STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 11-0280
Proposed general increase in rates for gas service.	:	
	:	(cons.)
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	No. 11-0281
Proposed general increase in rates for gas service.	:	

Rebuttal Testimony of
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Rate Case Consultant – Regulatory Affairs,
Integrys Business Support, LLC

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

NS-PGL Ex. 29.0

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. Please state your name.

A. My name is Joylyn C. Hoffman Malueg.

Q. Are you the same Joylyn C. Hoffman Malueg who submitted direct testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (together, "the Utilities" or "the Companies") in this consolidated Docket?

A. Yes.

B. Purpose of Testimony

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

A. My rebuttal testimony and its attachments respond to issues raised by the Governmental and Consumer Intervenors ("GCI") witness Scott J. Rubin, comprised of the Illinois Attorney General's Office, the Citizens Utility Board, and the City of Chicago, as well as the Illinois Commerce Commission ("Commission" or "ICC") Staff ("Staff") witness Theresa Ebrey in these proceedings concerning the cost of service studies and their proper relation to rate designs presented by the Utilities. Specifically, my testimony addresses:

1. The direct testimony of Mr. Rubin regarding the Utilities' classification of Account No. 904, Uncollectible Accounts Expense.
2. The direct testimony of Mr. Rubin regarding the Utilities' classification of Administrative and General ("A&G") expense relating to Operating & Maintenance ("O&M").

3. The direct testimony of Mr. Rubin regarding the Utilities' definition of demand and customer classified costs in their embedded class cost of service studies ("ECOSS").
4. The direct testimony of Mr. Rubin and Ms. Ebrey regarding the Utilities' classification of fixed costs.
5. The direct testimony of Mr. Rubin regarding marginal costs.

I also present in my rebuttal testimony de minimis errata relating to the Peoples Gas ECOSS that was found during the discovery process in this proceeding.

C. <u>Summary of Conclusions</u>

Q. Please summarize the conclusions of your rebuttal testimony.

A. In brief, the conclusions of my rebuttal testimony are as follows:

1. The classification and allocation method for Account No. 904 uncollectible costs presented and utilized by the Utilities within their ECOSSs are appropriate based on cost-causation, and these methods have received the Commission's approval in the Utilities' last rate cases (Docket Nos. 09-0166/09-0167 (Cons.)).
2. The classification method for A&G Expense relating to O&M presented and utilized by the Utilities within their ECOSSs is appropriate based on cost-causation, is recommended by both the American Gas Association ("AGA") and National Association of Regulatory Utility Commissioners ("NARUC"), and was uncontested in the Utilities' last rate cases (Docket Nos. 09-0166/09-0167 (Cons.)).
3. The Utilities have provided clarification with respect to their classification of customer and demand costs.

4. The Utilities have appropriately defined fixed costs.
5. The Utilities have appropriately based the ECOSSs upon a fully distributed, embedded cost basis.

Peoples Gas provides de minimis errata with respect to its ECOSS, which does not change the results of the ECOSS.

Therefore, I would not make any change to the Utilities' classification or allocation of costs within the ECOSSs, with the exception of the aforementioned errata.

D. <u>Itemized Attachments to Rebuttal Testimony</u>

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

A. Yes. I am sponsoring, and have attached hereto, the following exhibits.

- NS-PGL Exhibit ("Ex.") 29.1 Data Request Response to NSPGL-GCI 4.04
- NS-PGL Ex. 29.2 Data Request Response to NSPGL-GCI 4.05
- NS-PGL Ex. 29.3 Data Request Response to NSPGLGCI 4.06
- NS-PGL Ex. 29.4 NS-PGL Supplemental Response to Staff Data Request TEE 5.03
- NS-PGL Ex. 29.5 Peoples Gas Response to Data Request AG 2.08

II. RESPONSE TO GCI CLASSIFICATION OF <u>ACCOUNT NO. 904 RECOMMENDATION</u>

Q. Do you agree with GCI witness Mr. Rubin's statement in his direct testimony that "the Companies treat residential uncollectible expense as being solely related to the number of customers" (Rubin Direct ["Dir."], GCI Ex. 3.0, 12:249-250)?

A. No, I do not. As stated in my direct testimony, there are three steps to creating an ECOSS: 1) functionalization, 2) classification, and 3) allocation (PGL Ex. 13.0, 7:148, NS Ex. 13.0, 7:148). Account No. 904, Uncollectibles Expense, is first functionalized to the Customer function, per the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") definition. It is further classified to the Customer classification, and then allocated to the service classifications based upon the Bad Debt allocation method, as stated in my direct testimony (PGL Ex.13.0, 19:425, NS Ex. 13.0, 18:390). The Bad Debt allocation methodology was calculated by taking the average historical bad debt net write-offs per customer by customer class as of the 12 months ending June 30, 2010, and applying that average to the customer counts by service classification for the future test year ending December 31, 2012. While the number of customers is utilized, in part, in the Bad Debt allocation methodology, it is clearly not the "sole" factor; the bad debt net write-offs weighting plays a large factor in the allocation of costs to the service classifications.

Q. What is GCI witness Mr. Rubin's position regarding the classification of the Uncollectible Accounts Expense in Account No. 904?

A. I am unsure. Mr. Rubin does not clearly state how he believes Uncollectible Accounts Expense in Account No. 904 should be classified in the ECOSS. Although at page 11, line 239 of his direct testimony, Mr. Rubin starts a question regarding the "calculation of customer-related costs and demand-related costs", which implies ***classification***, he then responds to said question stating he is concerned with the "proposed ***allocation*** … [of] the treatment of residential uncollectible expense as being solely related to the number of customers" (emphasis added), which implies he takes issue with the ECOSS ***allocation***. Within his direct testimony, it appears that Mr. Rubin either confuses, or tries to inappropriately consolidate, the two separate steps of classification and allocation of costs within an ECOSS, thereby not providing a clear position on the classification of Uncollectibles Expense. Therefore I am unsure of what Mr. Rubin's position is with respect to the Utilities' classification of Account No. 904.

Q. What is GCI witness Mr. Rubin's position regarding the allocation of the Uncollectible Accounts Expense in Account No. 904?

A. I am unsure. At page 14, lines 291-293 of his direct testimony, Mr. Rubin states that "***allocating*** and ***collecting*** uncollectible expense on a per-customer basis…is unreasonable. Such expenses should be ***collected*** from residential customers as a percentage of the total distribution bill" (emphasis added). While Mr. Rubin clearly states how he believes Account No. 904 should be recovered via rate design, he does not state his position, nor does he provide a proposal, of how Account No. 904 should be allocated to service classifications within the ECOSS. In his direct testimony, it appears that Mr. Rubin tries to inappropriately consolidate the two distinct processes of allocation of costs in an ECOSS versus recovery of those costs within rate design. For example, Mr. Rubin states that "Rider UEA-GC [Uncollectible Expense Adjustment-Gas Costs] would ***recover*** uncollectibles related to gas costs for bundled sales customer on a per-therm basis from bundled customers. This is an appropriate way to ***allocate*** and ***recover*** such costs, … ." (Rubin Dir., GCI Ex. 3.0, 12:255-257, emphasis added). Because rate design recovers certain costs in one manner does not then justify that the ECOSS should allocate those costs in the same manner. ECOSSs are utilized to develop rate design, and not vice versa.

Q. At pages 12-13, lines 262-264 of his direct testimony, Mr. Rubin states that "in effect, we socialize the [uncollectibles] cost (similar to a tax), not based on cost causation (because no paying customer causes the Companies to incur costs for unpaid bills), … .". Do you agree that the Utilities' ECOSSs do not allocate Account No. 904 based upon cost causation?

A. No, I do not. First, the primary objective of any cost of service study is to follow cost causation. Second, a cost of service study views customer groups, typically a utility's service classifications, in their entirety, not on the basis of individual segments of customers within those classifications, *e.g.* paying residential customers versus non-paying residential customers. Per the AGA's text, Gas Rate Fundamentals, 4th edition, "a utility's total cost of service must be apportioned such that each ***group of customers*** pays for the costs it causes the utility to incur. The cost-of-service study is the vehicle for making this assessment explicit" (1987, p. 132, emphasis added). Cost causation takes into account "why" a cost occurs; it is not synonymous with "where" the costs <u>*underlying*</u> the uncollectible accounts originate. These are two very different principles.

Q. Is the Utilities' classification of Account No. 904 appropriate?

A. Yes, the classification of Account No. 904 to the customer classification is appropriate. The Uncollectibles Expenses are a function of customers' unpaid bills, not the underlying components of those bills, *i.e.*, whether they are fixed or variable charges, or the specific costs that may be recovered by those bills. Additionally, NARUC, in its Electric Utility Cost Allocation Manual dated January 1992, states the following regarding the classification and allocation of customer-related costs:

> Customer-related costs (Accounts 901-917) include costs of billing and collection, providing service information, and advertising and promotion of utility services. By their nature, it is difficult to determine the "cause" of these costs by any particular function of the utility's operation or by particular classes of their customers. ***An exception would be Account 904, Uncollectible Accounts.***

> Many utilities monitor the uncollectible account levels by tariff schedule. Therefore, it may be appropriate to directly assign uncollectible accounts expense to specific customer classes. (emphasis added, p. 102)

This same basic theory can reasonably be applied to gas utilities.

Q. Did the Utilities directly assign Account No. 904 uncollectible costs to the specific customer classes in the cost of service studies, as recommended by NARUC?

A. No, the Utilities did not directly assign Account No. 904 to the customer classes in a one-for-one direct assignment method, per se. Rather, the Utilities chose to create a weighting factor for each customer class, which helps to reflect the differences in cost causation of the customer classes. Via the Bad Debt allocation methodology, a weighting factor is created which takes into account the amount of Total Bad Debt Net Write-Offs for each customer class. This weighting factor is then applied against customer counts to arrive at the Bad Debt allocation methodology.

Q. Does the Utilities' Bad Debt allocation methodology take into account the cost causation objectives of a cost of service study?

A. Yes, it does. First, the weighting factor that is created for the Bad Debt allocation methodology takes into account historical data by customer class. Second, the weighting factor takes into consideration not only the historical charge-offs taken into account by customer class, but also the amount of uncollectible costs that are recovered during that same historical period, arriving at a Net Write-Off amount by customer class, which provides a true picture of uncollectible cost by customer class.

Q. Are the Utilities classifying and allocating Account No. 904 in the ECOSSs in the same manner as performed in the Utilities' last rate case, Docket Nos. 09-0166/09-0167 (Cons.)?

A. Yes.

Q. Did the Commission, in Docket Nos. 09-0166/09-0167 (Cons.), approve the classification of Account No. 904, as portrayed in Utilities' ECOSSs?

A. Yes. In Docket No. 09-0166/09-0167 (Cons.), the ICC ruled that "we find that the Utilities' classification of Account 904 costs as "customer" costs in their ECOSSs is proper" (final Order (1/21/2010), page 209).

Q. Please comment on Mr. Rubin's recommendation at page 15, line 324 of his direct testimony that "uncollectibles expense should be removed from the customer costs" .

A. It is unclear if this recommendation is in relation to cost of service and its classification of customer costs, or in relation to rate design and its proposed customer charge. If this recommendation is in relation to cost of service, I disagree with Mr. Rubin for all of the above reasons stated in this section of my rebuttal testimony. Therefore, Mr. Rubin's recommendation that Uncollectibles Expense be removed from customer classified costs should be rejected.

Q. Do you address how the Utilities should recover Account No. 904 uncollectible costs within rate design?

A. No. Utilities' witness Ms. Valerie Grace addressed this in her direct testimony.

III. RESPONSE TO GCI CLASSIFICATION OF A&G RELATED TO O&M RECOMMENDATION

Q. Is it your understanding that GCI witness Mr. Rubin is recommending in his direct testimony that the classification method of A&G related to O&M Expense be changed from the manner in which the Utilities performed the classification in their ECOSSs?

A. Yes, that is my understanding. Mr. Rubin at page 14, lines 295-297 of his direct testimony refers to his concerns on the "split between the customer and demand functions" of A&G related to O&M Expense (i.e. FERC Primary Account Nos. 920-923, and 927-931), which implies he is referring to the classification of A&G related to O&M Expense between customer and demand, although he then states that his concerns are how A&G related to O&M Expense is allocated. While Mr. Rubin continues to use, albeit incorrectly, the terms classification and allocation interchangeably throughout his direct testimony, in this instance my assumptions are that he is referring to the Utilities' classification of A&G related to O&M Expense.

Q. Do you agree with GCI witness Mr. Rubin's recommendations that the classification method of A&G related to O&M Expense be changed from the manner in which the Utilities performed the classification in their ECOSSs?

A. No, I do not. Although not explicitly stated, Mr. Rubin at page 15 of his direct testimony implies that Account No. 904 Uncollectibles Expense should be excluded from the classification method used on A&G related to O&M Expense. Currently, the Utilities utilize Total O&M, Not Including A&G, as the classification method for A&G related to O&M Expense, and continue to maintain that this is an appropriate classification method.

Q. Why is Total O&M, Not Including A&G, an appropriate classification method for A&G related to O&M Expense?

A. As I stated earlier, A&G related to O&M Expense consists of FERC Primary Account Nos. 920-923, and 927-931. These accounts consist of expenses that include salaries, office supplies expense, regulatory commission expense, miscellaneous general expense, general advertising expense, and rents, to name a few items. These items are administrative salaries, general expenses, and general services that are incurred in order for the Utilities to administer their business. Uncollectibles Expense is part of the day-to-day operations of the Utilities and should be included in the classification method of these accounts.

Additionally, the AGA in its Gas Rate Fundamentals, 4th edition (1987), recommends that A&G expense be functionalized, classified, and allocated "in proportion to the sum of all other costs, exclusive of gas purchased and fuel used in production" (page 148). NARUC in its Gas Distribution Rate Design Manual (1989) recommends that A&G expense be classified "in accordance with the composite allocation of all other O&M expense, excluding the cost of gas" because it cannot readily be categorized to a single classification of customer, energy or demand (page 26). While these reference materials specifically exclude gas costs from the classification method, they do not recommend exclusion of Account No. 904.

Last, the classification method of Total O&M Expense, Not Including A&G, is not intended, nor should it be expected, to be a one-for-one translation of O&M expense to A&G expense. The A&G expense in FERC Primary Account Nos. 920-923, and 927-931 are items incurred in the general administration of business, thus the name assigned by FERC of "Administrative and General", and it does not consist of expenses that are 100% directly attributable to one type of business activity.

Q. Please explain why Mr. Rubin's justification that Account No. 904 should be removed from the classification method is faulty.

A. Mr. Rubin states that "the level of uncollectibles should not directly affect the incurrence of A&G O&M expenses", and goes on to state, for Peoples Gas, that Uncollectibles Expense constitutes 15% of the Total O&M expense, excluding A&G. Rubin Dir., GCI Ex. 3.0, 14:301-15:309. Mr. Rubin's argument implies (using Peoples Gas as an example) that in order for the Utilities' classification method of A&G related to O&M Expense to be justified, 15% of the expenses in FERC Primary Account Nos. 920-923, and 927-931 should be related to Uncollectibles Expense because Account No. 904 represents 15% of Total O&M expense, excluding A&G. This logic does not hold merit due to the reasoning I explained earlier: the classification method of Total O&M Expense, Not Including A&G, is not intended, nor should it be expected, to be a one-for-one translation of O&M expense to A&G expense. To further reiterate this, as an example, one could make the same argument as Mr. Rubin by stating that the O&M expense in Account No. 380: Services, which is approximately $31.1 million in Peoples Gas' ECOSS, constitutes 16% of Peoples Gas' Total O&M expense, excluding A&G. This does not mean that there will be, nor should one expect there to be, a one-for-one correlation that A&G related to O&M Expense will be 16% attributable to Services.

Again, I stress that the classification method is not intended to portray a one-for-one cost causation between O&M expense and A&G expense; one will never see that one-for-one correlation simply due to the nature of the generalized administrative expenses booked to A&G. This is the reason a classification method which comprises ***all*** O&M accounts, excluding gas costs, is utilized; because one singular activity, or O&M Account, cannot be representative of the activities for which expenses are booked to the A&G accounts. Rather, the classification method comprises all O&M accounts, excluding gas costs, because it encompasses all of the potential relations to activities thereby being the most representative of the activities for which expenses are booked to the A&G accounts. Therefore the reasoning presented by Mr. Rubin does not have merit and his recommendation that Account No. 904 Uncollectibles Expense be excluded from the classification method used on A&G related to O&M Expense should be rejected.

IV. RESPONSE TO GCI TESTIMONY ON UTILITIES' DEFINITION OF DEMAND AND CUSTOMER CLASSIFIED COSTS

Q. Please comment on GCI witness Mr. Rubin's discussion of the categories of costs the Utilities used within their respective ECOSSs, and his implication that the Utilities define demand-related costs "as costs incurred based on customers' average and peak requirements for natural gas delivery" (Rubin Dir., GCI Ex. 3.0, 11:233-237).

A. I will clarify the following with respect to Mr. Rubin's statements: The second step in performing an ECOSS, classification, separates the functionalized plant and expenses into the categories based upon how they are incurred by the Utilities' system. In my direct testimony, I clearly state that "demand [classified] costs are incurred to service the peak demand of the system" (NS Ex., 13.0, 8:168; PGL Ex. 13.0, 8:168); not average and peak as misstated by Mr. Rubin. The Average & Peak demand allocation methodology is utilized to ***allocate*** certain demand ***classified*** costs within the Utilities' ECOSSs.

Q. Please comment on GCI witness Mr. Rubin's discussion of the categories of costs the Utilities used within their ECOSSs, and his implication that the Utilities define customer-related costs "as costs incurred on an approximately equal basis for each customer, without regard to the amount of gas used by the customer" (Rubin Dir., GCI Ex. 3.0, 11:233-238).

A. I will clarify the following with respect to Mr. Rubin's statements: The second step in performing an ECOSS, classification, separates the functionalized plant and expenses into the categories based upon how they are incurred by the Utilities' system. In my direct testimony, I clearly state that "customer [classified] costs are incurred to extend service to and attach a customer to the distribution system, meter any gas usage, and maintain the customer's account. Customer [classified] costs are found to vary with the number and density of customers, regardless of the customers' gas consumption." NS Ex. 13.0, 8:161-164; PGL Ex. 13.0, 8:161-164. It is not an accurate statement that the Utilities define customer classified costs in the ECOSSs on the basis of costs that are incurred on an "approximately equal basis for each customer."

V. RESPONSE TO GCI AND STAFF CLASSIFICATION OF FIXED COSTS

Q. Please comment on GCI witness Mr. Rubin's statement, that "the Companies have improperly identified essentially all of their costs as being "fixed" in nature" (Rubin Dir., GCI Ex. 3.0, 3:55-56).

A. The Utilities sought clarification of this statement and whether Mr. Rubin was referring to the ECOSS or rate design. Please see NS-PGL Exs. 29.1 and 29.2, which are GCI responses to NSPGL-GCI 4.04 and 4.05.

First, I disagree with Mr. Rubin's contention that he is referring to the ECOSS. GCI's response to NSPGL-GCI 4.05 first refers to GCI's response to data request NSPGL-GCI 4.04. In that response, GCI refers to the Utilities' rate design exhibits portraying "Straight Fixed Variable Derivation" as shown in PGL Ex. 12.5 and NS Ex. 12.5. This clearly reflects rate design, specifically how rates using Straight Fixed Variable rate design, are being calculated. Although specific values shown in PGL Ex. 12.5 and NS Ex. 12.5 were taken from the Utilities' ECOSSs, rate design and cost of service are two different processes.

Second, I disagree with his conclusion that the Utilities have "improperly identified essentially all of their costs as being "fixed" in nature." As shown in PGL Ex. 12.5 and NS Ex. 12.5, values were taken from the Utilities' ECOSSs representing both Customer and Demand classified costs. While Customer classified costs are sometimes also referred to as "fixed costs", that does not mean they are the only fixed costs of a utility. Plus, while Demand classified costs are classified as such based upon how the costs are incurred by the peak demands placed upon a Utilities' system, that does not mean they are not considered fixed costs as well. Additionally, simply because Demand classified costs are then allocated to service classifications based upon a volumetric-based allocation method, such as the Average & Peak demand allocation, does not mean said costs are not fixed in nature.

Q. Please provide an example of what you are stating with respect to Demand classified and allocated costs.

A. Let us take the distribution functionalized costs in FERC Primary Account No. 378: Measuring & Regulation Equipment. These costs are ***classified*** to Demand in the

Utilities' ECOSSs, because these costs are incurred by the Utilities based upon peak system demand requirements: *i.e.*, the equipment needs to be sized appropriately to meet customers' peak demands placed upon the system. This Account is then ***allocated*** to the service classifications via the Average & Peak demand allocation method in the Utilities' ECOSSs, which is a volumetric-based allocation method. This allocation method is used because each service classification's allocated share of said costs is caused by its demands placed upon the system. For example, the Service Classification No. ("SC") 1 customers' measuring and regulating equipment would most likely be smaller in size than the SC4 customers', because their demands are typically less than the SC4 customers. Therefore, an allocation method that takes into account each service classification's demands is most appropriate. Yet, the costs associated with the physical assets of Measuring and Regulating Equipment are fixed in nature. Even though they have been sized to meet customers' demands, once the assets are put in place, they are essentially a fixed asset of the Utilities. Plus, once these physical assets have been put in place, their costs do not change or vary from year to year based upon customer's volumetric usage. Therefore, as shown in PGL Ex. 12.5 and NS Ex. 12.5, both Customer and Demand classified costs were appropriately taken from the Utilities' ECOSSs to determine the Straight Fixed Variable calculation, which is representative of fixed costs.

Q. Do you agree with GCI witness Mr. Rubin's generalizations in his direct testimony at page 5 that fixed costs are synonymous with the term "unchanging"; *i.e.*, because the amount of the Utilities' A&G expenses have changed from one rate case filing to the next, that implies said costs cannot be defined as fixed?

A. No, I do not. The Utilities continue to maintain that fixed costs are defined as costs that do not vary ***with the consumption of gas***; this is not to be confused as a statement that fixed costs are cost that simply ***do not vary***. The Utilities' definition of fixed costs is supported by the NARUC in its Gas Distribution Rate Design Manual, June 1989, at page 64: "fixed costs do not materially change with the volume of output."

Q. Do you agree with GCI witness Mr. Rubin's statement in his direct testimony at page 3 and page 5 that the Utilities have improperly assumed that all of their A&G expenses are fixed?

A. No. The Utilities sought clarification of this statement. Please see NS-PGL Ex. 29.3, which is GCI's response to NSPGL-GCI 4.06.

As shown in that response, the first sentence states to see GCI's response to data request NS-PGL-GCI 4.04, which I have included as NS-PGL Ex. 29.1. As shown in that response, GCI refers to the Utilities' rate design exhibits portraying "Straight Fixed Variable Derivation" as shown in PGL Ex. 12.5 and NS Ex. 12.5. As shown in PGL Ex. 12.5 and NS Ex. 12.5, values were taken from the Utilities' ECOSSs representing both Customer and Demand classified costs. As I had stated earlier, while Customer classified costs are sometimes also referred to as "fixed costs", that does not mean they are the only fixed costs of a utility. Plus, while Demand classified costs are classified as such based upon how the costs are incurred by the peak demands placed upon the Utilities system, that does not mean they are not considered fixed costs as well.

Q. Please provide an example of why it is appropriate to view A&G costs as fixed.

A. Let us take the A&G costs in FERC Primary Account 921: A&G-Office Supplies and Expenses. These costs are ***classified*** to both Customer and Demand in the Utilities'

ECOSSs based upon the Total O&M, Not Including A&G classification method, as explained earlier. The costs in Account No. 921 represent expenses generally attributable to office supplies, including, but not limited to, items such as copier and printer paper, pens, pencils, notepads, 3-ring binders, etc. These types of costs do not change or vary from year to year based upon the customers' volumetric usage; employees will still need the standard amount of office supplies whether a customer is high usage or low usage, or doesn't have any usage at all. Therefore, as shown in PGL Ex. 12.5 and NS Ex. 12.5, both Customer and Demand classified costs, which are inclusive of A&G expenses, were appropriately taken from the Utilities' ECOSSs to determine the Straight Fixed Variable calculation, which is representative of fixed costs. For these reasons, I also disagree with Mr. Rubin's suggestion that whether or not the Utilities have significant control over the A&G costs determines the assignment of A&G expenses as fixed (Rubin Dir., GCI Ex. 3.0, 3:59-61)…

Q. Staff witness Theresa Ebrey states in her direct testimony at page 38, line 862, that the Utilities' classification of costs as fixed is unrelated to changes in the number of customers, for which she references the Utilities' response to data request TEE 5.03. Did the Utilities provide a supplemental response to data request TEE 5.03?

A. Yes. Please see NS-PGL Ex. 29.4 for the supplemental response. This supplemental response adds clarification to the Utilities' stance on classification of fixed costs.

VI. MARGINAL COSTS

Q. At page 7, lines 149-152 of his direct testimony, GCI witness Mr. Rubin states that it is not appropriate to set utility rates or to evaluate a utility's cost of service while focusing on the short run. He continues by stating there is no support to set utility rates based upon short-run marginal costs. Have the Utilities based their ECOSSs upon marginal costs?

A. No, they have not. The Utilities' ECOSSs are fully distributed, embedded cost studies. The Utilities' ECOSSs are based upon the revenue requirements, as submitted by the Utilities' witness Ms. Sharon Moy. The revenue requirements submitted by Ms. Moy, which are in accordance with ICC filing requirements, are based upon embedded costs. Therefore, it is only appropriate that the ECOSSs for the Utilities be performed on an embedded basis, because the function of the ECOSS is to aid the ICC in determining how to apportion revenues among the customer classes and design rates to recover the embedded revenue requirement of the Utilities. Additionally, it is my understanding that it has been a long-standing practice by the ICC to accept fully distributed, embedded cost of service studies in natural gas utility rate case filings. Based on the foregoing, the Utilities filed embedded cost of service studies in the current docket.

VII. DE MINIMIS ERRATA TO PEOPLES GAS' ECOSS

Q. Do you have any errata that you would like to state?

A. Yes, I do. Through the discovery process, specifically, data request AG 2.08, the Utilities determined that an incorrect 10 inch regulator cost was utilized in construction of the Peoples Gas ECOSS. Please see NS-PGL Ex. 29.5, which is Peoples Gas' response to data request AG 2.08.

Q. Does correction of this error have a significant impact on the Peoples Gas ECOSS?

A. No, it does not. As shown in NS-PGL Ex. 29.5, the response to AG 2.08 explains that correction of this error has minimal impact on the Peoples Gas ECOSS and does not cause any change to allocation of costs across service classifications within the ECOSS.

Q. Does this conclude your rebuttal testimony?

A. Yes.