78           However, I recommend that the Commission order the Companies to analyze  
79           implementing uniform numbers in future rate cases. If changes or upgrades are

80 made to the previously listed systems, this issue could be incorporated at the  
81 time of change, thereby limiting the time and expense of the change. This  
82 change could limit the confusion for customers with accounts in both service  
83 territories and would simplify the ratemaking process as discussed in the  
84 Commission's Final Order in the Companies' last rate case. (Docket Nos. 09-  
85 0166/0167 (Cons.), Order, January 21, 2010, p. 210)

86

87 II. Cost of Service ("COS") Study

88

89 **Q. Did the Companies provide a COS Study with their filings?**

90 A. Yes. The Companies have filed COS Studies which are presented as Schedule  
91 E-6 for each Company.

92

93 **Q. Please provide a brief description of the Companies' COS Studies.**

94 A. The Companies' COS Studies show the distribution of revenue responsibility, by  
95 customer class, necessary to achieve equalized rates of return on investment for  
96 the Companies' proposed revenue requirements. The COS Studies identify the  
97 revenues, costs and profitability for each class of service and are the partial basis  
98 for the Companies' proposed rate design. Generally, the Companies prepared  
99 the COS Studies utilizing three major steps: (1) cost functionalization; (2) cost  
100 classification; and (3) cost allocation of all the costs of the utility's system to  
101 customer classes. (NS Ex. 13.0, pp. 2, 6 – 7 and PGL Ex. 13.0, pp. 2, 6 - 7)

102

103 **Q. Are there variations in these consolidated dockets from the allocations in**  
104 **the COS Studies in the Companies' 2009 rate case?**

105 A. Yes. There are several variations between the dockets. For example,  
106 Companies' witness Joylyn C. Hoffman Malueg discusses in her testimony that  
107 the Companies' propose to eliminate the Selected Standby Service customer  
108 class. Therefore, the Selected Standby Percentage ("SSP") will not be weighted  
109 against coincident peak demand for the allocation of production costs. (NS Ex.  
110 13.0, pp. 15 - 16 and PGL Ex. 13.0, p. 16) This and other variations in the COS  
111 Studies are related to transportation issues and they will be discussed by Staff  
112 witness David Sackett.

113

114 **Q. Does Peoples Gas use the COS Study to determine the proposed rates in a**  
115 **different way than North Shore for S.C. Nos. 1 and 2?**

116 A. Yes. The North Shore COS Study provides the cost basis for setting the service  
117 class rates at the cost to provide service. North Shore has set all of its service  
118 classifications at the cost to provide the service since its rate case in Docket No.  
119 91-0010. (NS Ex. 12.0, pp. 8 – 9)

120

121 However, the Peoples Gas COS Study provides the cost basis for determining  
122 the revenue requirement for the Small Residential and General Service classes

123 using the Equal Percentage of Embedded Cost Method (“EPECM”) to balance  
124 the rates for S.C. No. 1 to move toward cost against the rates of S.C. No. 2  
125 customers. (PGL Ex. 12.0, p. 9)

126

127 **Q. What is EPECM?**

128 A. Peoples Gas uses EPECM to proportionally allocate the Company’s proposed  
129 revenue requirement changes to the Small Residential and General Service  
130 classes. Peoples Gas has used EPECM in its last four rate cases, Docket Nos.  
131 91-0586, 95-0032, 07-0242 and 09-0167, and the Commission has approved its  
132 use to set revenue requirements for these two customer classes. (PGL Ex. 12.0,  
133 p. 9) The EPECM provides a gradual increase toward the cost to provide service  
134 for the Small Residential class by balancing the increase with the General  
135 Service class.

136

137 **Q. Do you recommend that Peoples Gas allocate the Company’s proposed**  
138 **revenue requirement changes using EPECM?**

139 A. Yes. I believe that the use of EPECM is appropriate for Peoples Gas.  
140 Proportionally allocating the changes over the two classes helps to mitigate the  
141 bill impact on Small Residential customers. Company witness Grace states that  
142 S.C. No. 1 has moved from 89.9% of cost in Docket No. 95-0032 to the proposed  
143 98.6% of cost in this docket over the last few rate cases. She also states that

144 the Companies' proposal would set S.C. No. 2 at 103.3% of cost. (PGL Ex. 12.0,  
145 p. 10)

146

147 **Q. What do you conclude from your review of the COS Studies for both**  
148 **Companies?**

149 A. I conclude the Companies' embedded COS Studies to be an acceptable  
150 guidance tool for setting rates in this case. The same methodologies were used  
151 in the Companies' 2009 rate case and the Commission approved their use.

152

153 III. Rate Design

154

155 **Q. What is the Companies' proposal for designing rates in this docket?**

156 A. The Companies state in direct testimony that they are proposing to recover a  
157 greater portion of fixed costs through fixed charges, which do not vary with the  
158 volume of gas delivered to customers. (NS Ex. 13.0, pp. 9 - 10 and PGL Ex.  
159 13.0, p. 11) The Companies do not propose to change the current rate structure.

160 I will discuss the various changes to the rates in each service classification as  
161 proposed by the Companies throughout my direct testimony.

162

163 A. S.C. No. 1 – Small Residential Service

164

165 **Q. Please discuss S.C. No. 1.**

166 A. The S.C. No. 1 rate structure consists of a monthly customer charge and a two

167 block distribution charge for customers that take service through a single meter  
168 for one or two dwelling units only. The first distribution charge block is for the  
169 first 50 therms of gas used each month by a customer and the second  
170 distribution charge block is for any use over 50 therms of gas a month. S.C. No.  
171 1 has sales customers who take service solely under this service classification  
172 and transportation customers that take service under this classification and under  
173 Rider CFY (Choices For You transportation service). (North Shore Schedule E-  
174 1, p. 5 and Peoples Gas Schedule E-1, p. 5)

175

176 **Q. Please discuss the changes that the Companies propose for S.C. No. 1.**

177 A. The Companies are proposing an increase to the monthly customer charges for  
178 sales and transportation customers and the Companies propose a decrease to  
179 the distribution charges for each of the two blocks. (NS Ex. 13.0, p. 11 and PGL  
180 Ex. 13.0, p. 12) The Companies' do not propose to change the current rate  
181 structure.

182

183 **Q. What percentage of fixed costs do the Companies propose to recover in  
184 their monthly customer charges?**

185 A. North Shore states that it proposes to recover about 67% of its fixed costs  
186 through fixed charges. This proposal is an increase from the current 55%  
187 recovery under present rates. (NS Ex. 12.0, p. 10)

188

189 Peoples Gas states that it proposes to recover about 55% of its fixed costs  
190 through fixed charges. This proposal is an increase from the current 49%  
191 recovery under present rates. (PGL Ex. 12.0, pp. 11 - 12)

192

193 **Q. Do you agree with the Companies' proposal to recover more fixed costs in**  
194 **their respective monthly customer charges?**

195 A. Yes. In the Companies' 2009 rate case Staff recommended maintaining the  
196 same percentage of fixed costs recovered in the monthly customer charges  
197 through the duration of the pilot program for Rider VBA (Volume Balancing  
198 Adjustment). However, the Commission concluded in its Final Order that a slight  
199 increase proposed by the Companies will be a benefit in the long run as stated in  
200 the Final Order of the Companies' 2009 rate case. (Docket Nos. 09-0166/09-  
201 0167 (Cons.), Order, January 21, 2010, pp. 217 - 218)

202

203 The Commission also stated in its Final Order in the Companies' 2009 rate case  
204 that:

205 "The Utilities are correct that the Commission has been increasing  
206 the proportion of fixed costs recovered through the customer  
207 charge in other proceedings. See *Nicor 2008; In re Central Illinois*  
208 *Light Co., Central Illinois Public Serv. Co. and Illinois Power Co.*,  
209 *Dockets 07-0588/07-0589/07-0590 (Consol.) (Order, Sept. 24,*  
210 *2008). The Commission notes that the Utilities' proposal does not*  
211 *approach the level of fixed costs approved in those dockets."*  
212 *(Docket Nos. 09-0166/09-0167 (Cons.), Order, January 21, 2010,*

213 p. 218)  
214  
215 I conclude that the Companies' current proposal to recover 67% of fixed costs for  
216 North Shore and 55% of fixed costs for Peoples Gas is consistent with the above  
217 ruling by the Commission.

218

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

220 A. I recommend that the Companies' proposal to increase the customer charges for  
221 the sales and transportation customers to recover 67% of fixed costs for North  
222 Shore and 55% of fixed costs for Peoples Gas be approved. However, the final  
223 customer charges should be based on the approved revenue requirement for the  
224 Companies in the Commission's Final Order.

225

226 **Q. Do you accept the Companies' proposal to maintain the current structure**  
227 **of the S.C. No. 1 distribution charges?**

228 A. Yes. As part of its filings in these dockets, the Companies have proposed that  
229 the implementation of Rider VBA be made permanent after the four year trial  
230 period is complete which coincides with the implementation of final rates from the  
231 Final Order in these dockets. In addition, Staff witness David Brightwell  
232 discusses Straight Fixed Variable ("SFV") rates as a possible alternative to Rider  
233 VBA. Due to the uncertainty as to whether the Commission will adopt a  
234 permanent Rider VBA or an SFV rate design in this docket, a decision that will

235 have an impact on the distribution charge, leaving the distribution charge  
236 structure unchanged at this time is desirable.

237

238 **Q. If the Commission approves a permanent Rider VBA, will the resulting rate**  
239 **structure differ from the Companies' proposals?**

240 A. No. The Companies' proposals in these dockets are based on the assumption  
241 that the Commission approves a permanent Rider VBA. I recommend  
242 maintaining the current rate structure of a monthly customer charge and two  
243 block distribution charges if a permanent Rider VBA is approved by the  
244 Commission in these dockets.

245

246 **Q. If the Commission approves an SFV rate design rather than a permanent**  
247 **Rider VBA, will the resulting rate structure differ from the Companies'**  
248 **current proposal?**

249 A. No. However, there could be a substantial change in the monthly customer  
250 charges and the distribution charges compared to current rates. An SFV rate  
251 design could be approved that would recover more fixed costs within the monthly  
252 customer charge rather than the 67% of fixed costs for North Shore and 55% of  
253 fixed costs for Peoples Gas proposed by the Companies. The higher the amount  
254 of fixed costs recovered through the monthly customer charge, the lower the  
255 resulting distribution charge would be. For this reason, I believe it is appropriate

256 to maintain the current two block rate structure for the distribution charges in  
257 these dockets at this time.

258

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

260 A. I recommend that the Companies' proposal to decrease the distribution charges  
261 for the sales and transportation customers be approved. However, the final  
262 distribution charges should be based on the approved revenue requirement for  
263 the Companies in the Commission's Final Order.

264

265 B. S.C. No. 2 – General Service

266

267 **Q. Please discuss S.C. No. 2.**

268 A. The S.C. No. 2 rate structure consists of three monthly customer charges based  
269 on meter class. The first meter class includes customers who have a maximum  
270 capacity of up to 700 cubic feet per hour through the meter. The second meter  
271 class includes customers with a capacity over 700 and no more than 2,300 cubic  
272 feet per hour and the third meter class includes customers who have over 2,300  
273 cubic feet per hour capacity. S.C. No. 2 also has a three block distribution  
274 charge for customers that consume an average (over a two-year period) of  
275 41,000 therms of gas per month or less. The first distribution charge block is for  
276 the first 100 therms of gas used each month by a customer. The second  
277 distribution charge block is for the next 2,900 therms of gas used each month

278 and the third distribution charge block is for any usage over 3,000 therms of gas  
279 per month. S.C. No. 2 has sales customers who take service solely under this  
280 service classification and transportation customers that take service under this  
281 classification and under Rider CFY (Choices For You transportation service),  
282 Rider FST (Full Standby transportation service), Rider FST-T (Full Standby  
283 transportation service - Transition), Rider SBS (Storage Banking Service), or  
284 Rider SST (Selected Standby Transportation service). (North Shore Schedule E-  
285 1, p. 6 and Peoples Gas Schedule E-1, p. 6)

286

287 **Q. Please discuss the changes that the Companies propose to S.C. No. 2.**

288 A. The Companies are proposing an increase to the monthly customer charges for  
289 sales and transportation customers to recover more fixed costs in the monthly  
290 customer charges while moving the distribution charges for all three meter  
291 classes closer to the results of the COS Studies. (NS Ex. 13.0, p. 18 and PGL  
292 Ex. 13.0, p. 20) The Companies do not propose to change the current rate  
293 structure.

294

295 North Shore is proposing to decrease the first and second distribution blocks and  
296 increase the third block for the distribution charges for sales and transportation  
297 customers to better align revenues with underlying costs. (NS Ex. 12.0, pp. 9,  
298 11)

299

300 Peoples Gas is proposing to increase the first block and decrease the second  
301 and third blocks for the distribution charges for sales and transportation  
302 customers to better align revenues with underlying costs. (PGL Ex. 12.0, pp. 11,  
303 13)

304

305 **Q. What do you recommend for the S.C. No. 2 monthly customer charge?**

306 A. I recommend that the Companies' proposal to increase the customer  
307 charges for the sales and transportation customers to recover 67% of  
308 fixed costs for North Shore and 55% of fixed costs for Peoples Gas be  
309 approved. The previous discussion from S.C. No. 1 applies to S.C. No. 2,  
310 which is that the Commission considers an increase in the fixed cost  
311 recovery through the fixed charge to be a benefit in the long run as stated  
312 in its Final Order of the Companies' 2009 rate case. (Docket Nos. 09-  
313 0166/09-0167 (Cons.), Order, January 21, 2010, pp. 217 – 218)

314

315 However, the final monthly customer charges should be based on the  
316 approved revenue requirement for the Companies in the Commission's  
317 Final Order.

318

319 **Q. What do you recommend for the S.C. No. 2 distribution charges?**

320 A. I recommend that the Companies' proposals to change the distribution charges  
321 for the sales and transportation customers be approved. The changes will move  
322 the distribution charges closer to the cost to provide the service. However, the  
323 distribution charges should be based on the approved revenue requirement for  
324 the Companies in the Commission's Final Order.

325  
326 As I stated above, due to the uncertainty as to whether the Commission will  
327 adopt a permanent Rider VBA or switch to an SFV rate design in this docket,  
328 leaving the distribution charge structure unchanged is desirable at this time  
329 because of the possible bill impacts the Final Order's decision on this issue could  
330 have on the distribution charges is unknown at this time.

331  
332 C. North Shore S.C. No. 3 – Large Volume Demand Service  
333 Peoples Gas S.C. No. 4 – Large Volume Demand Service  
334

335 **Q. Please discuss the Large Volume Demand Service class.**

336 A. The Large Volume Demand Service class rate structure consists of a monthly  
337 customer charge, a demand charge, and a distribution charge. The Large  
338 Volume Demand Service is available to customers that consume an average  
339 (over a two-year period) of over 41,000 therms of gas per month. (North Shore  
340 Schedule E-1, p. 8 and Peoples Gas Schedule E-1, p. 8)

341  
342 **Q. Please discuss the Companies' proposal for the Large Volume Demand**

343 **Service class.**

344 A. The Companies propose to set the monthly customer charge at the cost to  
345 provide the service which will result in a reduction from the current rate in each of  
346 these service classifications. The Companies propose to increase the  
347 distribution charge and they propose to eliminate the monthly standby service  
348 charge – per standby demand term and recover the cost through a new charge  
349 under Rider SSC (Storage Service Charge). (NS Ex. 12.0, p. 20 and PGL Ex.  
350 12.0, p. 22) Staff witness David Sackett, will discuss Rider SSC. The  
351 Companies do not propose to change the current rate structure.

352

353 **Q. Do you recommend approval of the Companies' proposal to set the**  
354 **monthly customer charge at the cost to provide the service for the Large**  
355 **Volume Demand Service customers?**

356 A. Yes. The Companies' proposal will maintain the monthly customer charges at  
357 the cost to provide service. A cost-based rate will send the proper price signals  
358 to customers. Sending proper price signals is especially important in a  
359 competitive environment, where customers can choose their commodity supplier.

360

361 **Q. Do you recommend approval of the Companies' proposal to eliminate the**  
362 **standby service charge for the Large Volume Demand Service customers?**

363 A. Yes, if the Commission approves Rider SSC as recommended by Staff witness

364 Sackett. Mr. Sackett recommends that the costs recovered in the standby  
365 service charge be instead recovered from Rider SSC. If his recommendation is  
366 adopted, that would render the standby service charge moot.

367

368 **Q. Do you recommend approval of the Companies' proposed distribution**  
369 **charge for the Large Volume Demand Service customers?**

370 A. Yes. I believe it is appropriate to set all components of this class at the rates that  
371 will recover the cost of providing service to the Large Volume Demand Service  
372 customers.

373

374 D. Peoples Gas S.C. No. 8 – Compressed Natural Gas Service

375

376 **Q. Please discuss S.C. No. 8.**

377 A. The Compressed Natural Gas Service class rates consist of a monthly customer  
378 charge and a distribution charge. S.C. No. 8 is available to any customer that  
379 uses gas only as compressed natural gas to fuel a vehicle. (Peoples Gas  
380 ILL.C.C. No. 28, p. 16)

381

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

383 A. Peoples Gas proposes to increase the monthly customer charge by 2% and  
384 increase the distribution charge by 13% for S.C. No. 8. The Company proposes  
385 to set this service classification at the cost to provide service as was done in the

386 Companies' 2009 rate case. (PGL Ex. 12.0, p. 23)

387

388 **Q. Do you recommend approval of Peoples Gas' proposal to increase the**  
389 **monthly customer charge by 2% and increase the distribution charge by**  
390 **13%?**

391 A. Yes. Setting S.C. No. 8 at the cost to provide service is appropriate since it will  
392 recover the cost of providing service to the Compressed Natural Gas Service  
393 customers.

394

395 **Q. Did you adjust the Companies' proposed rate design?**

396 A. No. I accept the Companies' proposed rate design. However, the final rates in  
397 these dockets should be based on the approved revenue requirement for the  
398 Companies in the Commission's Final Order.

399

400 IV. Summary of Rate Design Recommendations

401

402 **Q. Please summarize your rate design recommendations.**

403 A. I recommend that the Commission order the Companies to analyze the possibility  
404 of setting uniform numbers for its service classification in future rate cases.

405

406 I recommend that the Commission approve the Companies' COS Studies as an  
407 acceptable guidance tool for setting rates in this case.

408

409 I recommend approval of the EPECM for Peoples Gas S.C. Nos. 1 and 2.

410

411 I recommend approval of the Companies' proposal to eliminate the monthly  
412 standby service charge as long as the Commission approves Rider SSC.

413

414 I recommend that the Companies' proposal to increase the fixed cost recovery  
415 through fixed charges be approved for the Small Residential and General Service  
416 classes.

417

418 I recommend that the Companies' proposal to decrease the distribution charge  
419 for each of the two blocks be approved for the Small Residential class.

420

421 I recommend that North Shore's proposal to decrease the first and second block  
422 of the distribution charges and to increase to the third block of the distribution  
423 charges be approved for the General Service class.

424

425 I recommend that Peoples Gas' proposal to increase the first block and to  
426 decrease the second and third block of the distribution charges be approved for  
427 the General Service class.

428

429 I recommend that the Companies' proposal to set the monthly customer charges  
430 and distribution charges at cost for the Large Volume Demand Service class be  
431 approved.

432  
433 I recommend that Peoples Gas' proposal to increase the monthly customer  
434 charge and the distribution charge be approved for the Compressed Natural Gas  
435 Service class.

436

437 V. Bill Impacts

438

439 **Q. Did you review the Companies' Schedule E-9 Bill Comparisons?**

440 A. Yes. The Companies' Schedule E-9 computes bill comparisons under the  
441 present rates and the rates as proposed by the Companies. Comparisons are  
442 shown for sales customers who take service solely under one service  
443 classification and also for transportation customers that take service under one  
444 classification as well as under a rider, such as Rider CFY as was previously  
445 discussed in my testimony.

446

447 North Shore's Schedule E-9 shows a 38% increase for residential sales  
448 customers (30% for transportation customers) on a monthly bill for a customer  
449 with no usage. However, a residential customer with an average usage of 1,000  
450 therms of gas per month would have a decrease of (-1%) for both sales and

451 transportation customers.

452

453 Peoples Gas' Schedule E-9 shows a 40% increase for residential sales  
454 customers (39% for transportation customers) on the monthly bill for a customer  
455 with no usage. However, a residential sales customer with the average usage of  
456 1,000 therms of gas per month would have an increase of 4% (3% for a  
457 transportation customer).

458

459 **Q. Does the typical bill comparison schedule show that customers may**  
460 **experience rate shock?**

461 A. Yes. Based on the percent increases for a customer with no usage, it appears  
462 that customers may experience rate shock under the Companies' proposal to  
463 recover a greater portion of fixed costs through fixed charges. However, a North  
464 Shore customer with average usage would see a slight decrease and a Peoples  
465 Gas customer with average usage would see a small percentage increase to  
466 their monthly bill.

467

468 **Q. Please explain the concept of "rate shock."**

469 A. Rate shock occurs when a customer purchasing a commodity, such as gas, must  
470 pay a significantly higher amount for comparable service. While customers  
471 generally do not expect prices to remain unchanged forever, they also typically

472 do not expect an abrupt and extreme change in prices that could cause them  
473 significant financial distress.

474

475 **Q. What are your conclusions after your review of Schedule E-9 of each**  
476 **Company?**

477 A. I conclude that the bill impacts generally result in higher percentage increases for  
478 customers with little or no usage than customers with an average usage of 1,000  
479 therms of gas. The larger percentage increases for less usage reflect the  
480 Companies proposal to recover a greater portion of fixed costs through fixed  
481 charges.

482

483 **Q. How will Staff's proposed revenue requirement change the bill impacts?**

484 A. Staff's recommended revenue requirement is lower than the Companies'  
485 proposed revenue requirement and therefore will produce smaller bill increases.

486

487 **Q. What do you conclude in regards to bill impacts on customers?**

488 A. I conclude that the Companies' and Staff's revenue requirements will not produce  
489 undue bill impacts for the average residential ratepayers.

490

491 VI. Tariffs

492

493 **Q. Are there any charges that the Companies propose to change in the Terms**

494 **and Conditions of Service section of the tariffs?**

495 A. Yes. The Companies proposes to change the Service Activation Charges and  
496 the Service Reconnection Charges. (NS Ex. 13.0, p. 27 and PGL Ex. 13.0, p. 30)

497

498 **Q. Do the Companies provide an explanation for the proposed increases to**  
499 **these charges?**

500 A. Yes. In response to Staff Data Requests ENG 1.04 and ENG 1.06 the  
501 Companies state that in the Final Order in the Companies' 2009 rate case the  
502 Commission found that the Companies should continue, in future rate cases, to  
503 move these charges steadily closer to cost. (Docket Nos. 09-0166/09-0167  
504 (Cons.), Order, January 21, 2010, p. 227) The Companies further state in the  
505 responses that the proposed increases are limited to approximately 20% – 25%  
506 over the current charges to address the Commission's directive in the Final  
507 Order. I will further discuss each of the Companies' proposed changes below.

508

509 A. Service Activation Charges

510

511 **Q. Please describe the Service Activation Charges.**

512 A. There are three categories of Service Activation Charges. All of them recover a  
513 portion of costs relating to starting gas service at a premise and apply to  
514 customers moving into or within the Companies' service territories. (NS Ex. 13.0,  
515 pp. 21 – 22 and PGL Ex. 13.0, p. 24)

516

517 The first category is referred to as a succession turn-on. A succession turn-on  
518 occurs when one customer discontinues service concurrently with a new  
519 customer that moves into the same premises and requests gas service. In this  
520 instance, meter readings are simply recorded for the outgoing and incoming  
521 customers. (NS Ex. 13.0, pp. 21 – 22 and PGL Ex. 13.0, p. 24)

522

523 The second category is referred to as a straight turn-on. A straight turn-on  
524 occurs when a customer requests service at a location which previously never  
525 had service or a prior customer has cancelled service some time before new  
526 service is requested. In this instance, gas service is turned on and pilot lights are  
527 relit on appliances. (NS Ex. 13.0, p. 22 and PGL Ex. 13.0, p. 24)

528

529 The third category is an additional charge to the straight turn-on for relighting  
530 more than four (4) gas appliances during a straight turn-on. (NS Schedule E-2,  
531 p. 18 and PGL Schedule E-2, p. 16)

532

533 B. North Shore Succession Turn-on

534

535 **Q. Please discuss North Shore's proposal for a succession turn-on.**

536 A. North Shore is proposing to increase the charge for a succession turn-on from  
537 \$16.50 to \$20.00, or a 21% increase. (NS Schedule E-2, p. 18) North Shore

538 provided documentation for this proposed change in NS Ex. 12.9.

539

540 NS Ex. 12.9, line 1, column [J], indicates that the cost of this service is \$26.77.

541 Under the Company's proposal of \$20.00, North Shore would recover 75% of its

542 current cost of service, which is less than the 100% cost recovery that was

543 approved in the Companies' 2009 rate case. The cost for this service has

544 increased by 63% since the Companies' 2009 rate case.

545

546 **Q. Is it reasonable to recommend that a utility recover less than 100% of its**  
547 **cost of service even though the charge may have previously been set to**  
548 **recover its full cost?**

549 A. Yes. I believe it may cause rate shock if the charge were to be set to recover  
550 100% of the cost of the service which would result in a 63% increase. I believe  
551 that gradually increasing this charge to full cost of service recovery is appropriate  
552 at this time.

553

554 **Q. Do you recommend that North Shore's proposal to set the charge for a**  
555 **succession turn-on at \$20 be approved?**

556 A. Yes. The proposed increase is between 20% - 25% over the current charge for  
557 this service. After reviewing the documentation (NS Ex. 12.9) that the Company  
558 has provided, I find the Company's support to be an acceptable basis for the

559 charge and I recommend that the Service Activation Charge for a succession  
560 turn-on be set at \$20.

561

562 C. Peoples Gas Succession Turn-on

563

564 **Q. Please discuss Peoples Gas' proposal for a succession turn-on.**

565 A. Peoples Gas is proposing to increase the charge for a succession turn-on from  
566 \$15 to \$18, or a 20% increase. (PGL Schedule E-2, p. 16) Peoples Gas  
567 provided documentation for this proposed change in PGL Ex. 12.9.

568

569 PGL Ex. 12.9, line 1, column [J], indicates that the cost of this service is \$21.50.  
570 Under the Company's proposal of \$18, Peoples Gas would recover 93% of its  
571 current cost of service, which is less than the 97% cost recovery that was  
572 approved in the Companies' 2009 rate case. The cost for this service has  
573 increased by 39% since the Companies' 2009 rate case.

574

575 **Q. Is it reasonable to recommend that a utility recover less than 100% of its**  
576 **cost of service even though the charge may have previously been set to**  
577 **recover closer to its full cost?**

578 A. Yes. In my review of this charge I believe it may cause rate shock if the charge  
579 were to be set to recover 100% of the cost of the service which would result in a  
580 43% increase. I believe that gradually increasing this charge to get closer to full

581 cost of service recovery is appropriate at this time.

582

583 **Q. Do you recommend that Peoples Gas' proposal to set the charge for a**  
584 **succession turn-on at \$18 be approved?**

585 A. Yes. Peoples Gas' proposed increase is between 20% - 25% over the current  
586 charge for this service. Bringing this charge to full cost of service for Peoples  
587 Gas would result in a 43% increase, which may be considered rate shock. After  
588 reviewing the documentation (PGL Ex. 12.9) that the Company has provided, I  
589 find the Company's support to be an acceptable basis for the charge and I  
590 recommend that the Service Activation Charge for a succession turn-on be set at  
591 \$18.

592

593 D. North Shore Straight Turn-on

594

595 **Q. Please discuss North Shore's proposal for a straight turn-on.**

596 A. North Shore is proposing to increase the charge for a straight turn-on from \$35 to  
597 \$42, or a 20% increase. (NS Schedule E-2, p. 18) North Shore provided  
598 documentation for this proposed change in NS Ex. 12.9.

599

600 NS Ex. 12.9, line 2, column [J], indicates that the cost of this service is \$64.38.

601 Under the Company's proposal of \$42, North Shore would recover 65% of its

602 current cost of service, which is less than the 80% cost recovery that was

603 approved in the Companies' 2009 rate case. The cost for this service has

604 increased by 84% since the Companies' 2009 rate case.

605

606 **Q. Is it reasonable to recommend that a utility recover less than its cost of**  
607 **service even though the charge may have previously been set to recover**  
608 **more of its full cost?**

609 A. Yes. The Company's proposal to increase this charge by only 20% results in  
610 less than 80% in cost recovery. In my review of this charge I believe that it would  
611 cause rate shock if the charge were to be set closer to the cost of the service  
612 which would result in an 84% increase.

613

614 **Q. Do you recommend that North Shore's proposal to set the Straight Turn-on**  
615 **at \$42 be approved?**

616 A. Yes. The proposed increase is between 20% - 25% over the current charge for  
617 this service. After reviewing the documentation (NS Ex. 12.9) that the Company  
618 has provided, I find the Company's support to be an acceptable basis for the  
619 charge and I recommend that the Service Activation Charge for a Straight Turn-  
620 on be set at \$42.

621

622 E. Peoples Gas Straight Turn-on

623

624 **Q. Please discuss Peoples Gas' proposal for the Straight Turn-on change.**

625 A. Peoples Gas is proposing to increase the Straight Turn-on from \$25 to \$30, or a

626 20% increase. (PGL Schedule E-2, p. 16) Peoples' Gas provided  
627 documentation for this proposed change in PGL Ex. 12.9.

628  
629 PGL Ex. 12.9, line 2, column [J], indicates that the cost of this service is \$58.93.  
630 Under the Company's proposal of \$30, Peoples Gas would recover 51% of its  
631 current cost of service, which is less than the 52% cost recovery that was  
632 approved in the Companies' 2009 rate case. The cost for this service has  
633 increased by 135% since the Companies' 2009 rate case.

634  
635 **Q. Do you recommend that Peoples Gas' proposal to set the Straight Turn-on**  
636 **at \$30 be approved?**

637 A. Yes. As I discussed above, this proposed increase is between 20% - 25% over  
638 the current charge for this service. Bringing this charge closer to full cost of  
639 service would result in an almost 200% increase, which would be considered rate  
640 shock. After reviewing the documentation (PGL Ex. 12.9) that the Company has  
641 provided, I find the Company's support to be an acceptable basis for the charge  
642 and I recommend that the Service Activation Charge for a straight turn-on be set  
643 at \$30.

644  
645 F. Relighting More Than Four (4) Appliances

646  
647 **Q. Are the Companies proposing a change in the charge for relighting more**

648 **than four (4) appliances?**

649 A. Yes. The Companies are proposing to increase the charge to relight more than  
650 four (4) appliances from \$5 to \$10 for both North Shore and Peoples Gas. (NS  
651 Schedule E-2, p. 18 and PGL Schedule E-2, p. 16) The documentation for this  
652 proposed change is in NS Ex. 12.9 and PGL Ex. 12.9.

653

654 **Q. Please discuss the Companies' proposal for relighting more than four (4)**  
655 **appliances.**

656 A. NS Ex. 12.9, line 3, column [J], indicates that the cost of this service is \$14.69  
657 and PGL Ex. 12.9, line 3, column [J], indicates that the cost of this service is  
658 \$15.27. Under the Companies' proposal of \$10, North Shore would recover 75%  
659 of its current cost of service and Peoples Gas would recover 65% of its current  
660 cost of service.

661

662 The proposed \$5 increase to \$10 is a 100% increase in the charge; however, this  
663 change will move the Companies closer to full cost recovery of this service. The  
664 percentage change is higher than the average proposed increase by the  
665 Companies, but the cost to provide the service has increased 200% since the  
666 Companies' 2009 rate case. Moreover, the nominal dollar increase is relatively  
667 low; therefore, for all of the above reasons the proposed increase is warranted  
668 for this charge.

669

670 **Q. Do you recommend that the Company's proposal to increase the charge to**  
671 **relight more than four (4) appliances be approved?**

672 A. Yes. I have reviewed the supporting documentation (NS Ex. 12.9 and PGL Ex.  
673 12.9) that the Company has provided. I find the Companies' support to be an  
674 acceptable basis for the changes and I recommend that the charge to relight  
675 more than four (4) appliances be set at \$10.

676

677 G. Service Reconnection Charges

678

679 **Q. Please describe the Service Reconnection Charges.**

680 A. Service Reconnection Charges are assessed to a customer whose gas was  
681 turned off for a variety of reasons. Each customer is entitled to a waiver of one  
682 Reconnection Charge in a 12-month period if the service is discontinued for non-  
683 payment except in a situation in which the customer requested disconnection and  
684 then wanted to be reconnected within 12 months or in a situation in which the  
685 service was disconnected at the main. There are three types of service  
686 reconnections following an involuntary disconnection for which the Companies  
687 currently charge customers: 1) basic reconnections which require only a meter  
688 turn-on; 2) reconnections which require installing a new meter to replace a meter  
689 that was removed ("reset" meter); and 3) reconnections that involve excavating at  
690 the main.

691

692 H. Basic Reconnection Charge

693

694 **Q. Are the Companies proposing an increase to the basic Reconnection**  
695 **Charge?**

696 A. Yes. The Companies propose to increase the basic Reconnection Charge from  
697 \$60 to \$75, a 25% increase. (NS Schedule E-2, p. 18 and PGL Schedule E-2, p.  
698 16) The Companies provided documentation for this proposed change in NS Ex.  
699 12.9 and PGL Ex. 12.9.

700

701 **Q. Please further discuss the Companies' proposal for the basic**  
702 **Reconnection Charge change.**

703 A. NS Ex. 12.9, line 8, column [J], indicates that the cost of this service is \$79.83  
704 and PGL Ex. 12.9, line 8, column [J], indicates that the cost of this service is  
705 \$83.67. Under the Companies' proposal of \$75, North Shore would recover 94%  
706 of its current cost of service and Peoples Gas would recover 90% of its current  
707 cost of service. The proposed changes would be an increase in the recovery of  
708 the cost of service from 91% for North Shore and from 76% for Peoples Gas.  
709 The proposed changes address the Commission directive in the Companies'  
710 2009 rate case to gradually move toward full cost recovery as previously  
711 discussed in my testimony. (Docket Nos. 09-0166/0167 (Cons.), Order, January  
712 21, 2010, p. 227)

713

714 **Q. Do you recommend that the Companies' proposed basic Reconnection**  
715 **Charge increase be approved?**

716 A. Yes. I have reviewed the supporting documentation (NS Ex. 12.9 and PGL Ex.  
717 12.9) that the Companies have provided. I find the information to be an  
718 acceptable basis for the changes and I recommend that the charge for the basic  
719 Reconnection Charge be set at \$75 for both North Shore and Peoples Gas. The  
720 same \$75 Reconnection Charge would also apply to any customer who requests  
721 service discontinuance and subsequently requests service reinstatement within  
722 12 months.

723

724 I. Reset Meter

725

726 **Q. Are the Companies proposing an increase to their Reconnection Charge**  
727 **when the meter has to be reset?**

728 A. Yes. The Companies are proposing to increase the charge from \$125 to \$150.  
729 (NS Schedule E-2, p. 18 and PGL Schedule E-2, p. 16) The Companies  
730 provided documentation for this proposed change in NS Ex. 12.9 and PGL Ex.  
731 12.9.

732

733 **Q. Please further discuss the Companies' proposal for the Reconnection**  
734 **Charge when the meter needs to be reset.**

735 A. NS Ex. 12.9, line 21, column [J], indicates the cost of this service is \$242.50 and

736 PGL Ex. 12.9, line 21, column [J], calculates the cost of this service is \$198.15.  
737 Under the Companies' proposal of \$150, North Shore would recover 62% of its  
738 current cost of service and Peoples Gas would recover 76% of its current cost of  
739 service. The proposed changes would be an increase in the recovery of the cost  
740 of service from 49% for North Shore and from 55% for Peoples Gas. The  
741 proposed changes address the Commission directive in the Companies' 2009  
742 rate case to gradually move toward full cost recovery as previously discussed in  
743 my testimony. (Docket Nos. 09-0166/0167 (Cons.), Order, January 21, 2010, p.  
744 227)

745

746 **Q. Do you recommend approval of the Companies' proposed Reconnection**  
747 **Charge increase when the meter has to be reset?**

748 A. Yes. I have reviewed the supporting documentation (NS Ex. 12.9 and PGL Ex.  
749 12.9) that the Companies have provided. I find the information to be an  
750 acceptable basis for the changes and I recommend that the Reconnection  
751 Charge, if the meter has to be reset, should be set at \$150 for both North Shore  
752 and Peoples Gas.

753

754 J. Reconnection Charge at the Gas Main

755

756 **Q. Are the Companies proposing an increase to the Reconnection Charge**  
757 **when service reconnection requires excavating at the main service pipe?**

758 A. Yes. The Companies are proposing to increase the charge from \$350 to \$425.  
759 (NS Schedule E-2, p. 18 and PGL Schedule E-2, p. 16)

760

761 **Q. Please further discuss the Companies' proposal for the Reconnection**  
762 **Charge at the gas main.**

763 A. NS Ex. 12.9, line 26, column [J], indicates that the cost of this service is  
764 \$1,463.91 and PGL Ex. 12.9, line 26, column [J], indicates that the cost of this  
765 service is \$2,280.15. Under the Companies' proposal of \$425, North Shore  
766 would recover 29% of its current cost of service and Peoples Gas would recover  
767 19% of its current cost of service. The proposed changes would be an increase  
768 in the recovery of the cost of service from 18% for North Shore and from 16% for  
769 Peoples Gas. The proposed changes address the Commission directive in the  
770 Companies' 2009 rate case to gradually move toward full cost recovery as  
771 previously discussed in my testimony. (Docket Nos. 09-0166/0167 (Cons.),  
772 Order, January 21, 2010, p. 227)

773

774 **Q. Do you recommend approval of the Companies' proposed Reconnection**  
775 **Charge increase at the gas main?**

776 A. Yes. I have reviewed the supporting documentation (NS Ex. 12.9 and PGL Ex.  
777 12.9) that the Companies have provided. I find the information to be an  
778 acceptable basis for the changes and I recommend that the Reconnection

779 Charge at the main should be set at \$425 for both North Shore and Peoples Gas.

780

781 VII. Summary of Tariff Recommendations

782

783 **Q. Please summarize your tariff-related recommendations.**

784 A. I recommend that the Commission approve all aspects of the Companies'  
785 proposals to increase the Service Activation Charges and the Reconnection  
786 Charges.

787

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

789 A. Yes, it does.