REBUTTAL TESTIMONY

of

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Energy Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company

and

The Peoples Gas Light and Coke Company

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

August 15, 2011

Contents

I. Witness Qualifications

Q. State your name and business address.

A. David Sackett, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. Are you the same David Sackett who previously testified in this proceeding?

A. Yes.

II. Purpose of Testimony and Background Information

Q. What is the subject matter of your direct testimony?

A. This testimony concerns The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (individually, the "Company" and collectively, the "Companies") and their proposed general increases in gas rates. My rebuttal testimony focuses on changes to the Companies' gas transportation services as set forth in Riders Choices For You ("CFY"), Full Standby Transportation Service ("FST"), Selected Standby Transportation Service ("SST"), the proposed Rider Storage Banking Service ("SBS") along with the Companies' support of an affiliate product known as Pipeline Protection Plan ("PPP"). I respond generally to the rebuttal testimony of the Companies' witnesses Ms Gregor (NS-PGL Corrected Ex. 21.0), Mr. Connery (NS-PGL Ex. 30.0) and Mr. McKendry (NS-PGL Ex. 31.0) as well as the direct testimony of intervenor witnesses, Mr. Gorman for the Illinois Industrial Energy

Consumers ("IIEC") and Constellation New Energy – Gas Division ("CNE-Gas"); Mr. Kawzinski for CNE - Gas and Mr. Parisi for Interstate Gas Supply ("IGS").

Q. Do you have any attachments to your testimony?

A. Yes. I have attached the following to my testimony.

Att Ltr	Pages	Source
A	5	Companies responses to Staff DR DAS 8.04
B	17, 18	Companies responses to Staff DR DAS 7.02
C	17	Companies supplemental responses to Staff DR DAS 9.06
D	18	Companies responses to Staff DR DAS 9.07
E	18, 19	Companies responses to Staff DR DAS 6.06
F	18	Companies responses to Staff DR DAS 10.01 Att. 01
G	21	Companies responses to Staff DR DAS 9.09
H	24, 25	Companies responses to Staff DR DAS 9.08
I	25	Companies responses to Staff DR DAS 6.08
J	28	Companies responses to Intervenor DR IGS 4.03

Figure 1 - List of Attachments

III. <u>Summary of Conclusions and Recommendations</u>

Q. Please summarize your conclusions and recommendations.

A. I have thirteen recommendations for the Commission to implement in this case, as follows:

1. Approve the Companies' Demand Measurement Device Charge.
2. Reject the Administration Charges as proposed by the Companies. Adjust the budget amounts down to reflect the historical differences between budgeted and actual future year costs.
3. Approve the Companies' proposed changes to Rider AGG, Aggregation Service.

4. Approve the Companies' proposal to eliminate Rider SST, Selected Standby Transportation Service and standby service under it.
5. Approve the Companies' proposed Rider SBS, Storage Banking Service capacity and subscription process.
6. Reject the Companies' proposed Rider SBS daily storage parameters.
7. Reject the Companies' proposed Rider SBS monthly storage parameters.
8. Reject the Companies' proposed addition of Rider FST, Full Standby Transportation Service monthly storage parameters and proposed CD and OFO parameters.
9. Approve the Companies' proposed on-system storage cost recovery in Rider SSC, Storage Service Charge including the Storage Service Charge ("SSC") and the Storage Banking Charge ("SBC.")
10. Approve the Companies' proposed off-system storage cost recovery mechanism including the new Storage Gas Charge ("SGC.")
11. Require the Companies to charge Peoples Energy Home Services ("PEHS") for solicitation. Adjust the Integrys Business Support ("IBS") operating expense allocation downward to reflect the forgone revenues from solicitation. Estimate those foregone revenues by the market value of that solicitation for PPP.
12. Require the Companies to charge PEHS the same rate they charge ratepayers for repairs. Adjust the Revenue Requirement downward to reflect the forgone revenues from repairs. Estimate those foregone revenues by the market value of that solicitation for PPP.

13. Order that within 90 days of the Final Order in this case, the Companies should file a petition if they continue to want the Companies to support PPP. The Commission should require such a petition and related investigation given the Companies' failure to abide by the approved agreements.

IV. Administration Charges for Transportation Programs

Q. What did you recommend regarding the Companies' proposed transportation administration charges?

A. In my direct testimony, I recommended that the administrative charges to transportation customers and suppliers contained in PGL-NS Exs. 15.1 be adjusted downward because the Companies have over-budgeted both labor and non-labor inputs in each of the past three years. I calculated a specific factor for each type of cost reflected in Attachment B. For labor with overhead, the Gas Transportation Services ("GTS") expenses have been 17% under budget during 2008-2010. For non-labor inputs with overhead, the GTS expenses have been 67% under budget during 2008-2010. For information technology ("IT") with overhead, the GTS expenses have been 21% under budget during 2009-2010.[1]

Q. How did the Companies respond to your recommended adjustments?

A. The Companies' witness Mr. McKendry addresses how "unanticipated events" can cause the historical budgets to be different / greater than the actual costs incurred.

[1] The data provided did not contain the budgeted IT amount for 2008.

He also points out that the current test year budget is 8% less than the actual costs from 2010.

Q. What adjustments would be appropriate?

A. I propose to adjust the GTS administrative costs for the test year down as shown in Figure 2 – Gas Transportation Administrative Charges Adjustment below. These adjustments are also included in Staff Ex. 12.0 Schedules 12.9N & P.

	Factor	Peoples Gas	North Shore
Labor	17%	$251,934	$41,012
Other costs	67%	$8,775	$1,428
IT	21%	$22,204	$3,615
Total		$282,912	$46,056

Figure 2 – Gas Transportation Administrative Charges Adjustment

Q. Does the fact that the current test year budget is less than the 2010 actual costs affect your conclusions?

A. No. The Utilities have not given any reason to think that actual GTS costs are likely to be either at or above the budget, when GTS costs have been below budget for the past three years. Mr. McKendry provided no evidence to support any conclusions from his rebuttal testimony. Additionally, he never argued that this year the budget is accurate. Finally, the Companies acknowledge that “historical budget information is not considered when determining the test year budget.” (Attachment A – Companies responses to Staff DR DAS 8.04)

Q. Do "unanticipated events" make an adjustment inappropriate?

A. No. Ratepayers (which include suppliers) should not have to pay for overstated budgets based upon unnamed unanticipated events. Mr. McKendry's rebuttal testimony demonstrates that the Companies have been able to implement cost-saving measures and ratepayers should benefit from those cost-saving measures that will likely occur during the test year.

Q. Why have these "other factors" led to consistent over-budgeting as opposed to random events that are as likely to be high or low?

A. There are many reasons why the actual costs may vary from budget. Some of those factors might increase costs, others could lead to decreases. The overall trend for GTS costs is clearly downward for every year for which there is data. The over-budgeting is also consistent with the Companies' incentives to over-estimate budgets.

Q. Since 2008 have these costs ever been above the budget?

A. No. NS-PGL Ex. 31.1 shows in each year, for each type of cost, the actual costs are lower than the budgeted cost.

Q. Do you agree with IGS witness Mr. Parisi's recommendation that SVT administrative costs should be recovered from all customers eligible for Choices For You ("CFY")? (IGS Ex. 1.0, p. 31)

A. No. The costs for these programs, while over-budgeted, have been and continue to be for costs exclusive to transportation programs. There is no reason for sales customers to bear any portion of this burden. Staff did not support this issue in the past rate case, a fact which Mr. Parisi neglected to point out. It was not just the Companies that refused consensus in the workshop process ordered by the Commission. Mr. Parisi argues further that since the Commission views Nicor Gas' SVT Customer Select as more successful than CFY, the Utilities should follow Nicor's program design. However, the directive to model the Companies' SVT programs after Nicor's was specifically directed at the *operational parameters*, which the Companies embraced.

V. <u>Changes to Large Volume Transportation Riders</u>

Q. What did you recommend regarding Large Volume Transportation (LVT) riders in your direct testimony?

A. In my direct testimony, I argued that the Companies proposal to link unbundling the storage bank from standby with more restrictive parameters is unnecessary and inappropriate.

Q. Did any intervenor witnesses agree with your positions?

A. Both Mr. Gorman and Mr. Kawczynski agreed with my recommendations and drew roughly the same conclusions about the Companies' proposal in this case.

Q. How did the Companies respond to Staff and intervenor LVT

recommendations?

A. Generally, Mr. Connery objected to the proposed modifications to the Companies' tariffs regarding operational parameters for Rider SBS. Mr. Connery provided no new evidence that the Companies' operating parameters are necessary to balance the system and allocate resources equitably.

A. Mr. Connery does not correct his model.

1. The model fails to fully account for diversity

Q. Does Mr. Connery address the need to account for diversity?

A. Yes. Mr. Connery alludes to the concept of diversity and allegedly "reflects" diversity in his model, however, his treatment of the concept is superficial. As a result, his conclusions are flawed.

2. Mr. Connery incorrectly interprets CNE Exhibits 1.4 and 1.5.

Q. What are CNE Exhibits 1.4 and 1.5?

A. CNE Exhibits 1.4 and 1.5 show the monthly inventory balances for all transportation customers as a group for the heating years 2007/2008 to 2009/2010 compared to the individual minimum and maximum target inventories proposed by the Companies.

Q. How does Mr. Connery interpret CNE Exhibits 1.4 and 1.5?

A. He reinterprets CNE1.4 and 1.5 as supporting individual restrictions, because he alleges that they do not burden transportation customers. This is incorrect. He reaches this erroneous conclusion because he does not appreciate that his proposed restrictions that do not burden transportation customers as a group do impose a significant burden on the individual customer. For example, he argues, "The Utilities believe that Mr. Kawczynski's testimony and particularly the graphs in CNE-Gas Ex. 1.4 and CNE-Gas Ex. 1.5 highlight the Utilities' need for the monthly ranges and further demonstrate that they are not a burden for the transportation customers." (NS-PGL 30.0, p. 16) However he concludes that, "the Utilities believe that the few months of balances which fall above the proposed ranges show that the LVT group utilized storage capacity paid for and belonging to sales customers. If economics drove the LVT balances (which would be fully inclusive of all diversity) to those levels then sales customers suffered economic harm due to the unavailability of that space. This conclusion is in contrast to Mr. Sackett's contention that no harm to sales customers is evident." (NS-PGL 30.0, p. 16)

Q. Did Mr. Connery demonstrate that economics induced these customers to act in a manner that is not in the best interests of sales customers?

A. No. Mr. Connery did not demonstrate that market forces drove transportation customers to operate above the Companies' proposed target inventory levels. In fact, if "economics" were the driving factor, North Shore customers, operating with the same "economics," managed to keep their balances within the proposed target range without any formal requirements. Further, he did not show that there was a net economic harm to sales customers, despite the Companies repeated attempts to use selected days for proof that sales customers were economically harmed. There is simply no evidence that this happens over time in one direction or another.

Q. What do CNE Exhibits 1.4 and 1.5 demonstrate?

A. These graphs fully reflect the diversity of transportation customers, and they show that transportation customers, as a group, are largely keeping their inventories well within the range proposed. Therefore, monthly storage inventory targets are completely unnecessary. "CNE-Gas Ex. 1.5 shows that the actual LVT activity for North Shore—without the influence of monthly ranges—fits comfortably within the proposed ranges." (NS-PGL 30.0, p. 16) Additionally, CNE Exhibit 1.4 shows that for the past 4 years, the actual LVT activity for People Gas—without the influence of monthly ranges—fits comfortably within the proposed ranges *with one brief exception*.

Q. Do CNE Exhibits 1.4 and 1.5 show that the monthly storage targets are "not burdensome" as Mr. Connery claims?

A. No. Even though the parameters are unnecessary, the Companies incorrectly maintain that the restrictions do not impose a burden, because the customers as a group are within the targets. However, this is an incorrect conclusion, because the Companies intend for those restrictions to fall not on the LVT customers as a group, as modeled, but rather on individual customers and pools. Therefore, the restrictions must be more burdensome to those individuals and pools than they are to LVT customers as a whole.

Q. What do you conclude from Mr. Connery's misinterpretation of these exhibits?

A. These exhibits, which according to the Companies "fully reflect diversity," show that the divergence between Mr. Connery's model and how diversity actually works is not minor or insignificant, but rather it is large enough to dismiss the need for the monthly parameters altogether. Rather than acknowledge that these exhibits demonstrate that there is no need for monthly storage targets, the Companies undermine their position by calling into question the other so- called "requirements" of their systems. Furthermore, it appears that this is the first time that the Companies have been confronted with the actual diversity on their system. Diversity should have been directly modeled in order to determine if the massive changes that the Companies are proposing are necessary. The evidence shows that they are not.

3. Load factors confirm differences between sales and transportation customers and their respective use of storage.

Q. Did you state in your direct testimony that LVT customers use storage differently than sales customers based upon a load profile?

A. Yes. LVT customers use storage differently because they use gas differently.

Q. How did Mr. Connery respond to that statement?

A. First, Mr. Connery assumed an underlying premise for my statement, that LVT customers are all pure process driven. This premise ascribed to me is one that I did not state and do not believe. Second, he introduced data to counter that premise. Third, he dismissed that premise, “As such, the underlying premise of Mr. Sackett’s argument regarding storage utilization—that the LVT customers are all pure process driven—is not correct.” And, finally, he dismissed my statement by inference.

Q. What data did Mr. Connery present with respect to LVT load factors?

A. Mr. Connery presented the load factors of various groups of customers However, this data actually confirms my claims because it shows that LVT customers have load that is relatively more process driven and less coincident with the system peak.

Q. Besides being relatively more process-driven, are there any other reasons why LVT customers differ from residential customers?

A. Yes. LVT customers have billing cycles that coincide with the calendar month, and the largest ones have daily meters. When these factors are combined with the different ways that LVT customers use storage, these factors mean that the SVT programs need different operational parameters than LVT programs.

B. The Cashout provisions are punitive and unnecessary.

Q. The Companies have proposed a cashout provision for when a customer does not meet their requirements. Do you agree with their proposal?

A. No. The Companies’ claim that their proposal is “not intended to be punitive.” (PGL Ex. 14.0, p. 28, NS Ex. 14.0, p. 28) Whatever the Companies’ intent, the result would be punitive. The customer paying a percentage penalty should be sufficient to motivate the desired behavior. Using a price that is not indicative of the average of that day is unnecessary. Since this is a new charge, I think that the average price is an appropriate price. In the next rate case, the Companies will have the opportunity to address the adequacy of the average price as the basis of this charge. If the Commission rejects my proposal that Rider SBS use the operational parameters currently in place in Rider SST, I recommend that the Companies' proposed cashout provision be changed to reflect the average price for each day rather than the high or low position proposed in the cashout mechanism.

Q. How did the Companies respond to your direct testimony cashout recommendations?

A. The Companies witness Mr. Connery did not agree with my recommendations. He claimed that these charges were appropriate for three reasons. "First, an at the-market dead band muddles the storage selection decision, possibly influencing the transportation customers to select lower-than-appropriate storage service levels by effectively broadening the operating ranges to include the cashout dead band. Second, the cashout dead band would encourage activity beyond the defined operating ranges of the storage services and result in the cashout of market priced gas to and from customers and the Utilities. Third, it transfers to sales customers the risk of price arbitrage associated with a transportation customer's activity outside the defined operating ranges."

Q. How do you respond to Mr. Connery's objections?

A. His comments are based upon the mistaken assumption that the underlying assets that support the system should exclude any use of sales gas without penalty. However, it makes sense that the storage rates paid by transportation customers for Rider TBS which includes daily balancing could easily include some use of sales gas as long as it is paid for. The market price is the best price and it does not need to be punitive at this time. My recommendation from my direct testimony has not changed.

C. The Companies propose to increase operational restrictions on Rider Full Standby Transportation Service ("FST") customers despite the fact that the assets providing this service have not changed.

Q. What changes have been proposed for Rider FST?

A. Rider FST is the Companies LVT tariff for smaller transportation customers. It has more flexibility than Rider SST and is monthly balanced. The Companies have proposed to add certain restrictions on to Rider FST to keep it in line with their proposals for SBS parameters. Specifically, they argue that the analytical framework that applies to SBS should apply to FST. They propose to incorporate monthly inventory targets and revised Critical Day ("CD") and Operational Flow Order ("OFO") parameters. (PGL Ex. 14.0, pp. 29-30, NS Ex. 14.0, p. 30)

Q. Do you support the proposed changes for Rider FST?

A. No. The Companies allege revisions to unbundle storage bank in Rider SBS are required because the underlying assets that supported partial standby under Rider SST are no longer linked to the Rider SBS bank. However, the same rationale does not apply to Rider FST, whose underlying assets have not changed. The proposed parameters would make Rider FST, Full Standby Transportation Service, *not full standby*, because customers would be required to deliver 27% for Peoples Gas and 39% for North Shore of the customer's MDQ on an OFO Supply Shortage Day or a Critical Day Supply Shortage Day.

Q. Can't these Rider FST customers take full standby during the rest of the year?

A. No. It is likely that Rider FST customers will have to deliver gas on all days to mitigate the risk of these penalties. Thus the proposed change in parameters will effectively reduce the standby year round.

Q. Have the Companies proposed to reduce the charges to reflect that the standby service is now reduced?

A. No. FST customers are billed the same Standby Demand Charge as the current tariff provides (the Demand Gas Charge times MDQ) but the benefits from that standby are significantly reduced. The restriction of the ability to withdraw gas on an OFO Supply Shortage Day or Critical Day Supply Shortage Day is an inappropriate and unprecedented reduction of the standby rights that transportation customers have for access to system gas. It appears that the only purpose for the restrictions is to align the rues that Rider FST customers must follow with the rules for the other programs.

Q. What do you recommend regarding the Companies' modifications to its

LVT?

A. I have the following recommendations for the Commission regarding changes to the Companies LVT programs:

1. Approve the Companies' proposal to eliminate Rider SST and standby service under it.
2. Approve the Companies' proposed Rider SBS capacity and subscription process.
3. Reject the Companies' proposed Rider SBS daily storage parameters.
4. Reject the Companies' proposed Rider SBS monthly storage parameters.
5. Reject the Companies' proposed addition of Rider FST monthly storage parameters and proposed CD and OFO parameters.
6. Approve the Companies' proposed on-system storage cost recovery in Rider SSC including the SSC and the SBC.
7. Approve the Companies' proposed off-system storage cost recovery mechanism including the new SGC.

VI. Pipeline Protection Plan

A. The Companies do not charge PEHS for solicitation

Q. What did you recommend in your direct testimony regarding the Companies' decision to not charge PEHS for solicitation?

A. I recommended three things. First, the Companies must begin charging their affiliate immediately. Second, the Commission should order an investigation into whether there is a violation of the approved Services and Transfers Agreement ("STA"). Third, the revenue requirement in this case does not reflect these revenues which should be offsetting costs in this case; the Commission should adjust the revenue requirement to reflect these revenues. (Staff Ex. 9.0, pp. 40-41)

Q. How did the Companies respond to your recommendations regarding solicitation on behalf of PEHS?

A. In regard to PPP, the Companies' witness Ms. Gregor agreed that an adjustment was needed though it was for different reasons than I had suggested in my direct testimony. She proposed an alternative calculation of the amount. (NS-PGL Ex. 21.1P and 21.1N)

Q. Did Ms. Gregor agree that the Companies had failed to charge PEHS as required by the STA?

A. No. She disagrees for two reasons. First, she asserts without any evidence, that the Customer Relations charges that PEHS paid to Peoples Gas and North Shore include charges for Solicitation. Second, she maintains that this Customer Relations function was transferred to IBS (the Companies' service company affiliate) in 2008. However, her claim contradicts discovery provided by the Companies claiming that both Peoples Gas and North Shore perform solicitation and customer service from 2004 to the present day. (Attachment B – Companies responses to DAS 7.02) The Companies finally clarified that the earlier discovery was incorrect and that IBS does provide the solicitation service currently. (Attachment C – Companies supplemental responses to Staff DR DAS 9.06f)

Q. What evidence is there that the Customer Relations charges to PEHS included solicitation charges?

A. The Companies have failed to provide any evidence to substantiate that claim.

Q. How have the Companies accounted for solicitation charges incurred on behalf of PEHS?

A. According to the Companies, there have been two separate methods used. For the period 2004-2007, the Companies used an estimated percentage of time to allocate charges to PEHS. From 2008 forward, IBS used direct time reporting for allocating these charges to PEHS. (Attachment B and Attachment D – Companies responses to Staff DR DAS 9.07)

Q. Did the Companies provide the basis for its 2004-2007 method along with the cost studies to prove that these charges used the correct estimated annual percentage?

A. No. Despite my request to provide the basis and all studies for these solicitation charges, the Companies failed to provide any studies or other support. (Attachment E – Companies responses to Staff DR DAS 6.06c) The Companies finally provided the estimated annual percentages. However, they state that the percentages are not based on a cost study but rather a Full Time Equivalent ("FTE") estimate. (Attachment F – Companies responses to Staff DR DAS 10.01) No support for those percentages was ever provided, thus it is impossible to tell if those percentages were accurate.

Q. Have the Companies provided the support for its current method along with the cost studies to demonstrate that these charges used the correct estimated annual percentage?

A. No. Again, although I requested the time records for these solicitation charges, the Companies failed to provide any studies or other support. (Attachment E) Additionally, when asked for time records to support "direct time reporting," they acknowledged that the Companies had no time records. (Staff Ex. 9.0 Attachment I)

Q. Do you agree that the adjustment should be applied to IBS Operating Expenses as opposed to adjusting the test year revenues?

A. Yes. If IBS is providing the service to PEHS rather than the Companies, then it would be appropriate to alter my recommendation by reducing the residual amount for the Companies.

Q. Why is this appropriate?

A. As I understand it, the Companies pay IBS whatever amounts are not billed to other affiliates. To the extent that the charges from IBS to PEHS are not adequately reflected, the amount of IBS expenses allocated to the Companies is overstated. Increasing that allocation to PEHS reduces rates by the same amount as an increase in test year revenues.

Q. Rather than billing PEHS for the *value* of solicitation services, how did Ms. Gregor recommend estimating solicitation expenses?

A. Ms. Gregor recommends the following:

> [T]he estimate of market value for such services should be based on an average of the solicitation portion of the Customer Relations expenses charged to PEHS during the period of 2005-2007, updated for inflation…. Using an average of the solicitation portion of the Customer Relations expense charged to PEHS during the period of 2005-2007 is a good estimate for cost since the Customer Relations area was billing at cost during [this] time frame.
> (NS-PGL Corrected Ex. 21.0, p. 4)

Additionally, Ms. Gregor claims that her exhibit 21.1P and 21.1N contain the correct estimate of the costs.

Q. Do you agree with Ms. Gregor's recommendation?

A. No. Ms. Gregor's recommendation is based on the wrong estimate. First, the Companies have not proven the charges paid by PEHS from 2005-2007 include any charges for solicitation.

Second, there is no evidence that the charges claimed by Ms. Gregor are the total solicitation expenses incurred on behalf of PEHS by the companies because time records are not available to substantiate the cost study. Her argument is circular – that the charges are a good estimate because they were billing at cost. However, even though PEHS was *required* to bill at cost per the STA, there is no evidence that this actually occurred. Therefore, these charges may be severely understated.[2]

Third, it appears that PEHS has not paid for solicitation since 2008. This runs counter to the Companies' testimony that "according to the Master Non-Regulated Affiliated Interest Agreement ("AIA") which now applies to billing by the Customer Relations area to PEHS, *the amount billed must be at cost*." (NS-PGL Corrected Ex. 21.0, p. 4, emphasis added) By the Companies own admission, PEHS has not been charged for solicitation since 2008. (Companies responses to Staff DRs DAS 9.09) This period includes the previous rate case's test year, which does not reflect any solicitation charges. Given these facts, the only appropriate estimate for the market value of that solicitation service to PEHS is the margin of the PPP product as noted in my direct testimony. Finally, the values calculated in NS-PGL Ex. 21.1 are based on data provided in response to DAS 7.02 Att. 01 and use circular calculations to determine the estimate of non-labor expenses. Ms. Gregor uses the actual billed charges as her starting point for total charges and then estimates non-labor charges by subtracting the supposed labor charges for these amounts. However, the Customer Relations charges certainly include at least some labor components for time spent in handling customer inquiries. For the reasons listed above, the total charges billed are highly suspect and could be wildly deflated. In

[2] The Companies have an incentive to underestimate charges to their affiliate for services, as it lowers the affiliate's costs and supports it profits, while costs that remain regulated are borne by ratepayers.

fact they may not include any solicitation charges at all but may be entirely for handling customer complaints.

Q. According to Ms. Gregor, what is incorrect in your calculation of that margin?

A. Ms. Gregor claims that there is an error in my calculation because I did not use the most recent set of data provided in response to Staff DR DAS 2.10. She is correct; there are some minor differences in the data. In response I have provided revised calculations for Peoples Gas and for North Shore which are as set forth below.

Q. What do you recommend regarding the Companies' decision to not charge PEHS for solicitation?

A. As in my direct testimony, I recommend three things. First, the Companies must begin charging their affiliate for solicitation immediately. Second, the Commission should order an investigation into a potential violation of the approved STA. Third, the revenue requirement in this case does not reflect these revenues, which the Commission should use to offset costs in this case.

Q. How do you propose to calculate this adjustment to test year revenues for the foregone solicitation revenue?

A. Under the STA, the charge should be established by a pricing mechanism determined by the Commission or fully distributed cost ("FDC"). However, there is no market price since the Companies do not provide this service to any other parties. Additionally, the Companies have not retained the needed records to show how much the FDC would be. They have not tracked the time spent on solicitation for either LDC. (Attachment B) Therefore, I propose to determine the solicitation charge using the market value of this service to PEHS. I propose to use the margin on PPP to estimate the market value of these solicitations to PEHS.

Q. What is this adjustment for the foregone solicitation revenue?

A. I estimate that PPP has a margin over its cost of $ 656,267 per year for Peoples Gas and $116,361 per year for North Shore. I recommend that the 2012 future test year IBS operating expenses allocation be decreased by these amounts to reflect these foregone solicitation revenues as set forth in Staff Ex. 12.0 Schedules 12.6N & P.

B. The Companies do not charge PEHS the same rate for repairs that they charge ratepayers

Q. What did you recommend regarding the Companies' decision to charge PEHS a different rate than it charges its ratepayers for repairs?

A. In my direct testimony, I concluded that Peoples Gas and North Shore each charged their affiliate an average of $35.35 and $28.04 (respectively) per repair but that the average rate per repair charged to ratepayers is $60.06 for Peoples Gas and $60.36 for North Shore. The amount charged ratepayers is almost double the average amount paid by PEHS per repair. Either the ratepayers are being over-charged or the affiliate is being under-charged. Therefore I recommended three things. First, the Companies must begin charging their affiliate the ratepayer rate immediately. Second, the Commission should order an investigation into this inequality to determine if ratepayers are being over charged for repair services. Third, the revenue requirement in this case does not reflect these revenues which should be offsetting costs in this case; it must be adjusted to reflect these revenues.

Q. How did the Companies respond to your direct testimony recommendation regarding PPP repairs?

A. Ms. Gregor maintains that the charges to PEHS for repairs are *required* to be equal to their FDC. She also claimed that those charges were in fact equal to the FDC. She did not respond to my argument that ratepayers were perhaps overcharged.

Q. Did Ms. Gregor provide any evidence to show that the charges were in fact at FDC?

A. No. Ms. Gregor merely makes the bald assertion that the charges were at FDC.

Q. Have the Companies provided any cost studies or basis to support the repair charges to non-PPP customers?

A. No. (Attachment H – Companies responses to Staff DR DAS 9.08b)

Q. Is there reason to believe that these charges are *below* FDC?

A. Yes. There are two reasons to draw this conclusion. First, according to the Companies, "the established rate for customers who are not enrolled in the Pipeline Protection Program was *based* on *average costs* for these services." (Attachment I

– Companies responses to Staff DR DAS 6.08, emphasis added) Therefore there should be a close relationship between average charges to non-PPP customers and to PEHS because "the factors to determine the charges are theoretically the same." (Attachment H) However, the average cost of the charges to non-PPP customers is *nearly double* the average amount charged to PEHS. This suggests that PEHS may not be charged for the full extent of repairs on its behalf. The Companies admit that the have neglected to charge PEHS the loadings from 2008-2010. (Attachment H) Since there is no evidence to substantiate the charges to PEHS, and the fact that the Companies have clear incentives to undercharge an affiliate, it is fair to conclude that the charges to PEHS should be approximately equal the average rates to non-PPP customers. The Companies have acknowledged that the charge to non-PPP customers also includes a level of profit margin. (Attachment H) Unless that profit margin is double the loaded costs of providing these services, the charges should still be close. Since the figures are not even close, a better estimate is required for the test year. This better estimate should use the average charge to ratepayers for these repairs each time the Companies perform repair on behalf of PEHS. This revenue adjustment should be made for the test year as indicated in my direct testimony.

Q. Do you have any other concerns about the Companies support of PPP?

A. Yes. The Companies have been charging $0.40 per bill for PEHS. They cannot substantiate that charge, and they have only recently determined that the accurate charge should have been $0.54. (Attachment J – Companies responses to

Intervenor DR IGS 4.03) My concern is that these increased billing revenues are not included in the test year. This is just another indication of that the Companies are ignoring their agreements with their affiliates. They have neglected to update the billing charges, charge the affiliate for solicitation and load the repair charges. I do not find them to be credible on these matters.

Q. What is this adjustment for the foregone repair revenue?

A. I estimate that PEHS would have paid $17,313 per year for Peoples Gas and $2,456 per year for North Shore. Since they paid an average of $9,761 and $1,052 annually already for repairs, the amounts of the under-payments are $7,552 and $1,404 respectively. I recommend that the 2012 future test year be increased by these amounts to reflect these foregone repair revenues as set forth in Staff Ex. 12.0 Schedules 12.7N & P.

Q. What conclusions do you have regarding the Companies support of the PPP?

A. I have the following recommendations for the Commission regarding the Companies support of its affiliate' PPP:

1. Require the Companies to charge PEHS for solicitation. Adjust the IBS operating expense allocation downward to reflect the forgone revenues from solicitation. Estimate those foregone revenues by the market value of that solicitation for PPP.

2. Require the Companies to charge Peoples Energy Home Services ("PEHS") the ratepayer rate for repairs. Adjust the Revenue Requirement downward to reflect the forgone revenues from repairs. Estimate those foregone revenues by the market value of that solicitation for PPP.
3. Order that within 90 days of the Final Order in this case, the Companies should petition to continue support of PPP. The Commission should require that an investigation be conducted on this continued support given the Companies failure to abide by the approved agreement.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes.