

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

North Shore Gas Company)	
)	
Proposed General Increase)	
In Rates For Gas Service)	
)	
The Peoples Gas Light)	Nos. 09-0166, 09-0167
and Coke Company)	Cons.
)	(on Remand)
)	
Proposed General Increase)	
In Rates For Gas Service)	

DIRECT TESTIMONY ON REMAND
OF
SERGIO AGUILAR

1 **I. Witness Introduction**

2 Q. Please state your name and business address.

3 A. Sergio Aguilar, 130 East Randolph Street, Chicago, Illinois 60601.

4 Q. By whom are you employed?

5 A. Integrys Business Support, LLC.

6 Q. What position do you hold with Integrys Business Support, LLC?

7 A. I am a Senior Accountant.

8 Q. What are your responsibilities in that position?

9 A. I am responsible for the accounting related to capital projects associated with

10 Meters, Regulators, Underground Storage, and Cast Iron Main Replacement, as

11 applicable, for North Shore Gas Company (“North Shore”) and The Peoples Gas

12 Light and Coke Company (“Peoples Gas”).

13 Q. Please summarize your educational background and experience.

14 A. I have a Bachelors of Business Administration from Robert Morris University
15 and a Master of Accountancy from DePaul University. I have been employed by
16 Peoples Gas and its affiliates since July 2006.

17 **II. Purpose of Testimony**

18 Q. What is the purpose of your testimony?

19 A. The purpose of my testimony is to address issues raised by the Illinois
20 Appellate Court's reversal of the Illinois Commerce Commission's ("Commission")
21 approval of Peoples Gas' Rider ICR, Infrastructure Cost Recovery. This is the
22 remand proceeding resulting from the Illinois Appellate Court's Opinion dated
23 September 30, 2011, addressing certain issues from the Commission's January 21,
24 2010 Order in the North Shore and Peoples Gas rate case in the above-captioned
25 dockets. Among other things, the Court reversed the Commission's approval of
26 Peoples Gas' Rider ICR and remanded the matter to the Commission for further
27 proceedings consistent with its Opinion. In March 2012, the Appellate Court issued
28 its Mandate to the Commission. This remand proceeding addresses the
29 ramifications of the Court's reversal of Rider ICR.

30 Q. Are you sponsoring any exhibits?

31 A. Yes, I am sponsoring three exhibits.

32 NS-PGL Ex. 1.1 Remand is a summary of the analysis that produced the
33 "Refund" and the "Reconciliation Adjustment," as I define those terms below.

34 NS-PGL Ex. 1.2 Remand is a form of notice for publication to inform former
35 customers of the availability of a refund.

36 NS-PGL Ex. 1.3 Remand shows data about former customers that is relevant
37 to my testimony about setting aside some Refund amounts for former customers.

38 **III. Summary of Conclusions**

39 Q. Please summarize the conclusions of your Direct Testimony.

40 A. The Court's reversal and remand raise two issues for which Peoples Gas is
41 proposing a resolution. First, Peoples Gas recovered Rider ICR costs associated
42 with customers' consumption after the date of the Court's Opinion. Peoples Gas
43 proposes to refund, with interest, amounts billed as a result of billing for consumption
44 that occurred in the period September 30, 2011, through December 31, 2011 (the
45 "Refund"). Second, Rider ICR included an annual reconciliation process. It is not
46 practical to implement the annual reconciliation process prescribed in Rider ICR.
47 The Court's reversal of Rider ICR fell in the middle of a reconciliation year, and the
48 reconciliation mechanism is predicated on a full year's activity. Accordingly, Peoples
49 Gas is proposing an alternative means of reconciling activity, and that alternative
50 produces an additional refund amount (the "Reconciliation Adjustment").

51 For the combined Refund and Reconciliation Adjustment, Peoples Gas
52 proposes to issue the refund to current customers over a nine-month period,
53 commencing approximately one month after the Commission issues a final order in
54 this remand proceeding. In addition, Peoples Gas will set aside a portion of the
55 Refund for former customers, *i.e.*, customers who consumed gas on one or more
56 days during September 30, 2011, through December 31, 2011, but are no longer on
57 the system.

58 Finally, Peoples Gas proposes a final reconciliation to determine if any
59 amounts remain un-refunded at the end of the nine-month period and, if so, how to
60 handle those funds.

61 **IV. Background**

62 Q. What is Rider ICR?

63 A. Rider ICR is a cost recovery mechanism for certain costs associated with
64 Peoples Gas' accelerated main replacement program. Relevant to this proceeding,
65 Peoples Gas calculated a charge under Rider ICR that it first included on bills for
66 service rendered in the April 1, 2011, through December 31, 2011 period. The
67 charge was in the form of a percentage applied to the total of certain charges (base
68 rate revenues) on customers' bills. (The term "base rate revenues" means that
69 charges such as gas costs were not included in the amount to which the Rider ICR
70 charge percentage applied.) Thus, customers consuming more gas generally paid a
71 larger amount under Rider ICR than customers with lower consumption. Rider ICR
72 operates such that, due to Peoples Gas' rate case in Docket Nos. 11-0280/11-0281
73 (cons.), the Rider ICR charge for 2012 costs would have been set to zero,
74 irrespective of the Court's action, although an adjustment would have been in effect
75 for the reconciliation of calendar year 2011 costs and revenues.

76 Q. Did North Shore have a Rider ICR?

77 A. No. This remand proceeding affects only Peoples Gas.

78 Q. After the Court issued its Opinion, did Peoples Gas continue to include Rider
79 ICR charges on bills?

80 A. Yes. Peoples Gas applied the Rider ICR charge on bills that included
81 consumption through December 31, 2011. Note that this includes bills issued after
82 December 31, 2011. For example, almost all bills issued in January 2012 would
83 include some December 2011 consumption and even bills issued after January 2012
84 could include December 2011 consumption.

85 Q. Is Peoples Gas still billing Rider ICR charges?

86 A. No. Even if Peoples Gas issues a corrected bill that includes pre-January 1,
87 2012 consumption, Peoples Gas no longer includes the Rider ICR charge.

88 Q. How much did Peoples Gas bill under Rider ICR?

89 A. Peoples Gas billed \$3,678,027.37 as a result of billing for consumption that
90 occurred from April 1, 2011, through December 31, 2011. This figure appears on
91 NS-PGL Ex. 1.1 Remand, line 4.

92 Q. Did Peoples Gas file a reconciliation adjustment for 2011 costs and
93 revenues?

94 A. No. Rider ICR initially required a reconciliation filing by March 31, 2012.
95 However, given the Court's Opinion and the remand, Peoples Gas proposed, and
96 the Commission approved (Special Permission in Docket No. 12-0115), deferring the
97 annual reconciliation and a related internal audit requirement until after the
98 conclusion of the remand proceeding. Peoples Gas' proposal in this proceeding
99 includes addressing the reconciliation and internal audit requirement.

100 **V. Refund**

101 Q. Is Peoples Gas proposing a refund in response to the Court's Opinion?

102 A. Yes.

103 Q. What amount is Peoples Gas proposing to refund?

104 A. Peoples Gas is proposing to refund \$1,585,305.50, plus interest of \$7,926.53.

105 These figures appear on NS-PGL Ex. 1.1 Remand, lines 10 and 12, respectively.

106 Note that this does not include amounts that Peoples Gas will refund as a

107 Reconciliation Adjustment, which I discuss below.

108 Q. How did Peoples Gas determine the Refund amount?

109 A. Peoples Gas is proposing to refund Rider ICR amounts billed as a result of

110 billing for consumption that occurred in the period September 30, 2011, through

111 December 31, 2011. September 30, 2011, is the date of the Court's Opinion

112 reversing the Commission's approval of Rider ICR. December 31, 2011, is the last

113 consumption date to which Rider ICR applied. For this period, Peoples Gas is pro

114 rating bills to exclude amounts for service rendered prior to September 30, 2011,

115 irrespective of when Peoples Gas issued the bill. For example, a bill issued on

116 October 15, 2011, based on an October 14, 2011 meter reading would likely include

117 consumption prior to September 30 and on and after September 30. The

118 consumption occurring prior to September 30, 2011, was properly subject to the

119 charge.

120 Q. On what did Peoples Gas base the interest amount?

121 A. Peoples Gas calculated interest using the Commission's rate applicable to

122 customer deposits. For 2011, the rate, set in Docket No. 10-0719, was 0.5%.

123 Q. Which customers will receive the Refund?

124 A. Peoples Gas has proposals for current and former customers.

125 Q. Please describe how Peoples Gas will implement the Refund for current
126 customers.

127 A. Current customers will receive the Refund amount, less an amount set aside
128 for former customers, in the same manner as Peoples Gas collected charges under
129 Rider ICR. That is, bills will include a percentage applied to base rate revenues to
130 compute a credit. Peoples Gas will flow the Refund along with the Reconciliation
131 Adjustment to current customers over a nine-month period. The percentage, which
132 is for both the Refund and the Reconciliation Adjustment, is -0.54%, assuming a July
133 1, 2012, through March 31, 2013 refund period. For a different refund period, the
134 percentage may be different. The period will begin approximately one month after
135 the Commission issues its order in this remand proceeding. Any customer on the
136 system in one or more of those nine months will receive this credit on bills issued
137 during that period. This is similar to how reconciliation adjustments under various
138 riders are handled.

139 Q. Why is Peoples Gas proposing a nine-month period?

140 A. Just as with collection of the charge, the percentage method means that the
141 amount of the credit will vary directly with usage. A nine-month period will cover the
142 winter months when consumption for space heating customers increases and,
143 consequently, the amount of the credit will increase relative to the non-winter
144 months. A shorter refund period would exclude higher consumption months.

145 Q. Please describe how Peoples Gas will implement the Refund for former
146 customers.

147 A. Peoples Gas will set aside \$40,000 of the Refund amount for former
148 customers. By definition, such customers are not on the system at this time, and
149 Peoples Gas likely has no contact information for the customers. Accordingly,
150 Peoples Gas will publish a notice, on two days, in the Chicago Tribune. The
151 Chicago Tribune is a secular newspaper of general circulation in the Chicago area,
152 and Peoples Gas frequently publishes Commission-required notices in this
153 newspaper. Peoples Gas proposes two days for consistency with the Commission's
154 rules on rate case notices in 83 Illinois Administrative Code Part 255. A proposed
155 form of notice, which I am including as NS-PGL Ex. 1.2 Remand to my testimony,
156 would inform customers of the existence of a refund and give directions for
157 contacting Peoples Gas to get information about submitting a claim. I am advised by
158 counsel that a portion of the Refund amount may be used to cover administrative
159 costs of the refund to former customers. Peoples Gas estimates that the notice
160 publication will cost approximately \$900, and it will reduce the \$40,000 by the actual
161 amount of the publication cost. Peoples Gas is not proposing to reduce the amount
162 for other costs associated with administering the refund to former customers. The
163 former customers will have nine months, concurrent with the nine-month refund
164 period for current customers, or until funding is exhausted, to submit a claim.

165 Q. What refund amount will the former customers receive?

166 A. The percentage of bill approach will not work for these customers. For
167 simplicity, we propose to set a fixed refund amount for customers making a valid
168 claim. The amount, the derivation of which is shown on NS-PGL Ex. 1.3 Remand, is
169 \$0.80 for a Service Classification ("S.C.") No. 1, Small Residential Service,

170 customer; \$2.45 for a S.C. No. 2, General Service, customer; and \$148.62 for a S.C.
171 No. 4, Large Volume Demand Service, customer. Rider ICR also applied to S.C.
172 No. 8, Compressed Natural Gas Service, customers, but no former customers fall
173 under this service classification. These amounts are the average amount billed per
174 former customer account, by service classification.

175 Q. How will Peoples Gas apply the refund to former customers who have
176 amounts due and owing?

177 A. These customers will receive a credit against the amount owed. Over half of
178 the former customers have amounts due and owing, as shown on NS-PGL Ex. 1.3
179 Remand. Given the small amount of the refund, it is unlikely that the credit would
180 exceed the amount owed; if it did, then Peoples Gas would refund the excess to the
181 former customer. I am advised by counsel that this is permissible under Section 9-
182 253 of the Public Utilities Act.

183 Q. How does \$40,000 compare with amounts billed to the former customers?

184 A. The amount billed the former customer class, based on usage occurring on
185 and after September 30, 2011, was \$75,718.31, as shown on NS-PGL Ex. 1.3
186 Remand. The amount set aside is about half of this amount. Refunds will be limited
187 to available funding.

188 **VI. Reconciliation Adjustment**

189 Q. Is Peoples Gas proposing a Reconciliation Adjustment?

190 A. Yes.

191 Q. What adjustment is Peoples Gas proposing?

192 A. Peoples Gas is proposing to refund \$751,233.49. This figure appears on NS-
193 PGL Ex. 1.1 Remand, line 9. Note that this amount is in addition to the Refund,
194 which I discussed above.

195 Q. How did Peoples Gas determine the Reconciliation Adjustment?

196 A. The Rider ICR charge in effect in 2011 was based on estimated costs. The
197 Reconciliation Adjustment uses actual costs and also makes a timing adjustment to
198 account for the Court's September 30, 2011 Opinion. Specifically, Peoples Gas
199 calculated the actual amount that would have been billed through the Rider ICR
200 charge for the April 1, - September 29, 2011 consumption period based on the
201 actual Rider ICR costs incurred during the Operation Year (*i.e.*, calendar year 2011)
202 (NS-PGL Ex. 1.1 Remand, lines 5–7) and subtracted the Rider ICR revenues billed
203 for the consumption period April 1 - September 29 through the Rider ICR charge
204 effective April 1, 2011 (NS-PGL Ex. 1.1 Remand, line 8). As with the Refund, the
205 revenues are based on amounts billed and not collected.

206 Q. How does Peoples Gas propose to flow this amount to customers?

207 A. This amount will flow to current customers. Peoples Gas will combine the
208 Refund amount (less \$40,000 set aside for former customers and related
209 administrative costs) with the Reconciliation Adjustment and flow this amount back
210 through the method I described above for the Refund amount.

211 **VII. Other Issues**

212 Q. Is it possible that the amount refunded under this proposal will be less than
213 the sum of the Refund amount and the Reconciliation Adjustment?

214 A. Yes. In particular, if the set aside amount exceeds claims by former
215 customers, the full amount designated for refund (\$2,344,465.52) may not be
216 credited. Also, because the credit will be in the form of a percentage applied to
217 certain bill components, there may be a discrepancy. However, that discrepancy is
218 apt to be small and, spread over Peoples Gas' customer base of about 826,000
219 customers, unlikely to generate an amount sufficient to refund as a per customer
220 amount. Thus, Peoples Gas proposes that it perform a reconciliation after the nine-
221 month refund period and, if the amount refunded is less than \$2,344,465.52, then
222 Peoples Gas will contribute the amount to the Share the Warmth program. Share
223 the Warmth is a program administered by a third party that provides heating grants
224 to limited and fixed-income households.

225 Q. You mentioned that Rider ICR included an annual internal audit requirement.
226 What is Peoples Gas' proposal for that audit?

227 A. Peoples Gas proposes that no internal audit be required for Rider ICR. Under
228 this proposal, there is no separate reconciliation case and Rider ICR is no longer in
229 effect. The required audit would serve little, if any, purpose.

230 Q. Are there other steps that would be appropriate to address the Court's
231 Opinion?

232 A. If the Commission approves Peoples Gas' proposal, Rider ICR and
233 references to it in the Schedule of Rates could be eliminated. It is not essential that
234 these tariff changes occur immediately, as Rider ICR is simply inoperative, but
235 Peoples Gas plans to file to remove Rider ICR and the references. It proposes to

236 make this filing either in its next rate case filing or in a separate filing within 90 days
237 of the Commission's Order.

238 Q. Does this conclude your direct testimony?

239 A. Yes.