STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY Proposed General Increase In Rates For Gas Service. THE PEOPLES GAS LIGHT AND COKE COMPANY Proposed General Increase In Rates For Gas Service.	: : : : : : : : : :	Nos. 11-0280, 11-0281 Cons.

Surrebuttal Testimony of

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

NS-PGL Ex. 45.0

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. Please state your name.

A. My name is Valerie H. Grace.

Q. Are you the same Valerie H. Grace who submitted direct and rebuttal testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (together, "the Utilities") in this consolidated Docket?

A. Yes.

B. Purpose of Testimony

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

A. My surrebuttal testimony and its attachments respond to rate design, storage unbundling, tariff, and rider issues raised in rebuttal testimony by Governmental and Consumer Intervenors[1] ("GCI") witnesses Scott J. Rubin, and David E. Dismukes; Illinois Commerce Commission ("Commission" or "ICC") Staff ("Staff") witnesses David Brightwell, Theresa Ebrey, and Daniel Kahle; Constellation New Energy – Gas Division, LLC ("CNE-Gas") witness Jason R. Kawczynski; Illinois Industrial Energy Consumers and Constellation NewEnergy - Gas Division, LLC ("IIEC/CNEG") witness Michael P. Gorman; and Interstate Gas Supply of Illinois, Inc. ("IGS") witness Vincent A. Parisi. The Utilities' witnesses James Schott, Thomas Connery, John McKendry, and Christine Gregor will also address certain aspects of these witnesses' testimony. Specifically, my surrebuttal testimony addresses:

[1] GCI is comprised of the Illinois Attorney General's Office, the Citizens Utility Board, and the City of Chicago.

1. The rate design proposals and inaccurate rate design corrections made by Mr. Rubin for Service Classification ("S.C.") No. 1.

2. The observations made by Dr. Brightwell regarding the Utilities' proposed rate designs, particularly Rider VBA, Volume Balancing Adjustment, and increased fixed cost recovery through the customer charges.

3. The observations made by Mr. Kawczynski regarding the Utilities' proposed Rider SSC, Storage Service Charge.

4. The observations and recommendation made by Dr. Dismukes regarding Rider VBA.

5. The recommendations made by Ms. Ebrey regarding Rider VBA.

6. The recommendations made by Mr. Kahle regarding Rider UEA, Uncollectible Expense Adjustment, and Rider UEA-GC, Uncollectible Expense Adjustment – Gas Costs.

7. The recommendations and observations made by Mr. Parisi and Mr. Kawczynski regarding transportation administrative charges.

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

Q. Please summarize the conclusions of your surrebuttal testimony.

A. In my surrebuttal testimony, I conclude the following:

1. The Utilities' proposed rates and rate designs are appropriate, based on sound ratemaking principles, and result in reasonable customer bill impacts.

2. Mr. Rubin's proposed rate design methodology continues to be fraught with problems, does not fully consider customer bill impacts, and should be rejected.

3. Mr. Rubin's claims of errors related to the Utilities' rate designs and supporting analysis are without merit and should be rejected.

4. The rate design aspects of the Utilities' standby and storage unbundling proposals are appropriate, supported by other parties in this proceeding, and should be approved by the Commission.

5. No party in this proceeding has presented compelling evidence that Rider VBA should not be implemented on a permanent basis.

6. Absent permanent approval of Rider VBA, a SFV rate design is an appropriate alternative for S.C. No. 1.

7. If the Commission approves the operational unbundling proposals made by the Commission Staff or intervenors, substantial changes to the transportation riders may be necessary and neither Staff nor intervenors provided tariff language for their proposals. Therefore, the Utilities will need to develop significant tariff changes with limited direction in the record.

8. If the Commission does not approve Rider SSC but approves unbundling, compliance rates would not be properly aligned with the unbundled services.

9. Mr. Kahle's proposed net write-off methodology for Rider UEA-GC does not properly consider the related stipulation between the Utilities and Staff.

Furthermore, although various formulas in Rider UEA are premised on the percentage of revenue method, Mr. Kahle does not offer any guidance or tariff language for Rider UEA that would facilitate accurate cost recovery under his proposed methodology.

10. The Utilities' proposed transportation administrative charges continue to be based on the appropriate cost causation principles, avoid double billing utility charges to customers, and should be approved by the Commission.

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

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

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

1.	NS-PGL Ex. 45.1	Corrected GCI Ex 8.1 (Peoples Gas and North Shore)
2.	NS-PGL Ex. 45.2	Corrected GCI Ex 8.2 (Peoples Gas)
3.	NS-PGL Ex. 45.3	Corrected GCI Ex 8.3 (North Shore)
4.	NS-PGL Ex. 45.4	Utilities and GCI (Rubin) Bill Comparisons
5.	NS-PGL Ex. 45.5	Peoples Gas Revised Rider VBA
6.	NS-PGL Ex. 45.6	North Shore Revised Rider VBA

II. <u>RATE DESIGN</u>

Q. Please summarize the rate design issues addressed in the rebuttal testimony of parties in this proceeding.

A. GCI witness Mr. Rubin responded to my rebuttal testimony which detailed a litany of errors that he made in the analysis supporting his rate design proposals for S.C. No. 1. In response, Mr. Rubin withdraws certain proposals and makes computational corrections to support his revised proposed rate design approach. Dr. Brightwell continues to recommend that the Commission approve Rider VBA permanently rather than a SFV rate.

A. <u>GCI Witness Rubin</u>

Q. What rate design proposals did Mr. Rubin withdraw?

A. Mr. Rubin withdrew his proposal to treat certain Administrative and General ("A&G") and Operation and Maintenance ("O&M") expenses as demand related expenses in his proposed rates for S.C. No. 1.

Q. Do you find Mr. Rubin's decision to withdraw his proposal to be reasonable?

A. Yes, especially since some of those expenses are proposed to be recovered through other rates and Mr. Rubin did not explain why it was appropriate to apply his reallocated total Utility A&G and O&M expenses solely to S.C. No. 1.

Q. Do you agree with Mr. Rubin's claim that you may not have understood some of his rate design proposals for S.C. No. 1?

A. No. Mr. Rubin suggested that I misunderstood his proposal for recovery of Uncollectible Accounts Expense and his treatment of A&G costs as cost of service allocation proposals, and that his proposals were limited only to S.C. No. 1. I fully understood that Mr. Rubin was limiting his proposals to S.C. No. 1 and acknowledged as much in my rebuttal testimony (NS-PGL Ex. 28.0, 5:81-82 and 9:182-183). With respect to Uncollectible

Accounts Expense, I merely highlighted that the Utilities' rate design proposals are consistent with their cost of service studies, Commission-approved cost recovery riders, and recent Commission decisions on rate design. There was no discussion in my rebuttal testimony regarding any cost of service rate class allocations proposed by Mr. Rubin. With respect to A&G costs, there was also no misunderstanding on my part. Mr. Rubin failed to recognize that although his proposed reallocations of A&G and O&M expenses were limited to S.C. No. 1, such reallocations cannot be performed in a vacuum as such costs are first allocated to each rate class in a cost of service study, with the resulting amounts for each rate class then being used for the purpose of designing rates. Mr. Rubin then compounded his reallocation problem by including his reallocated costs, which are total utility costs, in his rate design proposals solely for S.C. No. 1.

Q. Do you agree with Mr. Rubin's revised rate design proposal which recovers all customer-related A&G costs along with demand costs through the front block and holds the Utilities' customer charges at their present levels?

A. No. Mr. Rubin's proposal is not consistent with Commission directives and orders which support increased fixed cost recovery through the customer charge.

Q. Do you agree with the corrections made by Mr. Rubin that underlie his revised rate design proposals?

A. No. Mr. Rubin's proposals still reflect problems with data, computations and completeness. GCI Ex. 8.1, "Corrected Calculation of Demand-Related Costs per Therms for SC 1", reflects continuing problems. First, Mr. Rubin incorrectly applies the Equal Percentage of Embedded Cost Methodology ("EPECM") to North Shore's costs, although North Shore's S.C. No. 1 is set at cost and the EPECM is not applicable to

North Shore (GCI Ex. 8.1, line 7). Second, Mr. Rubin deducts the revenues arising from Rider SSC from the revenue requirement (GCI Ex. 8.1, line 8). However, these amounts exceed the storage revenue requirements for S.C. No. 1 (GCI Ex. 8.1, lines 2 and 3) as allocated to the rate class in the Utilities' cost of service studies. This mismatch, which does not recognize current transportation customers' storage capacity elections or the treatment of unsubscribed storage capacity, will be discussed later. NS-PGL Ex. 45.1 reflects corrections for the issues discussed above with the corrected demand cost per therm being shown on line 11. However, these corrections do not imply support for Mr. Rubin's proposals.

Q. Are there any errors in other corrected analysis provided by Mr. Rubin?

A. Yes. There are errors in GCI Ex. 8.2 (Peoples Gas) and GCI Ex. 8.3 (North Shore), which Mr. Rubin provides as purportedly corrected exhibits for GCI Ex. 3.9 (Peoples Gas) and GCI Ex. 3.10 (North Shore).

Q. Please describe the errors on page 1 in GCI Ex. 8.2 and GCI Ex. 8.3.

A. Page 1 of GCI Ex. 8.2 and GCI Ex. 8.3 provide the supporting analysis for Mr. Rubin's proposed rate designs for Peoples Gas and North Shore, respectively. GCI Ex. 8.2 (Peoples Gas) reflects an error in the treatment of gas cost related Uncollectible Accounts Expense that would be recovered under proposed Rider UEA-GC. Mr. Rubin deducts this amount (line 17) from customer total Uncollectible Accounts Expense (line 16). However, he fails to apply the EPECM to the deducted amount as he does to the total amount. Accordingly, the net amount shown on line 18, which is carried over to page 2 of this exhibit, is overstated. Mr. Rubin makes the opposite error for North Shore on GCI Ex. 8.3, where he applies the EPECM to all of the cost elements (lines 1, 6, 8, 16 and 17), although the EPECM does not apply to North Shore. Accordingly, the amounts used by Mr. Rubin for rate design purposes for North Shore are overstated. Page 1 of NS-PGL Ex. 45.2 and NS-PGL Ex. 45.3 provide corrections for Page 1 of GCI Ex. 8.2 and GCI Ex. 8.3, for Peoples Gas and North Shore, respectively. However, it does not imply support for Mr. Rubin's proposals.

Q. Please describe the errors on page 2 in GCI Ex. 8.2 and GCI Ex. 8.3.

A. As the costs derived on page 1 of these exhibits flow into page 2 and are used in the determination of Mr. Rubin's proposed rates, the rates shown are in error. Also, page 2 of these exhibits reflects an unfair comparison as gas cost related Uncollectible Expense amounts are deducted from Mr. Rubin's proposed rates shown under the columns labeled "GCI Proposed" but not from the Utilities' proposed rates shown under the columns labeled "Co. Proposed". This is evident on line 5, where the total revenue amounts shown are higher for the "Co. Proposed" (the Utilities) than for the "GCI Proposed" by the gas cost related Uncollectible Accounts Expense amounts of $13.4 million and $815,000 for Peoples Gas and North Shore, respectively. If such amounts are deducted from the Utilities' rates by setting the customer charge for sales customers the same as that for transportation customers, and leaving distribution charges untouched as initially proposed, a fair rate design comparison can be made.[2] Also, if necessary corrections are applied to Mr. Rubin's supporting analysis, a more accurate comparison can be made. As customers will pay the same charges for storage under both Mr. Rubin's and the Utilities'

[2] For simplicity, to remove the amounts that would be recovered under Rider UEA-GC, the customer charge for sales customers can be set to that for transportation customers as such costs are not recovered through transportation customers' customer charges. However, in practice, although the customer charge would be the same for sales and transportation customers, the customer charge and distribution charges may differ slightly from the amounts shown in the exhibit due to rounding issues associated with developing rates to meet the revenue requirement. The rates also exclude storage costs that would be recovered under proposed Rider SSC.

proposals, such charges do not need to be considered for comparative purposes. Factoring in the issues and corrections discussed above, page 2, lines 1 through 5 of NS-PGL Ex. 45.2 and NS-PGL Ex. 45.3 provides a fairer and more accurate comparison between Mr. Rubin's corrected proposed rates and those proposed by Peoples Gas and North Shore, respectively. However, the comparison does not imply support for Mr. Rubin's proposals.

Q. Mr. Rubin claims on page 6 of his rebuttal testimony that Peoples Gas customers who use less than 47 monthly therms would see lower bills under his proposal. Is he correct?

A. That may have been the case under Mr. Rubin's proposed rates before the corrections discussed above. However, under Mr. Rubin's again corrected proposed rates, Peoples Gas customers who use up to 40 monthly therms would see lower bills but that would come at a price of higher bills for customers whose monthly usage is 41 therms or more. Page 2, lines 7 through 22 of NS-PGL Ex. 45.2 and NS-PGL Ex. 45.3, for Peoples Gas and North Shore, respectively, shows comparative bill impacts under rates proposed by Peoples Gas and Mr. Rubin. As shown, monthly bill amounts under Mr. Rubin's proposals for Peoples Gas would be lower for monthly usage amounts of 40 therms or less but higher for monthly usage amounts equal to or greater than 41 therms. The monthly bill amounts under Mr. Rubin's proposals for North Shore would be lower for monthly usage amounts of 95 therms or less but higher for monthly usage amounts equal to or greater than 97 therms.[3] As most S.C. No. 1 customers' usage is highly seasonal and weather sensitive, many of those lower usage bills are for customers who use gas at

[3] At 96 monthly therms, there is no difference between the bill amounts arising from the two rate design proposals. Also, annual usage for an average North Shore S.C. No. 1 customer is higher than that for a similar Peoples Gas customer.

much higher levels during many months. Accordingly, when compared to Peoples Gas' and North Shore's proposed rates, Mr. Rubin's proposed rates for an average S.C. No. 1 customer may result in lower bills for lower usage months but higher bills for other months, as well as annually. This point is illustrated in NS-PGL Ex. 45.4 which shows that when comparing bills under Peoples Gas' and Mr. Rubin's rate design proposals, the monthly bill amounts for an average S.C. No. 1 customer[4] show lower amounts during the lower-usage 5-month period from May through September, but higher bill amounts during the higher-usage 7-month period from October through April, when gas costs are also typically at their highest, likely causing higher total bills during this period. Annual bills would also be higher under Mr. Rubin's rate design proposals by about $10.53. A similar situation is shown on this exhibit for an average North Shore S.C. No. 1 customer[5] where monthly bills under Mr. Rubin's rate design proposals would be lower during the 6-month period from May through October, but higher during the 5-month period from November through March, the same in April, and slightly higher annually by $2.01. Unfortunately Mr. Rubin limits his discussion to discrete monthly usage and bill amounts[6] and fails to recognize or address the seasonal nature of customers' usage and related monthly and annual bill impacts.

Q. Mr. Rubin claims on pages 6 of his rebuttal testimony that customers who consume 50 therms in a month would pay the same under Peoples Gas' proposed rates and under his proposal. Is he correct?

[4] The monthly and annual usage is the same as that shown in PGL Ex. 12.6.

[5] The monthly and annual usage is the same as that shown in NS Ex. 12.6.

[6] Albeit arising from erroneous rates.

A. No. A customer who consumes 50 therms in a month would pay $1.60 or 4% more under the rates proposed by Mr. Rubin, as shown on NS-PGL Ex. 45.2, page 2, line 13.

Q. Mr. Rubin claims on pages 6 of his rebuttal testimony that very large customers who consume 550 therms in a month would see bill decreases under Peoples Gas' proposed rates and bill increases under his proposal. Do you find this comparison accurate or compelling?

A. No. A customer who consumes 550 therms in a month would pay a nearly bill neutral amount of $0.67 less under the rates proposed by Peoples Gas ($95.82 - $96.49) and $18.95 more under the rates proposed by Mr. Rubin ($115.44 - $96.49) as shown on NS-PGL Ex. 45.2, page 2, line 22. As mentioned previously, customers will also pay separately for storage under Rider SSC under both Peoples Gas' and Mr. Rubin's rate design proposals[7]. Accordingly, bills will increase under both Peoples Gas' and Mr. Rubin's proposed rates but the increase amount will be larger under the latter.

Q. Does Mr. Rubin explain why a monthly usage of 550 therms is meaningful?

A. No he does not. Such large monthly usage would be highly unusual for a Peoples Gas S.C. No. 1 customer. Peoples Gas' Schedule E-8 of the Commission's standard filing requirements shows that monthly usage for 96.5% of S.C. No. 1 customer bills are for 320 therms or less8. Accordingly, a bill with a monthly usage of 550 therms would be an outlier. Moreover, even if this unlikely large usage customer were to see a bill decrease in a given month, the same customer would likely see a bill increase in certain other

[7] Storage is bundled in the customer and distribution charges under Peoples Gas' present rates.

[8] Although Mr. Rubin did not offer a specific high usage bill amount for North Shore, 96.5% of North Shore's customer bills are for 380 monthly therms or less.

months due to the seasonality of gas usage discussed above. However, once again, Mr. Rubin fails to recognize or address the seasonal nature of customers' usage. If we continue with Mr. Rubin's approach of looking at monthly bills in a vacuum, a more reasonable high monthly usage amount would be the 320 therm upper limit shown in Schedule E-8. Assuming this usage amount, a customer would see a bill increase of $2.52 ($70.58 - $68.06) under Peoples Gas' proposed rates. This increase would be higher if Rider SSC charges are included.

Q. Do you have any final observations on the Utilities' and Mr. Rubin's rate design proposals for S.C. No. 1?

A. Yes. As mentioned previously, Mr. Rubin's proposed rate design is not consistent with Commission directives and orders which support increased fixed cost recovery through the customer charge. However, the Utilities' proposals, which recover an increased amount of all customer related costs through the customer charge for Peoples Gas and North Shore are consistent with the Commission's directives and orders, provide reasonable increases in the customer charge as well as decreases in each Utility's proposed distribution charges. Staff Witness Cheri Harden supports the Utilities' proposals. For all of these reasons, the Commission should accept the Utilities' proposals for S.C. No. 1 and reject those offered by Mr. Rubin.

Q. Do you find Mr. Rubin's arguments on page 7 of his rebuttal testimony, that storage costs are not fixed, to be accurate or compelling?

A. No. The Utilities' witness Joylyn Hoffman-Malueg responded to Mr. Rubin's misunderstanding of fixed costs in her rebuttal testimony (NS-PGL Ex. 29.0, pages 13-

15). Storage costs are classified as Demand (also referred to as Capacity). These costs are fixed in nature.

Q. Does Mr. Rubin accurately describe the rationale underlying recovery for storage costs under the Utilities' proposed Rider SSC?

A. No, he does not. Mr. Rubin's claim that the Utilities propose to recover these costs through volumetric charges because such costs are directly related to the amount of gas each residential customer uses is misleading. The Utilities propose to allocate fixed storage capacity on a peak day basis and to recover related fixed storage costs under proposed Rider SSC from transportation customers on a per-therm of elected storage capacity basis and from sales customers on a per-therm of usage basis. The available storage capacity is a fixed amount with related fixed costs. Neither the total storage capacity nor total related costs will vary with how much gas customers use. A portion of the fixed storage capacity for each Utility will be allocated to transportation customers based upon the Utility's design peak day and transportation customers' maximum daily quantity ("MDQ"), as described in my direct testimony. Transportation customers will subscribe for storage capacity under a process described by the Utilities' witness John McKendry in his direct testimony. Any unsubscribed storage capacity for transportation customers will be added to that capacity that is available for sales customers with the costs being recovered from sales customers on a per-therm of usage basis. This process differs from and is opposite of that described by Mr. Rubin on page 7 of his rebuttal testimony, which inaccurately claims that the less storage that is demanded by sales customers, the more storage becomes available for sale to "others" (presumably transportation customers).

Q. Why do the Utilities propose to recover the storage costs on a per therm of usage basis from sales customers?

A. The Utilities' storage capacity is a fixed quantity. The amount of storage capacity transportation customers receive is tied in some form to their MDQ, which is determined by a daily demand measuring device or by an algorithm. However, it is not as easy to implement MDQ storage allocations for sales customers. First, sales customers do not have daily demand measuring devices (which would result in additional costs to their bills). Also, it would be impractical to develop and maintain algorithms to establish MDQ amounts for hundreds of thousands of sales customers simply to bill Rider SSC charges in the same manner as that for transportation customers, when such charges could be easily billed on a per-therm of usage basis. In essence, the Utilities' proposal to recover <u>fixed</u> storage capacity costs from sales customers on a per-therm of usage basis represents a practical and reasonable rate design alternative.

Q. Mr. Rubin claims on page 3 of his rebuttal testimony that you have either under-stated the credit in your calculation of demand related costs or over-stated the amount to be recovered under Rider SSC. Is he correct?

A. No. Mr. Rubin's unfounded claims arise from his lack of understanding of the Utilities' unbundling proposals, the storage revenue requirements as reflected in their cost of service studies, the allocation process for storage costs and capacity amounts, and the treatment of unsubscribed storage capacity and related costs, all of which are extensively addressed in my direct testimony, or the direct testimonies of Joylyn Hoffman-Malueg and John McKendry. The credit amounts shown on NS-PGL Ex. 28.1, line 18 correctly reflect the storage-related revenue requirements in the Utilities' cost of service studies.

They are appropriately excluded from the revenue requirement so that the remaining revenue requirement will be used for the purpose of determining other charges. The storage revenue requirements reflect allocations to each rate class based upon the peak day amounts for sales and transportation customers. However, because transportation customers do not currently elect their full storage capacity amounts, test year storage capacity and revenues for sales customers reflect additional capacity arising from the unsubscribed storage capacity and the related costs that would be recovered from sales customers under Rider SSC. Accordingly, both the storage capacity amounts and related costs for sales customers are higher for S.C. No. 1, which has far more sales customers than transportation customers. As discussed in my direct testimony, these capacity amounts and related charges will be determined annually based upon transportation customers' storage capacity elections.

Q. Mr. Rubin claims on pages 7 and 8 of his rebuttal testimony that you misstate the amount of fixed cost recovery arising from the Utilities' proposed customer charges. Is he correct?

A. No, he is not. On GCI Ex. 8.4, Mr. Rubin inappropriately and inexplicably excludes sales customers' Rider SSC revenues from total revenue requirements when determining the percentage of fixed costs that would be recovered through the customer charge for S.C. No. 1. These revenues represent the storage-related revenue requirements (costs) that would be re-allocated to S.C. No. 1 based upon assumed transportation storage subscription amounts for the test year and resulting storage capacity that would be reallocated to sales customers[9]. An exclusion of these revenue requirement amounts allows Mr. Rubin to inappropriately increase the percentage of fixed cost percentages to support the inaccurate points made in his testimony. Mr. Rubin also overlooks and inexplicably omits transportation customers' Rider SSC revenue amounts in the Rider SSC amounts that he shows on line 4. Although storage-related costs would be recovered separately for sales and transportation customers under charges arising from Rider SSC, they would still be considered part of the base rate revenue requirements that are associated with providing service to customers. Accordingly, contrary to Mr. Rubin's claims, the customer charge recovery amounts cited in NS-PGL Ex. 28.0 of 62% and 69% for Peoples Gas and North Shore, respectively, are accurate. Staff witness Ms. Harden confirms the correctness of these percentages on page 2 of her rebuttal testimony.

Q. Do you agree with Mr. Rubin's claim that 88% and 90% of the revenue requirement for Peoples Gas and North Shore, respectively, is guaranteed?

A. Absolutely not. Mr. Rubin supports his claim with simplistic math and speculation rather than an examination of the Utilities' actual number of customers and distribution sales. In fact, the number of customers, as well as usage in the first block of the Utilities' two block rate structures, are not immune from the effects of the economy, changes in weather, energy efficiency, or customer conservation, among other factors. Accordingly, the number of customers served on the Utilities' systems as well as distribution revenues in the first block can and do vary from year to year. Although a decoupling mechanism

[9] Storage subscription amounts and Rider SSC storage related revenues for transportation customers are based on storage elections at the time of the Utilities' rate case filings. These amounts may change as described in NS-PGL Ex. 28.0.

such as Rider VBA would eliminate[10] the under- or over-recovery of the Utilities' distribution revenue requirement, GCI witness Dr. Dismukes is proposing that this mechanism not be implemented permanently.

B. Staff Witness Brightwell

Q. On pages 6 and 7 of his rebuttal testimony, Dr. Brightwell states that Rider VBA allows for both revenue stability and lower fixed charges, and that higher fixed charges burden low-use customers. Do you agree?

A. I agree that Rider VBA provides stability for the Utilities and their customers, as does a higher customer charge, but operating together, they can mitigate the bill impacts on low usage customers. Accordingly, I note that the Utilities' proposed customer charges for S.C. Nos. 1 and 2, which recover far lower percentages of fixed costs than those approved for other Illinois utilities, and are supported by Ms. Harden, are reasonable, and working in conjunction with Rider VBA, should address the concerns raised by Dr. Brightwell.

III. STORAGE UNBUNDLING

Q. Mr. Kawczynski continues to argue that the Utilities' claim that Rider SSC effectively addresses Staff witness Mr. Sackett's unbundling proposal is misleading. Is he correct?

A. No. Rider SSC is a storage cost recovery mechanism that supports the unbundling proposals made by the Utilities. As I acknowledged, it is not the entire response to the Commission's directive to unbundle Rider SST storage and standby service and aspects of that proposal are contested. Rider SSC, however, is not contested.

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[10] I note that Staff witness Ms. Ebrey opposed a proposed change that would address customer switching between certain rate classes. If the Commission adopts Ms. Ebrey's position, then potential over- and under-recovery may occur.

Q. Regarding the contested aspects of the proposal, how does this affect the tariffs?

A. Mr. Sackett recommends approval of Rider SBS but rejection of certain operational aspects. He also recommends rejection of certain operational aspects for Rider FST. Messrs. Kawczynski and Gorman recommend rejection of certain operational aspects as well. The Utilities' witness Mr. Connery provides a list of operational considerations that have not been addressed by parties in these proceedings. Those considerations may then need to be factored into the compliance tariffs that will be filed in this proceeding, depending upon the Commission's order. Also, if the Commission does not approve Rider SSC, rates for delivery service would need to be increased to recover the storage-related revenue requirement in a manner that would not be aligned with providing unbundled services. Moreover, Mr. Connery offered an alternative to calculating applicable charges for Rider FST service and, if approved by the Commission, that alternative may require changes to Rider 2, Gas Charge.

Q. Mr. Kawczynski continues to suggest on pages 4-6 of his rebuttal testimony that the Utilities may profit from their unbundling proposals. Is he correct?

A. No. Mr. Kawczynski's claims are contrary to the operation of the Utilities' gas charges. Any imbalance or cashout charges associated with the Utilities' proposals and incurred by transportation customers would be credited to customers through the monthly gas charge. Also, revenue amounts arising from Peoples Gas' interstate services are credited to its sales and transportation customers through monthly credits that are included in the monthly gas charges filed with the Commission. Accordingly, Mr. Kawczynski's claims are baseless and should be rejected.

IV. RIDER VBA

A. GCI Witness Dismukes

Q. Does Dr. Dismukes present a balanced view of the Utilities' Rider VBA decoupling mechanisms?

A. No, he does not. In his rebuttal testimony, Dr. Dismukes continues to focus on certain aspects of the Utilities' Rider VBA mechanisms that support his opposition for decoupling and either minimizes or overlooks any proven positive aspects of decoupling. For example, on page 6 of his rebuttal testimony, Dr. Dismukes suggests that revenue decoupling changes the risk relationship by requiring ratepayers to make the utility whole for any downside change in revenues without mentioning any upside risk that may be minimized for customers via potential credits. Later, on page 7 of his testimony, he minimizes the fairly significant cumulative Rider VBA credit amounts of $22.9 million and $4.7 million issued to Peoples Gas and North Shore customers, respectively, as cited in my rebuttal testimony (NS-PGL Ex. 28.0, page 30). Also, Dr. Dismukes' persistently and extremely narrow focus on energy efficiency and lost revenues does not allow for a more balanced view of decoupling.

Q. Are Dr. Dismukes' criticisms about monthly adjustments under Rider VBA and his observations about the mechanics of Rider VBA pertinent (GCI Ex. 9.0, pp. 7-8)?

A. No, they are not. As the Utilities have proposed to determine Rider VBA on an annual basis if made permanent, as discussed in my direct testimony (PGL Ex. 12.0 and NS Ex. 12.0) and supported by Staff witness Ms. Ebrey, Dr. Dismukes' criticisms about monthly adjustments are moot. Also, the Utilities have agreed with Ms. Ebrey's recommendation to determine Rider VBA adjustments on a total distribution revenue basis, which would consider the total distribution revenue requirements arising from the Commission's order in a rate case proceeding.

Q. Dr. Dismukes raises a few arguments about your response to his lost revenue computations (GCI Ex. 9.0, pp. 11-17). Please comment.

A. There are various ways to determine lost revenues, some of which I addressed in my rebuttal testimony in response to Dr. Dismukes' observations on this subject. However, the Utilities' Rider VBA mechanisms were approved by the Commission as full decoupling mechanisms, not lost revenue tracking mechanisms, and are not designed or presented as lost revenue tracking mechanisms in this proceeding. Accordingly, the Utilities do not track "lost revenue" data of the sort sought by Dr. Dismukes because it has no bearing on the decoupling mechanism. Thus, there is no need to further debate the appropriate distribution rates to use or the appropriate time horizon to consider with respect to lost revenues.

Q. Dr. Dismukes disputes that decoupling is synonymous with cost recovery and insists that it deals entirely with revenues and not costs (GCI Ex. 9.0, page 19, lines 370-372). Do you agree?

A. No. Adjustments under Rider VBA recover or refund the distribution revenue requirements approved for the Utilities in rate cases by the Commission. Revenue requirements represent the costs incurred by the Utilities to serve its customers. These costs are no different than gas costs, which at one time were included in the revenue requirements with any over- or under-recovery of such costs being refunded or recovered through monthly adjustments.

Q. On page 22 of his testimony, Dr. Dismukes discusses “surcharges” that would have been paid by customers had weather been closer to normal. Please comment.

A. Dr. Dismukes speculates on what weather “could have been” and how customers may have fared had weather been closer to normal. Unfortunately, Dr. Dismukes’ supporting exhibit, GCI Ex. 9.6, reflects far too many errors for his cited surcharges of $2.4 million for Peoples Gas’ customers and $100,000 for North Shore’s customers to be considered credible. For example, Dr. Dismukes applied an actual annual distribution rate (shown as “AM/AS”) to annual normalized sales volumes to determine Normalized Margin (shown on line 2b). That would not be accurate as the monthly weather effect on distribution rates could differ each month resulting in a different normalized rate for the year. Also, Dr. Dismukes did not normalize VBAR (“the sum of the monthly revenues arising from the Effective Component of Rider VBA”). Accordingly VBAR shows actual Rider VBA revenues arise from actual weather, resulting in his normalized RA shown on line 9b being in error (VBAR would have been less if the effect of weather was considered). Finally, the RA amount is the annual reconciliation adjustment amount that currently accounts for any differences between annual amounts to be recovered or refunded under the rider, and amounts billed under the rider in the year. The RA does not represent the annual effect of Rider VBA on customers as indicated by Dr. Dismukes. Again, as Rider VBA is not a lost revenue tracking mechanism and his “assuming normal weather” scenario is hypothetical, there is no need to quantify those errors or further debate what the revenue impact “could have been”, especially since it has been shown that customers have received significant refund amounts since Rider VBA has been in place. Moreover, Dr. Dismukes does not show that the hypothetical "surcharges" would have been anything other than proper cost recovery.

Q. Do you have any final observations on Dr. Dismukes' testimony with respect to Rider VBA and decoupling?

A. Yes. It is apparent that Dr. Dismukes does not support the Utilities' Rider VBA or any form of decoupling. Ironically, despite his opposition to decoupling, a widely accepted ratemaking mechanism, he points to "changing market dynamics and revenue decoupling" on page 23 of his rebuttal testimony, without even acknowledging that decoupling is at the forefront of such change. In 2007, decoupling had been approved for 17 utilities in 10 states. In 4 years, that number has grown significantly with decoupling being approved for 46 utilities in 20 states – an astonishing increase of 171% and 100% for utilities and states, respectively. Yet, despite this changing and widely embraced market dynamic, Dr. Dismukes is asking the Commission, an early adopter of decoupling, to go backwards rather than permanently approve Rider VBA, which as a pilot decoupling rider, has operated in its intended manner and has provided proven benefits to the Utilities and their customers.

Q. Are there any other matters that the Commission should consider with respect to Dr. Dismukes' recommendation that Rider VBA not be made permanent?

A. Yes. Dr. Dismukes proposal to eliminate Rider VBA and GCI witness Mr. Rubin's proposal to reduce fixed cost recovery through the customer charge and front block of the distribution charge must be considered jointly, as together they would assure that the Utilities' would either over- or-under-recover the distribution revenues arising from the

Commission's order in this proceeding and that customers would over- or-under-pay accordingly.

B. <u>Staff Witness Ebrey</u>

Q. Ms. Ebrey recommends that the Utilities include with their surrebuttal testimony revised Rider VBA tariff language provided in the response to Staff Data Request TEE 19.04. Are you complying with Mr. Ebrey's request?

A. Yes. NS-PGL Ex. 45.5 and NS-PGL Ex. 45.6 included with my surrebuttal testimony reflect the responses for Peoples Gas and North Shore, respectively.

Q. Ms. Ebrey suggests that the Utilities' Rider VBA proposals which address the potential migration of customers from and to S.C. No. 2 introduce unnecessary complications. Do you agree?

A. No. The Utilities made these proposals in conjunction with their agreement with Ms. Ebrey's proposal to switch to a total distribution revenue methodology for determining Rider VBA adjustments rather than the distribution revenue (margin) per customer methodology that is currently in place. As explained in my rebuttal testimony, because of eligibility thresholds for S.C. Nos. 2, 3 (North Shore) and 4 (Peoples Gas), customers may be switched among these rate classes after the Rider VBA baselines have been established and approved by the Commission. Ms. Ebrey incorrectly notes that the migration only occurred in 2010. Prior to the Commission's approval of eligibility thresholds for S.C. Nos. 2, 3 and 4, customers could freely transfer from S.C. No. 2 from S.C. Nos. 3 and 4 if it was in their economic interest. As the Utilities had not recently increased rates until 2008 (the previous rate increases were in 1995), there were no economic reasons for customers to switch rate classes. However, with the 2008 rate increase 93 Peoples Gas and 3[11] North Shore customers switched to S.C. No. 2 as shown in the data request response. There was no economic reason for customers to switch in 2009 as the 2008 rates were still in place. With the eligibility limits for S.C. Nos. 2, 3 (North Shore) and 4 (Peoples Gas) approved by the Commission in 2010 (Docket Nos. 09-0166/09-0167 (cons.)), customers can no longer freely switch rate classes for economic reasons. However, they may be transferred if they no longer meet the usage-based eligibility requirements for the rate class. Hence, the transfers that occurred in 2010 as noted by Ms. Ebrey. The Utilities have no control over the conditions that may result in usage changes that may cause customers to be switched from one rate class to another. For example, S.C. No. 2 customers may switch to S.C. No. 3 (North Shore) or 4 (Peoples Gas) due to increased usage arising from improved economic conditions, business expansion or consistently cold weather. S.C. No. 3 or 4 customers may switch to S.C. No. 2 due to reduced usage arising from adverse economic conditions, business decisions, conservation, energy efficiency or weather. Accordingly, there is potential for switching to occur due to the recently approved rate class thresholds. Unlike the current distribution revenue per customer methodology, which considers changes in revenues per customer, the total revenue method proposed by Ms. Ebrey and accepted by the Utilities would consider distribution revenue dollar amounts, which could be substantial compared to the amount determined based on the current revenue per customer method amount for larger S.C. No. 2 customers. Without the S.C. No. 2 language proposed by the Utilities, large distribution revenue amounts may be shifted into and out of the Rider VBA calculation with such changes arising from customer migration and shifting sales from

[11] One North Shore S.C. No. 4, Contract Service customer whose contract terminated, was returned to S.C. No. 2. This customer was not factored into the established Rider VBA baseline.

one rate class to another rather than from revenue amount changes arising from organic increases and decreases within the rate class.

Q. Ms. Ebrey describes the Utilities' proposed language to address migration for S.C. No. 2 as a cost recovery issue. Is that an accurate description?

A. Not really. This potential migration issue is a matter of symmetry and fairness. For example, if larger customers switch from S.C. No. 2 to S.C. No. 3 (North Shore) or 4 (Peoples Gas), total actual S.C. No. 2 distribution revenues will decline from rate class switching, with S.C. No. 2 customers incurring a charge under Rider VBA. However, the Utilities would continue to recoup revenues from these customers under their new rate class as well. Conversely, if larger customers switch from S.C. No. 3 or 4 to S.C. No. 2, total actual S.C. No. 2 distribution revenues will increase, resulting in a credit to customers. However, the Utilities would not earn the revenue requirements approved under their former classes and thus, would earn no distribution revenue at all for these customers. Although customer switching may not occur at the levels seen in 2008 and 2010, the language proposed by the Utilities helps to ensure that symmetry and fairness continue to prevail under the rider and provides the Commission with supporting information for its review.

V. <u>RIDERS UEA AND UEA-GC</u>

Q. On pages 17 through 19 and pages 20 through 22 of his rebuttal testimony, Staff witness Mr. Kahle continues to recommend approval for a net write-off methodology for determining Uncollectible Accounts Expense and for Riders UEA. Do the Utilities support his proposal?

A. No. The Utilities' witness Christine Gregor's rebuttal and surrebuttal testimonies address the Utilities' positions on this matter.

Q. Mr. Kahle suggests tariff language that supports his recommendation. Are his proposed tariff revisions for Rider UEA sufficient?

A. No, they are not. On page 21 of his rebuttal testimony, Mr. Kahle proposes a simple tariff revision for Rider UEA which would replace the Form 21 Account 904 amount as the Rider UEA baseline with the term "net write-offs". However, as explained by Ms. Gregor in her surrebuttal testimony, if the Commission were to approve a net write-off methodology, it is expected that the net write-off amounts would be recorded in Form 21 under Account 904. Accordingly, the revision proposed by Mr. Kahle would not be necessary. Although Mr. Kahle addresses this simple tariff change to support his proposal, I am very concerned that Mr. Kahle may not have fully considered the impacts of his proposal, and that he did not address the more substantial tariff changes that may be needed to effectively transform Rider UEA from its current percentage of revenue method to the net write-off method. Rider UEA is a very detailed tariff that is premised on the Utilities' percentage of revenue method. Rider UEA is 13 pages long with numerous sections and formulas that are premised on this long-standing methodology. Mr. Kahle did not offer any substantial guidance or any proposed tariff language to support his proposals and the Utilities have not determined the extent of the tariff changes that would be required to implement a proposal that is not of their own making.

Q. Is Mr. Kahle's recommendation to switch to a net write-off method consistent with the Stipulation entered into between the Utilities and the Commission Staff in Docket Nos.

09-0419 /09-0420 (cons.), which implemented Rider UEA, and laid the foundation for Rider UEA-GC?

A. No, it is not consistent with the portion of the Stipulation applicable to Rider UEA-GC. The Stipulation specifically required the Utilities to propose a gas cost uncollectible expense rider in their next rate cases, *i.e.*, the current cases, and it described the form of that rider. Prior to the Stipulation's execution, the Utilities had proposed, in a rate case proceeding (Docket Nos. 09-0166/09-0167(cons.)), Rider UEA which mirrors proposed Rider UEA-GC. However, the Utilities withdrew their proposals in that proceeding, in anticipation of the enactment of Public Act 096-0033, which enabled implementation of Uncollectible Accounts Expense riders. The Stipulation required the Utilities to file a gas cost uncollectible expense rider mechanism "similar to" that which was withdrawn in the rate case – a rider mechanism premised on a percentage of revenues methodology. The Stipulation provided in part that: "The amount that will be billed to customers pursuant to the rider will be determined by multiplying uncollectible factor(s) that will be based on each of Peoples Gas' and North Shore's uncollectible accounts expense for each eligible rate class as approved by the Commission and set forth in Peoples Gas' and North Shore Schedules of Rates for Gas Service times the charges billed pursuant to Rider 2, Gas Charge either directly or by reference."

Q. Mr. Kahle states on page 17 of his rebuttal testimony that the Utilities' "own proposal for Rider UEA-GC requires the allocation of account 904 uncollectible accounts expense to derive the gas charge portion of sales customers' bills … . Therefore, the argument that there is no reliable method to determine how much of actual net write-offs are related to the charge is not a compelling one". Please comment.

A. The testimony that Mr. Kahle cited does not support a net write-off methodology. It explains how such costs are allocated in the Utilities' embedded cost of service studies and how the Factors in proposed Rider UEA-GC are derived. Under Rider UEA-GC, the Factors will be applied to customer's actual bills to determine gas-cost related Uncollectible Accounts Expense revenues. Under the current percentage of revenues methodology, the revenue amounts that would be applied against the Factors would be the same as the revenue amounts underlying the Uncollectible Accounts Expense amounts in Account 904, resulting in an alignment of costs and expenses.

Q. What is your recommendation regarding using a net write-off method for determining Uncollectible Accounts Expense and for Rider UEA and Rider UEA-GC?

A. Ms. Gregor addresses the Utilities' opposition to a net write-off method for Uncollectible Accounts Expense, as noted above. That opposition also applies to Rider UEA and Rider UEA-GC. However, if the Commission were to approve a net-write off methodology for Uncollectible Accounts Expense, then it would also apply to the riders. Due to the uncertainty and incompleteness of Mr. Kahle's proposals with respect to the riders and the issues raised by Ms. Gregor, I recommend that the Commission reject Mr. Kahle's net write-off proposals in their entirety.

VI. TRANSPORTATION ADMINISTRATIVE CHARGES

Q. IGS witness Mr. Parisi continues to recommend that the administrative charges related to the administration of the Choices For You^{sm} ("CFY") transportation program be assessed to all customers eligible for the program. Do the Utilities agree?

A. No. For the reasons stated in my rebuttal testimony, the Utilities continue to believe that administrative charges related to the administration of the CFY transportation program are assessed to suppliers in the appropriate manner and should not be recovered from all customers. Staff witness Mr. Sackett agrees on pages 6 and 7 of his rebuttal testimony. Moreover, the Utilities' present method of cost recovery quells a concern raised by Mr. Kawczynski on pages 21 and 22 of his rebuttal testimony that the large volume transportation customers (those served under Riders FST, SST and potentially Rider SBS) should not be subject to both large volume and CFY administrative costs. Under Mr. Parisi's proposal, sales customers and large volume transportation customers would be subject to charges for costs that they do not cause. That would be contrary to Mr. Parisi's own statement on page 19 of his rebuttal testimony, namely that "the competitive market works best when no group is forced to subsidize another customer group".

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.