

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

NORTH SHORE GAS COMPANY :  
 : No. 12-\_\_\_\_  
Proposed General Increase :  
In Rates For Gas Service :

Direct Testimony of  
**VALERIE H. GRACE**  
Consultant  
Stafflogix Corporation

On Behalf of  
North Shore Gas Company

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1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. Identification of Witness**

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

4 A. My name is Valerie H. Grace. My business address is 130 E. Randolph Street, Chicago,  
5 Illinois 60601.

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

7 A. I am employed by Stafflogix Corporation (“Stafflogix”). I am a consultant providing  
8 services to Integry's Business Support, LLC (“IBS”) on behalf of North Shore Gas  
9 Company (“North Shore” or “NS”).

10 **B. Purpose of Testimony**

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

12 A. The purpose of my testimony is to explain and analyze the changes proposed for North  
13 Shore’s Schedule of Rates for Gas Service, provide support for the proposed changes,  
14 and to discuss the new rates that have been filed as a part of this proceeding. I will also  
15 address the rate design and tariff aspects of North Shore’s proposal to bifurcate Service  
16 Classification (“S.C.”) No. 1, Small Residential Service, to reflect different customer  
17 charges for non-heating (“NH”) and heating (“HTG”) customers in response to the  
18 Illinois Commerce Commission’s (“Commission” or “ICC”) directive in its Order in  
19 Docket Nos. 11-0280/11-0281 (cons.) (the “2011 Rate Case”)<sup>1</sup>. In that proceeding, the  
20 Commission directed North Shore to present an embedded cost of service study  
21 (“ECOSS”) to distinguish between low use and high use S.C. No. 1 customers. The

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<sup>1</sup> I will refer to S.C. No. 1 NH and S.C. No. 1 HTG in my testimony solely to distinguish the rate design proposal for non-heating and heating S.C. No. 1 customers, respectively. The rate schedule continues to be named S.C. No. 1, and the “NH” and “HTG” designations are for convenience. My exhibits may use “H” and not “HTG.”

22 Commission further directed that such proposals may include, without limitation, a rate  
23 design including a demand charge or a bifurcation of the S.C. No. 1 class into heating and  
24 non-heating classes or some other rate structure that better reflects customer class  
25 homogeneity to bring each group's bills more into line with their respective costs of  
26 service.

27 **Q. Please describe the difference between NH and HTG customers.**

28 A. NH customers do not use gas as their principal source of space heating requirements  
29 whereas HTG customers do use gas as their principal source of space heating  
30 requirements. North Shore describes such differentiation in its proposed tariff language  
31 for S.C. No. 1.

32 **C. Summary of Conclusions**

33 **Q. Please summarize your conclusions.**

34 A. I conclude that North Shore's proposed rate design is just and reasonable, and while  
35 better aligning revenues with costs and recovering the revenue requirement, also  
36 continues to comport with the Commission's objectives of continuity and gradualism in  
37 changing rate design as well as its directive to distinguish between low use and high use  
38 S.C. No. 1 customers in this rate case. North Shore's proposed changes to its tariffs,  
39 charges, and riders are also appropriate and reasonable and meet the objectives set forth  
40 in my testimony.

41 **D. Itemized Attachments to Direct Testimony**

42 **Q. Are you sponsoring any attachments to your direct testimony?**

43 A. Yes. I sponsor the following exhibits:

- 44 1. NS Ex. 12.1 sets forth the tariff sheets which include the proposed revisions to  
45 North Shore’s Schedule of Rates for Gas Service, ILL. C.C. No. 17 (the “tariff” or  
46 “Schedule of Rates”).
- 47 2. NS Ex. 12.2 is a Summary of Revenues under Present and Proposed Rates for  
48 each service classification.
- 49 3. NS Ex. 12.3 reflects North Shore’s proposal for allocating its revenue requirement  
50 among the various service classifications. Page 1 shows embedded cost and  
51 revenue requirement allocation assuming all customers, including transportation  
52 customers, elect the total amount of storage available to them. Page 2 shows  
53 embedded costs and the revenue requirement allocation that reflect test year  
54 transportation storage subscription amounts based on forecasted subscription  
55 levels, and is the revenue requirement allocation that is the basis of North Shore’s  
56 proposed rates.
- 57 4. NS Ex. 12.4 reflects a summary comparison of present and proposed rates for  
58 affected North Shore service classifications, riders, and miscellaneous charges.
- 59 5. NS Ex. 12.5 provides a summary of proposed Straight Fixed Variable (“SFV”)  
60 rates for S.C. No.1 NH and HTG customers, and for S.C. No. 2, General Service,  
61 for each meter class.
- 62 6. NS Ex. 12.6 provides the bill impacts for average S.C. No. 1 NH sales and  
63 transportation customers under present and proposed rates, assuming normal  
64 weather.

- 65 7. NS Ex. 12.7 provides the bill impacts for average S.C. No. 1 HTG sales and  
66 transportation customers under present and proposed rates, assuming normal  
67 weather.
- 68 8. NS Ex. 12.8 provides the bill impacts for average S.C. No. 1 NH sales and  
69 transportation customers under proposed SFV rates, assuming normal weather.
- 70 9. NS Ex. 12.9 provides the bill impacts for average S.C. No. 1 HTG sales and  
71 transportation customers under proposed SFV rates, assuming normal weather.
- 72 10. NS Ex. 12.10 provides North Shore's Schedule E-9 of the Commission's standard  
73 filing requirements in this proceeding. It shows bill impacts for S.C. No. 1 (NH  
74 and HTG) customers, S.C. No. 2 (for each meter class), and S.C. No. 3, Large  
75 Volume Demand Service, at various usage levels under present and proposed  
76 rates.
- 77 11. NS Ex. 12.11 reflects test year gas cost related Account 904 Uncollectible  
78 Accounts expenses and the derivation of the Uncollectible Factors for Rider  
79 UEA-GC, Uncollectible Expense Adjustment – Gas Costs, to be set in this  
80 proceeding as well as the allocation, by service classification, for Account 904  
81 Uncollectible Accounts expenses to be recovered through base rates.

82 **Q. Were NS Exs. 12.1 through 12.11 prepared by you, or under your supervision and**  
83 **direction?**

84 A. Yes, they were.

85 **E. Background and Experience**

86 **Q. Please summarize your educational background and experience.**

87 A. In 1980, I graduated from Illinois State University with a Bachelor of Science degree in  
88 Business Administration. In 1988, I received a Master of Management Degree from  
89 Northwestern University. I was employed by IBS and two affiliated companies from  
90 September 1980 until May 31, 2012. I began my employment at The Peoples Gas and  
91 Coke Company (“Peoples Gas”), an IBS and North Shore affiliate, in the Gas Supply  
92 Planning Department. Since then, I was employed in various positions and levels of  
93 responsibility at Peoples Gas including the Rates Department, the Office of the  
94 Chairman, the Executive Office of the Customer Relations Division and the Gas  
95 Transportation Services Department. I was also employed by Peoples Energy as Director  
96 of Strategic Development. I served as Manager, Gas Regulatory Services for IBS prior to  
97 my retirement effective June 1, 2012. In late June, 2012, I began working for Stafflogix  
98 in my current role as a consultant on behalf of North Shore and Peoples Gas.

99 **Q. Have you testified before the Commission or any other regulatory commission**  
100 **previously?**

101 A. Yes, I have testified in several gas charge and various rider mechanism reconciliation  
102 proceedings as well as proceedings related to customer choice for Peoples Gas and North  
103 Shore, the Section 7-204 merger proceeding (Docket No. 06-0540) involving Peoples  
104 Energy and Integrys Energy Group, Inc. (formerly, WPS Resources Corporation), and  
105 general rate case proceedings for Peoples Gas, North Shore, Michigan Gas Utilities  
106 Corporation and Minnesota Energy Resources Corporation, all of which are affiliated  
107 companies.

108 **II. SCHEDULE OF RATES FOR GAS SERVICE**

109 **Q. Will North Shore give public notice of the proposed changes it filed?**

110 A. Yes. Notice will be published twice in the Lake County News Sun, a newspaper of  
111 general circulation in the area which North Shore serves, in accordance with the  
112 provisions of 83 Illinois Administrative Code Part 255. North Shore will submit for the  
113 record copies of the Publisher's certification that public notice of the changes was  
114 published in the Lake County News Sun. Copies of the proposed changes are on file and  
115 open for public inspection at North Shore's corporate office. North Shore has also posted  
116 public notice of the proposed changes in its corporate office.

117 **Q. Is North Shore proposing changes to its Schedule of Rates for Gas Service, ILL.**  
118 **C.C. No. 17?**

119 A. Yes, NS Ex. 12.1 contains copies of the tariff sheets filed by North Shore in this  
120 proceeding. In my testimony and exhibits, the term "proposed changes" will refer to the  
121 rate levels and other changes reflected in these tariff sheets.

122 **III. RATE DESIGN OBJECTIVES**

123 **Q. What are the objectives that North Shore seeks to achieve through the rate design**  
124 **modifications it is proposing?**

125 A. Through the proposed rate design, North Shore would accomplish six major objectives.  
126 They are to (1) recover North Shore's revenue requirement, (2) better align rates and  
127 revenues with underlying costs, (3) send the proper price signals, (4) provide more equity  
128 between and within rate classes, (5) reflect gradualism considering test year revenue  
129 requirements, and (6) distinguish between low use and high use S.C. No. 1 customers as  
130 directed by the Commission.

131 **IV. INCREASE AMOUNT AND ALLOCATION**  
132 **OF THE REVENUE REQUIREMENT**

133 **Q. Please describe NS Ex. 12.2, Summary of Revenues under Present and Proposed**  
134 **Rates.**

135 A. NS Ex. 12.2 shows revenues arising from present and proposed rates from various  
136 revenue sources. Column M of the exhibit shows the change in base rate revenues arising  
137 from proposed charges for North Shore's various service classifications (\$9.7 million,  
138 line 24), and from other charges and items (\$40,000, line 25), for a total increase of \$9.8  
139 million (line 26)<sup>2</sup>. It excludes municipal and state taxes and other state charges.

140 **Q. What is the basis of North Shore's determination of rates to be proposed in this**  
141 **proceeding?**

142 A. North Shore uses an ECOSS as the basis for the determination of the revenue  
143 requirements for each service classification and the resulting proposed rates in this  
144 proceeding. The ECOSS has been submitted as NS Exs. 13.1 through 13.8 and is  
145 sponsored by North Shore witness Joylyn Hoffman Malueg (NS Ex. 13.0). As required  
146 by the 2011 Rate Case Order, the ECOSS distinguishes heating (high use) and non-  
147 heating (low use) S.C. No. 1 customers.

148 **Q. How does North Shore use the ECOSS to determine the proposed rates?**

149 A. North Shore uses the ECOSS to allocate the revenue requirement, set cost based rates and  
150 to better align charges and resulting revenues with like costs. Under North Shore's  
151 bifurcation proposal, the ECOSS separates the costs into NH and HTG classes for S.C.

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<sup>2</sup> There may be differences between amounts in NS Ex. 12.2 and Schedule A-2 due to roundings in North Shore's proposed rates.

152 No. 1. The results of the ECOSS are used to decrease rates for S.C. No.1 NH customers  
153 and to increase rates for S.C. No. 1 HTG customers as well as S.C. No. 2 and S.C. No. 3  
154 customers, setting all at cost. NS Ex. 12.3, page 1 shows the allocation of the revenue  
155 requirement and rate increase for all service classes, except S.C. No. 1 NH, which shows  
156 a decrease. The revenues shown for each service classification in column H reflect the  
157 revenue requirement allocations arising from the ECOSS with matching revenues  
158 assuming all customers, including transportation customers, elect the total amount of  
159 storage capacity that is available to them. NS Ex. 12.3, page 2 shows the revenue  
160 requirement allocations arising from the ECOSS with revenues that arise from proposed  
161 rates and the storage capacity forecasted for transportation customers and storage  
162 capacity that is available to sales customers. Column D reflects embedded storage costs  
163 allocated to each service classification as determined in the ECOSS. As transportation  
164 customers do not elect the total amount of storage capacity that is available to them,  
165 column E reflects the embedded storage costs for each rate class arising from forecasted  
166 subscription levels for transportation customers. Column F is the revenue requirement  
167 allocation that reflects test year subscribed storage capacity. Revenues arising from  
168 North Shore's proposed rates, including that which recovers the cost of storage capacity  
169 at cost under Rider SSC, Storage Service Charge, are shown in column G.

- 170 **Q. Does North Shore anticipate any transfers between rate classes in the test year?**  
171 A. Yes. The sole negotiated rate contract for a S.C. No. 4 customer expires this year. Due  
172 to that and discussions with the affected customer, North Shore anticipates that the  
173 accounts on S.C. No. 4, Contract Service to Prevent Bypass, will transfer to S.C. No. 3 in

174 the test year. Accordingly, for S.C. No. 3, the ECOSS includes, and proposed rates  
175 reflect, costs associated with those transferring accounts.

176 **Q. Have any of North Shore's service classifications been omitted from the cost of**  
177 **service analyses filed in this case, and from consideration for an increase in rates?**

178 A. Yes, S.C. No. 6, Contract Service for Electric Generation, a negotiated rate service, was  
179 excluded as there are currently no customers being served under this service  
180 classification.

181 **V. CHANGES TO BASE RATES AND OTHER CHARGES**

182 **Q. How is North Shore proposing to meet its objective to better align revenues with**  
183 **underlying costs?**

184 A. To meet this objective, North Shore is proposing to recover a greater portion of its fixed  
185 costs through fixed charges. All of North Shore's costs recovered through base rates are  
186 fixed, *i.e.*, they do not vary with the volume of gas delivered to customers. However, in  
187 the interest of rate design continuity, North Shore has historically recovered a large  
188 portion of such fixed costs through volumetric charges. Although North Shore has  
189 increased its fixed cost recovery in recent rate case proceedings, under present rates, only  
190 about 65% of total base rate revenues would be recovered through fixed customer,  
191 demand, and transportation administrative charges in test year 2013. A continued  
192 mismatch of fixed costs and volumetric charges would, absent a decoupling mechanism  
193 to address the mismatch, practically ensure that North Shore will either recover more or  
194 less than its Commission approved revenue requirement from customers. To remedy this,  
195 at least partially, and to meet its objective to earn its revenue requirement, North Shore is  
196 proposing rates that would recover about 72.5% of its fixed costs through fixed charges

197 and about 2.5% of its fixed costs that are storage-related through Rider SSC, which was  
198 approved in North Shore's 2011 Rate Case. However, about 25% of fixed costs would  
199 continue to be recovered through volumetric distribution charges, which is still higher  
200 than the 20% volumetric cost recovery arising from rate case proceedings for the Ameren  
201 Illinois gas utilities and Nicor Gas Company ("Nicor"), where the Commission approved  
202 fixed cost recovery through fixed charges of 80%. While not yet completely matching  
203 fixed costs and fixed charges, North Shore's proposed rates will provide more balance  
204 than its present rates and will send more appropriate price signals to customers about the  
205 fixed costs underlying its delivery service.

206 **Q. Consistent with the objectives you described above and the move towards placing**  
207 **more fixed cost recovery in fixed charges, what major changes to rates and charges**  
208 **is North Shore proposing?**

209 A. North Shore is proposing five major changes to its base rates and other charges. I will  
210 discuss these changes in detail later in my testimony.

211 First, S.C. No. 1, Small Residential Service, will be bifurcated by reflecting  
212 different customer charges for NH and HTG customers.

213 Second, S.C. No. 1 will reflect a decrease in the monthly customer charge for NH  
214 customers and an increase in the monthly customer charge for HTG customers. The  
215 distribution charge, which currently reflects a declining two-block rate structure, will be  
216 changed to a flat per-therm charge and will be the same for NH and HTG customers.  
217 These rates will be in effect as long as Rider VBA, Volume Balancing Adjustment, is in  
218 effect. If Rider VBA is not in effect, SFV rates, differentiated for NH and HTG  
219 customers, will go into effect and the former rates will terminate. This service

220 classification will be set at cost for both types of customers, consistent with the rate  
221 design for S.C. No. 1 in North Shore's most recent rate cases.

222 Third, S.C. No. 2, General Service, will reflect increases in the monthly customer  
223 charge for all three meter classes. The distribution charge will reflect a decrease in the  
224 front block, no change in the middle block, and an increase in the end block of the three-  
225 block rate structure. These rates will be in effect as long as Rider VBA is in effect. If  
226 Rider VBA is not in effect, SFV rates, differentiated by meter class, will go into effect  
227 and the former rates will terminate. This service classification will be set at cost,  
228 consistent with the rate design in North Shore's most recent rate cases.

229 Fourth, for S.C. No. 3, Large Volume Demand Service, the monthly customer,  
230 distribution and demand charges will increase. This service classification is set at cost,  
231 consistent with the rate design in North Shore's most recent rate cases.

232 Fifth, the storage banking charge and the storage service charge under Rider SSC,  
233 Storage Service Charge will increase.

234 **Q. Are the present and proposed rates under each service classification summarized in**  
235 **an exhibit?**

236 A. Yes. NS Ex. 12.4, Comparison of Present and Proposed Rates, shows the proposed rates  
237 for each service classification. The exhibit also shows this information for Rider SSC,  
238 the transportation riders, and the miscellaneous charges included in the Terms and  
239 Conditions of Service of North Shore's Schedule of Rates. Lastly, the exhibit shows the  
240 increase or decrease in proposed rates as compared to present rates.

241 **A. S.C. No. 1, Small Residential Service**

242 **Q. Please describe North Shore's proposal for bifurcating S.C. No. 1.**

243 A. North Shore proposes to bifurcate S.C. No. 1 with different customer charges for NH and  
244 HTG customers to distinguish between low use and high use S.C. No. 1 customers as  
245 directed by the Commission. North Shore proposes to set the same flat per therm  
246 distribution charge for both types of customers for reasons explained later in my  
247 testimony.

248 **Q. Please describe North Shore's proposals for S.C. No. 1 customer charges for NH**  
249 **customers.**

250 A. For S.C. No. 1 NH customers, North Shore is proposing to recover 100% of its customer  
251 related costs through the customer charge. North Shore is proposing to decrease the  
252 monthly charge from \$22.00 to \$17.05 for S.C. No. 1 NH sales and transportation  
253 customers. All remaining costs are demand related. Although such demand related costs  
254 are fixed as well, North Shore is proposing instead to recover all non-storage demand  
255 related costs for S.C. No. 1 NH customers through the distribution charge. This results in  
256 about 93% of fixed costs for S.C. No. 1 NH being recovered through fixed customer  
257 charges. Storage-related demand costs, about 0.7% of fixed costs, will be recovered  
258 under Rider SSC. Accordingly, about 6% of fixed costs would continue to be recovered  
259 through volumetric distribution charges.

260 **Q. Please describe North Shore's proposal for its distribution charge for S.C. No. 1 NH**  
261 **customers.**

262 A. To recover the remaining demand related costs, North Shore is proposing a flat  
263 distribution charge of 7.742 cents per therm. Currently S.C. No. 1 has a declining block  
264 structure with a front block of 0-50 therms and an end block for over 50 therms. As

265 about 95% of S.C. No. 1 NH monthly bills are for 50 therms or less, a flat rate structure is  
266 more appropriate than the current blocked rate structure.

267 **Q. Please describe North Shore's proposals for S.C. No. 1 customer charges for HTG**  
268 **customers.**

269 A. For S.C. No. 1 HTG customers, North Shore is proposing to recover 100% of its  
270 customer related costs and a portion of non-storage related demand costs through the  
271 customer charge so that the distribution charge for HTG customers can be set to that for  
272 NH customers. North Shore is proposing to increase the monthly charge from \$22.00 to  
273 \$27.71 for S.C. No. 1 HTG sales and transportation customers. All remaining costs are  
274 demand related. Although such demand related costs are fixed as well, North Shore is  
275 proposing instead to recover all remaining non-storage demand related costs for S.C. No.  
276 1 HTG customers through the distribution charge. This results in about 75% of fixed  
277 costs for S.C. No. 1 HTG customers being recovered through fixed customer charges.  
278 Storage-related demand costs, about 3% of fixed costs, will be recovered under Rider  
279 SSC. Accordingly, about 22% of fixed costs would continue to be recovered through  
280 volumetric distribution charges.

281 **Q. Please describe North Shore's proposal for its distribution charge for S.C. No. 1**  
282 **HTG customers.**

283 A. At cost, fixed non-storage related demand costs for S.C. No. 1 HTG customers should be  
284 recovered through a fixed monthly charge, or alternatively, through the distribution  
285 charge at 10.180 cents per therm if such remaining fixed non-storage related demand  
286 costs are recovered on a per therm basis in the manner proposed for S.C. No. 1 NH  
287 customers. However, so that Rider VBA can continue to operate easily and to minimize

288 the number of new rates going into effect for S.C. No. 1, North Shore is proposing a flat  
289 distribution charge of 7.742 cents per therm, which is the same as that for NH customers.  
290 The difference between the charges, 2.438 cents per therm (10.180 – 7.742), will be  
291 recovered through the S.C. No. 1 HTG customer charge. Currently under North Shore’s  
292 Rider VBA, common monthly adjustments are determined for S.C. No. 1 NH and HTG  
293 customers. Maintaining the same distribution charge for NH and HTG customers will  
294 continue to simplify the operation of Rider VBA, including any annual reconciliation  
295 calculations and adjustments.

296 **Q. What percentage of fixed costs will be recovered through fixed customer charges**  
297 **under North Shore’s combined proposals for S.C. No. 1?**

298 A. Under North Shore’s combined proposals for S.C. No. 1, about 75% of fixed costs will be  
299 recovered through fixed customer charges. Storage-related demand costs, about 3% of  
300 S.C. No. 1 fixed costs, will be recovered under Rider SSC. The remainder, about 22% of  
301 S.C. No. 1 fixed costs, would continue to be recovered through volumetric distribution  
302 charges.

303 **Q. Will North Shore’s proposals for S.C. No. 1 have any effect on the calculation of**  
304 **adjustments under its decoupling mechanism, Rider VBA?**

305 A. Yes. North Shore’s proposed revenue increase and rate designs will result in new  
306 distribution rates and related distribution revenues, or Rate Case Revenue (“RCR”) for  
307 Rider VBA in this proceeding that would be in effect, as approved by the Commission,  
308 until new rates become effective in a subsequent proceeding. As the distribution rates  
309 will continue to be the same for S.C. No. 1 NH and HTG customers, North Shore will  
310 maintain a common RCR for S.C. No. 1.

311 **Q. What Percentage of Fixed Costs is North Shore proposing for Rider VBA?**

312 A. For the reasons stated above, the Percentage of Fixed Costs factor in Rider VBA should  
313 be 100%. This is consistent with the 2011 Rate Case Order, and it continues to be the  
314 case that all of North Shore's costs are fixed.

315 **Q. Why is North Shore proposing to increase its monthly customer charges for S.C. No.**  
316 **1 NH and HTG customers, given that Rider VBA was approved on a permanent**  
317 **basis in the 2011 Rate Case?**

318 A. As discussed in the 2011 Rate Case, increasing the fixed customer charges would better  
319 align the charges with their underlying fixed costs and would also reduce the magnitude  
320 of adjustments that would be generated under Rider VBA.

321 **Q. Are there other reasons why North Shore is proposing to increase its monthly**  
322 **customer charges for S.C. No. 1 NH and HTG customers?**

323 A. Yes. North Shore's proposals to increase its S.C. No. 1 HTG customer charge, and to set  
324 its S.C. No. 1 NH customer charge to include a larger portion of fixed costs, continue to  
325 be consistent with policies endorsed by the Commission in several rate proceedings. In  
326 Docket No. 95-0032 the Commission urged Peoples Gas to increase the customer charge  
327 in future rate proceedings to move it closer to cost. In Docket Nos. 07-0241/07-0242  
328 (Cons.) and 09-0166/09-0167 (Cons.), the Commission found it appropriate that rates  
329 reflect a greater recovery of fixed costs in customer charges. In a case involving Union  
330 Electric (Docket No. 03-0009), the Commission endorsed the utility's efforts to recover  
331 all of a utility's fixed customer related costs of serving residential customers through the  
332 customer charge component of rates as well as a gradualism approach to doing so. As  
333 mentioned previously, the Commission also allowed the Ameren gas utilities and Nicor

334 to recover, for their residential and small commercial rate classes, 80% of their fixed  
335 costs through the customer charge. Lastly, in North Shore’s 2011 Rate Case, the  
336 Commission again endorsed increased fixed cost recovery by stating the following in its  
337 final order:

338 “While the Commission supports increased recovery of fixed costs through  
339 fixed charges, it prefers, at this time, decoupling rather than a switch to an SFV  
340 rate design. For these reasons the Commission is convinced that there has been  
341 a compelling and sufficient showing that a permanent Rider VBA is reasonable  
342 and justified.”

343 In summary, North Shore’s proposals to increase fixed cost recovery through its customer  
344 charges would continue to be aligned with long-standing and recent Commission policy.  
345 However, as discussed by North Shore witness James F. Schott (NS Ex. 1.0), North  
346 Shore’s decoupling mechanism is on appeal. Were the Illinois Appellate Court to reverse  
347 the Commission’s approval of decoupling, customer charges recovering anything less than  
348 100% of fixed costs would not result in the level of decoupling approved by the  
349 Commission in the 2011 Rate Case. Absent full decoupling, adequate fixed cost recovery  
350 would need to be accomplished through rate design, leaving fixed monthly charges or  
351 SFV rates, as the only viable alternative to fully decouple fixed cost recovery from the  
352 volume of gas consumed.

353 **Q. What is a SFV rate design?**

354 A. Under a SFV rate design, all fixed costs related to gas distribution service (those that do  
355 not vary with customer usage) are recovered through fixed charges, such as a monthly  
356 customer charge, and those costs that vary with customer usage are recovered through a  
357 volumetric charge, such as a distribution charge. As all of North Shore’s costs are fixed,

358 a SFV rate design would reflect a fixed monthly customer charge and no volumetric  
359 distribution charge.

360 **Q. Is North Shore proposing SFV rates for S.C. No. 1 NH and HTG customers?**

361 A. Yes. So that rates will continue to be properly aligned with underlying fixed costs and  
362 offer some measure of continued stability to North Shore and its customers, North Shore  
363 is proposing SFV rates for S.C. No. 1 NH and HTG customers that would go into effect if  
364 Rider VBA is no longer in effect due to a third party's action, such as a court or the  
365 General Assembly. North Shore is proposing SFV rates, in the form of monthly customer  
366 charges, of \$18.10 for S.C. No. 1 NH customers and \$36.04 for S.C. No. 1 HTG  
367 customers. NS Ex. 12.5 provides a summary of SFV rates, including their derivation for  
368 S.C. No. 1 NH and HTG customers.

369 **Q. Please describe NS Ex. 12.6.**

370 A. NS Ex. 12.6 illustrates the effect of the proposed customer, distribution and Rider SSC  
371 charges on an average S.C. No. 1 NH sales customer and an average S.C. No. 1 NH  
372 transportation customer, assuming normal weather. The exhibit also reflects the effect of  
373 the Rider UEA-GC Uncollectible Factor arising from the data in this proceeding on an  
374 average S.C. No. 1 NH sales customer. The average monthly bill for a S.C. No. 1 NH  
375 sales customer and a transportation customer will decrease by about \$5.92 and \$6.19,  
376 respectively (lines 14 and 28, col. M). The annual bill will decrease by about 19% and  
377 20% for sales customers and transportation customers, respectively (lines 13 and 27, col.  
378 N).

379 **Q. Please describe NS Ex. 12.7.**

380 A. NS Ex. 12.7 illustrates the effect of the proposed customer, distribution and Rider SSC  
381 charges on an average S.C. No. 1 HTG sales customer and an average S.C. No. 1 HTG  
382 transportation customer, assuming normal weather. The exhibit also reflects the effect of  
383 the Rider UEA-GC Uncollectible Factor arising from the data in this proceeding on an  
384 average S.C. No. 1 HTG sales customer. The average monthly bill for a S.C. No. 1 HTG  
385 sales customer and a transportation customer will increase by about \$3.96 and \$3.66,  
386 respectively (lines 14 and 28, col. M). The annual bill will increase by about 4.4% and  
387 4.3% for sales customers and transportation customers, respectively (lines 13 and 27, col.  
388 N).

389 **Q. Please describe NS Ex. 12.8.**

390 A. NS Ex. 12.8 illustrates the effect of the proposed SFV and Rider SSC charges on an  
391 average S.C. No. 1 NH sales customer and an average S.C. No. 1 NH transportation  
392 customer, assuming normal weather. The exhibit also reflects the effect of the Rider  
393 UEA-GC Uncollectible Factor arising from the data in this proceeding on an average S.C.  
394 No. 1 NH sales customer. The average monthly bill for a S.C. No. 1 NH sales customer  
395 and a transportation customer are basically the same as that under North Shore's  
396 customer charge and distribution charge proposals and will decrease by about \$5.92 and  
397 \$6.19, respectively (lines 14 and 28, col. M). The annual bill will decrease by about 19%  
398 and 20% for sales customers and transportation customers, respectively (lines 13 and 27,  
399 col. N). essentially

400 **Q. Please describe NS Ex. 12.9.**

401 A. NS Ex. 12.9 illustrates the effect of the proposed SFV and Rider SSC charges on an  
402 average S.C. No. 1 HTG sales customer and an average S.C. No. 1 HTG transportation

403 customer, assuming normal weather. The exhibit also reflects the effect of the Rider  
404 UEA-GC Uncollectible Factor arising from the data in this proceeding on an average S.C.  
405 No. 1 HTG sales customer. The average monthly bill for a S.C. No. 1 HTG sales  
406 customer and a transportation customer are basically the same as that under North  
407 Shore's customer charge and distribution charge proposals and will increase by about  
408 \$3.92 and \$3.62, respectively (lines 14 and 28, col. M). The annual bill will increase by  
409 about 4.4% and 4.2% for sales customers and transportation customers, respectively  
410 (lines 13 and 27, col. N).

411 **B. S.C. No. 2, General Service**

412 **Q. Please describe North Shore's proposal for changes in S.C. No. 2 charges.**

413 A. North Shore proposes to maintain the three meter classes for S.C. No. 2. Using the  
414 ECOSS, North Shore proposes to increase the monthly customer charges for each meter  
415 class for S.C. No. 2, thereby moving the fixed charges for all three meter classes closer to  
416 cost. North Shore proposes to recover all customer costs and a portion of non-storage  
417 related demand costs through the customer charge to minimize intra-class subsidies in the  
418 common three-block distribution charges. This results in proposed customer charges of  
419 \$27.99, \$83.54 and \$235.12 for Meter Classes 1, 2 and 3 sales and transportation  
420 customers, respectively. While the proposed customer charges for Meter Classes 1 and 2  
421 recover 45% of their respective non-storage related demand costs, in the interest of  
422 gradualism, 35% of non-storage related demand costs are recovered through the proposed  
423 Meter Class 3 customer charge. North Shore is proposing to maintain the three declining  
424 block distribution charge for S.C. No. 2 and allocate the remaining customer, non-storage  
425 related demand costs to the front, middle, and end blocks. This is accomplished by

426 calculating a per therm amount for all S.C. No. 2 therms to establish the middle block  
427 charge and increasing the resulting per therm amount by 10% to establish the front block  
428 charge.. All remaining non-storage related costs will be recovered through the end block.  
429 Using this methodology, the front block (0-100 therms) will decrease to 7.051 cents per  
430 therm, the middle block (over 100-3,000 therms) will remain at 6.410 cents per therm and  
431 the end block (over 3,000 therms) will decrease to 5.126 cents per therm. This  
432 methodology and the proposed distribution charges consider the higher non-storage  
433 related demand cost recovery for Meter Classes 1 and 2 as well as the bill impacts for all  
434 three meter classes. Under North Shore's proposals, only 64% of the revenue  
435 requirement for S.C. No. 2 will be recovered through fixed customer charges. Storage-  
436 related demand costs, about 3% of fixed costs, will be recovered under Rider SSC.  
437 Accordingly, about 33% of fixed costs would continue to be recovered through  
438 volumetric distribution charges.

- 439 **Q. Why is a portion of the demand charge recovered through the customer charge?**
- 440 A. Both demand and customer costs are fixed, meaning they do not vary with the amount of  
441 gas that North Shore delivers to its customers. Demand costs are typically recovered  
442 from large volume customers through demand charges. This is feasible when such  
443 customers have demand meters that allow for accurate measurement of daily demand  
444 volumes. However, the costs for demand meters would add additional costs to the  
445 customer charge, and North Shore has not historically included, and does not propose to  
446 include, this requirement in S.C. No. 2. As a result, it would be more practical to recover  
447 demand costs through a fixed monthly charge such as the customer charge.

448 **Q. Will North Shore’s proposals for S.C. No. 2 have any effect on the calculation of**  
449 **adjustments under Rider VBA?**

450 A. Yes. The S.C. No. 2 RCR for Rider VBA will be revised to reflect the new distribution  
451 rates and related distribution revenues that would be approved by the Commission in this  
452 proceeding. As with S. C. No. 1, North Shore proposes that the Percentage of Fixed  
453 Costs be set at 100%, for the reasons discussed above.

454 **Q. Why is North Shore proposing to increase its monthly customer charges for S.C. No.**  
455 **2, given that Rider VBA has been approved on a permanent basis?**

456 A. North Shore is proposing to increase its customer charges for S.C. No. 2 for the same  
457 reasons described for S.C. No. 1.

458 **Q. Is North Shore proposing SFV Rates for S.C. No. 2?**

459 A. Yes. As Rider VBA is also applicable to S.C. No. 2, North Shore is proposing SFV rates  
460 for the same reasons explained for S.C. No. 1. The proposed SFV rates for S.C. No. 2  
461 are \$36.06, \$120.47 and \$409.53 for Meter Classes 1, 2 and 3, respectively. NS Ex. 12.5  
462 provides a summary of SFV rates, including their derivation for each of the charges  
463 above.

464 **C. S.C. No. 3, Large Volume Demand Service**

465 **Q. Please describe the changes proposed for S.C. No. 3, Large Volume Demand**  
466 **Service.**

467 A. The monthly customer charge for S.C. No. 3 will be set at cost and will increase to  
468 \$630.00. The demand charge will recover 67% of non-storage related demand costs and  
469 will be set at 58.552 cents per therm of billing demand. The distribution charge, which

470 will recover remaining non-storage related demand costs, will increase to 1.917 cents per  
471 therm.

472 **Q. Is North Shore proposing SFV rates for S.C. No. 3?**

473 A. No. Decoupling is not applicable to S.C. No. 3.

474 **D. Other Service Classifications**

475 **Q. Are there any proposed changes to S.C. No. 4, Contract Service to Prevent Bypass  
476 and S.C. No. 6, Contract Service for Electric Generation?**

477 A. As discussed previously, North Shore anticipates that all S.C. No. 4 customer accounts  
478 will transfer to S.C. No. 3. Accordingly, the rates for those S.C. No. 4 customers will  
479 reflect those set at cost for S.C. No. 3. North Shore is not proposing any changes to S.C.  
480 No. 6, and there are no customers currently served under this service classification.

481 **E. Bill Impacts**

482 **Q. Please describe NS Ex. 12.10.**

483 A. NS Ex. 12.10 shows North Shore's Schedule E-9 of the Commission's standard filing  
484 requirements which provides bill impacts under present and proposed rates for S.C. Nos.  
485 1, 2, and 3. The exhibit also reflects the bill impacts arising from North Shore's SFV rate  
486 proposals for S.C. Nos. 1 and 2.

487 **F. Miscellaneous Charges**

488 **Q. Is North Shore proposing changes to its Miscellaneous Charges?**

489 A. No. Miscellaneous Charges include the Service Activation Charges, Service  
490 Reconnection Charges as well as other charges. North Shore increased the Service  
491 Activation Charges and Service Reconnection Charges in the 2011 Rate Case, with the

492 new rates taking effect in January 2012, and is not proposing any changes to these  
493 charges in this proceeding.

494 **G. Rider SSC, Storage Service Charge**

495 **Q. What are the Rider SSC charges arising from the revenue requirement proposed in**  
496 **this proceeding?**

497 A. Under the revenue requirement proposed in this proceeding, the Rider SSC Storage  
498 Banking Charge, which applies to transportation customers, is 0.11 cents per therm of  
499 storage capacity and the Storage Service Charge, which applies to sales customers, is  
500 0.936 cents per therm of consumption.

501 **H. Transportation Riders**

502 **Q. Is North Shore proposing changes in its transportation riders?**

503 A. No. North Shore significantly revised its transportation programs in 2011 (small volume  
504 program) and 2012 (large volume program), including implementing new administrative  
505 charges for both programs in January 2012. Therefore, no changes are being proposed in  
506 this proceeding.

507 **VI. SUMMARY OF INCREASE**

508 **Q. Please summarize the increase in the base rate revenues arising from North Shore's**  
509 **proposals for S.C. Nos. 1, 2, and 3.**

510 A. North Shore's proposals for S.C. Nos. 1, 2, and 3 will result in an increase of about \$9.7  
511 million (NS Ex. 12.2, line 24, column M).

512 **Q. Please describe the revenues that will arise from North Shore's increase in**  
513 **miscellaneous and other charges.**

514 A. North Shore will experience an increase in miscellaneous and other revenues of about  
515 \$40,000 (NS Ex. 12.2, line 25, column M). This includes \$9,000 from accounting charge  
516 revenues, which North Shore receives from state and local governments for billing and  
517 remitting state and local taxes, and about \$31,000 in late payment charge revenues.  
518 These increase amounts are reflected in North Shore's Schedule A-2, Overall Financial  
519 Summary, of its standard filing requirements (also see NS Ex. 6.1 included with North  
520 Shore witness Sharon Moy's direct testimony (NS Ex. 6.0)).

521 **Q. Please summarize the total increase in revenues proposed by North Shore.**

522 A. The base rate increase of \$9.7 million combined with the increase in miscellaneous and  
523 other revenues of \$40,000 results in a proposed revenue increase of \$9.8 million (NS Ex.  
524 12.2, line 26, column M)<sup>3</sup>.

525 **VII. OTHER TARIFF REVISIONS**

526 **A. General Revisions**

527 **Q. Please describe any general revisions that were made to the North Shore Schedule of**  
528 **Rates.**

529 A. North Shore is revising Rider UEA, Uncollectible Expense Adjustment, to reflect the  
530 Account 904 amount proposed in this proceeding and Rider UEA-GC, Uncollectible  
531 Expense Adjustment - Gas Costs, to reflect the proposed Uncollectible Factors arising  
532 from data in this proceeding. Those proposed Uncollectible Factors and their derivation  
533 are provided in NS Ex. 12.11, with the proposed Uncollectible Factors being shown in

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<sup>3</sup> There may be differences between amounts in NS Ex. 12.2 and Schedule A-2 due to roundings in North Shore's proposed rates.

534 column M. The allocation by rate class of the remaining uncollectible expense that  
535 would be recovered through base rates after gas cost related uncollectible expense is  
536 removed is shown in NS Ex. 12.11, column N. In addition, North Shore is revising Rider  
537 SSC, Storage Service Charge, to reflect the proposed Storage Banking Charge and  
538 Storage Service Charge arising from the revenue requirement proposed in this  
539 proceeding. Lastly, the definition of Standby Demand is being removed from the S. C.  
540 No. 3 tariff due to the rate structure changes that were implemented from the 2011 Rate  
541 Case order.

542 **B. Terms and Conditions of Service**

543 **Q. What changes were made to North Shore’s Terms and Conditions of Service?**

544 A. North Shore is adding language to address the proposed distinction between heating and  
545 non-heating S.C. No. 1 customers in the context of customers applying for service and  
546 remaining on the appropriate service classification. North Shore is also revising the bill  
547 image to reflect the changes proposed in this proceeding.

548 **C. Uniform Numbering of Service Classifications**

549 **Q. In the 2011 Rate Case, the Commission ordered Peoples Gas and North Shore to**  
550 **evaluate the feasibility of uniform service classification numbering. What is North**  
551 **Shore proposing in response to this directive?**

552 A. To establish uniformity with Peoples Gas’ service classification numbering, North Shore  
553 offers to renumber its S.C. Nos. 3, 4 and 6 as S.C. Nos. 4, 7, and 5, respectively. North  
554 Shore has no counterpart to Peoples Gas’ S.C. No. 8. Under this numbering proposal,  
555 North Shore, like Peoples Gas, would have no S.C. No. 3 or 6. To avoid confusion  
556 regarding proposals to its present service classifications, North Shore did not yet revise

557 the affected tariff sheets. However, North Shore will make revisions to any tariff sheet  
558 affected by the proposed alignment in its compliance filing if the Commission finds the  
559 renumbering useful and approves this proposal.

560 **Q. Does this conclude your direct testimony?**

561 A. Yes, it does.