

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

THE PEOPLES GAS LIGHT :
AND COKE COMPANY :
 : No. 12-____
Proposed General Increase :
In Rates For Gas Service :

Direct Testimony of

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On Behalf of

The Peoples Gas Light and Coke Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

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

4 A. My name is Joylyn C. Hoffman Malueg. My business address is Integrys Energy Group,
5 Inc. (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay, WI 54307-9001.

6 **Q. Ms. Hoffman Malueg, by whom are you employed and in what capacity?**

7 A. I am a Rate Case Consultant in the Regulatory Affairs Department of Integrys Business
8 Support, LLC (“IBS”). IBS is a wholly-owned subsidiary of Integrys. The Peoples Gas
9 Light and Coke Company (“Peoples Gas”) is a wholly-owned, indirect subsidiary of
10 Integrys.

11 **B. Purpose of Testimony**

12 **Q. What is the purpose of your direct testimony in this proceeding?**

13 A. My direct testimony and its attachments describe and present Peoples Gas’ embedded
14 cost of service study (the “ECOSS”) for the 2013 future test year.

15 Peoples Gas witness Valerie Grace’s direct testimony and some of her exhibits
16 (Peoples Gas Exhibit (“PGL Ex.”) 12.0, 12.1, et seq.) will use the results of the ECOSS
17 to discuss the proposed changes in the Peoples Gas rate schedules through which it seeks
18 to recover its base rate revenue requirement.

19 **C. Summary of Conclusions**

20 **Q. Please summarize the fundamental conclusions to be drawn from the results of the**
21 **ECOSS, as presented in your direct testimony.**

22 A. The results of the ECOSS show the distribution of revenue responsibility by customer
 23 class necessary to achieve equalized rates of return on investment by customer class at
 24 Peoples Gas’ proposed revenue requirement.

25 **Q. Please summarize the results of the ECOSS.**

26 A. As stated by Peoples Gas witness Sharon Moy in her direct testimony (PGL Ex. 6.0),
 27 Peoples Gas, overall, is showing a revenue deficiency (cost recovery shortfall) of
 28 \$78,258,000, or 14.78% of tariff revenues. The results of the ECOSS with respect to
 29 revenue deficiency at present rates by customer class based on the requested revenue
 30 requirement for Peoples Gas are summarized below.

| Peoples Gas Service Classification | Revenue Deficiency / (Surplus) | |
|--|--------------------------------|----------|
| | \$ | % |
| S.C. 1 – Small Residential – Non-Heating | (9,248,462) | (30.01%) |
| S.C. 1 – Small Residential - Heating | 47,953,246 | 14.89% |
| S.C. 1 – Small Residential - Total | 38,704,784 | 10.97% |
| S.C. 2 – General Service – Small | 6,959,708 | 22.24% |
| S.C. 2 – General Service – Medium | 4,005,982 | 7.78% |
| S.C. 2 – General Service – Large | 19,615,227 | 27.08% |
| S.C. 2 – General Service – Total | 30,580,917 | 19.70% |
| S.C. 4 – Large Volume Demand | 8,960,031 | 42.06% |
| S.C. 8 – CNG Service | 12,410 | 49.92% |

31 **Q. How should the Illinois Commerce Commission (the “Commission” or “ICC”)**
 32 **reflect the results of your ECOSS in rate design?**

33 A. In her direct testimony, Ms. Grace presents Peoples Gas’ requested rate design, based in
 34 part upon the results of my ECOSS.

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

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

37 A. Yes. I am sponsoring the following exhibits, which were prepared by me and/or under
38 my direction and supervision:

- 39 • PGL Ex. 13.1 Embedded Class Cost of Service Study Summary
- 40 • PGL Ex. 13.2 Functional Revenue Requirements—at Present Rates,
41 Functional Rate Base—at Present Rates, and Unit
42 Costs—at Present Rates along with Summary and
43 Detail by Customer Class
- 44 • PGL Ex. 13.3 Detailed Cost of Service Study Allocation Results
- 45 • PGL Ex. 13.4 Functionalized and Classified Rate Base and
46 Expenses
- 47 • PGL Ex. 13.5 Allocation Factors and Related Information
- 48 • PGL Ex. 13.6 Embedded Class Cost of Service Study Summary
49 with Proposed Rate Design Changes
- 50 • PGL Ex. 13.7 Functional Revenue Requirements—under Proposed
51 Rate Design, Functional Rate Base—under Proposed
52 Rate Design, and Unit Costs—under Proposed Rate
53 Design along with Summary and Detail by
54 Customer Class
- 55 • PGL Ex. 13.8 Detailed Cost of Service Study Allocation Results
56 for items that change under Proposed Rate Design

57 **Q. Please briefly describe the exhibits attached to your direct testimony.**

58 A. PGL Ex. 13.1 presents the revenue requirement, rate base, and rate of return summary
59 results of Peoples Gas' ECOSS at present rates.

60 PGL Ex. 13.2 presents both summary information, as well as detailed
61 information, on functionalized and classified revenue requirements, rate base, and unit
62 costs by customer class at present rates.

63 PGL Ex. 13.3 presents the cost allocation details of the summary classified
64 revenue requirements and rate base shown in PGL Ex. 13.1. The cost allocation detail

65 shown in PGL Ex. 13.3 is provided at the Federal Energy Regulatory Commission
66 (“FERC”) primary account (the Uniform System of Accounts) level. (References to
67 Accounts in my direct testimony are FERC accounts as adopted and modified by the
68 Commission for Gas Utilities Operating in Illinois.)

69 PGL Ex. 13.4 presents the functionalization and classification of the revenue
70 requirements and rate base information that was utilized for allocation purposes within
71 PGL Ex. 13.3. The functionalization and classification detail shown in PGL Ex. 13.4 is
72 provided at the FERC primary account level.

73 PGL Ex. 13.5 presents the external allocation factors used within the ECOSS,
74 along with related information that is required to be filed with an ECOSS in accordance
75 with the Commission’s rules (Section 285.5110 of Title 83 of the Illinois Administrative
76 (“Ill. Admin.”) Code).

77 PGL Ex. 13.6 presents the revenue requirement, rate base, and rate of return
78 summary results of Peoples Gas’ ECOSS under the Proposed Rate Design changes.
79 Workpaper WPE-6.15, which is part of Peoples Gas’ materials being made available
80 under 83 Ill. Admin. Code Section 285.150(b), shows a reconciliation of the information
81 presented in PGL Ex. 13.6 with Ms. Moy’s information presented in Schedule C-1.

82 PGL Ex. 13.7 presents both summary information, as well as detailed
83 information, on functionalized and classified revenue requirements, rate base, and unit
84 costs by customer class incorporating the proposed rate design.

85 PGL Ex. 13.8 presents the cost allocation details of the summary classified
86 revenue requirements and rate base shown in PGL Ex. 13.6 for only the items that deviate
87 from what is shown in PGL Ex. 13.1 under Present Rates.

88 **E. Background and Experience**

89 **Q. Please summarize your qualifications.**

90 A. I am a 1999 graduate of the University of Wisconsin – Green Bay where I received a
91 Bachelor of Science Degree in Mathematics with a Statistical emphasis. I received my
92 Master of Business Administration degree from Cardinal Stritch University, Milwaukee,
93 Wisconsin, in February 2006. I am also a Certified Management Accountant through the
94 Institute of Management Accountants, having received that professional designation in
95 November of 2009.

96 **Q. Please summarize your experience.**

97 A. From 1999 to 2001, I worked for two separate companies performing retirement benefits
98 analysis and valuation. In March 2001, I was hired by Wisconsin Public Service
99 Corporation (“WPSC”) as a Revenue Requirements Forecaster in the Rates and
100 Economic Evaluation Department. While working as a Revenue Requirements
101 Forecaster, I was primarily responsible for revenue requirements and cost of service
102 analyses pertaining to WPSC’s wholesale jurisdiction. In October 2003, my job title
103 changed to Rate Analyst within the Regulatory Affairs Department. My primary job
104 responsibilities during that time related to revenue requirements analyses for WPSC’s
105 Michigan retail jurisdiction, as well as performing revenue requirement analyses and cost
106 of service studies for WPSC’s sister company, Upper Peninsula Power Company
107 (“UPPCO”). In December 2006, I became a Rate Case Consultant within the Regulatory
108 Affairs Department.

109 **Q. What are your duties in your current position?**

110 A. Currently, my primary job duties consist of performing cost of service study analyses for
111 all regulated Integrys subsidiaries. I am also responsible for conducting the revenue
112 requirement analyses for WPSC's Michigan retail electric and gas jurisdictions.

113 **Q. Have you testified previously before the Commission?**

114 A. Yes, I have. I have filed testimony before this Commission in Docket Nos. 09-0166/09-
115 0167 (cons.) ("2009 Rate Case"), and Docket Nos. 11-0280/11-0281 (cons.) ("2011 Rate
116 Case").

117 **Q. Have you previously testified before any other regulatory agencies?**

118 A. Yes, I have. I have filed testimony before the Michigan Public Service Commission
119 ("MPSC") in Case Nos. U-14410, U-14745, U-15352, U-15549, U-15988, U-15990, U-
120 16166 and U-16417. I have filed testimony before the Public Service Commission of
121 Wisconsin ("PSCW") in Docket Nos. 6690-UR-119, 6690-UR-120, and 6690-UR-121,
122 and also before the Minnesota Public Utilities Commission ("MPUC") in Docket Nos.
123 G007,011/GR-08-835 and G007,011/GR-10-977. In addition, I have participated in the
124 preparation of various accounting and filing exhibits for WPSC, UPPCO, Michigan Gas
125 Utilities Corporation, and Minnesota Energy Resources Corporation for presentation to
126 the PSCW, MPSC, MPUC and the FERC.

127 **II. PEOPLES GAS' EMBEDDED COST OF SERVICE STUDY**
128 **AND ALLOCATION OF REVENUE REQUIREMENT**

129 **A. Purpose of an Embedded Cost of Service Study ("ECOSS")**

130 **Q. What is the purpose of an ECOSS?**

131 A. The purpose of an ECOSS is to identify the revenues, costs and profitability for each
132 class of service, as required by 83 Ill. Admin. Code Section 285.5110. The results of the

133 ECOSS provide the data necessary to design cost-based rates using an embedded cost
134 methodology.

135 **B. Principles of ECOSS Preparation**

136 **Q. How should an ECOSS be performed?**

137 A. Cost causation is the fundamental principle applicable to all cost studies for purposes of
138 allocating costs to customer classes. The most important theoretical principle underlying
139 an ECOSS is that cost incurrence should follow historical embedded cost causation. The
140 costs that customers become responsible to pay should be those costs that the particular
141 customers caused the utility to incur because of the characteristics of the customers'
142 usage of utility service. By performing an ECOSS in this manner, it can then be used in
143 determining how costs should be recovered from customer classes through rate design.

144 **C. Procedures Used in Developing the ECOSS**

145 **Q. Please explain the procedures used to develop the ECOSS shown in PGL Exs. 13.1
146 through 13.8.**

147 A. In general, preparing an ECOSS involves three major steps: (1) cost functionalization;
148 (2) cost classification; and (3) cost allocation of all the costs of the utility's system to the
149 customer classes.

150 The first step, cost functionalization, identifies and separates plant and expenses
151 into specific categories based on their purpose and various characteristics of utility
152 operation. Typically, these plant and expenses are functionalized by the Uniform System
153 of Accounts. These accounts group plant and expenses into their various functions,
154 which for Peoples Gas include Production & Gathering, Gas in Storage, Storage,
155 Transmission, Distribution, and Customer.

156 Step two, cost classification, further separates the functionalized plant and
157 expenses into the categories based upon how they are incurred. These classifications
158 consist of: (1) commodity related; (2) demand, or capacity related; and (3) customer
159 related.

160 Customer related costs are incurred to extend service to and attach a customer to
161 the distribution system, meter any gas usage, and maintain the customer's account.
162 Customer related costs are found to vary with the number and density of customers,
163 regardless of the customers' gas consumption (except for, to some extent, bad debt costs
164 in Account 904, which are discussed further below). Examples of costs classified to the
165 customer classification include distribution services, meters, regulators, and customer
166 billing and accounting expenses.

167 Demand related costs are incurred to service the peak demand of the system.
168 Examples of costs classified to the demand classification include transmission and
169 distribution mains, and localized distribution facilities designed to meet customer
170 maximum peak day demand

171 Commodity related costs are those costs that vary with the throughput sold to, or
172 transported for, customers. However, when, as is the case with Peoples Gas, a gas
173 utility's cost of gas is not recovered through its base rates, very little, if any, of its
174 remaining delivery service cost structure is commodity related.

175 The final step of preparing an ECOSS is allocation of each functionalized and
176 classified cost element to the customer classes. Costs that are classified to the customer
177 cost element are typically allocated to the rate classes using an allocation factor based
178 upon customer counts and, in some instances, customer counts that are weighted to

179 reflect, for example, differences in metering costs amongst rate classes. Costs that are
180 classified to the demand cost element are typically allocated to the rate classes using an
181 allocation factor based upon the rate classes' demand imposed upon the system during
182 specific peak days. Costs that are classified to the commodity cost element are typically
183 allocated to the rate classes using an allocation factor based upon the rate classes' energy
184 usage, or throughput.

185 **Q. Does the ECOSS allocate costs to the customer classes as defined in present rates?**

186 A. The ECOSS submitted for the 2013 future test year in this proceeding is based upon rates
187 that are currently in effect, or present rates as they were referred to above. All values in
188 the ECOSS are allocated to each customer class as described in the far right-hand column
189 of each page titled "Source or Allocation Factor". Direct assignment of values to the
190 appropriate customer classes was conducted whenever possible, as recommended by the
191 American Gas Association ("AGA") in their Fourth Edition of Gas Rate Fundamentals
192 (1987) ("AGA Gas Rate Fundamentals"), page 140.

193 **Q. Please describe how you defined the customer classes in Peoples Gas' ECOSS.**

194 A. The customer classes that were utilized in the ECOSS follow the rate classes under which
195 Peoples Gas currently provides service in Illinois. Bifurcation of the small residential
196 rate class between Non-Heating and Heating customers was also portrayed in the ECOSS
197 based upon the 2011 Rate Case Order, which directed Peoples Gas to present an ECOSS
198 that distinguishes between low use and high use Service Classification ("S.C.") No. 1
199 customers. Additionally, segregation of the general service rate class by the three meter
200 types served under this service class have also been portrayed in the ECOSS.

201 The classes (referred to in my direct testimony as “service classes” and referenced
202 above as “S.C.”) shown in the Peoples Gas ECOSS consist of the following:

- 203 1. Service Classification 1: Small Residential Service – Non-Heating,
- 204 2. Service Classification 1: Small Residential Service – Heating,
- 205 3. Service Classification 1: Small Residential Service – Total,
- 206 4. Service Classification 2: General Service – Small,
- 207 5. Service Classification 2: General Service – Medium,
- 208 6. Service Classification 2: General Service – Large,
- 209 7. Service Classification 2: General Service – Total,
- 210 8. Service Classification 4: Large Volume Demand Service, and
- 211 9. Service Classification 8: Compressed Natural Gas (“CNG”) Service.

212 **Q. Please explain the considerations relied upon in determining the cost allocation**
213 **methodologies that are used to perform an ECOSS.**

214 A. As stated above, in order to allocate costs within any cost of service study, the factors that
215 cause the costs to be incurred must be identified and understood. Additionally, the cost
216 analyst needs to develop data in a form that is compatible with and supportive of rate
217 design proposals. The availability of data for use in developing alternative cost allocation
218 factors is also a consideration. In evaluating any cost allocation methodology,
219 appropriate consideration should be given to whether it provides a sound rationale or
220 theoretical basis, whether the results reflect cost causation and are representative of the
221 costs of serving different types of customers, as well as the stability of the results over
222 time.

223 **D. Allocation of Distribution Costs**

224 **Q. How did Peoples Gas allocate distribution costs to customers in the ECOSS?**

225 A. In the case of distribution costs, Peoples Gas has identified two significant cost causation
226 relationships. Some distribution costs are incurred in order for customers simply to be
227 connected to the distribution system. Other distribution costs are incurred due to the
228 level of the demand of the customers.

229 Some gas distribution demand related costs are influenced by both the average
230 customer counts and the customers' peak demand, such as Account 376, Gas Mains.
231 These costs are allocated based upon a form of demand allocation method called the
232 Average and Peak methodology.

233 **Q. What is the Average and Peak methodology?**

234 A. The Average and Peak methodology is a simplified version of the Average and Excess
235 demand allocation methodology. The Average and Excess demand allocation
236 methodology allocates demand related costs to the classes of service on the basis of
237 system and class load factor characteristics. Specifically, the portion of utility facilities
238 and related expenses required to service the average load is allocated on the basis of each
239 class' average demand and is derived by multiplying the total demand related costs by the
240 utility's system load factor. The remaining demand related costs are allocated to the
241 classes based on each class' excess or unused demand, i.e., total class non-coincident
242 demand minus average demand. As is the case with the Average and Excess method, it
243 has the effect of allocating a portion of the utility's capacity costs on a commodity-related
244 basis.

245 **Q. Why does Peoples Gas choose to utilize the Average and Peak demand allocation**
246 **methodology within its ECOSS?**

247 A. In Peoples Gas' rate case filing in Docket Nos. 07-0241/07-0242 (cons.), a variety of
248 demand allocation methodologies were presented within the ECOSS, and Peoples Gas
249 proposed rates based upon a Coincident Peak demand allocation methodology. While
250 there are sound arguments to utilize various demand allocation methodologies, including
251 the Coincident Peak demand methodology, the Commission directed that the Average
252 and Peak demand allocation methodology be used to allocate system distribution costs
253 (please see ICC Docket Nos. 07-0241/07-0242 (cons.), Order Feb. 5, 2008, p. 199).
254 Peoples Gas utilized the Average and Peak demand allocation methodology in the 2009
255 Rate Case and 2011 Rate Case to limit the scope of contested issues, and that method was
256 uncontested in both cases. It is again using the Average and Peak demand methodology
257 in this proceeding.

258 **Q. What is the Coincident Peak methodology?**

259 A. The Coincident Peak demand allocation methodology is premised on the notion that
260 investment in capacity is determined by the peak load(s) of the utility. Under this
261 methodology, demand related costs are allocated to each customer class in proportion to
262 the demand coincident with the system peak of that customer class. The Coincident Peak
263 demand allocation process might focus on a single system peak, such as the highest daily
264 demand occurring during the test period. Alternatively, it might include the average of
265 several cold days, either consecutive or occurring over a period of several years, or it
266 could be the expected contribution to the system peak under weather conditions for which
267 the system was designed to serve, commonly referred to as a "design day."

268 **Q. Does Peoples Gas utilize the Coincident Peak Demand allocation methodology to**
269 **allocate any distribution costs within its ECOSS?**

270 A. No. Peoples Gas does not allocate any of its distribution costs in the ECOSS based upon
271 the Coincident Peak demand allocation methodology.

272 **Q. Were there any special analyses conducted for purposes of allocating distribution**
273 **plant investment?**

274 A. Yes. Regarding Peoples Gas' major plant accounts, customer weighting factors were
275 developed to allocate the following plant accounts: Account 380: Services, Account 381:
276 Meters, Account 382: Meter Installations, and Account 383: House Regulators. These
277 weighting factors reflect any differences in the current unit costs that particular customer
278 groups cause Peoples Gas to incur. For example, a 3/4-inch plastic service line that could
279 serve a residential customer costs less, on a per unit basis, than a 4-inch steel service line
280 to serve a larger industrial customer. The use of weighting factors takes these unit cost
281 differences into account when assigning costs to the various customer classes.

282 **Q. Please continue with your description of how Peoples Gas allocates distribution**
283 **costs within its ECOSS.**

284 A. Specifically, distribution costs are allocated to the customer classes within the ECOSS
285 based on the following methods, which have not changed from Peoples Gas' 2011 Rate
286 Case:

- 287 1. Account 303 Intangible Plant, which was first split into three categories of
288 Intangible Plant relating to 1) Customer, 2) Plant, and 3) Distribution Plant. This
289 categorization was based on actual Plant-in-Service in Account 303 as of
290 December 31, 2011. The Customer category was directly assigned to the
291 Customer classification. The Plant category was classified to the Commodity,
292 Demand, and Customer classifications based upon Gross Plant (not including any

293 intangible amounts or general amounts). The Distribution Plant category was
294 classified to the Commodity, Demand, and Customer classifications based upon
295 Distribution Plant (not including any intangible amounts). Once classified to the
296 Commodity, Demand, and Customer classifications, Intangible Plant was then
297 allocated to the customer classes using the Sales, Average and Peak, and
298 Customer allocation methodologies, respectively.

299 2. Accounts 374 Land and Land Rights, 375 Structures and Improvements, 376 Gas
300 Distribution Mains, 378 Measuring & Regulation Equipment – General, and 379
301 Measuring & Regulation Equipment – Gate Station were allocated to all service
302 classifications based on the Average and Peak demand allocator.

303 3. Account 380 Services was allocated on a customer basis, using a weighting factor
304 of Cost Per Customer for Services which was derived from actual plant
305 investment.

306 4. Account 381.0 Meters, Account 382.0 Meter Connections & Installations, and
307 Account 383 House Regulators were allocated on a customer basis, using a
308 weighting factor of Cost Per Meter & Regulator which was based on actual plant
309 investment.

310 5. Account 381.2 Automated Meter Reading and Account 382.2 Automated Meter
311 Installations were allocated on a customer basis, using a weighting factor of ERT
312 Per Customer which was based on actual number of ERTs as of December 31,
313 2011. (“ERT” means encoder-receiver-transmitter, which are devices that are part
314 of Peoples Gas’ automated meter reading system.)

315 6. Account 381.3, Demand Devices, and Account 382.3, Demand Device
316 Installations were allocated based upon the demand device counts forecasted in
317 the future test year ending December 31, 2013.

318 7. Account 385 Industrial Metering & Regulating Station Equipment and Account
319 386 Other Property on Customer Premises were allocated based on the number of
320 industrial meters, based on actual plant investment, of those customer classes with
321 large industrial metering equipment.

322 **Q. How did the ECOSS allocate distribution-related Operation and Maintenance**
323 **(“O&M”) expenses?**

324 A. In general, these expenses were allocated in the same manner as how the distribution
325 plant investment costs were allocated, as stated above. A gas utility’s distribution-related
326 O&M expenses generally support the utility’s corresponding plant-in-service accounts.
327 In order to allocate distribution O&M costs in a similar manner as the distribution plant

328 investment, a translation was performed to convert the FERC O&M distribution
 329 Accounts 870 through 894 to FERC Plant Distribution Accounts 303, and 374 through
 330 386. The translation workpaper can be found in Workpaper WPE-6.11, which is part of
 331 Peoples Gas' materials being made available under 83 Ill. Admin. Code Section
 332 285.150(b), and a summary of the translation can be found in the table below. The
 333 allocation of distribution-related O&M expenses portrayed in the ECOSS is the same
 334 method in which they have been portrayed in Peoples Gas' 2011 Rate Case.

| O&M Distribution Account | Translated to: | Distribution Plant Account |
|--|----------------|--|
| Account 870: Supervisory & Engineering Account 871: Load Dispatch Account 880: Other Account 881: Rents Account 885: Supervisory & Engineering | | Accounts 303, and 374-386 on the basis of Distribution Plant Investment in Accounts 303, and 374-386 for the future test year 2013 |
| Account 874: Mains & Services Expense | | Accounts 376 and 380, on the basis of Distribution Plant Investment in Accounts 376 and 380, which are Mains and Services |
| Account 877: Measuring & Regulating Expense-Gate Station | | Account 379, Measuring & Regulation Equipment-Gate Station |
| Account 878: Meter & House Regulators Account 879: Customer Installations Account 893: Meter & House Regulators | | Accounts 381.0, 381.2, 381.3, 383 and 385, on the basis of Distribution Plant Investment in Accounts 381.0, 381.2, 381.3, 383 and 385 which are all Metering and Regulator related |
| Account 886: Structures & Improvements | | Account 375: Structures & Improvements |
| Account 889: Measuring & Regulating Expense-General | | Account 378: Measuring & Regulation Equipment - General |
| Account 892: Services | | Account 380: Services |

335

336 **E. Allocation of Transmission Costs**

337 **Q. How did Peoples Gas allocate transmission costs to each of the customer classes in**
 338 **the ECOSS?**

339 A. Peoples Gas first classified transmission costs to the demand classification, and then
340 utilized the Average and Peak demand allocation methodology to allocate transmission
341 costs within its ECOSS to the customer classes. This classification to demand is
342 consistent with the AGA's assignment of transmission costs, as stated in AGA Gas Rate
343 Fundamentals. This classification and allocation method is consistent with Peoples Gas'
344 classification and allocation in the 2011 Rate Case.

345 **F. Allocation of Production Costs**

346 **Q. How did Peoples Gas allocate production costs to customer classes within the**
347 **ECOSS?**

348 A. In the Peoples Gas ECOSS, production costs are classified to demand and allocated to the
349 customer classes based upon the Coincident Peak allocation methodology. This
350 classification to demand is consistent with the AGA's assignment of production costs, as
351 stated in AGA Gas Rate Fundamentals and with Peoples Gas' allocation in the 2011 Rate
352 Case. The production investment costs in Peoples Gas' ECOSS relate to manufactured
353 gas production plants.

354 **G. Allocation of Storage Costs**

355 **Q. How did Peoples Gas allocate storage costs to the customer classes within the**
356 **ECOSS?**

357 A. As in the 2011 Rate Case, Peoples Gas first classified all storage costs to the category of
358 Demand. It then went one step further and broke out the costs that are related to Gas in
359 Storage, and left all other Storage classified under the Storage-Demand. The only item
360 that is classified to Gas in Storage is the rate base related item of Gas Stored
361 Underground in Account 164. The stored gas in Account 164 is related to LNG and Top

362 Gas. This item, along with all of the other costs classified to Storage-Demand, was
363 allocated to the customer classes based upon Coincident Peak demand. Using the
364 Coincident Peak demand allocation methodology to allocate these costs is consistent with
365 the manner in which this stored gas is utilized to serve both sales and transportation
366 customers.

367 **Q. Please describe the method used to allocate Peoples Gas' investment in its**
368 **underground storage plant that is classified to Demand in FERC Plant Accounts**
369 **350 - 357.**

370 A. As in the 2011 Rate Case, the FERC Plant Account Series 350-357 Underground Storage
371 represents Peoples Gas' investment in its underground storage facility, Manlove Field.
372 This underground storage was allocated to the customer classes based upon the
373 Coincident Peak demand allocator. Given that Peoples Gas' customers, whether sales or
374 transportation, have access to Peoples Gas' storage assets based upon the level of storage
375 service to which they have rights, which is a function of their Maximum Daily Quantity
376 or peak usage, using Coincident Peak demand as the allocation methodology is most
377 appropriate.

378 **Q. Please describe the method used to allocate Peoples Gas' investment in local storage**
379 **plant that is classified to Demand in FERC Plant Accounts 361 - 363.**

380 A. As in the 2011 Rate Case, the FERC Plant Account Series 361-363 Other Storage, or
381 Local Storage, represents Peoples Gas' investment in LNG facilities. This local storage
382 was allocated to the customer classes based upon Coincident Peak.

383 **H. Allocation of Customer Costs**

384 **Q. How did Peoples Gas allocate customer costs to each of the customer classes within**
385 **the ECOSS?**

386 A. The customer costs in O&M Accounts 900-905 and 907-910, with the exception of
387 Uncollectible Expense in Accounts 904 and 905008, were allocated based on average
388 customer counts by customer class.

389 Uncollectible Expense in Accounts 904 and 905008 is allocated to the customer
390 classes using a two-step process. As shown on my Workpaper WPE-6.6b, the first step is
391 Uncollectible Expense in total, including uncollectible gas costs, allocated to the service
392 classes on the basis of a Bad Debt allocation method. The Bad Debt allocation method
393 was calculated by taking the average historical bad debt net write-offs per customer by
394 customer class as of the three-year period ending December 31, 2011, and applying that
395 average to the customer counts by customer class for the future test year ending
396 December 31, 2013. The second step is removal of the Uncollectible Expense that is
397 attributable to gas costs by service class. These are direct assigned amounts by service
398 class as shown in Column [J] of PGL Ex. 12.11. The net of these two steps provides the
399 Uncollectible Expense in Accounts 904 and 905008 by service class recoverable in base
400 rates.

401 **Q. Has Peoples Gas changed how the Bad Debt allocation method has been calculated**
402 **from the calculation presented for Peoples Gas in the ECOSS in the 2011 Rate**
403 **Case?**

404 A. Yes, it has. In the 2011 Rate Case, the Bad Debt allocation method was based upon the
405 average historical bad debt net-write-offs per customer by customer class for the 12

406 month historical year ending June 30, 2010. As explained by Peoples Gas witness
407 Christine Gregor, Peoples Gas is proposing use of a three-year, rather than a one-year,
408 average in this rate case.

409 **I. Allocation of Administrative and General Expenses**

410 **Q. How did Peoples Gas allocate Administrative and General (“A&G”) expenses to**
411 **each customer class in the ECOSS?**

412 A. A&G expenses were first functionalized using: (1) a Labor function, as to Accounts 920,
413 925, and 926; (2) a General – O&M function, as to Accounts 921-923, and 927-931; and
414 (3) a Plant function, as to Accounts 924 and 932. It was determined upon examination of
415 Account 920 that it relates to the Labor function, which is a change from the presentation
416 in the 2011 Rate Case. In the 2011 Rate Case, Account 920 was included in the O&M
417 function.

418 The Labor function was then classified to the Commodity, Demand, and
419 Customer classifications based upon Salaries and Wages, which can be found in PGL Ex.
420 13.5, Page 3, lines 7 – 13. The Salaries and Wages allocation methodology is based upon
421 the functional breakdown of Labor-related O&M, including cross-charged labor, by
422 FERC primary account. The Labor relating to Production, Storage, and Distribution-
423 Demand is classified to Demand. The Labor relating to Distribution-Customer, Customer
424 Accounting, Customer Service and Customer Sales is classified to Customer.

425 The General – O&M function was classified to the Commodity, Demand, and
426 Customer classifications based upon Total O&M, not including A&G, as shown on PGL
427 Ex. 13.4, Page 5, line 45. Total O&M, not including A&G, as shown on PGL Ex. 13.4,

428 Page 5, line 44 is derived from the summation of lines 3, 10, 13, 36 and 42 on PGL Ex.
429 13.4, Page 5.

430 The Plant function was classified to the Commodity, Demand, and Customer
431 classifications based upon Gross Plant, not including General or Intangible Plant
432 amounts, as shown on PGL Ex. 13.4, Page 1, line 40. Total Gross Plant, not including
433 General or Intangible Plant amounts, as shown on PGL Ex. 13.4, Page 1, line 39 is
434 derived from the summation of lines 2, 7, 10, and 36 on PGL Ex. 13.4.

435 Once these three functions of A&G were classified and summed, the total
436 Commodity classification was allocated to the customer classes on the basis of the Sales
437 allocator. The Demand function was broken down further among the Distribution that is
438 related to Demand and the Distribution that is related to Customer. This Demand and
439 Customer breakdown was arrived at by taking the ratio of Demand and Customer
440 classified Distribution O&M to Total Distribution O&M, as found on PGL Ex. 13.4, Page
441 5, line 36 (i.e. $[E36] / [C36]$ and $[F36] / [C36]$). The Distribution-Demand classification
442 was then allocated to the customer classes based on the Distribution Demand O&M
443 allocation methodology, and the Distribution-Customer classification was then allocated
444 to the customer classes on the basis of the Distribution Customer O&M allocation
445 methodology. The Distribution Demand O&M and Distribution Customer O&M
446 allocation methodologies can be found on PGL Ex. 13.3, Page 2, lines 23 and 37,
447 respectively. Lastly, the Customer classification was allocated to the customer classes
448 based upon the Customer O&M allocation methodology, which can be found on PGL Ex.
449 13.3, Page 2, line 51.

450 **J. Allocation of General Plant**

451 **Q. How was General Plant investment classified and allocated to the customer classes**
452 **within Peoples Gas' ECOSS?**

453 A. General Plant investment was classified to Commodity, Demand and Customer
454 classifications on the basis of Gross Plant, not including General or Intangible Plant
455 amounts, as shown on PGL Ex. 13.4, Page 1, line 40. Then the Commodity portion of
456 General Plant was allocated to the customer classes using the Sales allocation
457 methodology, and the Customer portion of General Plant was allocated to the customer
458 classes using the Customer allocation methodology.

459 The amount classified to Demand was further broken down into detailed functions
460 of Production, Underground Storage, Local Storage, Transmission, and Distribution.
461 This detailed breakdown was based on the ratio of each corresponding amount of
462 Demand related Plant-in-Service to Total Demand related Plant-in-Service, not including
463 Intangible or General Plant. For example, to calculate the ratio for the Demand portion
464 of General Plant – Production, the Production Plant-in-Service of \$11,391,452 (PGL Ex.
465 13.4, Page 1, cell [E2]) was divided by Total Demand related Plant-in-Service of
466 \$1,907,901,430, not including Intangible or General Plant (PGL Ex. 13.4, Page 1, cell
467 [E39]). This calculated ratio of 0.597% was then multiplied against the amount classified
468 to Total Demand General Plant of \$52,035,977 (PGL Ex. 13.4, Page 1, cell [E42]) to
469 arrive at General Plant – Production Demand of \$310,690 (PGL Ex. 13.3, Page 6, cell
470 [B37]). The calculations were also performed to arrive at the Underground Storage,
471 Local Storage, Transmission and Distribution Demand related portions of General Plant.

472 **K. Unique Allocations**

473 **Q. Please describe the remaining components of the Peoples Gas ECOSS that have**
474 **unique allocators and why these unique allocators are appropriate.**

475 A. The remaining components of Peoples Gas' ECOSS which have unique allocators are as
476 follows:

477 1. Income Taxes, Taxes other than Income Taxes ("TOTI") associated with
478 Unauthorized Insurance Tax, Invested Capital Tax-Other, Federal Excise Tax,
479 State Franchise Tax, and Property Tax, as well as Miscellaneous Revenues in
480 Account 493 were allocated to the customer classes based upon a Rate Base
481 allocator, which is shown on PGL Ex. 13.1, line 36. The Rate Base allocator was
482 utilized because these items follow cost-causation theory from various Rate Base
483 investments.

484 2. Miscellaneous Revenues in Account 487, Forfeited Discounts, was allocated to
485 the customer classes using a Delayed Payment allocator, which was based upon
486 the total late payment charges by service classification for the 12 months ending
487 December 31, 2011 applied against total forecasted late payment charges for the
488 2013 future test year. The Delayed Payment allocator was utilized because it has
489 a direct causation relationship with forfeited discounts.

490 3. Miscellaneous Revenues in Account 495 pertaining to the Municipal Utility Tax
491 Accounting Charge, was allocated to the customer classes using a Municipal
492 Utility Tax allocator, which was based upon forecasted municipal utility taxes
493 accounting charges, by customer class, for the 2013 future test year. The
494 Municipal Utility Tax allocator was utilized because it has a direct causation
495 relationship with Municipal Utility Tax revenues.

496 4. TOTI relating to Payroll Taxes and Other Taxes were allocated to the customer
497 classes based upon a Salaries and Wages allocator, which can be found in PGL
498 Ex. 13.5, page 3, line 32. The Salaries and Wages allocator was utilized because
499 these TOTI items are payroll related and therefore follow cost-causation theory.

500 5. TOTI relating to the Illinois Public Utility Tax was allocated to the customer
501 classes based upon a Revenue allocator, which can be found in PGL Ex. 13.3,
502 page 1, line 2. The Revenue allocator was utilized because it follows the basis
503 upon which this TOTI item is calculated, and therefore follows cost-causation
504 theory.

505 6. Rate Base related item Customer Deposits was allocated to the customer classes
506 using a Customer Deposits allocator which was based upon the average of actual
507 Customer Deposits for the 12 months ending December 31, 2011. The Customer

508 Deposits allocator was utilized because the historical basis of this allocator is
509 proficient for allocating forecasted Customer Deposit amounts.

510 7. Rate Base related item Budget Plan Balances was allocated to the customer
511 classes using Budget Plan allocator which was based upon the average of net
512 budget plan balances for the 12 months ending December 31, 2011. The Budget
513 Plan allocator was utilized because the historical basis of this allocator is
514 proficient for allocating forecasted amounts Budget Plan balance amounts.

515 **Q. Are there any other unique allocations used within the Peoples Gas ECOSS that**
516 **merit explanation?**

517 A. Yes. I will explain the methods used to classify the rate base components of Cash
518 Working Capital, Materials & Supplies (“M&S”), Accumulated Deferred Taxes, Net
519 Retirement Benefits, and Reserve for Injuries and Damages and why these allocations are
520 appropriate. These classification methodologies used for these rate base components are
521 in accordance with the Commission’s findings in Peoples Gas’ last two rate case filings.

522 Cash Working Capital is classified to Commodity, Demand and Customer
523 classifications based upon Total O&M, not including A&G, as shown on PGL Ex. 13.4,
524 Page 5, line 45. Total O&M, not including A&G was utilized as the classification
525 methodology because Cash Working Capital provides support for O&M utility functions.
526 Once classified, the Commodity and Customer portions are then allocated to the customer
527 classes based upon the Sales and Customer allocation methodologies, respectively. The
528 portion classified to Demand was further broken down into detailed functions of
529 Production, Underground Storage, Local Storage, Transmission, and Distribution. This
530 detailed breakdown was based on the ratio of each corresponding amount of O&M to
531 Total O&M, not including A&G. The calculation of the ratios follows the same
532 calculation performed for General Plant as I describe earlier in my testimony, except the
533 O&M amounts shown on PGL Ex. 13.4, Page 5, were utilized rather than the Plant-in-

534 Service amounts. Once further classified into the functions of Production, Underground
535 Storage, Local Storage, Transmission, and Distribution, the amounts were allocated to the
536 customer classes based upon the Coincident Peak, Coincident Peak, Coincident Peak,
537 Average and Peak, and Average and Peak allocation methodologies, respectively.

538 M&S is classified to Commodity, Demand and Customer classifications based
539 upon Distribution Plant, not including Intangible Plant amounts, as shown on PGL Ex.
540 13.4, Page 1, line 37. M&S is classified according to Distribution Plant, not including
541 Intangible Plant amounts because M&S are used to support Plant-in-Service functions,
542 and Distribution comprises the majority of Plant-in-Service. Once classified, the
543 Commodity, Demand, and Customer portions are then allocated to the customer classes
544 based upon the Sales, Average and Peak, and Customer allocation methodologies,
545 respectively.

546 Accumulated Deferred Taxes is classified to Commodity, Demand and Customer
547 classifications based upon Depreciation Reserve, not including General or Intangible
548 Plant amounts, as shown on PGL Ex. 13.4, Page 2, line 50. Accumulated Deferred Taxes
549 are allocated according to Depreciation Reserve, not including General or Intangible
550 Plant amounts because Accumulated Deferred Taxes follow the same type of cost-
551 causation theory as Accumulated Depreciation Reserve. Once classified, the Commodity
552 and Customer portions are then allocated to the customer classes based upon the Sales
553 and Customer allocation methodologies, respectively. The portion classified to Demand
554 was further broken down into detailed functions of Production, Underground Storage,
555 Local Storage, Transmission and Distribution. This detailed breakdown was based on the
556 ratio of each corresponding amount of Depreciation Reserve to Total Depreciation

557 Reserve, not including General. The calculation of the ratios follows the same
558 calculation performed for General Plant as I describe earlier in my testimony, except that
559 the Depreciation Reserve amounts shown on PGL Ex. 13.4, Page 2 were utilized rather
560 than Plant-in-Service amounts. Once further detailed into the functions of Production,
561 Underground Storage, Local Storage, Transmission and Distribution, the amounts were
562 allocated to the customer classes based upon the Coincident Peak, Coincident Peak,
563 Coincident Peak, Average and Peak, and Average and Peak allocation methodologies,
564 respectively.

565 Both Net Retirement Benefits and Reserve for Injuries and Damages are classified
566 to Commodity, Demand and Customer classifications based upon Total O&M, not
567 including A&G, as shown on PGL Ex. 13.4, Page 5, line 45. These rate base components
568 were classified according to Total O&M, not including A&G because they are a function
569 of various O&M accounts. Once classified, the Commodity and Customer portions are
570 allocated to the customer classes based upon the Sales and Customer allocation
571 methodologies, respectively. The Demand classified portion was further broken down
572 into detailed functions of Production, Underground Storage, Local Storage, Transmission
573 and Distribution. This detailed breakdown was based on the ratio of each corresponding
574 amount of O&M to Total O&M, not including A&G. The calculation of the ratios
575 follows the same calculation performed for General Plant as I describe earlier in my
576 testimony, except the O&M amounts shown on PGL Ex. 13.4, Page 5, were utilized
577 rather than Plant-in-Service amounts. Once classified as Production, Underground
578 Storage, Local Storage, Transmission and Distribution, the amounts were allocated to the

579 customer classes based upon the Coincident Peak, Coincident Peak, Coincident Peak,
580 Average and Peak, and Average and Peak allocation methodologies, respectively.

581 **L. Peoples Gas' ECOSS**

582 **Q. What is the source of the cost data analyzed in Peoples Gas' ECOSS?**

583 A. All cost of service data have been extracted from Peoples Gas' revenue requirements and
584 rate base contained in the instant filing. Where more detailed information was required
585 to perform various subsidiary analyses related to certain plant and expense elements, the
586 data were either taken directly from Peoples Gas' various software systems or derived
587 from the historical books and records of Peoples Gas.

588 **Q. Did you make any changes to the classes of service included in the ECOSS you**
589 **prepared compared to the cost study submitted in Peoples Gas' last general rate**
590 **case proceeding?**

591 A. Yes, I made two changes. In the ECOSS submitted in this proceeding, S.C. 1 – Small
592 Residential Service, is bifurcated into Non-Heating and Heating categories, along with
593 presenting the class of service as a Total. The Commission's 2011 Rate Case Order
594 directed Peoples Gas to present an ECOSS that distinguishes between low use and high
595 use S.C. No. 1 customers. Additionally, S.C. 2 – General Service, is segregated into
596 Small, Medium, and Large categories, which are representative of the three different
597 meter classes serviced in this rate class, along with presenting the S.C. 2 class of service
598 as a Total.

599 **Q. Please describe PGL Ex. 13.1.**

600 A. PGL Ex. 13.1 consists of one page and shows the summarized results of Peoples Gas’
601 ECOSS for the 2013 future test year under present rates. Line 38 of PGL Ex. 13.1 shows
602 the rate of return resulting from operations. Line 50 shows the revenue deficiency by
603 customer class based on the required rate of return on common equity of 10.75%, which
604 is Peoples Gas’ requested return on common equity in this proceeding and is supported
605 by the testimony of Peoples Gas witness Paul Moul (PGL Ex. 3.0). Lastly, line 53 of
606 PGL Ex. 13.1 shows the revenue requirements under present rates. I also note that the
607 internal allocation methodology of rate base is created on PGL Ex. 13.1; the Rate Base
608 allocator is used throughout other sections of the ECOSS.

609 **Q. Please describe PGL Ex. 13.2.**

610 A. PGL Ex. 13.2 consists of 12 pages. Pages one and two provide a summary of revenue
611 requirements and rate base, respectively, shown by functional and classification
612 breakdown. Page three of PGL Ex. 13.2 shows the unit costs by customer class for the
613 2013 future test year, which was calculated by taking the revenue requirements under
614 present rates on page one and dividing by the appropriate denominator shown in Lines
615 43-45 of PGL Ex. 13.2, Page 3. Pages 4 - 12 of PGL Ex. 13.2 provide the detail behind
616 the creation of the summaries shown on pages one and two.

617 **Q. Please describe PGL Ex. 13.3.**

618 A. PGL Ex. 13.3 consists of nine pages and contains the detailed allocation of all investment
619 and expenses to the customer classes of Peoples Gas. This exhibit provides the detail
620 behind the figures shown in the summary presented as PGL Ex. 13.1. All of the
621 investment and expenses were allocated to the customer classes using the allocation
622 methodologies listed in the far right column labeled “Source or Allocation Factor”.

623 Page 1 contains the Operating Revenues for Peoples Gas by customer class based
624 on the rates authorized in the 2011 Rate Case. I also note that the internal allocation
625 methodology of Revenue is created on PGL Ex. 13.3, page 1; the Revenue allocator is
626 used throughout other sections of the ECOSS.

627 Page 2 contains the allocation of Total O&M Expenses, both Labor and
628 Non-Labor related, to Peoples Gas' customer classes. Page 2 also contains the creation
629 of the internal allocation methodologies Distribution-Demand O&M, Distribution-
630 Customer O&M, and Customer O&M, which are used to allocate Distribution and
631 Customer classifications of A&G expense, respectively.

632 Page 3 contains the allocation of Depreciation and Amortization expenses to
633 Peoples Gas' customer classes.

634 Page 4 contains the allocation of TOTI expense to Peoples Gas' customer classes.

635 Page 5 contains the allocation of Other Income and Adjustments, for both Before
636 Income Taxes as well as After Income Taxes, for Peoples Gas. In the 2013 future test
637 year, there were no Other Income and Adjustments.

638 Page 6 contains the allocation of investment in Plant in Service to Peoples Gas'
639 customer classes.

640 Page 7 contains the allocation of Accumulated Reserve for Depreciation and
641 Amortization to Peoples Gas' customer classes.

642 Page 8 contains the allocation of Construction Work in Progress to Peoples Gas'
643 customer classes.

644 Page 9 contains the allocation of Other Rate Base Components to Peoples Gas'
645 customer classes.

646 **Q. Please describe PGL Ex. 13.4.**

647 A. PGL Ex. 13.4 consists of five pages and contains the functionalization and classification
648 detail of the ECOSS. This exhibit provides the detail behind the figures shown in the
649 cost allocation to customer classes presented as PGL Ex. 13.3.

650 Page 1 contains the functionalization and classification of investment in Plant in
651 Service. These figures were utilized in the costs allocation to customer classes shown on
652 page 6 of PGL Ex. 13.3. Page 1 also contains the creation of the classificational
653 allocation methodology for Gross Plant, not including Intangible or General Plant
654 amounts, and Distribution Plant, not including Intangible amounts, which were used
655 throughout other sections of the ECOSS.

656 Page 2 contains the functionalization and classification of Accumulated Reserve
657 for Depreciation and Amortization. These figures were utilized in the costs allocation to
658 customer classes shown on page 7 of PGL Ex. 13.3. Page 2 also contains the creation of
659 the classificational allocation methodology for Depreciation Reserve, not including
660 Intangible or General Plant amounts, which is used throughout other sections of the
661 ECOSS.

662 Page 3 contains the functionalization and classification of Construction Work in
663 Progress. These figures were utilized in the costs allocation to customer classes shown
664 on page 8 of PGL Ex. 13.3.

665 Page 4 contains the functionalization and classification of Depreciation and
666 Amortization Expense. These figures were utilized in the costs allocation to customer
667 classes shown on page 3 of PGL Ex. 13.3.

668 Page 5 contains the functionalization and classification of Total O&M Expense,
669 including both Labor and Non-Labor. These figures were utilized in the cost allocation
670 to customer classes shown on page 2 of PGL Ex. 13.3. Page 5, also includes the creation
671 of the classificational allocation methodology titled Total O&M, not including A&G
672 amounts, which is used in other sections of the ECOSS.

673 **Q. Please describe PGL Ex. 13.5.**

674 A. PGL Ex. 13.5 contains a summary of most of the allocation methodologies used within
675 the ECOSS exhibits shown in PGL Exs. 13.1 through 13.4. PGL Ex. 13.5 consists of ten
676 pages.

677 Page 1 shows the development of the following allocation factors:

- 678 1. The Average Customers allocation factor, which is based on simple
679 12 month average of customer counts for all customer classes,
- 680 2. The Services allocation factor for Account 380, which is based on average
681 customer counts and utilizes a Cost Per Customer for Services weighting
682 factor,
- 683 3. The Meters & House Regulators allocation factor for Accounts 381.0 and
684 383, which is based on average customer counts and utilizes a Cost Per
685 Customer for Meters & Regulators weighting factor,
- 686 4. The Automated Meter Devices allocation factor for Accounts 381.2 and
687 382.2, which is based on average customer counts and utilizes a count of
688 Encoder/Receiver Transmitters per Customer weighting factor,
- 689 5. The Bad Debt allocation factor for Accounts 904 and 905008, which is
690 based on average customer counts and utilizes a Cost per Customer – Bad
691 Debt weighting factor,
- 692 6. The Demand Gas Measurement Devices allocation factor for Accounts
693 381.3 and 382.3, which is based on the demand device counts forecasted
694 for the 2013 future test year,
- 695 7. The Municipal Utility Tax allocation factor which is based on the total
696 forecasted municipal utility tax accounting charges, by customer class, for
697 the 2013 future test year, and

698 8. The Delayed Payment Charges allocation factor for Account 487, which is
699 based on the total late payment charges by service classification for the 12
700 months ending December 31, 2011 applied against total forecasted late
701 payment charges for the 2013 future test year.

702 Page 2 shows the development of the following allocation factors:

703 1. The Budget Plan Balances allocation factor, which is based on average
704 customer counts and utilizes a Budget Plan Balance per Customer
705 weighting factor,

706 2. The Customer Deposits allocation factor, which is based on average
707 customer counts and utilizes a Customer Deposits per Customer weighting
708 factor,

709 3. Sales, or Commodity, allocation factor, which is the annual total of
710 forecasted sales of all customers, including transportation sales, for the
711 2013 future test year,

712 4. The Coincident Peak Demand allocation for class coincident demand for
713 each of the customer classes, and

714 5. The Average and Peak Demand allocation, which consists of a
715 combination of the utility's average sales and coincident peak demand,
716 calculated in accordance with the method approved in Docket Nos. 07-
717 0241/07-0242 (cons.).

718 Page 3 shows the development of the following allocation factors:

719 1. The Accounts 385 and 386 allocation, which consists of the number of
720 industrial meters of only those customer classes that utilize industrial size
721 meters,

722 2. The Salaries and Wages functional allocation factor, and

723 3. The Salaries and Wages customer class allocation factor.

724 Pages 4 through 10 contain a list of all of the externally generated allocation
725 factors in the ECOSS and also provide a full narrative description of the derivation of all
726 the externally generated allocation factors, as required by the 83 Ill. Admin. Code
727 Section 285.5110.

728 **Q. Can you please explain the significance of the far right column labeled “Source or**
729 **Allocation Factor” on each of the pages 1 – 3 of PGL Ex. 13.5?**

730 A. The far right column labeled “Source or Allocation Factor” represents the name that was
731 given to each of the specific allocators created within PGL Ex. 13.5. Each of these
732 names shown in the “Source or Allocation Factor” column is what is used throughout the
733 ECOSS for Peoples Gas when referencing the allocation methodology that was used to
734 allocate costs to the customer classes.

735 **Q. Please describe PGL Ex. 13.6.**

736 A. PGL Ex. 13.6 shows the summarized results of Peoples Gas’ ECOSS for the 2013 future
737 test year under the proposed changes in rate design as proffered by Peoples Gas witness
738 Ms. Grace. PGL Ex. 13.6 consists of one page. Line 37 of PGL Ex. 13.6 shows the Rate
739 of Return resulting from operations. Line 49 shows the revenue deficiency by customer
740 class based on the required rate of return on common equity of 10.75%, which is Peoples
741 Gas’ requested return on common equity in this general rate case proceeding and is
742 supported by Mr. Moul’s testimony. Line 53 of PGL Ex. 13.6 shows the revenue
743 requirements taking into consideration the proposed Other Revenues in Accounts 487-
744 495 that would be received under the proposed rate design, along with proposed changes
745 to Uncollectibles Expense in Accounts 904 and 905008 and Federal and State Income
746 Taxes. Lines 56-60 present the proposed revenue requirement required as proffered by
747 Ms. Grace.

748 **Q. Specifically, what changes can be seen between PGL Ex. 13.1 and PGL Ex. 13.6?**

749 A. The Other Revenues in Accounts 487-495 have been updated to include increased
750 revenues arising from proposed increases in certain miscellaneous charges as discussed in

751 Ms. Grace's direct testimony. The increase in Other Revenues in Accounts 487-495
752 lowers the amount that would need to be recovered via base rates in tariff revenue.
753 Accordingly, an adjustment was made to account for the reduction to tariff revenues (see
754 line 3 of PGL Ex. 13.6).

755 Additionally, O&M Expense shown on line 8 has changed because Uncollectibles
756 Expense in Accounts 904 and 905008 has changed under Proposed Rates, as well as
757 Federal and State Income Taxes, as shown on line 12. Please see Ms. Moy's Schedule C-
758 1. Lastly, lines 55-63 portray the proposed revenue requirement recovery as proffered by
759 Ms. Grace.

760 **Q. Please describe PGL Ex. 13.7.**

761 A. PGL Ex. 13.7 consists of 12 pages. Page one provides a summary of the revenue
762 requirement under proposed rates (See PGL Ex. 13.6, line 53). This summary is shown
763 by functional and classification breakdown. Page two provides a summary of rate base
764 shown by functional and classification breakdown. Page three shows the unit costs by
765 customer class for the 2013 future test year, which was calculated by taking the revenue
766 requirement on page one and dividing by the appropriate denominator shown in Lines 43-
767 45 of PGL Ex. 13.7, Page 3. Pages 4 - 12 provide the detail behind the creation of the
768 summaries shown on pages one and two.

769 **Q. Please describe PGL Ex. 13.8.**

770 A. PGL Ex. 13.8 consists of two pages and contains the detailed allocation of only the
771 investment and expenses to the customer classes of Peoples Gas that change under
772 proposed rates. Accordingly, page 1 contains the Operating Revenues for Peoples Gas by
773 customer class based on the rates authorized in the 2011 Rate Case. Lines 5 – 19 also

774 reflect the proposed Other Revenues that would be recovered via the proposed rate
775 design.

776 Page 2 contains the allocation of Total O&M Expenses, both Labor and
777 Non-Labor related, to Peoples Gas' customer classes taking into account the change to
778 Uncollectibles Expense in Accounts 904 and 905008 that would occur under the
779 proposed rate design. Page 2 also contains the creation of the internal allocation
780 methodologies Distribution-Demand O&M, Distribution-Customer O&M, and Customer
781 O&M, which were used to allocate Distribution and Customer classifications of A&G
782 expense, respectively.

783 The allocation of Uncollectible Expense in Accounts 904 and 905008 becomes a
784 three step process under proposed rates. As shown on my Workpaper WPE-6.6c, the first
785 step is Uncollectible Expense in total, including uncollectible gas costs, allocated to the
786 service classes on the basis of a Bad Debt allocation method. The second step is
787 allocating the rate making adjustment for Uncollectible Expense under the proposed base
788 rates on the basis of a Base Rate Uncollectibles allocation method. The Base Rate
789 Uncollectibles allocation method is calculated on my Workpaper WPE-6.6b and is the net
790 Uncollectible Expense in Accounts 904 and 905008 by service class recoverable in
791 present base rates. The third step is removal of the Uncollectible Expense that is
792 attributable to gas costs by service class. These are direct assigned amounts by service
793 class as shown in Column [J] of PGL Ex. 12.11. The net of these three steps provides the
794 Uncollectible Expense in Accounts 904 and 905008 by service class recoverable in the
795 proposed base rates.

- 818 8. The total general service class (S.C. No. 2 – Total) exhibits a rate of return
819 of 4.41%.
- 820 9. The large volume demand service class (S.C. No. 4) shows a rate of return
821 of 1.45%.
- 822 10. The CNG service class (S.C. No. 8) shows a rate of return of -0.70%.

823 **Q. Why have you not addressed S.C. Nos. 5 and 7?**

824 A. S.C. Nos. 5 and 7 do not appear in the ECOSS because these service classifications have
825 customer-specific charges that are negotiated pursuant to special contracts. Therefore,
826 these customers’ rates are not affected and are not shown within the ECOSS analyses.
827 Revenues received from these service classes were treated as a credit to the remaining
828 service classes in the ECOSS, as shown in PGL Ex.13.3, Page 1.

829 **Q. Please discuss the results of the ECOSS at proposed rates, as shown in PGL Ex.**
830 **13.6.**

831 A. Referring to PGL Ex. 13.6, the following proposed revenue requirement recovery results
832 from the ECOSS are indicated on Line 56:

- 833 1. The average system rate of return is 4.62%.
- 834 2. The non-heating small residential service class (S.C. No. 1 – Non-
835 Heating) exhibits a rate of return of 74.16%.
- 836 3. The heating small residential service class (S.C. No. 1 – Heating) exhibits
837 a rate of return of 3.97%.
- 838 4. The total small residential service class (S.C. No. 1 – Total) exhibits a rate
839 of return of 5.08%.

- 840 5. The small general service class (S.C. No. 2 – Small) exhibits a rate of
841 return of 2.04%.
- 842 6. The medium general service class (S.C. No. 2 – Medium) exhibits a rate of
843 return of 7.49%.
- 844 7. The large general service class (S.C. No. 2 – Large) exhibits a rate of
845 return of 3.54%.
- 846 8. The total general service class (S.C. No. 2 – Total) exhibits a rate of return
847 of 4.50%.
- 848 9. The large volume demand service class (S.C. No. 4) shows a rate of return
849 of 1.60%.
- 850 10. The CNG service class (S.C. No. 8) shows a rate of return of -0.51%.

851 **Q. In your opinion, does the ECOSS provide a reasonable basis for establishing rates in**
852 **this case?**

853 A. Yes. The ECOSS for Peoples Gas is a reasonable estimate of revenue requirements by
854 customer class, given the total revenue requirement, and supports the rates requested in
855 this case, as explained further by Ms. Grace.

856 **Q. Does this complete your direct testimony?**

857 A. Yes.