

Rebuttal Testimony
of
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Rates Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase In Rates For Delivery Service
North Shore Gas Company and The Peoples Gas Light and Coke Company

Docket Nos. 12-0511 and 12-0512
(Consolidated)

January 16, 2012

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1 **WITNESS IDENTIFICATION**

2 **Q. Please state your name, your employer, and your business address.**

3 A. My name is William R. Johnson. I am employed by the Illinois Commerce
4 Commission (“ICC” or “Commission”). My business address is 527 East Capitol
5 Avenue, Springfield, Illinois 62701.

6

7 **Q. Are you the same William R. Johnson who submitted direct testimony in
8 this docket, which was identified as ICC Staff Exhibit 8.0?**

9 A. Yes, I am.

10

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

12 A. I will respond to the rebuttal testimony of North Shore Gas Company (“North
13 Shore” or “NS”) and The Peoples Gas Light and Coke Company (“Peoples Gas”
14 or “PGL”) (individually, the “Company” and collectively, the “Companies”)
15 witness Valerie H. Grace. I will present my review of Peoples Gas’ and North
16 Shore’s rate case expense associated with the testimony of Ms. Grace. I will
17 also respond to the direct testimony of The People of the State of Illinois (“AG”)
18 witness Scott J. Rubin.

19

20 **Q. Are you sponsoring any schedules or attachments with your testimony?**

21 A. Yes. I am sponsoring the following Attachment:

22 Attachment A – Attachment 01 (Bates NS 0002033 to NS 0002038) to North
23 Shore’s response to Staff Data Request WRJ-2.04(a) and Attachment 01 (Bates
24 PGL 0002637 to PGL 0002642) to Peoples Gas’ response to Staff Data Request
25 (“DR”) WRJ-2.07(a).

26

27 **Q. Please summarize your rebuttal recommendations.**

28 A. I recommend the Commission accept all of my direct testimony rate design
29 proposals for all classes except for my recommendation to have a two-block
30 distribution charge for the S.C. No. 1 NH (“Non-Heating”). I now recommend that
31 the S.C. No. 1 NH class have a flat distribution charge.

32

33 I recommend, and the Companies agree, to recover 80% of non-storage related
34 fixed costs through the customer charge for the S.C. No. 1 NH classes.

35

36 I recommend the Commission reject the Companies’ proposal to recover 80% of
37 non-storage related fixed costs through the customer charge for both Peoples
38 Gas and North Shore S.C No. 1 HTG (“Heating”) classes. The Commission
39 should instead adopt my rate design proposals that result in fixed cost recovery
40 through fixed charges of approximately 68% for North Shore and approximately
41 61% for Peoples Gas’ S.C. No. 1 HTG classes.

42

43 I continue to recommend the Commission reject the Companies’ proposal to
44 place 100% SFV (“Straight Fixed Variable”) rates into the tariffs for the S.C. No.

45 1 and S.C. No. 2 classes as a place holder in the event the Illinois Appellate
46 Court overturns the Companies' Rider VBA ("Volume Balancing Adjustment").

47
48 I continue to recommend the Commission approve the Companies' proposal to
49 rerun the Embedded Cost of Service Study ("ECOSS") and adjust the rate
50 design based upon the Commission's final order in this proceeding for the
51 compliance filing. I also continue to recommend that for the S.C. No. 2 class the
52 distribution charges proposed by the Companies should be adjusted on an equal
53 percentage basis to arrive at the final Commission approved revenue
54 requirement.

55
56 I recommend the Commission reject AG witness Rubin's proposed flat rate
57 monthly customer charge and his proposed elimination of Rider SSC for the S.C.
58 No. 1 NH classes.

59

60 **RESPONSE TO COMPANIES WITNESS VALERIE H. GRACE**

61 **Q. What areas of Ms. Grace's rebuttal testimony are you addressing?**

62 A. I will address the following: S.C. No. 1 NH (non-heating) and S.C. No. 1 HTG
63 (heating) charges for both Companies; Straight Fixed Variable ("SFV") pricing;
64 fixed cost recovery; and the setting of compliance rates.

65

66 A. S.C. NO. 1 NON-HEATING SMALL RESIDENTIAL SERVICE

67 **Q. Companies' witness Grace observed that your proposed S.C. No. 1 NH**
68 **rates for the Companies were derived from rounded revenues rather than**
69 **non-rounded ECOSS revenue requirement and that you inadvertently**
70 **included storage-related costs in the rate determinations that resulted in**
71 **imprecise rates. (NS-PGL Ex. 32.0, p. 13) Please respond.**

72 A. Ms. Grace's observation is correct and I agree with the corrections she made to
73 Staff's proposed rate design based upon the Companies' proposed revenue
74 requirements found on NS-PGL Ex. 32.5 and 32.6.

75

76 **Q. Your direct testimony proposed 80% fixed cost recovery and a declining**
77 **two-block distribution charge for Peoples and North Shore's SC No. 1 NH**
78 **classes. What is Ms. Grace's response?**

79 A. Ms. Grace agrees with my proposal to recover 80% of non-storage related fixed
80 costs through the customer charge. However, she disagrees with my proposed
81 declining two-block distribution rate structure, and she proposes that Peoples'
82 and North Shore's proposed flat distribution charge be utilized. (NS-PGL Ex.
83 32.0, p. 7, 16)

84

85 **Q. Why does Ms. Grace disagree with your proposed declining two-block**
86 **distribution rate structure for Peoples and North Shore's S.C. No. 1 NH**
87 **classes?**

88 A. Ms. Grace asserts that retaining a declining two-block distribution charge for the
89 S.C. No. 1 NH customers is not warranted. She points out that about 96% of
90 Peoples' S.C. No. 1 customer bills show monthly usage of 30 therms or less and
91 that my example of a bill increase of \$131 for a customer using 500 therms in a
92 month is unlikely. (NS-PGL Ex. 32.0, p. 16) She also points out that about 95%
93 of North Shore's S.C. No. 1 customer bills show monthly usage of 50 therms or
94 less and that my example of a bill increase of \$102 for a customer using 500
95 therms in a month is unlikely. (NS-PGL Ex. 32.0, pp. 7-8)

96

97 **Q. What is your assessment of Ms. Grace's rebuttal response?**

98 A. The bill impact concerns reflected in my direct testimony were based on my
99 review of the Companies' E-8 Schedules, which present the number of bills per
100 usage level. I was initially concerned that a flat distribution charge would cause
101 those customers using greater than 250 therms per month to see a monthly bill
102 that is approximately 29% to 39% higher for Peoples and 26% 36% higher for
103 North Shore, depending on usage. However, as Ms. Grace has pointed out,
104 95% of total bills for North Shore are for 50 therms or less and 96% of the total
105 bills for Peoples are 30 therms or less. (NS-PGL Ex. 32.0, pp. 7-8, 16) For
106 Peoples, 250 therms and above represents 0.13% of total bills and for North
107 Shore it represents 0.46% of total bills. While there will still be bills that fall into
108 the higher usage categories, they are a small percentage of total bills and
109 customers have the option of cutting back on usage to lower bills if they so
110 desire. Additionally, moving to a flat block distribution charge will lower the

111 amount per therm charged to low use customers (those customers using 50
112 therms or less). Thus, after further consideration, I withdraw my objection to a
113 flat distribution charge for the Companies' S.C. No. 1 NH classes. I recommend
114 the Companies' proposed SC No. 1 NH rate design identified on NS-PGL Ex.
115 32.5 and 32.6, which include a customer charge that collects 80% of non-storage
116 related fixed costs and a flat distribution charge, be adopted.

117

118 B. S.C. NO. 1 HEATING SMALL RESIDENTIAL SERVICE

119 **Q. Your direct testimony proposed customer charges for the SC No. 1 HTG**
120 **class that did not include non-storage related demand costs (ICC Staff Ex.**
121 **8.0, pp. 28, 40). What is the Companies' response to your proposal?**

122 A. Companies witness Grace disagrees with my customer charge proposals for the
123 SC No. 1 HTG class. Ms. Grace opines that my customer charge proposal,
124 along with my proposed rejection of a 100% SFV rate, for Peoples and North
125 Shore would impede the Companies' movement toward greater fixed cost
126 recovery. (NS-PGL Ex. 32.0, pp. 21, 26) She also states that my proposal
127 would set fixed cost recovery at a level far below the 80% level approved by the
128 Commission for Ameren and Nicor Gas, but without a remedy for maintaining
129 appropriate fixed cost recovery in the absence of Rider VBA. (*Id.*)

130

131 **Q. What is your response to Ms. Graces' arguments against your S.C. No. 1**
132 **HTG customer charge proposal?**

133 A. I am not swayed by Ms. Grace's arguments. As explained more fully in my direct
134 testimony, my proposal increases the fixed cost recovery through fixed charges
135 from approximately 67% to approximately 68% for North Shore and from
136 approximately 54% to approximately 61% for Peoples and, thus, reflects greater
137 fixed cost recovery through fixed charges. (ICC Staff Ex. 8.0, pp. 28, 40) Also,
138 my proposal shifts some of the revenue recovery to those customers that use
139 more therms through the distribution charge, which encourages more
140 conservation compared to the Company's proposal. The S.C. No. 1 class has
141 been combined (heating and non-heating) for rate making purposes for many
142 years and the proposed bifurcation of S.C. No. 1 has been discussed since at
143 least Docket Nos. 07-0241/07-0242 (Cons.). My proposal allows the
144 Commission to observe what effects the S.C. 1 bifurcation will have on all of the
145 S.C. 1 residential customers before moving forward on even greater fixed cost
146 recovery through fixed charges.

147
148 Ms. Grace's belief that fixed cost recovery should not be set at anything below
149 that of Ameren's and Nicor's 80% level of fixed cost recovery for the S.C. No. 1
150 HTG classes is misguided. The Companies currently have a true-up mechanism
151 in place through Rider VBA that guarantees recovery of all of its fixed costs in
152 the approved revenue requirement. Even if Rider VBA is eventually overturned
153 by the court, my rate design proposal still provides movement towards greater
154 fixed cost recovery through fixed charges.

155

156 Moreover, in the event Rider VBA is overturned, the Companies have the
157 opportunity to file a new rate case and make the case as to why they deserve
158 greater certainty of recovery of their fixed costs by increasing their fixed
159 customer charges. In fact, they are required to file biennial rate proceedings in
160 2014 and 2016 under Section 9-220(h-1) of the Public Utilities Act ("Act").
161

162 **Q. Did the Companies offer a different customer charge proposal for the S.C.**
163 **No. 1 HTG classes in its rebuttal testimony?**

164 A. Yes. Ms. Grace now proposes that 80% of non-storage related fixed costs be
165 recovered through the customer charge for both Peoples and North Shore S.C.
166 No. 1 HTG classes. The Companies direct testimony proposal resulted in
167 approximately 75% of fixed costs being recovered through fixed customer
168 charges for NS and approximately 68% for Peoples. The result of the
169 Companies' new rate design proposal, using the Companies' direct testimony
170 revenue requirements, is that North Shore's customer charge would increase
171 from a direct testimony proposal of \$27.71 to a rebuttal testimony proposal of
172 \$28.83 and Peoples' customer charge would increase from a direct testimony
173 proposal of \$32.83 to a rebuttal testimony proposal of \$35.75. (NS EX. 12.4;
174 PGL Ex. 12.4; NS-PGL Ex. 32.1; NS Ex. 32.3) Ms. Grace also suggests that
175 since Staff has proposed 80% fixed cost recovery for the S.C. No. 1 NH classes
176 that leaves the Utilities' S.C. No. 1 HTG classes as the only small residential rate
177 class with lesser fixed cost recovery among the state's largest utilities. (NS-PGL,
178 p. 35)

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Q. What is your assessment of the Companies' rebuttal SC No. 1 HTG proposals?

A. For the reasons already discussed previously and more fully in my direct testimony, I oppose the Companies' customer charge proposals for the S.C. No. 1 HTG classes. The Commission should move cautiously and first observe what effects the S.C. No.1 bifurcation of S.C. No. 1 into S.C. No. 1 HTG and S.C. No. 1 NH has on all residential customers before moving forward to greater fixed cost recovery through the customer charge.

Ms. Grace's claim that the Companies' S.C. No. 1 HTG classes would be the only small residential rate class with lesser fixed cost recovery among the state's largest utilities is irrelevant. Each utility's rates presented to the Commission are set according to the circumstances of each utility. I have no reason to believe the Commission intends to impose an identical rate design on every utility it regulates or that the Commission believes it would be appropriate to do so.

Also, I observed that the Company's proposal to shift the non-storage demand costs from the distribution charge to the customer charge would not encourage customers to conserve gas since the distribution charge would decline as a result of this proposed shift. Leaving the non-storage demand costs in the distribution charge will ease the move to a flat rate while encouraging conservation. (ICC Staff Ex. 8.0, pp. 25-26).

202

203 **Q. The Companies' rebuttal testimony no longer requests that the distribution**
204 **charges for S.C. No. 1 HTG and S.C. No. 1 NH classes be identical. Please**
205 **comment.**

206 A. One of the main reasons for the Companies' direct testimony proposal to include
207 non-storage demand costs in the customer charge for the S.C. No. 1 HTG
208 classes was so that the distribution charges would be the same as the S.C. No. 1
209 NH classes. The Companies' reasoning for identical distribution charges was so
210 that Rider VBA could continue to operate easily and to minimize the number of
211 new rates going into effect for S.C. No. 1. (NS Ex. 12.0, pp. 13-14; and PGL Ex.
212 12.0, p. 14) Company witness Grace now states in her rebuttal testimony that
213 Rider VBA would need to be revised to accommodate different distribution
214 charges for S.C. No. 1 HTG and NH customers. The Rider VBA tariff revisions
215 proposed are reflected in the Companies' response to Staff Data Requests
216 WRJ-2.04(a) and WRJ-2.07(a). I have no objections to the revised Rider VBA
217 tariff which is shown on Attachment A.

218

219 C. STRAIGHT FIXED VARIABLE PRICING

220 **Q. Your direct testimony stated that customers would be confused if the**
221 **Commission implemented tariffs that include Rider VBA rates and SFV**
222 **rates as proposed by the Companies. (ICC Staff Ex. 8.0, p. 17) What was**
223 **the Companies' response?**

224 A. Companies witness Grace did not agree with my concern. Ms. Grace gave an
225 example of a North Shore case whereby Rider FCA (Franchise Cost Adjustment)
226 was approved by the Commission and due to the implementation of Rider FCA
227 the rate tariffs included two sets of rates that would become effective at different
228 times. Ms. Grace stated that she was not aware of any customer confusion that
229 arose. (NS-PGL, p. 38)

230

231 **Q. What is your response to Ms. Grace's argument?**

232 A. My response is twofold. First, the fact that Ms. Grace may not be aware of
233 customer confusion does not mean that customer confusion does not exist. The
234 Companies' proposal to present two different rates for the same service, one of
235 which, the proposed SFV rate, takes two separate paragraphs to explain and has
236 no effective date would be very confusing to customers. I believe it is in the best
237 interest of the Commission and customers to have rate tariffs that are, to the
238 greatest extent possible, easy to understand. In fact, the Act indicates that one
239 of the goals and objectives of regulation is to ensure "the fair treatment of
240 consumers and investors in order that...the application of rates is based upon
241 public understandability and acceptance of the reasonableness of the rate
242 structure and level." (220 ILCS 5/1-102(d)(ii)) Including two rates on a tariff
243 sheet whereby one of the rates will become effective only if a court determines
244 that the other rate is illegal is not only confusing but premature.

245

246 Second, Ms. Grace's Rider FCA example is not analogous to the Companies'
247 proposal here. The rate tariffs described by Ms. Grace that were affected by the
248 approval of Rider FCA contained set dates on which they would become
249 effective. For example, the customer charges for S.C. No.1 had an effective
250 date of January 28, 2010 for a specific set of rates and an effective date of May
251 1, 2010 for a new set of rates. A customer examining the tariffs would know
252 exactly when each set of rates were going into effect. Under the Companies'
253 SFV proposal, customers would only know that:

254
255 "If a court finds or holds that the Commission lacks or lacked authority to approve
256 Rider VBA of this rate schedule or Rider VBA of this rate scheduled is otherwise
257 not permitted to remain in effect by action of the Commission, the Illinois General
258 Assembly or any other body, then on and after the date of such court or other
259 action, the monthly customer charge shall be ___ for Non-Heating Customers
260 and ___ for Heating Customers."

261 And;

262
263
264 "If a court finds or holds that the Commission lacks or lacked authority to approve
265 Rider VBA of this rate schedule or Rider VBA of this rate scheduled is otherwise
266 not permitted to remain in effect by action of the Commission, the Illinois General
267 Assembly or any other body, then on and after the date of such court or other
268 action, the Distribution Charge shall be ___ per therm for all gas delivered in any
269 month."

270
271 There is no known effective date in the Company's proposed tariff language.
272 Even if Rider VBA is not allowed by the court to continue, there may be legal
273 disputes over what the correct effective date of the new customer charges and
274 distribution charges should be. Under Ms. Grace's Rider FCA tariffs example,
275 customers could make budget adjustments since they knew when the rates were

276 going to be effective. However, under the Companies' proposal, customers
277 would not have that luxury and it could adversely affect lower income customers.

278

279 **Q. What are the Companies proposing for SFV pricing in the rebuttal stage of**
280 **this proceeding?**

281 A. The Companies continue to assert that an SFV rate recovering 100% of fixed
282 costs should be placed in the rate tariffs as an alternative in the event that Rider
283 VBA is overturned by the court. (NS-PGL Ex. 32.0, pp. 15, 20, 25, 29) The
284 Companies state that if Rider VBA is not in effect then, at a minimum, modified
285 SFV rates recovering 80% of non-storage related fixed costs, along with a flat
286 distribution charge should be implemented for S.C. No. 1 HTG, S.C. No. 1 NH,
287 and S.C. No. 2. The Companies propose that the 80% fixed cost recovery for
288 SC No. 2 be applicable for each meter class. (*Id.*)

289

290 **Q. What is your assessment of the Companies' proposal to place 100% fixed**
291 **cost recovery SFV rates or at a minimum 80% fixed cost recovery SFV rates**
292 **in the rate tariffs as a place holder in the event Rider VBA is not in effect?**

293 A. I continue to disagree with the Companies' proposal to include SFV rates in the
294 rate tariffs as a place holder in the event Rider VBA is not in effect. First, as
295 demonstrated in Table 1 of my direct testimony, Rider VBA and SFV rates are
296 not equivalent substitutes for one another because they recover fixed costs in
297 different proportions from different customers resulting in different rate impacts
298 on customers. Second, if events occur that lead the Companies to believe that a

299 different rate structure would be more appropriate, the Companies are able to file
300 for rate cases when they deem it necessary to do so. Third, as discussed above,
301 I believe having two rates in place will cause confusion for ratepayers or anyone
302 else examining the tariff books. Fourth, Rider VBA is still in effect and it is
303 speculative as to whether it will be overturned. Fifth, even if the Illinois Appellate
304 Court reverses the Commission's Order in Docket Nos. 11-0281/11-0281
305 (Cons.), my proposed rate design provides movement towards greater fixed cost
306 recovery through fixed charges.

307

308 D. FIXED COST RECOVERY

309 **Q. The Companies' rebuttal testimony expands on why they believe greater**
310 **fixed cost recovery is warranted. Your direct testimony suggested the**
311 **Companies could file for more frequent rate cases and their customer**
312 **demand forecasts for the test year would help provide for timely recovery**
313 **of fixed costs. What was the Companies' response?**

314 A. Ms. Grace states that if customer usage and sales vary from the normal level of
315 sales used to set rates, lower customer charges and higher distribution charges
316 will affect fixed cost recovery for the Utilities and appropriate billings to their
317 customers. Moreover, Ms. Grace argues that these factors can lead to over- as
318 well as under-recovery of costs. (NS-PGL Ex. 32.0, p. 36)

319

320 **Q. How do you respond to Ms. Grace's arguments?**

321 A. Ms. Grace is correct that utilities can over- or under-recover costs and this has
322 been the case for years. Sales levels would be expected to fluctuate for any
323 business venture. However, I do not believe the Commission's intent is to put
324 rates in place for utilities so that a certain revenue requirement is guaranteed.
325 Section 1-102(a)(i) of the Act states: "tariff rates for sale of various public utility
326 services are authorized such that they accurately reflect the cost of delivering
327 those services and allow utilities to recover the total costs prudently and
328 reasonably incurred." (220 ILCS 5/1-102(a)(i)) I would also note that in the
329 Companies last rate case the Commission's final order stated the following
330 "[u]nder long established federal and Illinois constitutional law, and Illinois
331 ratemaking law, a utility's rates must be set so as to allow it the opportunity to
332 obtain full recovery of its prudent and reasonable costs of service, including its
333 costs of capital. (Final Order, January 10, 2012, Docket No 11-0280/0281
334 (Cons.), p. 5) (Emphasis added) I do not believe that acceptance of a smaller
335 fixed cost recovery through fixed charges than requested by the Companies will
336 all of a sudden adversely impact the Companies. The Companies have
337 historically filed rate cases when they believed their rates were inadequate to
338 cover their costs. As I stated, my proposal increases fixed cost recovery through
339 fixed charges and the Companies will be in for a rate case again in 2014 as
340 required under Section 9-220(h-1) of the Act.

341

342 **Q. Your direct testimony suggested that Rider VBA and SFV rates produce**
343 **different results for customers and therefore should not be considered**
344 **equivalent substitutes for one another. What was Ms. Grace's response?**

345 A. Ms. Grace stated that Staff's fixed cost analysis assumed HTG customers use
346 the same amount of gas each month and did not consider the seasonal nature of
347 S.C. No. 1 HTG customers' usage. She stated that on a month to month basis
348 customers would see bill increases as well as bill decreases compared to
349 present rates. (NS-PGL Ex. 32.0, pp. 36-37)

350

351 **Q. How do you respond to Ms. Graces' arguments?**

352 A. I agree with Ms. Grace that average customers will see bill increases as well as
353 bill decreases on a month to month basis. However, the analysis presented in
354 Table 1 from my direct testimony was simply a comparison of what monthly bills
355 would be at various usage levels under the Companies' proposed Rider VBA
356 rate and proposed SFV rate. (ICC Staff Ex. 8.0, p. 10) My example simply
357 identified what the impact would be on small use customers. Table 1 from my
358 direct testimony shows that there is an increase in monthly bills for both Rider
359 VBA and 100% SFV rates up to 100 therms. After 100 therms (approximately
360 140 therms) the monthly bill for a 100% SFV rate customer begins to decrease.
361 The Company's Schedule E-8, Page 2 of 7, identifies approximately 74% of total
362 bills that are for 130 therms or less. Thus, even though some customers will see
363 bill increases as well as bill decreases it is possible that other customers will just
364 see bill increases, depending on their usage. Moreover, costs that were once

365 recovered through the distribution charge on a per therm basis are recovered on
366 a per customer basis with 100% SFV rates, which shifts some of the cost
367 responsibility from high therm usage customers to lower therm usage customers.
368 Additionally, as more demand related costs are shifted to the customer charge,
369 resulting in a lower distribution charge, there would be less incentive to conserve
370 gas.

371

372 E. COMPLIANCE RATES

373 **Q. Do the Companies object to your proposal for setting compliance rates?**

374 A. Yes. The Companies continue to propose that the Commission set compliance
375 rates according to the methodology described in their direct testimony.
376 Ms. Grace believes the Companies' proposal would provide a simpler foundation
377 and more accurate results. (NS-PGL Ex. 32.0, p. 34)

378

379 **Q. Do you agree with Ms. Grace's compliance rate proposal?**

380 A. No. It seems the Companies misunderstood my initial proposal. I agreed that
381 the cost of service should be re-run. I also agreed that the rate design should be
382 adjusted based upon the Commission's final order. For example, the
383 Commission may order a different fixed cost recovery through fixed charges for
384 the S.C. No. 2 classes than that proposed by the Companies. However, for
385 those classes with more than one distribution block I proposed that the
386 distribution charges proposed by the Companies in their direct testimony should

387 be adjusted on an equal percentage basis to arrive at the final Commission
388 approved revenue requirement. Since I have agreed that the S.C. No. 1 NH
389 class should have a flat distribution charge, the only remaining class with more
390 than one distribution block is S.C. No. 2.

391
392 I continue to believe that the S.C. No. 2 class's distribution charges proposed by
393 the Companies should be adjusted on an equal percentage basis. Under the
394 Companies' proposal the Companies would unilaterally determine how S.C. No.
395 2 distribution rates should be adjusted to arrive at the approved revenue
396 requirement. With the exception of Staff, there would be no input from
397 intervenors that could be adversely affected by how the Companies choose to
398 adjust the S.C. No. 2 distribution rates. Adjusting on an equal percentage basis
399 is reasonable because all customers would receive the same treatment.

400

401 RATE CASE EXPENSE

402 **Q. Are you offering testimony on rate case expense?**

403 A. Yes, but just those expenses associated with the testimony of Ms. Grace.

404

405 **Q. Why are you reviewing the rate case expense associated with the**
406 **testimony of Ms. Grace?**

407 A. According to the provisions of Section 9-229 of the Act:

408 The Commission shall specifically assess the justness and
409 reasonableness of any amount expended by a public utility to
410 compensate attorneys or technical experts to prepare and litigate a
411 general rate case filing. This issue shall be expressly addressed in
412 the Commission's final order.

413 (220 ILCS 5/9-229)

414 **Q. How did you evaluate the rate case expense associated with the testimony**
415 **of Ms. Grace?**

416 A. I reviewed the Companies' Schedule C-10, as well as the Companies' responses
417 to ICC Staff DRs, which included invoices for the rate case expense associated
418 with Ms. Grace's testimony.¹

419 **Q. Do you propose an adjustment to the rate case expense associated with**
420 **Ms. Grace's testimony?**

421 A. No, I am not proposing an adjustment.

422

423 **RESPONSE TO AG WITNESS RUBIN**

424 **Q. What is AG witness Rubin's proposal for residential non-heating**
425 **customers?**

426 A. First, Mr. Rubin is proposing that both NS and PGL implement a monthly flat
427 rate with no distribution charge for non-heating customers. (AG Ex. 3.0 R, pp.
428 10, 15) Second, he is proposing that storage costs be recovered through the

429 customer charge rather than through Rider SSC (Storage Service Charge). (*Id.*,
430 pp. 11, 16)

431

432 **Q. What reasons does Mr. Rubin provide for the move to a monthly flat rate**
433 **with no distribution charge for residential non-heating customers (SC No.**
434 **1 NH)?**

435 A. Mr. Rubin states that the non-heating class is much more homogeneous
436 compared to the heating class, with 85% of bills for PGL and 75% of bills for NS
437 that are ten therms or less per month. (*Id.*, pp. 12-13) (Section 285.5130,
438 Schedule E-8, Page 3 of 8 identifies 71% of bills for NS are for 10 therms or
439 less not 75% as identified by Mr. Rubin) Also, Mr. Rubin indicated that the
440 difference between typical winter and summer usage for the residential non-
441 heating class is small. (*Id.*, p. 12) Additionally, Mr. Rubin stated that with
442 consumption varying by just a few therms from customer to customer and from
443 month to month, in his opinion it is reasonable to simplify customers' bills, and
444 adopt a flat rate. (*Id.*, pp. 12, 17)

445

446 **Q. Do you find Mr. Rubin's reasons for implementing a monthly flat rate with**
447 **no distribution charge for residential non-heating customers to be**
448 **persuasive?**

¹ Specifically, I reviewed the Companies' responses to ICC Staff DR PGL JMO 3.01, NS JMO 3.01, PGL JMO 17.04, NS JMO 17.04, PGL JMO 18.04, NS JMO 18.04.

449 A. No, I do not. First, even though 85% of bills for PGL and 71% of bills for NS
450 are for ten therms or less that still leaves 15% for PGL (199,802 bills) and 29%
451 NS (6,585 bills) that are above 10 therms. (Section 285.5130, Schedule E-8,
452 Page 3 of 7 PGL and Page 3 of 8 NS) In fact, there are 2,633 bills for PGL
453 usage above 200 therms, ranging from 200 therms to over 1,000 therms.
454 Likewise, there are 142 bills for NS usage above 200 therms, ranging from 200
455 therms to approximately 900 therms. (*Id.*) So even though there are a high
456 percentage of bills that are for 10 therms or less, there are still customers that
457 use greater therms and place different demands on the system.

458
459 Second, even though the difference between typical winter and summer usage
460 for the residential non-heating class, as identified on AG Exhibit 3.01 and 3.04, is
461 small, there is a distinct pattern of increased usage in the winter months. This
462 indicates that the non-heating residential class is placing greater demands on the
463 system in the winter compared to the summer months. So even though a large
464 percentage of non-heating customers may be using 10 therms or less, there are
465 some customers in the non-heating class that are using more therms and should
466 be charged for the different demands they place on the system.

467
468 Third, as I discussed fully in my direct testimony, the Commission
469 concluded in the Ameren Illinois Order that:

470
471 The Commission does not at this time approve recovery of all fixed
472 costs in the monthly charges for two reasons. First, it is expected

473 that leaving a portion of fixed costs to be recovered through the
474 volumetric rate will encourage AIU to see ways to improve
475 efficiency and otherwise cut costs. Second, as the number of AIU's
476 customers grows, AIU should experience growing revenue. If all of
477 its fixed costs were recovered through the monthly charge, AIU
478 may arguably over-recover its fixed costs through the monthly
479 charge. (Order, Docket No. 07-0585 et al. (Cons.), September 24,
480 2008, p. 237)
481

482 It is clear to me that the Commission has concerns with 100% fixed cost
483 recovery through a fixed charge. In fact, the Commission explained why it is
484 important to leave a portion of costs to be recovered through a volumetric rate.
485

486 **Q. What reasons does Mr. Rubin provide for recommending that storage costs**
487 **be recovered through the customer charge rather than through Rider SSC?**

488 A. Mr. Rubin opines that storage costs are almost entirely driven by heating
489 customers' huge demands for gas during the winter. (AG Ex. 3.0 R, p. 11) He
490 therefore believes that storage related costs for non-heating customers should
491 be recovered through his proposed flat customer charge.
492

493 **Q. Do you agree with Mr. Rubin's proposal to include storage costs in a flat**
494 **rate customer charge?**

495 A. For the reasons previously discussed, I do not agree with a flat rate customer
496 charge that recovers all costs through a single customer charge with no
497 distribution charge. With respect to storage cost recovery, I believe that since
498 storage costs are demand related, they should be recovered on a per therm
499 basis. Under Mr. Rubin's flat rate customer charge proposal, all non-heating

500 customers would pay the same monthly flat rate, except for the cost of gas,
501 regardless of the amount of therms used and demands they place on the
502 system. It is not reasonable that customers with different demands pay the
503 same charge for storage, even if there are not large differences in their
504 demands. Therefore, I recommend that Rider SSC remain applicable to SC No.
505 1 NH customers.

506

507 **SUMMARY OF RECOMMENDATIONS**

508 **Q. Please summarize your recommendations.**

509 A. I recommend the Commission accept all of my direct testimony rate design
510 proposals for all classes except for my recommendation to have a two-block
511 distribution charge for the S.C. No. 1 NH (“Non-Heating”). I now recommend that
512 the S.C. No. 1 NH class have a flat distribution charge.

513

514 I recommend, and the Companies agree, to recover 80% of non-storage related
515 fixed costs through the customer charge for the S.C. No. 1 NH classes.

516

517 I recommend the Commission reject the Companies’ proposal to recover 80% of
518 non-storage related fixed costs through the customer charge for both Peoples
519 Gas and North Shore S.C. No. 1 HTG (“Heating”) classes. The Commission
520 should instead adopt my rate design proposals that result in fixed cost recovery

521 through fixed charges of approximately 68% for North Shore and approximately
522 61% for Peoples Gas' S.C. No. 1 HTG classes.

523

524 I continue to recommend the Commission reject the Companies' proposal to
525 place 100% SFV rates into the tariffs for the S.C. No. 1 and S.C. No. 2 classes
526 as a place holder in the event the Illinois Appellate Court overturns the
527 Companies' Rider VBA ("Volume Balancing Adjustment").

528

529 I continue to recommend the Commission approve the Companies' proposal to
530 rerun the ECOSS and adjust the rate design based upon the Commission's final
531 order in this proceeding for the compliance filing. I also continue to recommend
532 that for the SC No. 2 class the distribution charges proposed by the Companies
533 should be adjusted on an equal percentage basis to arrive at the final
534 Commission approved revenue requirement.

535

536 Finally, I recommend the Commission reject AG witness Rubin's proposed flat
537 rate monthly customer charge and his proposed elimination of Rider SSC for the
538 S.C. No. 1 NH classes.

539

540 **CONCLUSION**

541 **Q. Does this conclude your prepared rebuttal testimony?**

542 **A.** Yes, it does.

ILL. C. C. NO. 17
Fourth Revised Sheet No. 60
(Canceling Second Revised Sheet No. 60)

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 1 of 6

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution revenue requirement approved by the Commission in the Company's most recent rate proceeding. A separate adjustment shall be calculated for each applicable Service Classification, and beginning March 2014, separately for S.C. No. 1 Heating and Non-Heating customers.

Each month through January, 2012, the Company shall determine monthly adjustments under this rider. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The final monthly Effective Component shall be filed no later than January 31, 2012 and shall be in effect from February 1 through February 29, 2012. The Reconciliation Adjustment and each of its two components, RA₁ and RA₂, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31, 2012 and amortized for the nine-month period commencing the following April 1.

Beginning in March, 2013, the Company shall determine annual adjustments under this rider. The adjustments, as outlined in Section C, shall be filed with the Commission, no later than March 20th of each year, and shall be in effect for the nine-month period commencing the following April 1.

Section A - Definitions

As used in this rider, the terms below are defined to mean:

Actual Revenue (AR) shall mean that dollar amount of distribution charge revenues arising from revenue requirements approved by the Commission, excluding revenues arising from adjustments under this rider, which were billed ~~for each applicable Service Classification~~ for the applicable period.

Actual Customers (AC) shall mean the number of customers ~~in each applicable Service Classification~~ for the applicable period.

Effective Month shall mean the month for which the Effective Component in Section B (1) is calculated, and shall be the month after the Filing Month.

Effective Period shall mean the period for which the adjustments in Section C are to be billed to customers, and shall be the nine-month period after the Filing Month.

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North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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*

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

*

Section A - Definitions - continued

**

Factor T (T) shall mean the number of therms of gas delivered to customers by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the applicable period.

**

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission.

**

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Percentage of Fixed Costs (PFC) shall mean the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Customers (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding ~~for each applicable Service Classification.~~

Rate Case Revenue (RCR) shall mean that dollar amount of distribution charge revenues arising from the revenue requirements approved by the Commission in the Company's most recent rate proceeding ~~for each applicable Service Classification.~~ In a month or year in which new distribution rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates.

Reconciliation Month shall mean the second month prior to the Effective Month.

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

*

Section B - Determination of Adjustment through February 2012

There shall be a separate per therm adjustment amount determined under this rider for each applicable Service Classification and such amount shall be the sum of the amounts determined pursuant to subsections (1) and (2).

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North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 3 of 6

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

Section B - Determination of Adjustment through February 2012 – continued

(1) **Effective Component** – The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

$$[(RCR / RCC) - (AR / AC)] \times PFC \times RCC / T \times 100$$

Where:

- RCR represents the Rate Case Revenue for the Reconciliation Month.
- RCC represents the number of Rate Case Customers for the Reconciliation Month.
- AR represents the Actual Revenue for the Reconciliation Month.
- AC represents the number of Actual Customers for the Reconciliation Month.
- T represents the forecast Factor T for the Effective Month.
- PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The final monthly Effective Component shall be determined and billed for the Effective Month of February, 2012.

(2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

- RA₁ = an amount due the Company (+RA₁) or an amount due the customer (-RA₁) arising from the reconciliation of Rate Case Revenue and Actual Revenue adjusted to Rate Case Customers plus revenues arising from application of the Effective Component in subsection B (1) above.

RA₁ shall be represented by the following formula:

$$(RCR - (AR / AC \times RCC)) \times PFC - VBAR$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
- AR represents the Actual Revenue for the Fiscal Year.
- AC represents the average monthly number of Actual Customers for the Fiscal Year.
- RCC represents the average monthly number of Rate Case Customers for the Fiscal Year.
- VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.

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North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

*

Section B - Determination of Adjustment through February 2012 – continued
(2) Reconciliation Adjustment

**

O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.

**

PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Where:

RA₂ = an amount due the Company (+RA₂) or an amount due the customer (-RA₂) as a consequence of any prior RA₁ adjustment.

RA₂ shall be represented by the following formula:

$$RA - RAR$$

Where:

RA represents RA₁ and O for the Previous Amortization Period.

RAR represents actual revenues arising from the application of RA for each month during the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Upcoming Amortization Period.

T represents the forecast Factor T for the Upcoming Amortization Period.

The Effective Component and the Reconciliation Adjustment shall each be separately determined. If an adjustment computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

If the Company determines that RA will more nearly be refunded or recovered at the end of any month up to 11 months, the amortization period may be shortened or lengthened accordingly upon the Company giving 15 days' notice to the Commission of the change in the amortization period.

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North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 5 of 6

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

Section C – Determination of Adjustment in 2013 and Thereafter

There shall be separate per therm adjustments determined annually for each applicable Service Classification and beginning March 2014, for S.C. No. 1 Heating and Non-Heating customers separately, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{(RRCR - AR) \times PFC}{T} + \frac{(RA + O) \times (1 + i)}{T} \right] \times 100$$

Where:

- RRCR represents the Rate Case Revenue for the Fiscal Year.
- AR represents the Actual Revenue for the Fiscal Year.
- T represents the Factor T for the Effective Period.
- O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
- PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.
- RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this rider that were under-billed or over-billed ~~to each Service Classification~~ in the Fiscal Year.
- i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Effective Period.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

* and ** **Section D - Reports and Reconciliations**

- (1) **Through January 2012** - On or before January 31, 2012, the Company shall file with the Commission an information sheet that specifies the adjustments to be effective under this rider for the Effective Month of February, 2012. The Company shall file any corrections from a timely filed information sheet on or before January 31, 2012. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The Company shall file with the Commission annually, no later than March 31, 2012, a statement of the Reconciliation Adjustment components RA₁ and RA₂ to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a

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North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

* and ** **Section D - Reports and Reconciliations** - continued

petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

- (2) **In 2013 and thereafter** - The Company shall file with the Commission on or before March 20 of each year, an information sheet that specifies the annual adjustments to be effective under this rider. The Company shall file any corrections from a timely filed information sheet on or before March 31. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)]. The Company shall include with its filing a report which shows a determination of the RA to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

* and ** **Section E - Terms and Conditions**

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider.

* and ** **Section F – Audit**

The Company shall annually conduct an internal audit of the distribution revenue requirements recovered or refunded pursuant to this rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any approved Rate Case Revenue (RCR) collected through base rate distribution charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA adjustments are being properly billed to customers; and 4) Rider VBA revenues are recorded in the appropriate accounts. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the Commission's Manager of the Accounting Department no later than August 1 of each year. Such report shall be verified by an officer of the Company.

* **Section G – Compliance Filing**

The Company shall submit as a public document, in any rate case compliance filing, the Rider VBA Rate Case Revenue (RCR) for each applicable Service Classification and separately for S.C. No. 1 Heating and Non-Heating customers as applicable, and Percentage of Fixed Costs (PFC) arising from the approved revenue requirement in the rate case.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Page 1 of 6

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

* The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution revenue requirement approved by the Commission in the Company's most recent rate proceeding. A separate adjustment shall be calculated for each applicable Service Classification, and beginning March 2014, separately for S.C. No. 1 Heating and Non-Heating customers.

* Each month through January, 2012, the Company shall determine monthly adjustments under this rider. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The final monthly Effective Component shall be filed no later than January 31, 2012 and shall be in effect from February 1 through February 29, 2012. The Reconciliation Adjustment and each of its two components, RA₁ and RA₂, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31, 2012 and amortized for the nine-month period commencing the following April 1.

* Beginning in March, 2013, the Company shall determine annual adjustments under this rider. The adjustments, as outlined in Section C, shall be filed with the Commission, no later than March 20th of each year, and shall be in effect for the nine-month period commencing the following April 1.

* **Section A - Definitions**

As used in this rider, the terms below are defined to mean:

Actual Revenue (AR) shall mean that dollar amount of distribution charge revenues arising from revenue requirements approved by the Commission, excluding revenues arising from adjustments under this rider, which were billed ~~for each applicable Service Classification~~ for the applicable period.

Actual Customers (AC) shall mean the number of customers ~~in each applicable Service Classification~~ for the applicable period.

Effective Month shall mean the month for which the Effective Component in Section B (1) is calculated, and shall be the month after the Filing Month.

Effective Period shall mean the period for which the adjustments in Section C are to be billed to customers, and shall be the nine-month period after the Filing Month.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 2 of 6

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

Section A - Definitions – continued

Factor T (T) shall mean the number of therms of gas delivered to customers by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the applicable period.

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Percentage of Fixed Costs (PFC) shall mean the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Customers (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding ~~for each applicable Service Classification.~~

Rate Case Revenue (RCR) shall mean that dollar amount of distribution charge revenues arising from the revenue requirements approved by the Commission in the Company's most recent rate proceeding ~~for each applicable Service Classification.~~ In a month or year in which new distribution rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates.

Reconciliation Month shall mean the second month prior to the Effective Month.

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

Section B - Determination of Adjustment through February 2012

There shall be a separate per therm adjustment amount determined under this rider for each applicable Service Classification and such amount shall be the sum of the amounts determined pursuant to subsections (1) and (2).

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

Section B - Determination of Adjustment through February 2012 – continued

- (1) **Effective Component** – The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

$$[(RCR / RCC) - (AR / AC)] \times PFC \times RCC / T \times 100$$

Where:

- RCR represents the Rate Case Revenue for the Reconciliation Month.
RCC represents the number of Rate Case Customers for the Reconciliation Month.
AR represents the Actual Revenue for the Reconciliation Month.
AC represents the number of Actual Customers for the Reconciliation Month.
T represents the forecast Factor T for the Effective Month.
PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The final monthly Effective Component shall be determined and billed for the Effective Month of February, 2012.

- (2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

- RA₁ = an amount due the Company (+RA₁) or an amount due the customer (-RA₁) arising from the reconciliation of Rate Case Revenue and Actual Revenue adjusted to Rate Case Customers plus revenues arising from application of the Effective Component in subsection B (1) above.

RA₁ shall be represented by the following formula:

$$(RCR - (AR / AC \times RCC)) \times PFC - VBAR$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
AR represents the Actual Revenue for the Fiscal Year.
AC represents the average monthly number of Actual Customers for the Fiscal Year.
RCC represents the average monthly number of Rate Case Customers for the Fiscal Year.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

Section B - Determination of Adjustment through February 2012— continued
(2) Reconciliation Adjustment

- **** VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.
- O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
- PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Where:

****** RA₂ = an amount due the Company (+RA₂) or an amount due the customer (-RA₂) as a consequence of any prior RA₁ adjustment.

RA₂ shall be represented by the following formula:

$$RA - RAR$$

Where:

- RA represents RA₁ and O for the Previous Amortization Period.
- RAR represents actual revenues arising from the application of RA for each month during the Fiscal Year.

- i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Upcoming Amortization Period.
- T represents the forecast Factor T for the Upcoming Amortization Period.

The Effective Component and the Reconciliation Adjustment shall each be separately determined. If an adjustment computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

If the Company determines that RA will more nearly be refunded or recovered at the end of any month up to 11 months, the amortization period may be shortened or lengthened accordingly upon the Company giving 15 days' notice to the Commission of the change in the amortization period.

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The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

*** and ** Section C – Determination of Adjustment in 2013 and Thereafter**

There shall be separate per therm adjustments determined annually for each applicable Service Classification and beginning March 2014, for S.C. No. 1 Heating and Non-Heating customers separately, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{(RCR - AR) \times PFC}{T} + \frac{(RA + O) \times (1 + i)}{T} \right] \times 100$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
AR represents the Actual Revenue for the Fiscal Year.
T represents the Factor T for the Effective Period.
O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.
RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this rider that were under-billed or over-billed ~~to each Service Classification~~ in the Fiscal Year.
i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Effective Period.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

*** and ** Section D - Reports and Reconciliations**

- (1) **Through January 2012** - On or before January 31, 2012, the Company shall file with the Commission an information sheet that specifies the adjustments to be effective under this rider for the Effective Month of February, 2012. The Company shall file any corrections from a timely filed information sheet on or before January 31, 2012. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The Company shall file with the Commission annually, no later than March 31, 2012, a statement of the Reconciliation Adjustment components RA₁ and RA₂ to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the

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Asterisk (*) indicates change.

Asterisk () indicates moved from a prior page.**

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Entered January 10, 2012 in Docket No.11-0281

ILL. C. C. NO. 28
First Revised Sheet No. 65.1

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

* and ** **Section D - Reports and Reconciliations** – continued

Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

- (2) **In 2013 and thereafter** - The Company shall file with the Commission on or before March 20 of each year, an information sheet that specifies the annual adjustments to be effective under this rider. The Company shall file any corrections from a timely filed information sheet on or before March 31. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)]. The Company shall include with its filing a report which shows a determination of the RA to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

* and ** **Section E - Terms and Conditions**

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider.

* and ** **Section F – Audit**

The Company shall annually conduct an internal audit of the distribution revenue requirements recovered or refunded pursuant to this rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any approved Rate Case Revenue (RCR) collected through base rate distribution charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA adjustments are being properly billed to customers; and 4) Rider VBA revenues are recorded in the appropriate accounts. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the Commission's Manager of the Accounting Department, no later than August 1 of each year. Such report shall be verified by an officer of the Company.

* **Section G – Compliance Filing**

The Company shall submit as a public document, in any rate case compliance filing, the Rider VBA Rate Case Revenue (RCR) for each applicable Service Classification [and separately for S.C. No. 1 Heating and Non-Heating customers as applicable](#), and Percentage of Fixed Costs (PFC) arising from the approved revenue requirement in the rate case.

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