

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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| NORTH SHORE GAS COMPANY | : | |
| | : | |
| Proposed General Increase In Rates For Gas Service. | : | No. 12-0511 |
| | : | and |
| THE PEOPLES GAS LIGHT AND COKE COMPANY | : | No. 12-0512 |
| | : | Consol. |
| | : | |
| Proposed General Increase In Rates For Gas Service. | : | |

Rebuttal Testimony of

VALERIE H. GRACE

Consultant
Stafflogix Corporation

On Behalf of
North Shore Gas Company and
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 Valerie H. Grace. My business address is 130 E. Randolph Street, Chicago,
5 Illinois 60601.

6 **Q. Are you the same Valerie H. Grace who submitted direct testimony on behalf of The
7 Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas
8 Company (“North Shore”) (together, “the Utilities”) in these consolidated dockets?**

9 A. Yes.

10 **B. Purpose of Rebuttal Testimony**

11 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

12 A. My testimony and its attachments respond to the rate design, tariff and rider issues raised
13 in the direct testimony of Illinois Commerce Commission (“Commission” or “ICC”)
14 Staff (“Staff”) witness William R. Johnson; the Office of the Attorney General (“AG”)
15 witness Scott J. Rubin; and Interstate Gas Supply of Illinois, Inc. (“IGS Energy”) witness
16 Vincent A. Parisi. The Utilities’ witnesses Joylyn C. Hoffman Malueg and Debra E.
17 Egelhoff will also address certain aspects of these witnesses’ testimony. Specifically, my
18 rebuttal testimony addresses:

19 1. The recommendations made by Mr. Johnson and Mr. Rubin regarding the
20 Utilities’ proposed rate designs.

21 2. The recommendation made by Mr. Rubin and Mr. Johnson regarding Rider VBA,
22 Volume Balancing Adjustment.

23 3. The recommendations made by Mr. Parisi regarding transportation administrative
24 charges as well as charges described as general administrative charges.

25 **C. Summary of Conclusions**

26 **Q. Please summarize the conclusions of your rebuttal testimony.**

27 A. In my rebuttal testimony, I conclude the following:

28 1. The Utilities' proposed rates arising from their proposed revenue requirements
29 and rate designs are appropriate, based on sound ratemaking principles and are
30 consistent with recent Commission orders.

31 2. Mr. Johnson's distribution charge proposals for Service Classification ("S.C.")
32 No. 1 non-heating ("NH") customers are premised on unlikely customer usage
33 assumptions and related flawed bill impact analysis and should be rejected.

34 3. Mr. Johnson's recommendation to reject the Utilities' Straight Fixed Variable
35 ("SFV") rate proposals is not supported by sound analysis and should not be
36 considered by the Commission.

37 4. Mr. Johnson's proposal for S.C. No. 1 heating ("HTG") customers, especially in
38 conjunction with his recommendation to reject the Utilities' SFV rate proposals, is
39 not in alignment with previous Commission orders on adequate fixed cost
40 recovery and should be rejected.

41 5. Mr. Rubin's proposed rate design methodology for S.C. No. 1 NH customers is
42 problematic and should be rejected.

- 43 6. Mr. Rubin’s proposed rate design methodology for S.C. No. 1 HTG customers is
44 contrary to recent Commission orders supporting increased fixed cost recovery,
45 does not consider the impact on most customers’ bills, and should be rejected.
- 46 7. Mr. Rubin’s recommendation to remove Rider VBA from the Utilities’ tariffs is
47 based upon inaccurate assumptions and disregards the Commission’s rationale for
48 approving the rider.
- 49 8. Rider VBA will need to be revised if there are different distribution charges for S.C.
50 No. 1 NH and S.C. No. 1 HTG customers.
- 51 9. Administrative charges assessed under the Utilities’ transportation programs
52 continue to be based on appropriate cost causation principles as previously
53 recognized by the Commission.

54 **D. Itemized Attachments to Rebuttal Testimony**

55 **Q. Are you sponsoring any attachments to your rebuttal testimony?**

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

- 57 • NS-PGL Exhibit (“Ex.”) 32.1 North Shore Summary Comparison of Present and
58 Proposed Rates at Direct Testimony Revenue
59 Requirement and Rebuttal Testimony Rate Design
60 Proposals.
- 61 • NS-PGL Ex. 32.2 North Shore Summary Comparison of Present and
62 Proposed Rates at Rebuttal Testimony Revenue
63 Requirement and Rebuttal Testimony Rate Design
64 Proposals.
- 65 • NS-PGL Ex. 32.3 Peoples Gas Summary Comparison of Present and
66 Proposed Rates at Direct Testimony Revenue
67 Requirement and Rebuttal Testimony Rate Design
68 Proposals.

- 69 • NS-PGL Ex. 32.4 Peoples Gas Summary Comparison of Present and
70 Proposed Rates at Rebuttal Testimony Revenue
71 Requirement and Rebuttal Testimony Rate Design
72 Proposals.
- 73 • NS-PGL Ex. 32.5 North Shore Summary Comparison of Proposed
74 Rates for S.C. No. 1 NH and HTG. Includes North
75 Shore rebuttal rate designs and Staff and AG rate
76 designs at direct testimony and rebuttal testimony
77 revenue requirements.
- 78 • NS-PGL Ex. 32.6 Peoples Gas Summary Comparison of Proposed
79 Rates for S.C. No. 1 NH and HTG. Includes
80 Peoples Gas rebuttal rate designs and Staff and AG
81 rate designs at direct testimony and rebuttal
82 testimony revenue requirements.
- 83 • NS-PGL Ex. 32.7 North Shore S.C. No. 1 Base Rate NH Bill Impact
84 Comparisons. Includes base rate bill impacts
85 arising from North Shore rebuttal rate designs and
86 Staff and AG rate designs at direct testimony and
87 rebuttal testimony revenue requirements.
- 88 • NS-PGL Ex. 32.8 Peoples Gas S.C. No. 1 Base Rate NH Bill Impact
89 Comparisons. Includes base rate bill impacts
90 arising from Peoples Gas rebuttal rate designs and
91 Staff and AG rate designs at direct testimony and
92 rebuttal testimony revenue requirements.
- 93 • NS-PGL Ex. 32.9 North Shore S.C. No. 1 Base Rate HTG Bill Impact
94 Comparisons. Includes base rate bill impacts
95 arising from North Shore rebuttal rate designs and
96 Staff and AG rate designs at direct testimony and
97 rebuttal testimony revenue requirements.
- 98 • NS-PGL Ex. 32.10 Peoples Gas S.C. No. 1 Base Rate HTG Bill Impact
99 Comparisons. Includes base rate bill impacts
100 arising from Peoples Gas rebuttal rate designs and
101 Staff and AG rate designs at direct testimony and
102 rebuttal testimony revenue requirements.
- 103 • NS-PGL Ex. 32.11 North Shore Summary Determination of SFV and
104 Modified SFV Rates under rebuttal testimony
105 revenue requirement.

- 106 • NS-PGL Ex. 32.12 Peoples Gas Summary Determination of SFV and
107 Modified SFV Rates under rebuttal testimony
108 revenue requirement.
- 109 • NS-PGL Ex. 32.13 North Shore Summary of Revenues under Present
110 and Proposed Rates at Rebuttal Revenue
111 Requirement.
- 112 • NS-PGL Ex. 32.14 Peoples Gas Summary of Revenues under Present
113 and Proposed Rates at Rebuttal Revenue
114 Requirement.
- 115 • NS-PGL Ex. 32.15 States With Natural Gas Revenue Decoupling.
- 116 • NS-PGL Ex. 32.16 States With Non-Volumetric Rate Design and
117 Weather Normalization.
- 118 • NS-PGL Ex. 32.17 Certificates of Publication.

119 **II. RATE DESIGN AND RATE INCREASE**

120 **A. Summary**

121 **Q. Please summarize the rate design issues addressed in the direct testimony of parties**
122 **in this proceeding.**

123 A. Staff witness Mr. Johnson disagrees with certain aspects of the Utilities’ rate design
124 proposals for S.C. No. 1 NH and HTG customers and proposes alternative rate design
125 approaches. He also recommends that the Commission accept the Utilities’ rate design
126 proposals for North Shore’s S.C. Nos. 2 and 3 and Peoples Gas’ S.C. Nos. 2, 4 and 8.
127 Lastly, Mr. Johnson recommends that the Commission not approve the Utilities’ SFV rate
128 implementation for S.C. No. 1 NH and HTG customers and S.C. No. 2 if Rider VBA is
129 not in effect. However, he also recommends that if the Commission decides otherwise,
130 they should limit their approval to modified SFV rates not to exceed the 80% of fixed
131 cost recovery previously approved for Ameren Illinois Utilities’ (“Ameren”) gas rates
132 and Northern Illinois Gas Company (“Nicor Gas”). AG witness Mr. Rubin disagrees

133 with the Utilities' rate design proposals for S.C. No. 1 NH and HTG customers and
134 proposes alternative rate design approaches. Mr. Rubin does not make proposals for any
135 other service classifications. Mr. Rubin also recommends that the Commission remove
136 Rider VBA from the Utilities' tariffs.

137 **Q. Based on your analysis of Mr. Johnson's and Mr. Rubin's proposals, are you**
138 **proposing any rate design changes in your rebuttal testimony?**

139 A. Yes. My rebuttal testimony includes rebuttal rate design proposals for North Shore's and
140 Peoples Gas' S.C. No. 1 NH and HTG customers. I also address alternatives for SFV
141 rates for S.C. Nos. 1 and 2. I am not proposing any rate design changes for the Utilities'
142 other service classifications. To provide apples-to-apples comparisons with the Utilities'
143 rebuttal rate designs and the proposals made by Mr. Johnson and Mr. Rubin, such rates
144 are provided assuming the Utilities' direct testimony revenue requirements as well as the
145 updated revenue requirements proposed by the Utilities in the rebuttal testimony of the
146 Utilities' witness Sharon Moy¹ and reflected in each utility's embedded cost of service
147 study ("ECOSS") as addressed in the rebuttal testimony of Ms. Hoffman Malueg.
148 Summary comparisons of North Shore's present and proposed rates arising from the
149 rebuttal rate designs assuming direct testimony and rebuttal testimony revenue
150 requirements are provided in NS-PGL Exs. 32.1 and 32.2, respectively. Summary
151 comparisons of Peoples Gas' present and proposed rates arising from the rebuttal rate
152 designs assuming direct testimony and rebuttal testimony revenue requirements are
153 provided in NS-PGL Exs. 32.3 and 32.4, respectively.

¹ May be referred to interchangeably as "rebuttal testimony revenue requirement" or "rebuttal revenue requirement".

154 **B. S.C. No. 1, Small Residential Non-Heating**

155 **1. North Shore**

156 **Q. Do you agree with Staff Witness Mr. Johnson's rate design proposals for North**
157 **Shore's S.C. No. 1 NH customers?**

158 A. Not entirely. Mr. Johnson proposes that the customer charge for North Shore's S.C. No.
159 1 NH customers recover 80% of non-storage related fixed costs and that the current two-
160 block distribution charge rate design be retained. While I believe that it is still
161 appropriate to recover all non-storage related fixed costs through the customer charge for
162 S.C. No. 1 NH customers, to narrow the issues in this case, I will accept Mr. Johnson's
163 proposal to recover 80% of non-storage related fixed costs through the customer charge.
164 However, I do not agree with Mr. Johnson's proposal to retain the current two-block
165 distribution charge and again recommend that a flat distribution charge be implemented
166 for S.C. No. 1 NH.

167 **Q. Why do you disagree with Mr. Johnson's distribution charge proposal for North**
168 **Shore's S.C. No. 1 NH customers?**

169 A. Mr. Johnson asserts that retaining North Shore's current declining two-block rate
170 structure would minimize the bill impacts for customers. To support his proposal, he
171 provides an example for a customer using 500 monthly therms, stating that such a North
172 Shore customer would see a bill increase of \$102 under a flat distribution charge
173 compared to \$33 under a two-block distribution charge². However, a 500 therm monthly
174 usage amount is extremely unlikely for a S.C. No. 1 NH customer as about 95% of North

² Assuming North Shore's direct testimony revenue requirement, which is used to determine the rates shown in NS Ex. 12.0.

175 Shore's S.C. No. 1 NH customer bills show monthly usage of 50 therms or less (per
176 Schedule E-8). Moreover, *annually*, the average S.C. No. 1 NH customer uses only 163
177 therms. So even on an annual basis, a S.C. No. 1 NH customer's usage would be far less
178 than the 500 therm monthly amount used to support Mr. Johnson's two-block distribution
179 charge proposal. As most of North Shore S.C. No. 1 NH monthly customer bills would
180 not exceed 50 therms, a declining two-block rate structure is not warranted and should be
181 replaced with a flat distribution charge as proposed by North Shore. Moreover, North
182 Shore's S.C. No. 1 NH customers' bills would be higher under a declining block rate
183 structure as proposed by Mr. Johnson. I also note that Mr. Johnson provided no rationale
184 for his proposal to set the second block equal to the flat distribution charge for S.C. No. 1
185 HTG customers.

186 **Q. Why would North Shore's S.C. No. 1 NH customers' bills be higher under a**
187 **declining block rate structure?**

188 A. Mathematically, a flat distribution charge would be lower than the front block of a
189 declining block distribution charge. As most of North Shore's S.C. No. 1 NH customers
190 use less than 50 therms, most of their usage would be billed under the front block of the
191 higher declining block rate structure proposed by Mr. Johnson. Therefore, as a flat
192 distribution charge would be lower than a front block distribution charge, most
193 customers' bills will be lower.

194 **Q. Would any ancillary benefits arise from a flat distribution charge?**

195 A. Yes. A flat distribution charge may discourage attempts by heating customers to initiate
196 service or to switch to service under North Shore's S.C. No. 1 NH, which would have a
197 much lower customer charge.

198 **Q. Do you agree with AG Witness Mr. Rubin’s proposal for North Shore’s S.C. No. 1**
199 **NH customers?**

200 A. Not entirely. Mr. Rubin proposes a flat monthly charge for North Shore’s S.C. No. 1 NH
201 customers that would recover all fixed costs, including storage related costs that are now
202 recovered under Rider SSC, Storage Service Charge. While I agree that a flat monthly
203 charge would appropriately recover fixed costs, it should not recover storage related fixed
204 costs that are recovered under Rider SSC. However, for the reasons described above in
205 response to Mr. Johnson’s rate design proposals and the reasons described below
206 regarding appropriate recovery of storage costs, I believe that a customer charge which
207 recovers 80% of non-storage related fixed costs and a flat distribution charge is a
208 reasonable rate design for North Shore’s S.C. No. 1 NH customers.

209 **Q. Why should storage related fixed costs not be included in a flat monthly charge for**
210 **North Shore’s S.C. No. 1 NH customers as proposed by Mr. Rubin?**

211 A. Mr. Rubin’s proposal does not consider the intent and mechanics of Rider SSC as well as
212 the costs that are recovered through the rider for North Shore. Accordingly, his proposal
213 is at odds with how the rider was designed and operates. Rider SSC was approved by the
214 Commission in Docket Nos. 11-0280/11-0281 (cons.) (“2011 Rate Case”) as part of the
215 Utilities’ responses to Staff’s recommendation in Docket Nos. 09-0166/09-0167 (cons.)
216 (“2009 Rate Case”) to unbundle storage and standby services for transportation
217 customers. Under Rider SSC, a fixed amount of storage capacity is available for sales
218 and transportation customers. A Storage Banking Charge, which is applied on a per-
219 term of storage capacity basis, and is applicable to transportation customers, recovers
220 the cost of storage capacity subscribed for by transportation customers. A Storage

221 Service Charge, which is applied on a per-therm of usage basis, and is applicable to sales
222 customers, recovers the cost of all remaining storage. As transportation customers do not
223 typically subscribe for the full amount of storage capacity that is available to them, the
224 unsubscribed storage capacity is then available and used to serve North Shore's sales
225 customers. North Shore's ECOSS reflects the cost of storage assuming that
226 transportation customers in each rate class subscribe for the amount of storage capacity
227 available to them, while test year Rider SSC revenues reflect test year storage capacity
228 elected by transportation customers and the cost of the additional storage capacity that
229 becomes available and is used to serve sales customers.

230 **Q. Is Mr. Rubin's claim that Rider SSC recovers four times the cost of storage service**
231 **for North Shore's S.C. No. 1 NH customers valid?**

232 A. No, it is not. These customers receive the benefits of the storage for which they pay.
233 First, as explained above, Mr. Rubin's proposal does not consider the intent and
234 mechanics of Rider SSC. Second, Mr. Rubin's flawed analysis does not include the
235 production and gathering costs in the ECOSS storage costs used to establish his rates
236 whereas those costs are recoverable under North Shore's Rider SSC. Mr. Rubin claims
237 that the ECOSS shows storage costs of \$719 and Schedule E-5 shows Rider SSC
238 recoveries of \$3,000, when, in fact, the ECOSS shows storage costs of \$1,368 and
239 Schedule E-5 shows Rider SSC revenues of \$3,000, which are rounded up from \$2,544 to
240 the nearest thousand (as are all revenues in Schedule E-5)³. Third, as explained above,
241 the \$1,368 reflects storage costs if all transportation customers were to subscribe for the

³ Mr. Rubin did not include Production and Gathering costs of \$649 as shown in NS Ex. 13.7, page 1 line 5, column C that are recoverable through Rider SSC for North Shore. Non-rounded Rider SSC revenues are \$2,544 as shown in NS Ex. 12.3, page 2 column E, line 1.

242 full amount of storage capacity available to them. As test year transportation storage
243 capacity is not fully subscribed (as has been characteristic for transportation customers),
244 the additional storage capacity is reallocated to all sales customers per the provisions of
245 Rider SSC. Accordingly, Rider SSC revenues of \$3,000 reflect the costs related to the
246 additional storage capacity that is available and used to provide service to S.C. No. 1 NH
247 sales customers. The reallocation of storage costs under the initial direct testimony
248 revenue requirement is reflected in the allocation of North Shore's rate increase shown in
249 NS Ex. 12.3, page 2, line 1, columns D and E. Column D reflects the \$1,368 shown in
250 the ECOSS while Column E is consistent with the non-rounded Rider SSC revenues of
251 \$2,544 rounded to \$3,000 as discussed above. It is clear that, contrary to Mr. Rubin's
252 claims, there is no over-recovery of costs. Simply put, Rider SSC revenues are higher
253 than the ECOSS storage costs as they reflect the cost associated with the additional
254 storage capacity that will be reallocated to serve all sales customers, including S.C. No. 1
255 NH sales customers.

256 **Q. Is Mr. Rubin's proposal to recover storage costs for S.C. No. 1 NH through a flat**
257 **monthly charge problematic for Rider SSC and equitable cost recovery?**

258 A. Yes. Rider SSC was designed to recover the cost of storage on a uniform per-therm of
259 capacity basis from transportation customers and on a uniform per-therm of usage basis
260 from sales customers, with an annual reconciliation of revenues and costs. If storage
261 costs were to be recovered separately through a flat charge for S.C. No. 1 NH customers,
262 the resulting embedded storage rate and costs would not be aligned with the storage
263 capacity that is reallocated annually to provide service to S.C. No. 1 NH customers, with
264 such costs being shifted to and subsidized by sales customers in other rate classes or with

265 S.C. No. 1 NH sales customers subsidizing sales customers in other rate classes.
266 Consequently, revenues for each rate class would not match the storage service provided.
267 In addition, Rider SSC and the computations in the rider would need to be revised to
268 carve out S.C. No. 1 NH storage costs from the costs that are used to determine Rider
269 SSC charges, thereby creating an imbalance that is not consistent with the rider's intent
270 under the unbundling proposal that was supported by Staff and approved by the
271 Commission in the 2011 Rate Case.

272 **Q. Please comment on Mr. Rubin's opinion that North Shore's S.C. No. 1 NH rates**
273 **recover more than the cost to serve due to what he calls the Utilities' ill-advised**
274 **move toward SFV rates and the Commission's unfortunate adoption of that**
275 **position.**

276 A. Mr. Rubin's opinion is premised on his misplaced belief that S.C. No. 1 NH customers
277 are paying more than their cost of service. The Utilities' witness Ms. Hoffman Malueg
278 addresses this from a cost of service perspective. However, I note that the Utilities made
279 proposals to bifurcate S.C. No. 1 into non-heating and heating classes in Docket Nos. 07-
280 0241/07-0242 (cons.) as they moved to increase fixed cost recovery as encouraged and
281 supported by the Commission. However, the AG witness in that proceeding opposed any
282 such bifurcation, and the Commission did not approve the Utilities' proposals. Lacking
283 support for S.C. No. 1 bifurcation, but having support from the Commission for
284 increasing fixed cost recovery through fixed charges, the Utilities' proposals in
285 subsequent rate proceedings included increased recovery of fixed costs through fixed
286 customer charges for a non-bifurcated S.C. No. 1.

287 **Q. Please describe North Shore’s rebuttal rate design proposal for S.C. No. 1 NH**
288 **customers.**

289 A. Under North Shore’s rebuttal rate design proposal, 80% of non-storage related fixed costs
290 would be recovered through the customer charge, with all remaining costs being
291 recovered through a flat distribution charge. Assuming North Shore’s initial direct
292 testimony revenue requirement, the monthly customer charge would be \$14.48 and the
293 distribution charge would be 26.714 cents per therm as shown on NS-PGL Ex. 32.1.
294 Assuming the updated rebuttal testimony revenue requirement, the monthly customer
295 charge would be \$14.19 and the distribution charge would be 26.221 cents per therm as
296 shown on NS-PGL Ex. 32.2. NS-PGL Ex. 32.5 provides a summary of North Shore’s
297 rebuttal rate design proposal for S.C. No. 1 NH customers as well as Mr. Johnson’s and
298 Mr. Rubin’s proposals assuming North Shore’s initial direct testimony and updated
299 rebuttal testimony revenue requirements. The exhibit shows two sets of rates for Mr.
300 Johnson under the direct testimony revenue requirement as the rates proposed in his
301 direct testimony were derived from rounded revenues rather than the non-rounded
302 ECOSS revenue requirement and inadvertently included storage-related costs, resulting in
303 imprecise rates. Accordingly, column B shows rates proposed in Mr. Johnson’s direct
304 testimony and column C shows Mr. Johnson’s proposed rates at the direct testimony
305 revenue requirement corrected for the matters described above. The exhibit also shows
306 two sets of rates for Mr. Rubin at the direct testimony revenue requirement as storage
307 costs were removed to provide the apples-to-apples bill impact comparisons discussed
308 below. Column D shows the rates proposed in Mr. Rubin’s direct testimony, including
309 storage costs recovered under Rider SSC. Column E shows the rates proposed in Mr.

310 Rubin's testimony excluding storage costs recovered under Rider SSC. Columns H
311 through J present Mr. Johnson's and Mr. Rubin's rates at the proposed rebuttal revenue
312 requirement, assuming Mr. Johnson's and Mr. Rubin's rate design proposals, with
313 column J being adjusted for the treatment of storage costs.

314 **Q. Would North Shore's direct or rebuttal rate design proposals for S.C. No. 1 NH lead**
315 **to the large bill impacts claimed by Mr. Johnson?**

316 A. No. A flat distribution charge would not result in the large bill impacts claimed by Mr.
317 Johnson. In fact, as a flat distribution charge would be lower than the front block of a
318 declining two-block distribution charge proposed by Mr. Johnson, most customer bills
319 would be lower under North Shore's flat distribution charge proposal. Also, as discussed
320 above, Mr. Johnson's claim is premised on an unlikely 500 therm monthly bill for a S.C.
321 No. 1 NH customer. NS-PGL Ex. 32.7, pages 1 and 2 shows the base rate bill impacts
322 (excluding storage) for an average S.C. No. 1 NH customer under North Shore's rebuttal
323 rate design proposal assuming initial direct testimony and updated rebuttal testimony
324 revenue requirements, respectively. The exhibit also shows the base rate bill impacts
325 (excluding storage) that would arise from Mr. Johnson's and Mr. Rubin's proposals
326 assuming those same revenue requirements. To provide apples-to-apples comparisons,
327 the bill impacts shown for Mr. Johnson's and Mr. Rubin's proposals reflect the corrected
328 and adjusted rates discussed above. Page 1 shows North Shore's rebuttal rate design
329 proposal results in an annual bill that is \$9.87 lower than Mr. Johnson's and nearly equal
330 to Mr. Rubin's assuming the direct testimony revenue requirement. Similarly, Page 2
331 shows that North Shore's rebuttal rate design proposal results in an annual bill that is
332 \$9.44 lower than Mr. Johnson's and nearly equal to Mr. Rubin's assuming the rebuttal

333 testimony revenue requirement. As discussed, North Shore's proposal for S.C. No. 1 NH
334 customers results in lower customer bills than Mr. Johnson's proposal due to North
335 Shore's proposed flat distribution charge. North Shore's proposal for S.C. No. 1 NH
336 customers shows bills equivalent with Mr. Rubin's proposal due to increased fixed-cost
337 recovery for both proposals through the customer charge. These comparisons show that
338 North Shore's rebuttal rate design proposal for an average S.C. No. 1 NH customer is
339 more favorable than Mr. Johnson's proposal.

340 **Q. Is North Shore still proposing that a SFV rate for S.C. No. 1 NH customers be**
341 **implemented if Rider VBA is no longer in effect?**

342 A. Yes. North Shore believes, for the reasons stated in my direct testimony, that a SFV rate
343 recovering 100% of fixed costs is the most appropriate fixed cost recovery alternative
344 absent the full decoupling approved under Rider VBA. However, if Rider VBA is not in
345 effect, North Shore proposes that, at minimum, a modified SFV rate recovering 80% of
346 non-storage related fixed costs along with a flat distribution charge, be implemented.
347 NS-PGL Ex. 32.11, column B, reflects SFV and modified SFV rates for North Shore's
348 S.C. No. 1 NH customers assuming the rebuttal testimony revenue requirement.

349 **2. Peoples Gas**

350 **Q. Do you agree with Staff Witness Mr. Johnson's rate design proposals for Peoples**
351 **Gas' S.C. No. 1 NH customers?**

352 A. Not entirely. As described above for North Shore's S.C. No. 1 NH rates and to narrow
353 the issues in this case, I will accept Mr. Johnson's proposal to recover 80% of non-
354 storage related fixed costs through the customer charge. However, I do not agree with

355 Mr. Johnson's proposal to retain the current two-block distribution charge and again
356 recommend that a flat distribution charge be implemented for S.C. No. 1 NH.

357 **Q. Why do you disagree with Mr. Johnson's distribution charge proposal for Peoples**
358 **Gas' S.C. No. 1 NH customers?**

359 A. As described above for North Shore, he provides an example for a customer using 500
360 monthly therms, stating that such a Peoples Gas customer would see a bill increase of
361 \$131 under a flat distribution charge compared to \$27 under a two-block distribution
362 charge⁴. However, a 500 therm monthly usage amount is extremely unlikely for a S.C.
363 No. 1 NH customer as about 96% of Peoples Gas' S.C. No. 1 NH customer bills show
364 monthly usage of 30 therms or less (per Schedule E-8). Moreover, *annually*, the average
365 S.C. No. 1 NH customer uses only 93 therms. So even on an annual basis, a S.C. No. 1
366 NH customer's usage would be far less than the 500 therm monthly amount used to
367 support Mr. Johnson's two-block distribution charge proposal. As most, Peoples Gas
368 S.C. No. 1 NH monthly customer bills would not exceed 30 therms, a declining two-
369 block rate structure is not warranted and should be replaced with a flat distribution charge
370 as proposed by Peoples Gas. Moreover, Peoples Gas' S.C. No. 1 NH customers' bills
371 would be higher under a declining block rate structure as proposed by Mr. Johnson. I
372 also note that Mr. Johnson provided no rationale for his proposal to set the second block
373 equal to the flat distribution charge for S.C. No. 1 HTG customers.

374 **Q. Why would Peoples Gas' S.C. No. 1 NH customers' bills be higher under a declining**
375 **block rate structure?**

⁴ Assuming Peoples Gas' direct testimony revenue requirements, which are used to determine the rates shown in PGL Ex. 12.0.

376 A. The reasons described above in connection with North Shore's S.C. No. 1 NH rates apply
377 to Peoples Gas, but with most of Peoples Gas' S.C. No. 1 NH customers using less than
378 30 monthly therms.

379 **Q. Would any ancillary benefits arise from a flat distribution charge?**

380 A. Yes. A flat distribution charge may discourage attempts by heating customers to initiate
381 service or switch to service under Peoples Gas' S.C. No. NH, which would have a much
382 lower customer charge.

383 **Q. Do you agree with AG Witness Mr. Rubin's proposal for Peoples Gas' S.C. No. 1**
384 **NH customers?**

385 A. Not entirely and my reasons are the same as I provided for North Shore.

386 **Q. Why should storage related fixed costs not be included in a flat monthly charge for**
387 **Peoples Gas' S.C. No. 1 NH customers as proposed by Mr. Rubin?**

388 A. Storage related fixed costs should not be recovered through a flat monthly charge for
389 Peoples Gas S.C. No. 1 NH customers for the same reasons described for North Shore.

390 **Q. Is Mr. Rubin's claim that Rider SSC recovers 80% more than the cost of storage**
391 **service for Peoples Gas' S.C. No. 1 NH customers valid?**

392 A. No, it is not, and the reasons described above for North Shore apply to his Peoples Gas
393 analysis. These customers receive the benefits of the storage for which they pay. First,
394 as explained above, Mr. Rubin's proposal does not consider the intent and mechanics of
395 Rider SSC. Second, the ECOSS storage amount of \$206,268 reflects storage costs if all
396 transportation customers were to subscribe for the full amount of storage capacity
397 available to them. As test year transportation storage capacity is not fully subscribed (as

398 has been characteristic for transportation customers), the additional storage capacity is
399 reallocated to all sales customers per the provisions of Rider SSC. Accordingly, Rider
400 SSC revenues of \$375,000⁵ reflect the costs related to the additional storage capacity that
401 is available and used to provide service to S.C. No. 1 NH sales customers. The
402 reallocation of storage costs under the initial direct testimony revenue requirement is
403 reflected in the allocation of Peoples Gas' rate increase shown in PGL Ex. 12.3, page 2,
404 line 1, columns D and E. Column D reflects the \$206,269⁶ shown in the ECOSS while
405 Column E is consistent with the non-rounded Rider SSC revenues of \$374,876 rounded.
406 It is clear that, contrary to Mr. Rubin's claims, there is no over-recovery of costs. Again,
407 Rider SSC revenues are higher than the ECOSS storage costs as they reflect the cost
408 associated with the additional storage capacity that will be reallocated to serve sales
409 customers, including S.C. No. 1 NH sales customers.

410 **Q. Is Mr. Rubin's proposal to recover storage costs for S.C. No. 1 NH through a flat**
411 **monthly charge problematic for Rider SSC and equitable cost recovery?**

412 A. Yes, for the same reasons described above for North Shore.

413 **Q. Do you have any comments on Mr. Rubin's opinion that Peoples Gas' S.C. No. 1 NH**
414 **rates recover more than the cost to serve due to what he calls the Utilities' ill-**
415 **advised move toward SFV rates and the Commission's unfortunate adoption of that**
416 **position.**

417 A. My comments would be the same as those expressed above for North Shore.

⁵ Non-rounded Rider SSC revenues are \$374,876 as shown in PGL Ex. 12.3, page 2, column E, line 1.

⁶ There is a \$1.00 rounding difference.

418 **Q. Please describe Peoples Gas' rebuttal rate design proposal for S.C. No. 1 NH**
419 **customers.**

420 A. Under Peoples Gas' rebuttal rate design proposal, 80% of non-storage related fixed costs
421 would be recovered through the customer charge, with all remaining costs being
422 recovered through a flat distribution charge. Assuming Peoples Gas' initial direct
423 testimony revenue requirement, the monthly customer charge would be \$13.60 and the
424 distribution charge would be 44.298 cents per therm as shown on NS-PGL Ex. 32.3.
425 Assuming the updated rebuttal testimony revenue requirement, the monthly customer
426 charge would be \$13.92 and the distribution charge would be 45.309 cents per therm as
427 shown on NS-PGL Ex. 32.4. NS-PGL Ex. 32.6 provides a summary of Peoples Gas'
428 rebuttal rate design proposal for S.C. No. 1 NH customer as well as Mr. Johnson's and
429 Mr. Rubin's proposals assuming Peoples Gas' initial direct testimony and updated
430 rebuttal testimony revenue requirements. The rates in the exhibit reflect the same
431 corrections and adjustments to Mr. Johnson's and Mr. Rubin's rates described for NS-
432 PGL Ex. 32.5.

433 **Q. Would Peoples Gas' direct or rebuttal rate design proposals for S.C. No. 1 NH lead**
434 **to the large bill impacts claimed by Mr. Johnson?**

435 A. No, for the same reasons described for North Shore. NS-PGL Ex. 32.8, pages 1 and 2,
436 shows the base rate bill impacts (excluding storage) for an average S.C. No. 1 NH
437 customer under Peoples Gas' rebuttal rate design proposal assuming initial direct
438 testimony and updated rebuttal testimony revenue requirements, respectively. The
439 exhibit also shows the base rate bill impacts (excluding storage) that would arise from
440 Mr. Johnson's and Mr. Rubin's proposals assuming those same revenue requirements.

441 To provide apples-to-apples comparisons, the bill impacts shown for Mr. Johnson's and
442 Mr. Rubin's proposals reflect the corrected and adjusted rates discussed above. Page 1
443 shows Peoples Gas' rebuttal rate design proposal results in an annual bill that is \$5.40
444 lower than Mr. Johnson's and nearly equal to Mr. Rubin's assuming the direct testimony
445 revenue requirement. Similarly, Page 2 shows that Peoples Gas' rebuttal rate design
446 proposal results in an annual bill that is \$5.42 lower than Mr. Johnson's and nearly equal
447 to Mr. Rubin's assuming the rebuttal testimony revenue requirement. As discussed,
448 Peoples Gas' proposal for S.C. No. 1 NH customers results in lower customer bills than
449 Mr. Johnson's proposal due to Peoples Gas' proposed flat distribution charge. Peoples
450 Gas' proposal for S.C. No. 1 NH customers shows bills equivalent with Mr. Rubin's
451 proposal due to increased fixed-cost recovery for both proposals through the customer
452 charge. These comparisons show that Peoples Gas' rebuttal rate design proposal for an
453 average S.C. No. 1 NH customer is more favorable than Mr. Johnson's proposal.

454 **Q. Is Peoples Gas still proposing that a SFV rate for S.C. No. 1 NH customers go into**
455 **effect if Rider VBA is no longer in effect?**

456 A. Yes, for the same reasons described for North Shore and as explained in my direct
457 testimony. NS-PGL Ex. 32.12, column B, reflects SFV and modified SFV rates for
458 Peoples Gas' S.C. No. 1 NH customers assuming the rebuttal testimony revenue
459 requirement.

460 **C. S.C. No. 1, Small Residential Heating**

461 **1. North Shore**

462 **Q. Do you agree with Mr. Johnson's rate design proposal for North Shore's S.C. No. 1**
463 **HTG customers?**

464 A. No. Mr. Johnson's proposal for North Shore's S.C. No. 1 HTG customers recovers all
465 customer-related fixed costs through the customer charge, but excludes recovery of the
466 portion of non-storage related demand costs. His proposal would be somewhat
467 reasonable had he recommended that the Commission approve North Shore's SFV rate
468 which would go into effect if Rider VBA is not in effect. As Mr. Johnson's rate design
469 proposal in conjunction with his recommendation against an SFV rate would impede
470 North Shore's movement toward greater fixed cost recovery as supported by the
471 Commission, I will offer a rebuttal rate design proposal that considers those factors as
472 well as the Commission's recent orders supporting full decoupling and increased fixed
473 cost recovery at 80% of fixed costs.

474 **Q. How does Mr. Johnson's proposal and recommendation for S.C. No. 1 HTG**
475 **customers impede North Shore's movement toward increased fixed cost recovery?**

476 A. Mr. Johnson's proposal sets fixed cost recovery through fixed charges for North Shore's
477 S.C. No. 1 HTG customers at 68%. Mr. Johnson also opposes North Shore's proposal
478 that SFV rates be implemented if Rider VBA is not in effect. Approval of Mr. Johnson's
479 proposals would set fixed cost recovery at a level far below the 80% level approved by
480 the Commission for Ameren and Nicor Gas, but without a remedy for maintaining
481 appropriate fixed cost recovery in the absence of Rider VBA.

482 **Q. Do you agree with Mr. Rubin's proposal for North Shore's S.C. No. 1 HTG**
483 **customers?**

484 A. No. Mr. Rubin's proposal for North Shore's S.C. No. 1 HTG customers reduces the
485 percentage of fixed costs recovered through the customer charge and retains the current
486 declining two-block distribution charge rate structure with a significant increase in the

487 end-block distribution charge. More specifically, assuming North Shore's initial direct
488 testimony revenue requirement, Mr. Rubin's proposal recovers about 60% of fixed costs
489 through the customer charge and increases the end-block distribution charge about 108%
490 over present rates.

491 **Q. Is Mr. Rubin's proposal for North Shore's S.C. No. 1 HTG consistent with the**
492 **Commission's recent decisions endorsing increased fixed cost recovery?**

493 A. No. Mr. Rubin proposes that only a portion of customer-related fixed costs be recovered
494 through the customer charge, thereby reducing fixed cost recovery below the 67%
495 currently recovered under North Shore's present rates. As Mr. Rubin's proposal reduces
496 the level of fixed cost recovery, it is clearly not aligned with recent Commission
497 decisions endorsing increased fixed cost recovery.

498 **Q. Mr. Rubin claims that his proposed 108% increase in the end block distribution**
499 **charge for North Shore's S.C. No. 1 HTG customers will not have a dramatic effect**
500 **on most customers' bills. Do you agree?**

501 A. No. North Shore's Schedule E-8 shows that about 58% of S.C. No. 1 HTG customers'
502 bills exceed the 50 therm front block limit. Accordingly, under Mr. Rubin's proposal,
503 about 58% of North Shore's S.C. No. 1 HTG customers' bills will experience a 108%
504 increase for each therm of gas usage above 50 therms. While this may not seem dramatic
505 to Mr. Rubin, this level of increase could present a burden for customers, especially
506 during the winter period when gas usage and gas prices tend to be the highest. It could
507 also present a burden for certain low-income and elderly customers who use gas at higher
508 levels.

509 **Q. Mr. Rubin provides housing data to support his claim that North Shore's S.C. No. 1**
510 **HTG class is not homogeneous and that demand costs should not be recovered on a**
511 **per customer basis. Do you agree with his conclusions?**

512 A. No. Mr. Rubin equates home square footage homogeneity with usage homogeneity and
513 assumes that larger homes, in all cases, use more gas than smaller dwellings. However,
514 many factors affect customers' gas usage such as the energy efficiencies of the dwelling
515 and its appliances, the number of people in the household, the ages of household
516 members, individual comfort preferences and employment status, among others. As
517 stated above, certain low-income and elderly customers may use gas at higher levels.
518 However, low-income and elderly customers may not necessarily live in the largest
519 homes.

520 **Q. Please describe North Shore's rebuttal rate design proposal for S.C. No. 1 HTG**
521 **customers.**

522 A. Under North Shore's rebuttal rate design proposal, 80% of non-storage related fixed costs
523 would be recovered through the customer charge with all remaining non-storage costs
524 being recovered through a flat distribution charge. Assuming North Shore's initial direct
525 testimony revenue requirement, the monthly customer charge would be \$28.83 and the
526 distribution charge would be 6.699 cents per therm as shown on NS-PGL Ex. 32.1.
527 Assuming the updated rebuttal testimony revenue requirement, the monthly customer
528 charge would be \$29.56 and the distribution charge would be 6.866 cents per therm as
529 shown on NS-PGL Ex. 32.2. NS-PGL Ex. 32.5 provides a summary of North Shore's
530 rebuttal rate design proposal for S.C. No. 1 HTG customers as well as Mr. Johnson's and
531 Mr. Rubin's proposals assuming North Shore's initial direct testimony and updated

532 rebuttal testimony revenue requirements. The exhibit shows two sets of rates for Mr.
533 Rubin at the direct testimony revenue requirement as storage costs were removed to
534 provide apples-to-apples bill impact comparisons. Column D shows the rates proposed in
535 Mr. Rubin's direct testimony, including production and gathering costs recovered under
536 Rider SSC. Column E shows the rates proposed in Mr. Rubin's testimony excluding
537 production and gathering costs recovered under Rider SSC. Columns H through J present
538 Mr. Johnson's and Mr. Rubin's rates at the proposed rebuttal revenue requirement,
539 assuming Mr. Johnson's and Mr. Rubin's rate design proposals, with column J being
540 adjusted for the treatment of storage costs.

541 **Q. Please describe the bill impacts arising from North Shore's, Mr. Johnson's and Mr.**
542 **Rubin's rate design proposals for S.C. No. 1 HTG.**

543 A. NS-PGL Ex. 32.9, pages 1 and 2 shows the bill impacts for an average S.C. No. 1 HTG
544 customer under North Shore's rebuttal rate design proposal assuming initial direct
545 testimony and updated rebuttal testimony revenue requirements, respectively. The
546 exhibit also shows the base rate bill impacts (excluding storage) that would arise from
547 Mr. Johnson's and Mr. Rubin's proposals assuming those same revenue requirements
548 including the adjustments for Mr. Rubin noted above. NS-PGL Ex. 32.9, page 1 shows
549 North Shore's rebuttal rate design proposal results in an annual bill that is \$5.09 lower
550 than Mr. Rubin's and nearly equal to Mr. Johnson's assuming the direct testimony
551 revenue requirement. Similarly, Page 2 shows that North Shore's rebuttal rate design
552 proposal results in an annual bill that is \$5.48 lower than Mr. Rubin's and nearly equal to
553 Mr. Johnson's assuming the rebuttal testimony revenue requirement. North Shore's
554 proposal for S.C. No. 1 HTG customers shows annual bills that are equivalent with Mr.

555 Johnson's, but monthly bills that are lower during the winter when gas prices and
556 customers' usage tend to be the highest. North Shore's proposal for S.C. No. 1 HTG
557 customers shows annual bills that are lower than Mr. Rubin's as well as monthly bills that
558 are lower during the winter when gas prices and customers' usage tend to be the highest.
559 These comparisons show that North Shore's rebuttal rate design proposal for an average
560 S.C. No. 1 HTG customer is more favorable than both Mr. Johnson's and Mr. Rubin's
561 proposals.

562 **Q. Is North Shore still proposing that a SFV rate for S.C. No. 1 HTG customers go into**
563 **effect if Rider VBA is no longer in effect?**

564 A. Yes, for the reasons described for S.C. No. 1 NH. NS-PGL Ex. 32.11, column C, reflects
565 SFV and modified SFV rates for North Shore's S.C. No. 1 HTG customers assuming the
566 rebuttal testimony revenue requirement.

567 **2. Peoples Gas**

568 **Q. Do you agree with Mr. Johnson's rate design proposal for Peoples Gas' S.C. No. 1**
569 **HTG customers?**

570 A. No, and my concerns mirror those described above for North Shore. As Mr. Johnson's
571 proposal in conjunction with his recommendation against an SFV rate would impede
572 Peoples Gas' movement toward greater fixed cost recovery as supported by the
573 Commission, I will offer a rebuttal rate design proposal that considers those factors as
574 well as the Commission's recent orders supporting full decoupling and increased fixed
575 cost recovery at 80% of fixed costs.

576 **Q. How does Mr. Johnson's proposal and recommendation for S.C. No. 1 HTG**
577 **customers impede Peoples Gas' movement toward increased fixed cost recovery?**

578 A. Mr. Johnson's proposal sets fixed cost recovery through fixed charges for Peoples Gas'
579 S.C. No. 1 HTG customers at 61%. Mr. Johnson also opposes Peoples Gas' proposal that
580 SFV rates be implemented if Rider VBA is not in effect. Approval of Mr. Johnson's
581 proposals would set fixed cost recovery at a level far below the 80% level approved by
582 the Commission for Ameren and Nicor Gas, but without a remedy for maintaining
583 appropriate fixed cost recovery in the absence of Rider VBA.]

584 **Q. Do you agree with Mr. Rubin's proposal for Peoples Gas' S.C. No. 1 HTG**
585 **customers?**

586 A. No. Mr. Rubin's proposal for Peoples Gas' S.C. No. 1 HTG customers reduces the
587 percentage of fixed costs recovered through the customer charge and retains the current
588 declining two-block distribution charge rate structure with a significant increase in the
589 end-block distribution charge. More specifically, assuming Peoples Gas' initial direct
590 testimony revenue requirement, Mr. Rubin's proposal recovers about 53% of fixed costs
591 through the customer charge and increases the end-block distribution charge about 45%
592 over present rates.

593 **Q. Is Mr. Rubin's proposal for Peoples Gas' S.C. No. 1 HTG consistent with the**
594 **Commission's recent decisions endorsing increased fixed cost recovery?**

595 A. No. Mr. Rubin proposes that only a portion of customer-related fixed costs be recovered
596 through the customer charge, thereby reducing fixed cost recovery below the 54%
597 currently recovered under Peoples Gas' present rates. As Mr. Rubin's proposal reduces

598 the level of fixed cost recovery, it is clearly not aligned with recent Commission
599 decisions endorsing increased fixed cost recovery.

600 **Q. Mr. Rubin claims that his proposed 45% increase in the end block distribution**
601 **charge for Peoples Gas' S.C. No. 1 HTG customers will not have a dramatic effect**
602 **on most customers' bills. Do you agree?**

603 A. No. Peoples Gas' Schedule E-8 shows that about 52% of S.C. No. 1 HTG customers'
604 bills exceed the 50 therm front block limit. Accordingly, under Mr. Rubin's proposal,
605 about 52% of Peoples Gas' S.C. No. 1 HTG customers' bills will experience a 45%
606 increase for each therm of gas usage above 50 therms. While this may not seem dramatic
607 to Mr. Rubin, this level of increase could present a burden for customers, especially
608 during the winter period when gas usage and gas prices tend to be the highest. It could
609 also present a burden for low-income and elderly customers who may use gas at higher
610 levels.

611 **Q. Mr. Rubin provides housing data to support his claim that Peoples Gas' S.C. No. 1**
612 **HTG class is not homogeneous and that demand costs should not be recovered on a**
613 **per customer basis. Do you agree with his conclusions?**

614 A. No, for the same reasons given for North Shore.

615 **Q. Please describe Peoples Gas' rebuttal rate design proposal for S.C. No. 1 HTG**
616 **customers.**

617 A. Under Peoples Gas' rebuttal rate design proposal, 80% of non-storage related fixed costs
618 would be recovered through the customer charge with all remaining non-storage related
619 costs being recovered through a flat distribution charge. Assuming Peoples Gas' initial

620 direct testimony revenue requirement, the monthly customer charge would be \$35.75 and
621 the distribution charge would be 10.054 cents per therm as shown on NS-PGL Ex. 32.3.
622 Assuming the updated rebuttal testimony revenue requirement, the monthly customer
623 charge would be \$37.58 and the distribution charge would be 10.566 cents per therm as
624 shown on NS-PGL Ex. 32.4. NS-PGL Ex. 32.6 provides a summary of Peoples Gas'
625 rebuttal rate design proposal for S.C. No. 1 HTG customers as well as Mr. Johnson's and
626 Mr. Rubin's proposals assuming Peoples Gas' initial direct testimony and updated
627 rebuttal testimony revenue requirements.

628 **Q. Please describe the bill impacts arising from Peoples Gas', Mr. Johnson's and Mr.**
629 **Rubin's rate design proposals for S.C. No. 1 HTG.**

630 A. NS-PGL Ex. 32.10, pages 1 and 2, shows the base rate bill impacts (excluding storage)
631 for an average S.C. No. 1 HTG customer under Peoples Gas' rebuttal rate design
632 proposal assuming initial direct testimony and updated rebuttal testimony revenue
633 requirements, respectively. The exhibit also shows the bill impacts that would arise from
634 Mr. Johnson's and Mr. Rubin's proposals assuming those same revenue requirements.
635 Page 1 shows Peoples Gas' rebuttal rate design proposal results in an annual bill that is
636 \$6.11 lower than Mr. Rubin's and nearly equal to Mr. Johnson's assuming the direct
637 testimony revenue requirement. Similarly, Page 2 shows that Peoples Gas' rebuttal rate
638 design proposal results in an annual bill that is \$6.46 lower than Mr. Rubin's and nearly
639 equal to Mr. Johnson's assuming the rebuttal testimony revenue requirement. Peoples
640 Gas' proposal for S.C. No. 1 HTG customers show annual bills that are equivalent with
641 Mr. Johnson's, but monthly bills that are lower during the winter when gas prices and
642 customers' usage tend to be the highest. Peoples Gas' proposal for S.C. No. 1 HTG

643 customers shows annual bills that are lower than Mr. Rubin's as well as monthly bills that
644 are lower during the winter when gas prices and customers' usage tend to be the highest.
645 These comparisons show that Peoples Gas' rebuttal rate design proposal for an average
646 S.C. No. 1 HTG customer is more favorable than both Mr. Johnson's and Mr. Rubin's
647 proposals.

648 **Q. Is Peoples Gas still proposing that a SFV rate for S.C. No. 1 HTG customers go into**
649 **effect if Rider VBA is no longer in effect?**

650 A. Yes, for the reasons I described for North Shore. NS-PGL Ex. 32.12, column C, reflects
651 SFV and modified SFV rates for Peoples Gas' S.C. No. 1 HTG customers assuming the
652 rebuttal testimony revenue requirement.

653 **D. S. C. No. 2, General Service**

654 **Q. Are you making any rebuttal rate design proposals for North Shore or Peoples Gas'**
655 **S.C. No. 2?**

656 A. As North Shore's and Peoples Gas' direct testimony rate design proposals are
657 uncontested, I am not proposing any changes. However, due to continued concerns about
658 Rider VBA, the Utilities retain their proposals to implement SFV rates if Rider VBA is
659 no longer in effect. As discussed above, the Utilities believe that a SFV rate recovering
660 100% of non-storage related fixed costs is the most appropriate fixed cost recovery
661 alternative absent the full decoupling approved under Rider VBA. However, if Rider
662 VBA is not in effect, the Utilities propose that, at minimum, modified SFV rates
663 recovering 80% of non-storage related fixed costs, along with a flat distribution charge
664 for each meter type be implemented. NS-PGL Exs. 32.11 and 32.12 , columns D through

665 F, reflect SFV and modified SFV rates for North Shore's and Peoples Gas' S.C. No. 2
666 customers, respectively, assuming the rebuttal testimony revenue requirement.

667 **Q. What are the rates for North Shore's S.C. No. 2 under the updated rebuttal revenue**
668 **requirement?**

669 A. North Shore's customer charges for meter classes 1, 2 and 3 would be \$28.42, \$84.47 and
670 \$235.77, respectively, under the updated rebuttal revenue requirement. North Shore's
671 distribution charges would be 7.172 cents per therm for the front block (0-100 therms),
672 6.520 cents per therm for the second block (next 2,900 therms) and 5.232 cents per therm
673 for the third block (all therms over 3,000) under the updated rebuttal revenue requirement
674 as shown on NS-PGL Ex. 32.2.

675 **Q. What are the rates for Peoples Gas' S.C. No. 2 under the updated rebuttal revenue**
676 **requirement?**

677 A. Peoples Gas' customer charges for meter classes 1, 2 and 3 would be \$38.31, \$128.66
678 and \$329.32, respectively, under the updated rebuttal revenue requirement. Peoples Gas'
679 distribution charges would be 16.652 cents per therm for the front block (0-100 therms),
680 13.987 cents per therm for the second block (next 4,900 therms) and 9.817 cents per
681 therm for the third block (all therms over 5,000) under the updated rebuttal revenue
682 requirement as shown on NS-PGL Ex. 32.4.

683 **Q. Do you agree with Mr. Johnson's recommendation that the Utilities examine the**
684 **number of blocks and the block size for S.C. No. 2 in the Utilities' next rate case**
685 **filings?**

686 A. Yes. However, I note that if the Commission approves the Utilities' SFV or modified
687 SFV proposals, an examination would not be necessary.

688 **E. Large Volume Demand Service**

689 **Q. What are the rates for North Shore's S.C. No. 3, Large Volume Demand Service,**
690 **under the updated rebuttal revenue requirement?**

691 A. Under North Shore's updated rebuttal revenue requirement, the customer charge for S.C.
692 No. 3 would be \$616.00. The demand charge would be 59.621 cents per demand therm
693 and the distribution charge would be 1.952 cents per therm of usage as shown on NS-
694 PGL Ex. 32.2.

695 **Q. What are the rates for Peoples Gas' S.C. No. 4, Large Volume Demand Service,**
696 **under the updated rebuttal revenue requirement?**

697 A. Under Peoples Gas' updated rebuttal revenue requirement, the customer charge for S.C.
698 No. 4 would be \$716.00. The demand charge would be 83.259 cents per demand therm
699 and the distribution charge would be 5.215 cents per therm of usage as shown on NS-
700 PGL Ex. 32.4.

701 **F. S.C. No. 8, Compressed Natural Gas Service**

702 **Q. What are the rates for Peoples Gas' S.C. No. 8, Compressed Natural Gas Service,**
703 **under the updated rebuttal revenue requirement?**

704 A. Under Peoples Gas' updated rebuttal revenue requirement, the customer charge for S.C.
705 No. 8 would be \$136.00. The distribution charge would be 16.697 cents per therm as
706 shown on NS-PGL Ex. 32.4.

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

708 **Q. What are the rates for North Shore's Rider SSC Storage Banking Charge and**
709 **Storage Service Charge under the rebuttal revenue requirement?**

710 A. Under North Shore's rebuttal revenue requirement, the Rider SSC Storage Banking
711 Charge would be 0.10 cents per therm of storage capacity for transportation customers
712 and the Storage Service Charge would be 0.928 cents per therm of usage for sales
713 customers as shown on NS-PGL Ex. 32.2.

714 **Q. What are the rates for Peoples Gas' Rider SSC Storage Banking Charge and**
715 **Storage Service Charge under the rebuttal revenue requirement?**

716 A. Under Peoples Gas' rebuttal revenue requirement, the Rider SSC Storage Banking
717 Charge would be 0.54 cents per therm of storage capacity for transportation customers
718 and the Storage Service Charge would be 4.035 cents per therm of usage for sales
719 customers as shown on NS-PGL Ex. 32.4.

720 **H. Summary of Rate Increase**

721 **Q. Please summarize the increase in base rate revenues arising from North Shore's**
722 **rebuttal revenue requirement and its rebuttal rate design proposals for S.C. No. 1**
723 **NH and HTG customers and for S.C. Nos. 2 and 3.**

724 A. North Shore's proposals for S.C. No. 1 NH and HTG customers and S.C. Nos. 2 and 3
725 will result in a base rate increase of about \$11.5 million as shown on NS-PGL Ex. 32.13,
726 column M, line 24.

727 **Q. Please summarize the increase in revenues that will arise from North Shore's**
728 **miscellaneous and other charges.**

729 A. North Shore will experience an increase in miscellaneous and other revenues of about
730 \$46,000 as shown on NS-PGL Ex. 32.13, column M, line 25. This includes about
731 \$10,000 in accounting charge revenues and about \$36,000 in late payment charge
732 revenues. North Shore's total increase including base rate and other revenues is about
733 \$11.6 million as shown on column M, line 26.

734 **Q. Please summarize the increase in base rate revenues arising from Peoples Gas'**
735 **rebuttal revenue requirement and its rebuttal rate design proposals for S.C. No. 1**
736 **NH and HTG customers and for S.C. Nos. 2, 4, and 8.**

737 A. Peoples Gas' proposals for S.C. No. 1 NH and HTG customers and S.C. Nos. 2, 4, and 8
738 will result in a base rate increase of about \$106.1 million as shown on NS-PGL Ex.
739 32.14, column M, line 24.

740 **Q. Please summarize the increase in revenues that will arise from Peoples Gas' increase**
741 **in miscellaneous and other charges.**

742 A. Peoples Gas will experience an increase in miscellaneous and other revenues of about
743 \$885,000 as shown on NS-PGL Ex. 32.14, column M, line 25. This includes about
744 \$255,000 in accounting charge revenues and about \$630,000 in late payment charge
745 revenues. Peoples Gas' total increase including base rate and other revenues is about
746 \$106.9 million as shown on column M, line 26.

747 **I. Setting Compliance Rates for a Different Revenue Requirement**

748 **Q. How should compliance rates be adjusted to recover revenue requirements that**
749 **differ from the Utilities' proposed revenue requirements?**

750 A. For any of the Utilities' rate design proposals that are approved by the Commission, such
751 rates should be set according to the methodology described and reflected in the Utilities'
752 supporting testimony, exhibits and workpapers. Mr. Johnson proposes that an equal cents
753 per therm methodology be used to set distribution charges for those rate classes that have
754 more than one distribution block. For S.C. No. 1 NH and HTG customers, his proposal
755 would work for setting distribution charges only if the Commission approves Mr.
756 Johnson's rate design proposals. Also, although Mr. Johnson's proposal may be
757 workable for setting distribution charges for the Utilities' S.C. No. 2 rate classes if those
758 rate design proposals remain uncontested, I believe that using the methodology described
759 and used in the Utilities' supporting testimony, exhibits and workpapers would provide a
760 simpler foundation and more accurate results. Mr. Johnson makes no proposals for the
761 Utilities' other service classifications. Mr. Rubin proposes that all rates for S.C. No. 1
762 NH and HTG customers be set using his procedures reflected in AG Exhibits 3.08 and
763 3.10. However, Mr. Rubin's proposal would work for setting such rates only if the
764 Commission approves his rate design proposals. Mr. Rubin makes no proposals for the
765 Utilities' other service classifications.

766 **III. FIXED COST RECOVERY**

767 **Q. Why are you now proposing to recover 80% of non-storage related fixed costs**
768 **through the customer charges for the Utilities' S.C. No. 1 NH and HTG customers?**

769 A. I am proposing to recover 80% of non-storage related fixed costs through the customer
770 charge for several reasons. First, Rider VBA is on appeal. With the risk that the Court
771 may reverse the Commission's approval of full decoupling, more substantial movement
772 to fixed cost recovery through fixed charges is appropriate. Second, 80% fixed cost

773 recovery would be consistent with the partial decoupling approved for Ameren and Nicor
774 Gas and would leave a reasonable amount of fixed costs that would be recovered through
775 distribution charges, but still subject to the full decoupling approved under Rider VBA.
776 Third, Mr. Johnson is proposing to set the customer charge for North Shore’s and Peoples
777 Gas’ S.C. No. 1 NH customers at 80% of fixed costs, leaving the Utilities’ S.C. No. 1
778 HTG classes as the only small residential rate class with lesser fixed cost recovery among
779 the state’s largest utilities. Absent decoupling under Rider VBA, a lower fixed cost
780 recovery level would effectively re-couple a large percentage of fixed cost recovery with
781 the amount of gas that customers use, conflicting with prior Commission policy decisions
782 supporting both increased fixed cost recovery and decoupling.

783 **Q. Mr. Johnson states on page 16 of his direct testimony that “[i]f the Commission**
784 **believes greater fixed cost recovery is warranted then the Companies’ proposed**
785 **non-SFV rates would meet that requirement in a way that is more consistent with**
786 **prior Commission orders and that considers gradualism and conservation”. Has**
787 **the Commission previously addressed SFV rates and conservation?**

788 A. Yes. In a Nicor Gas rate case, Docket No. 08-0363, the Commission stated:

789 The Commission is not convinced that an SFV rate design reduces
790 the incentive to conserve natural gas. These costs are in fact fixed
791 costs, cannot be conserved, and result in an under-recovery of
792 fixed costs for the utility during periods of milder than average
793 weather and an over-recovery of fixed costs for the utility during
794 periods of colder than average weather. We conclude there is no
795 disincentive a consumer may have by a move toward recovering
796 fixed costs through fixed charges, as opposed to recovery on a
797 volumetric basis. We further conclude that a Rate 1 design that
798 more accurately reflects a consumer’s actual costs does not impede
799 conservation.

800 It appears that the Commission has considered SFV rates with respect to conservation
801 and concluded that an SFV rate design, albeit a modified version of SFV, would be an
802 acceptable rate form for fixed cost recovery.

803 **Q. Do you agree with Mr. Johnson's suggestion that more frequent rate cases and a**
804 **future test year would provide for timely recovery of fixed costs?**

805 A. No. While more frequent rate cases and a future test year would provide the Utilities
806 timelier cost recovery, that alone will not address the vagaries that occur between rate
807 cases such as weather, gas prices and changes in the economy. Any of these factors can
808 affect customers' gas usage. Accordingly, if customer usage and sales vary from the
809 normal level of sales used to set rates, lower customer charges and higher distribution
810 charges will affect fixed cost recovery for the Utilities and appropriate billings to their
811 customers. Moreover, these factors, which lie outside the Utilities' and customers'
812 control, can lead to over- as well as under-recovery of costs.

813 **Q. Do you agree with Mr. Johnson's fixed cost analysis which concludes that the**
814 **Utilities' proposed rates for S.C. No. 1 HTG customers and their SFV rates should**
815 **not be considered equivalent substitutes for one another and that the rate designs**
816 **produce different results?**

817 A. No, I do not. Mr. Johnson's analysis assumes that S.C. No. 1 HTG customers use the
818 same amount of gas each month and it does not consider the weather-driven, seasonal
819 nature of S.C. No. 1 HTG customers' usage. For example, in Table 1 on page 10 of his
820 direct testimony, Mr. Johnson provides bill comparisons under various monthly usage
821 levels, showing the difference between Peoples Gas' proposed S.C. No. 1 HTG
822 customers' rates if Rider VBA is in effect and Peoples Gas' proposed S.C. No. 1 HTG

823 customers' SFV rates⁷. On pages 9 and 10, he states that a customer that uses 0 therms in
824 a month would see a bill increase of \$22.44 under SFV rates and goes on to explain how
825 customers using 0 to 40 therms would see significantly higher bills under SFV rates and
826 customers using 100 therms per month or more would see higher monthly bills under
827 proposed rates if Rider VBA is in effect. However, Mr. Johnson doesn't consider or
828 explain that given the weather driven nature of S.C. No. 1 HTG customers' usage, the
829 customers who use 0 to 40 therms in a given month are likely the very same customers
830 who use 100 therms or more a month in other months. Accordingly, on a month-to-
831 month basis, these customers would see bill increases as well as bill decreases compared
832 to present rates under both of Peoples Gas' rate designs.

833 **Q. Do you agree with Mr. Johnson that a reversal of the Commission's order**
834 **implementing Rider VBA on a permanent basis will not affect fixed cost recovery if**
835 **the Utilities' SFV rates are not implemented?**

836 A. No. Both Mr. Johnson and Mr. Rubin propose fixed cost recovery levels for the Utilities'
837 S.C. No. 1 NH and HTG customers that are below those proposed in my direct and
838 rebuttal testimony. Accordingly, if the Commission were to approve their proposals,
839 fixed cost recovery would either be reduced or at best, remain the same, without any
840 meaningful movement toward increased fixed cost recovery. The absence of Rider VBA
841 would further exacerbate inadequate fixed cost recovery.

842 **Q. Do you agree with Mr. Johnson's suggestion that implementing tariffs that include**
843 **new rates if Rider VBA is not in effect will confuse ratepayers?**

⁷ Under Peoples Gas' direct testimony revenue requirement and monthly bill amounts shown in Peoples Gas' Schedule E-8.

844 A. No, I do not. For example, in the 2009 Rate Case, the Commission approved Rider FCA,
845 Franchise Cost Adjustment, for North Shore. Due to the nature of the rider and the
846 timing of the implementation of new rates arising from the rate proceeding, North Shore
847 had to implement new rates effective shortly after the compliance filing and again in mid-
848 year after rates from the rider went into effect. Consequently, North Shore's tariffs
849 included two sets of rates that would become effective at different times. I am not aware
850 of any customer confusion that arose as a result.

851 **Q. Do you share Mr. Johnson's concern that the Utilities may over-recover their fixed**
852 **costs with an increase in the number of customers?**

853 A. No. As acknowledged by Mr. Johnson in his response to the Utilities' data request, NS-
854 PGL 3.13, the Utilities incur costs when they connect new customers to their systems.
855 Accordingly, any revenues recovered from customers would be offset by costs associated
856 with connecting the customer to the system and providing gas service. Moreover,
857 although not mentioned by Mr. Johnson, the Utilities may see a decrease in the number of
858 customers, resulting in lower fixed-cost recovery.

859 **IV. DECOUPLING AND RIDER VBA**

860 **Q. Your rebuttal testimony includes proposals for the Utilities' S.C. No. 1 NH and**
861 **HTG customers that recover 80% of fixed costs through customer charges as well as**
862 **recommendations that SFV rates be implemented for S.C. No. 1 NH and HTG**
863 **customers and for S.C. No. 2 in the event that Rider VBA is not in effect. In light of**
864 **those proposals, what are the Utilities' positions on decoupling and Rider VBA?**

865 A. The Utilities have modified their S.C. No. 1 NH and HTG proposals to address some of
866 Messrs. Johnson's and Rubin's points. Those revised proposals continue to include full

867 decoupling (Rider VBA) and SFV rates (based on 100% fixed cost recovery in fixed
868 charges) should Rider VBA cease to be in effect. For the reasons stated in my direct
869 testimony and here in my rebuttal testimony, this is the outcome best supported in the
870 record.

871 Should the Commission decline to adopt SFV rates based on 100% fixed cost recovery as
872 the rates that would apply if Rider VBA ceases to be in effect (as described in my direct
873 testimony), then a reasonable, albeit imperfect, alternative is a modified Rider SFV rate
874 design (80% fixed cost recovery through fixed charges). That rate design should apply to
875 S.C. Nos. 1 (NH and HTG) and 2.

876 It remains the Utilities' position that any rate design that includes less than 100% fixed
877 cost recovery through fixed charges should be paired with full decoupling under Rider
878 VBA to protect against over- or under-recovery of the distribution revenue
879 requirement. However, were the Commission to reject the Utilities' proposal for
880 different rates to take effect if Rider VBA is eliminated, then the Commission's Ameren
881 and Nicor Gas decisions support a modified SFV rate design as the most appropriate
882 result, notwithstanding the deficiencies associated with less than full fixed cost recovery
883 in fixed charges. That rate design should apply to S.C. Nos. 1 (NH and HTG) and 2.

884 **Q. Please provide a little background information on the Utilities' Rider VBA.**

885 A. Rider VBA, a full decoupling mechanism, was approved by the Commission on a pilot
886 basis in Docket Nos. 07-0241/07-0242 (cons.). In the 2011 Rate Case the Commission
887 approved Rider VBA on a permanent basis and stated:

888 The Commission notes that Rider VBA has been in effect since
889 2008 and there has been plenty of experience with the mechanics
890 of the Rider. We observe that this mechanism has worked as it was

891 intended by crediting or charging customers for any over or under
892 recoveries of revenue. Due to the implementation of the pilot
893 program Rider VBA to date, the net effect of the reconciliations
894 has resulted in ratepayers refunds of some \$28,000,000. When
895 weather is less severe than normal, as it will be at some point,
896 charges to customers will inevitably occur. Some of the problems
897 that Rider VBA was originally intended to protect the utilities from
898 were the reality of fixed costs against a backdrop of a diminishing
899 customer base and resulting revenue losses as well as revenue
900 losses attributable to the implementation of aggressive energy
901 efficiency programs. The reasons to continue Rider VBA are that it
902 is a symmetrical and transparent formula for collecting the
903 approved distribution revenue requirements -- not more or less --
904 from customers if the Commission chooses not to provide fully for
905 recovery of fixed costs through fixed charges.

906 The current Rider VBA determines, on an annual basis, separate adjustments for S.C.
907 Nos. 1 and 2. The adjustments are determined by taking the difference between annual
908 actual distribution charge revenues and annual baseline distribution charge revenues set
909 in a rate case proceeding, with any over-recoveries being refunded to customers and any
910 under-recoveries being recovered from customers.

911 **Q. Are decoupling mechanisms such as Rider VBA common?**

912 A. Yes. Decoupling mechanisms have become increasingly common and are currently in
913 place in about 21 states for about 48 companies. There are also other forms of
914 decoupling such as SFV rates, rate stabilization mechanisms and weather normalization
915 mechanisms. If you consider all of these forms of decoupling, those figures increase to
916 35 states and 113 companies. Illinois was among those states adopting some form of
917 decoupling within the last 5 years with the Commission initially approving Rider VBA
918 for Peoples Gas and North Shore in 2008 and 80% fixed cost recovery for Ameren and
919 Nicor Gas shortly thereafter. NS-PGL Exs. 32.15 and 32.16 show the states that have
920 implemented decoupling and wider forms of decoupling, respectively.

921 **Q. Mr. Rubin recommends that the Commission remove Rider VBA from the Utilities'**
922 **tariffs. Are his reasons valid?**

923 A. No. Mr. Rubin's primary reason, that Rider VBA assumes that the Utilities believe that
924 they are entitled to receive a certain level of revenues from customers, is baseless. First,
925 Rider VBA that was in effect during a pilot period approved by the Commission billed
926 both credits and charges to customers, with net credit amounts being refunded to North
927 Shore's and Peoples Gas' customers over that pilot period. Second, Mr. Rubin does not
928 consider the myriad of reasons for customers' usage variations, with weather variations
929 being the major cause for usage variations, as evidenced by the net credits refunded to
930 customers due to colder than normal weather as recognized by the Commission above.
931 Third, Mr. Rubin suggests that customers should not have to pay for utility service if they
932 have no usage and that customers bear costs and risks that are not borne by the Utilities.
933 However, if we take Mr. Rubin's argument to an extreme, it would not hold water. If we
934 assume that all customers decide to not use gas service in a given month, the Utilities
935 would not receive any revenues for delivery service. However, the Utilities'
936 infrastructure (mains, services, meters, regulators, etc.) as well as their operating and
937 administrative and general functions remain in place to provide utility service. The
938 Utilities' costs do not cease to exist because customers use little or no gas. Accordingly,
939 the utilities bear the risk that their customers will use lower gas quantities although they
940 stand prepared to provide service. Finally, Mr. Rubin tries once again to tie Rider VBA
941 to the Utilities' energy efficiency spending although the Commission stated in its Order
942 in the 2011 Rate Case:

943 We observe that GCI's criticisms in this proceeding, centered on
944 whether decoupling has or will prompt the Companies to spend

945 more on energy efficiency programs, is misplaced. To be clear, our
946 original approval of Rider VBA as a pilot program was not solely
947 centered on energy efficiency factors, nor was energy efficiency
948 the only reason we approved such a decoupling mechanism.
949 Indeed, our rationale then and now is appropriately multi-faceted
950 to address the many components that such a mechanism seeks to
951 resolve. For example, weather affects customer usage and
952 decoupling means that customers do not overpay when weather is
953 colder than normal or underpay when weather is warmer than
954 normal. Decoupling also addresses load changes, including
955 declining load attributable to energy efficiency. Whether Rider
956 VBA prompts the Companies to spend more on energy efficiency
957 is immaterial. The Companies' forecast showed declining load on
958 their systems. Section 8-104 of the Act requires them to offer
959 energy efficiency programs to meet ever-increasing load
960 reductions through energy efficiency measures. Decoupling will
961 take the effects of efficiency into account together with other
962 factors, notably weather, that affects load and promote distribution
963 rate stability for customers and the Companies. For these reasons
964 GCI's assertions and attempt to link Rider VBA solely with energy
965 efficiency programs is in error and must be rejected.

966 For all of the reasons above, Mr. Rubin's recommendation that the Commission withdraw
967 Rider VBA from the Utilities' tariffs should be rejected.

968 **Q. Would Rider VBA need to be revised to accommodate different distribution charges
969 for S.C. No. 1 NH and HTG customers?**

970 **A.** Yes. If the Commission approves different distribution charges for S.C. No. 1 NH and
971 HTG customers, Rider VBA would be revised to include those revision reflected in the
972 Utilities' responses to Staff data requests WRJ-2.04 and WRJ-2.07, for North Shore and
973 Peoples Gas, respectively.

974 **V. TRANSPORTATION ADMINISTRATIVE CHARGES**

975 **Q. Do you agree with IGS Energy witness Mr. Parisi's characterizations of
976 administrative charges and monthly customer charges?**

977 A. No. Mr. Parisi states, on page 30 of his direct testimony, that “Administrative charges
978 are fixed charges that are charged to an entire class, and are referred to by Peoples and
979 North Shore as ‘monthly customer charges’ for Choices For You eligible customer
980 classes, Rate 1 and 2.” Administrative charges and customer charges are different
981 charges recovering different costs. The administrative charges that are the subject of Mr.
982 Parisi’s testimony are assessed to *suppliers* taking service under the Utilities’ Choices
983 For You (“CFY”) transportation programs and are not assessed to customers taking utility
984 delivery service under S.C. Nos. 1 and 2. On the other hand, customer charges are
985 assessed to *customers* taking utility delivery service under their respective rate classes,
986 including S.C. Nos. 1 and 2. In addition, transportation administrative charges recover
987 from suppliers the costs associated with administering the CFY program, while customer
988 charges recover from customers, the costs associated with providing utility delivery
989 service. Mr. Parisi’s attempts to conflate transportation administrative charges and
990 customer charges are misleading and should be rejected by the Commission.

991 **Q. Has the Commission addressed this matter before?**

992 A. Yes, the Commission addressed this matter in the 2011 Rate Case, with the Commission
993 agreeing with the Utilities and Staff that the costs are appropriately assessed to suppliers.
994 In the 2011 Rate Case, the Commission stated:

995 The Commission agrees with Staff and the Utilities and finds that
996 IGS’s recommendation will not be adopted inasmuch as sales
997 customers do not cause the costs that are incurred by the GTS
998 department and related IT costs and therefore they should not be
999 assessed any of the costs. There is no reason for sales customers to
1000 bear any portion of this cost. The Commission further finds no
1001 need to mandate the Utilities to undertake a detailed cost-causation
1002 analysis.

1003 **Q. On page 35 of his direct testimony, Mr. Parisi provides an excerpt of the transcript**
1004 **from the 2009 Rate Case. Does Mr. Parisi accurately characterize your responses?**

1005 A. No. My responses were to clarify cost causation matters, namely that the Utilities' call
1006 center services all customers and that all customers pay for such service whereas the Gas
1007 Transportation Services Department services *suppliers* who pay for such service through
1008 the transportation administrative charges. Mr. Parisi's attempt to mischaracterize my
1009 comments by conflating cost causation and customer benefits is misleading at best and
1010 should be rejected.

1011 **Q. Has the Commission previously considered Mr. Parisi's arguments on pages 37 and**
1012 **38 of his direct testimony that CFY customers inappropriately pay for certain costs**
1013 **through what he calls "administrative charges"?**

1014 A. Yes. Mr. Parisi made similar arguments in the 2011 Rate Case and recommended that
1015 the Commission require the Utilities to undertake a detailed cost causation analysis. The
1016 Commission rejected Mr. Parisi's arguments and recommendation as shown in the
1017 excerpt from the Commission's order above.

1018 **VI. PUBLIC NOTICES**

1019 **Q. Have North Shore and Peoples Gas received the certificates of publications that**
1020 **show that public notices were published for their proposed rate changes?**

1021 A. Yes, certificates of publications are provided in NS-PGL Ex. 32.17. North Shore's
1022 publisher's certificate for the Lake County News Sun is provided on page 1. Peoples
1023 Gas' publisher's certificate for the Chicago Tribune is provided on page 2.

1024 **Q. Does this complete your rebuttal testimony?**

1025 A. Yes.