

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

| | | |
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| North Shore Gas Company |) | |
| |) | ICC Docket No. 12-0511 |
| Proposed General Increase in Natural Gas Rates. |) | |
| |) | consolidated with |
| The Peoples Gas Light and Coke Company |) | |
| |) | ICC Docket No. 12-0512 |
| Proposed General Increase in Natural Gas Rates. |) | |

**REBUTTAL TESTIMONY OF
VINCENT A. PARISI**

General Counsel, Interstate Gas Supply of Illinois, Inc.

On behalf of Interstate Gas Supply of Illinois, Inc.

IGS ENERGY

January 16, 2012

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REBUTTAL TESTIMONY OF VINCENT A. PARISI

1

I.

2

INTRODUCTION AND OVERVIEW

3

Q. Please state your name and title.

4

A. I am Vincent A. Parisi, General Counsel and Regulatory Affairs Officer for Interstate Gas Supply of Illinois, Inc. ("IGS Energy").

6

7

Q. Are you the same person who provided Direct Testimony in this proceeding on behalf of IGS Energy?

9

A. Yes.

10

11

Q. What was the purpose of your Direct Testimony?

12

A. My Direct Testimony addressed several fundamental flaws in the current design of the Choices for You program of North Shore Gas Company and Peoples Gas Light and Coke Company (collectively, the "Companies"). Those flaws have hindered the development of customer choice in the Companies' service territories. At a time when choice programs on the electric side are flourishing in

16

17 Illinois, the Companies' Choices For You program has very low customer
18 participation rates that have been stagnant for years. My Direct Testimony
19 explained why the flaws in the Companies' Choices For You need to be corrected
20 and provided straightforward recommendations to make those corrections.
21 Specifically, I explained why the Commission should:

- 22 1. Direct the Companies to implement a residential and small commercial
23 customer Purchase of Receivables ("POR") program;
- 24 2. Prohibit the Companies from charging Choices For You customers for
25 costs that those customers do not cause, and should charge all eligible
26 customers for the administrative costs of the Companies' Choices For
27 You program; and
- 28 3. Investigate whether it is necessary or appropriate for Illinois public
29 utilities to continue to act as the providers of last resort.

30

31 **Q. Did the Companies respond to IGS Energy's three proposals?**

32 A. Barely. Although the Companies have submitted thousands of pages of material
33 in this proceeding, they responded to the POR recommendation in less than a
34 page, the administrative charges proposal in two pages, and the provider of last
35 resort issue with a single question and answer.

36

37

38 **Q. What do the Companies state in response to IGS Energy's three proposals?**

39 A. The Companies' Rebuttal Testimony is more telling in what it does not say than
40 what it says. The Companies do not take issue with my explanation that a POR
41 program would benefit consumers by:

- 42 • Leveling the competitive playing field;
- 43 • Reducing customer confusion regarding collections;
- 44 • Reducing overall costs through leveraging existing collections
45 systems;
- 46 • Lending itself to greater continuity of message and consistency in
47 treatment of receivables;
- 48 • Resulting in expanded access to the competitive market for
49 customers with poor credit histories;
- 50 • Promoting the efficient and consistent utilization of receivables
51 collection tools that have been paid for by all customers; and
- 52 • Greatly diminishing counterparty risk.

53 Further, the Companies do not substantively respond to my statements that the
54 way in which the Choices For You administrative charge is implemented is
55 harmful to consumers because it:

- 56 • Results in the Companies recovering costs from Choices For You
57 customers that those customers do not cause;
- 58 • Allows the Companies to recover costs related to uncollectible
59 expenses when Choices For You customers cause virtually no
60 uncollectible expenses of any kind; and

- 61 • Enables the Companies to recover twice for certain support
- 62 function costs; and
- 63 • Amounts to no more than a switching fee.

64 The Companies have suggested that they abide by cost causation principles.
65 However, that position rings hollow because the Companies plainly have not
66 actually analyzed and accurately allocated all base rate costs. Cost causation
67 analysis requires a full analysis of *all* base rate costs and a fair allocation of *all* of
68 those costs. That is not the same thing as identifying a limited set of costs and
69 allocating those costs to a single customer group.

70 Finally, the Companies failed to engage in any discussion of how alternatives to
71 regulated default service benefit consumers, failing to even acknowledge the Ohio
72 and Georgia supply models presented.

73 Despite the fact that the key points of my Direct Testimony have now gone
74 completely un rebutted, the Companies continue to assert that the Commission
75 should not require the Companies to implement a POR program; should not
76 require the Companies to examine the way in which they allocate administrative
77 costs; and should allow the Companies to operate as the provider of last resort.

78

79 **Q. What should the Commission infer from the Companies' unwillingness to**
80 **engage?**

81 A. The Companies' non-responsive positions suggest that the Companies are not
82 looking out for the best interests of their customers. The cavalier attitude
83 reflected in the Companies' rebuttal testimony likewise is revealed in the

84 Companies responses to data requests, which confirm that even though customer
85 participation in the Choices For You program has been stagnant, the Companies
86 have not even considered making changes to the program. (*See* the Companies
87 Responses to IGS Energy Data Requests 2.04 and 2.08, attached hereto as IGS
88 Exhibit 2.1.)

89 The Companies have gone so far as to indicate that they are not interested in even
90 examining options that would improve the supply options for Illinois customers --
91 regardless of the fact that the improvements would cost the Companies nothing to
92 implement. (*See, e.g.,* the Companies Response to IGS Energy Data Requests
93 2.01, attached hereto as IGS Exhibit 2.2.) This is a remarkable approach,
94 particularly at a time when choice programs in Illinois on the electric side are
95 flourishing, and customers are switching in substantial numbers to take advantage
96 of the value provided by the competitive market. (*See* ICC Plug in Illinois web
97 site at www.pluginillinois.org.) If the Companies are not going to take the steps
98 necessary to advance their customers' interests, then it is up to the Commission to
99 champion significant revisions to the way in which the Companies do business.

100

101 **Q. What is the purpose of your Rebuttal Testimony?**

102 A. The purpose of my rebuttal testimony is to:

- 103 1. Reiterate the benefits of a residential POR program;
- 104 2. Further explain why the Companies' administrative charges need to be
105 revised, so that Choices For You customers do not get charged for costs

106 they do not cause and so that all eligible customers pay for the option to
107 take service under the Companies' Choices For You program; and
108 3. Demonstrate the need for the Commission to investigate whether it is
109 necessary or appropriate for the Utilities to continue to act as the provider
110 of last resort.

111

112 **Q. What are your general conclusions?**

113 A. My general conclusions are as follows:

114 **1. IGS Energy withdraws its POR recommendation** because the
115 Companies obviously oppose POR, despite the fact that a POR program
116 would undoubtedly bring benefits to customers who do not currently have
117 access to the competitive market. My Direct Testimony described the
118 benefits of a POR program for customers and the utilities, as well as how a
119 POR program advances Commission policies favoring competition.
120 Despite those positive attributes, the Companies' opposition to the
121 program is indisputable (though not substantively explained). As IGS
122 Energy previously has explained, POR programs are best created through
123 a collaborative process. The Companies' total unwillingness to engage on
124 this issue demonstrates that POR will not be implemented here in the best
125 manner possible. Accordingly, IGS Energy is withdrawing its
126 recommendation regarding POR so that the Commission can focus on IGS
127 Energy's second issue raised below -- the appropriate allocation and
128 recovery of administrative costs.

129 **2. The Companies must appropriately allocate administrative costs.**
130 First, Choices For You customers should not be charged for costs they
131 neither cause nor from which they benefit. A prime example is costs
132 associated with the Companies' hedging program -- the Companies'
133 hedging program costs provide absolutely no benefit to ARGs customers
134 since those customers obtain their natural gas supply from ARGs rather
135 than the Companies. Similarly, ARGs customers should not be billed for
136 administrative costs that they do not cause related to bad debt, collection
137 costs, and other services provided to other customers because they do not
138 cause the Companies to incur these costs. Because the Companies
139 repeatedly have claimed that their cost allocation decisions are based on
140 cost causation principles, the Companies should have no objection to this.
141 The point is that cost causation principles should apply to *all* costs (not
142 just those that the Companies attribute to the Choices For You program),
143 which means that there is a need for a full analysis of all base rate costs.

144 The Companies have not performed that comprehensive analysis, and so
145 cannot credibly claim to be following cost causation principles.

146 Second, Choices For You administrative charges should be recovered
147 from all customers who have the option to participate in the Choices For
148 You program because all customers benefit from having access to a
149 competitive natural gas supply market even if some chose not to take
150 advantage of that option. The Companies recover similar charges
151 supporting other programs that benefit all customers even where not all
152 customers chose to take advantage of such programs. Choices For You is
153 no different, so the costs should be treated and recovered similarly.

154 The principle of cost causation is only equitable if and when all costs are
155 appropriately allocated to those who cause such costs; not when only
156 certain costs are allocated and others are spread among all customers
157 irrespective of causation. What the Utilities have done is pulled out the
158 one set of administrative costs associated with Choices For You and
159 recovered those costs solely from Choices For You customers while
160 continuing to charge the Choices For You customers for administrative
161 costs incurred to provide service to the Utilities' sales customers. This is
162 inappropriate, and should be remedied immediately.

163 **3. The Commission should investigate whether the utilities should**
164 **remain the provider of last resort.** Given the long history of the Illinois
165 competitive natural gas market, the Commission should investigate
166 whether it is necessary or appropriate for the utilities to continue to act as
167 the provider of last resort. At this stage of market development, requiring
168 customers to pay the utilities to perform that function is unnecessary and
169 contrary to the pro-competitive principles that the Commission repeatedly
170 has embraced. Other states utility commissions have examined this
171 question, and the Commission should do the same.
172

173

II.

174 **GIVEN THE COMPANIES' OBVIOUS ANTAGONISM TOWARD POR,**
175 **IGS ENERGY WITHDRAWS ITS RECOMMENDATION IN THIS DOCKET**
176

177 **Q. Did you address Purchase of Receivables (“POR”) in your Direct Testimony?**

178 A. Yes. My Direct Testimony, at Pages 7 through 30, detailed the customer benefits
179 of POR, including expanded access to the competitive market for high credit risk
180 customers, reduced overall costs, reduced customer confusion, and consistency in

181 the treatment of receivables. Implementation of a POR program would eliminate
182 a major anti-competitive advantage currently held by utilities, and would result in
183 more efficient and effective natural gas markets. (*See* the Commission's Office of
184 Retail Market Development's 2012 Annual Report (June 2012) at 33, stating that
185 POR furthers the statutory goal of an "effectively competitive retail electricity
186 market that operates efficiently and benefits *all* Illinois consumers.") (available at
187 <http://www.icc.illinois.gov/ORMD/>) (emphasis in original). POR also would
188 mitigate the need to further examine the base rate charges for items like labor
189 associated with managing and collecting accounts receivable that without POR
190 creates an inequity in the market. (*See* IGS Energy Ex. 1.0 at 11:244-267). That
191 is, since all collections activity would be performed by the Utilities, there would
192 be no need to allocate collections costs between the Utilities' sales customers and
193 Choices For You customers. (*See id.*) Additionally, POR is consistent with, and
194 complementary to, the Peoples/North Shore's existing sales customer
195 uncollectible expense adjustment rider ("Rider UEA-GC"). (*See id.* at 24:573-
196 25:609, explaining that, even with POR, utilities will still be able to recover 100%
197 of their costs related to uncollectible accounts through Rider UEA-GC).

198

199 **Q. Did the Companies respond to your POR proposal?**

200 A. The Rebuttal Testimony of Companies' witness Egelhoff, at Page 3, states:

201 Q. IGS Energy witness Mr. Parisi recommends that the Commission
202 direct the Utilities to implement a residential POR program for
203 their small volume transportation program. Do the Utilities agree
204 to implement such a program as part of this proceeding?

205 A. No.

206

207 Q. Why not?
208 A. First, the Utilities have not proposed any changes to the
209 transportation programs in this proceeding. Second,
210 implementation of a POR program could be complex and would
211 require in depth analysis and consideration on [sic] the impacts to
212 the Utilities' costs, processes and operations, existing
213 transportation and uncollectible expense riders, accounting
214 practices, and ultimately, consumers. The Utilities have not
215 undertaken any such examination.

216 (NS-PGL Ex. 36.0 at 3:50-61). The Companies provide no further response or
217 rebuttal on POR.

218

219 **Q. Did the Companies present any further testimony taking issue with your**
220 **explanation of the consumer benefits associated with POR?**

221 A. No.

222

223 **Q. Do you agree that a POR program could be complex and would require**
224 **analysis?**

225 A. There is nothing prohibitively complex about POR. POR programs exist
226 throughout the country for both the natural gas utilities and electric utilities.
227 States with POR programs include Michigan, Ohio, Kentucky, Indiana,
228 Pennsylvania, New York, Maryland, and Virginia. Of course, POR programs
229 exist in Illinois for electric utilities, and a POR program has been proposed by
230 Nicor Gas and is currently under consideration by the Commission in ICC Docket
231 No. 12-0569.

232 POR is a well recognized component of successful competitive choice programs
233 and has been for years. The Companies hold themselves out to be sophisticated
234 public utilities serving customers in and around the third largest metropolitan area

235 in the United States. The suggestion that the Companies are not implementing
236 POR because the Companies are somehow not equipped to deal with some level
237 of complexity attendant to implementing a POR program is insulting to the
238 Companies' customers and to the Commission. Indeed, if the Companies truly
239 believe that a POR program is prohibitively complex, it raises fundamental
240 questions about the Companies' ability to serve the best interests of their
241 customers.

242

243 **Q. Have the Companies undertaken any type of analysis of POR?**

244 A. No. Companies' witness Egelhoff specifically states that the Companies have not
245 undertaken any analysis or examination of POR. (NS-PGL Ex. 36.0 at 3:55-61.)
246 The Companies' statements and action demonstrate without question that they are
247 totally unwilling to engage on this issue.

248

249 **Q. Why are the Companies unwilling to engage on this issue?**

250 A. It is difficult to say. However, the Commission should take note of several facts.
251 **First**, the Companies have made no attempt to rebut the key point of my Direct
252 Testimony on POR -- that it will have direct and tangible benefits to customers.
253 **Second**, the Companies have been aware for more than five (5) years that retail
254 gas suppliers need the Companies' cooperation to properly implement POR, but
255 the Companies have not even started to analyze the potential structure, costs, and
256 benefits of such a program. **Third**, the Companies assert that they would not
257 support POR *even with* certainty of full cost recovery. (See the Companies'

258 Responses to IGS Energy 2.01, attached hereto as IGS Exhibit 2.2.) This is a
259 stunning position: the Companies do not question that POR benefits customers
260 and fosters an effective competitive market; yet, the Companies have not even
261 considered how to implement POR, and now have confirmed that they would not
262 voluntarily implement this customer-friendly program, even if the Companies had
263 certainty of full cost recovery. Apparently, the Companies do not want to change
264 their way of doing business -- period -- and resent anyone suggesting otherwise.

265

266 **Q. If the Companies have not performed any type of analysis or study of POR,**
267 **how could it be properly implemented?**

268 A. If the Companies had any desire to undertake a review of this customer-friendly
269 program, they could utilize materials from a variety of sources to establish the
270 framework for their own POR program. POR has been "front and center" in
271 Commission rate cases and related proceedings and in legislative debates before
272 the Illinois General Assembly for years, and the Companies admit that they have
273 been aware of ARG'S interest in implementation of a POR program since their
274 2007 rate cases. (*See id.*) The electric utility that serves the Companies'
275 customers has a POR program that has facilitated substantial growth in customer
276 choice.

277 Moreover, Northern Illinois Gas Company (d/b/a Nicor Gas Company) is poised
278 to adopt a POR program upon the conclusion of ICC Docket No. 12-0569; the
279 Companies could -- and should -- look to the materials submitted in that docket.
280 Finally, IGS Energy has submitted materials in this rate case, previous rate cases,

281 and workshops involving POR that would be instructive in the development of the
282 Companies' program.

283

284 **Q. Is IGS Energy willing to be of assistance to the Companies in their**
285 **development and implementation of POR?**

286 A. Yes. IGS Energy repeatedly has offered to sit down with the Companies'
287 representatives to discuss POR and to work through any issues related to its
288 development and implementation.

289

290 **Q. Did anything in Ms. Egelhoff's Rebuttal Testimony change your opinion**
291 **about POR?**

292 A. No. My Direct Testimony explains why POR is a pro-consumer, pro-competitive,
293 well-recognized program that benefits all market participants and provides market
294 access to customers that would often not have access without POR. Because the
295 Companies do not engage on the POR issue whatsoever and do not rebut any of
296 my Direct Testimony, there is no additional material, evidence, information, or
297 perspective that would suggest any contrary view regarding the value of a POR
298 program to customers, the utility, and the competitive market. Nevertheless, for
299 whatever reason, the Companies vigorously resist attempts by gas suppliers to
300 work collaboratively on the creation and implementation of POR.

301

302

303 **Q. Has IGS Energy changed its recommendation regarding POR?**

304 A. While IGS Energy has not changed its *opinion* on POR, it has changed its
305 *recommendation* on POR in this proceeding. Although POR is a critical tool for
306 encouraging a competitive market for residential customers, IGS Energy is
307 withdrawing its recommendation that the Commission direct the Companies to
308 institute a POR program now. As IGS Energy has stated in the past, POR
309 programs are best created through a collaboration in which the utility supports
310 POR. (*See* ICC Docket No. 11-0280/-0281, Rebuttal Testimony of Vincent A.
311 Parisi on behalf of IGS Energy at 5:115-127.) The Companies' obvious, yet
312 unexplained, hostility to POR means that even if the Commission were to
313 mandate such a result, the program would likely not be implemented in a
314 productive manner.

315

316 **Q. What is the impact of IGS Energy withdrawing its recommendation that the**
317 **Commission implement POR in this proceeding?**

318 A. POR is a critical tool to creating a level playing field between the utilities and
319 ARGSS. POR resolves many of the inequities that block market entry by ARGSS
320 and effectively block market access for residential customers. Hopefully, once
321 the Nicor POR tariff is approved, the Companies will look to implement a similar
322 program and seek approval of a POR tariff of their own. But since it now is clear
323 that a POR program will not be developed in this proceeding, it is even more
324 vitally important that the Commission require accurate allocation of costs in a
325 manner that levels the competitive playing field to the maximum extent possible.

326 There is a real urgency for the Commission to take a hard look at the Companies'
327 cost allocation methodology to ensure that costs are charged in a manner that
328 accurately reflects cost causation principles. That item is discussed in the next
329 section of my testimony.

330

331

III.

332

333

THE COMPANIES' ASSIGNMENT OF ADMINISTRATIVE CHARGES SHOULD REFLECT COST CAUSATION AND THE FLOW OF BENEFITS

334 **Q. Did you address administrative fees in your Direct Testimony?**

335 A. Yes. My Direct Testimony addresses two issues related to the Companies'
336 administrative charges. **First**, Choices For You customers should not be billed
337 for administrative costs they do not cause and from which they receive no benefit.
338 **Second**, Choices For You customer charges should be recovered from all
339 customers who have the opportunity to participate in the Choices For You
340 program. Because IGS Energy is no longer recommending a POR program (and
341 the Companies do not appear interested in instituting one on their own), it is
342 critically important to adjust Choices For You charges that are based on
343 inaccurate cost allocation.

344

345 **Q. How are Choices For You customers billed for administrative costs they do
346 not cause?**

347 A. The Companies do not accurately track clear categories of costs that are caused by
348 their sales customers. As a result, those costs are collected from all customers,
349 including Choices For You customers who do not cause those costs.

350

351 **Q. What categories of costs should the Companies be tracking?**

352 A. The Companies should be comprehensively tracking all costs associated with
353 providing supply-related services to the Companies' sales customers and recovery
354 those costs solely from those sales customers, and not from Choices For You
355 customers. Implementation of cost causation principles only makes sense if it is
356 applied to *all* costs rather than only a subset of costs.

357

358 **Q. Have you identified categories of costs that are being improperly collected
359 through charges to Choices For You customers?**

360 A. Yes. There are at least two clear categories of costs that are being collected
361 improperly through charges to Choices For You customers: (1) costs associated
362 with bad debt collection; and (2) costs associated with gas hedging activities.
363 There likely are additional categories that would be identified if the Companies
364 were to undertake a comprehensive review of their administrative costs.

365

366 **Q. What evidence is there that the Companies improperly collect bad debt costs
367 through charges to Choices For You customers?**

368 A. Currently, the Companies charge Choices For You customers for administrative
369 costs related to recovery of bad debt. However, ARGs customers tend to have an
370 extremely low bad debt rate -- this is a result of the Companies not having a POR
371 program and instead having an allocation of payment methodology that favors

372 utility charges over supplier charges. In short, ARGS and Choices For You
373 customers should not be penalized for non-ARGS customers' failure to pay.

374

375 **Q. What evidence is there that the Companies improperly collect supply-related**
376 **hedging costs through charges to Choices For You customers?**

377 A. Charging Choices For You customers for the Companies' supply-related charges
378 is completely inappropriate, because those Choices For You customers do not
379 obtain supply of natural gas from the Companies and do not cause any of the costs
380 incurred by the Companies in connection with utility-procured supply. It appears
381 that the Companies simply lump all supply-related administrative costs into one
382 bucket and then charge both sales customers and Choices For You customers for
383 those costs. There is no effort to assign those costs to cost causers.

384

385 **Q. Did the Companies acknowledge that they have failed to accurately track**
386 **and allocate the supply-related hedging costs?**

387 A. Yes. In an effort to focus on this issue in a straightforward way, IGS Energy
388 issued a data request to the Companies asking: "Please identify with specificity
389 any and all costs incurred by the Companies in developing and implementing
390 hedging strategies." The point of this question was to try to understand what costs
391 the Companies incur in connection with the hedging function within its supply
392 procurement operation (a service that is not provided to or for Choices For You
393 customers) to see if those costs are allocated accurately. The Companies
394 responses confirm that they are not. Both North Shore and Peoples responded

395 that they each "incur[] internal and external costs in developing and implementing
396 hedging strategies. For calendar 2012 the internal costs are for labor associated
397 with the development, approval and implementation of the strategies. **These**
398 **costs are not separately tracked.**" (The Companies Responses to IGS 3.03,
399 attached hereto as IGS Exhibit 2.3) (emphasis added). Thus, the Companies
400 admit that they make no attempt to segregate costs that sales customers cause --
401 such as supply hedging -- and instead simply recover those costs from all
402 customers. This admission is ironic and particularly striking because the
403 Companies purport to be strict adherents to cost causation principles, repeatedly
404 invoking the mantra that their cost allocation decisions "are based upon cost
405 causation principles and do not speculate on customer benefits." (*See, e.g.*, the
406 Companies Responses to IGS 2.09.)

407

408 **Q. Why should Choices For You administrative costs be recovered through**
409 **charges to all eligible customers?**

410 A. Because all customers have the opportunity to access the Choices For You
411 program, and because all customers benefit from it, regardless of whether they
412 choose to participate in the competitive market, Choices For You program costs
413 should be spread across all customers who have the option to switch suppliers
414 through the Choices For You program. Currently, the Companies charge
415 administrative costs related to the Choices For You program to only Choices For
416 You customers (through charges directed to the customers' ARGs), despite the
417 fact that all ratepayers benefit from choice and competition.

418 **Q. Did the Companies respond to your testimony regarding administrative fees?**

419 A. The Companies do not directly respond to the two key points of my Direct
420 Testimony:

421 1. Choices For You customers should not be billed for administrative
422 costs they do not cause and from which they receive no benefit; and

423 2. Choices For You administrative fees should be charged to all
424 customers who have the opportunity to participate in the Choices For
425 You program.

426 Instead, the Rebuttal Testimony of Companies' witness Grace, at Pages 42
427 through 44, asserts that the administrative charges issue raised by IGS Energy has
428 been previously decided by the Commission and that IGS Energy
429 mischaracterizes the Choices For You administrative charges.

430

431 **Q. What do the Companies state about previous Commission decisions?**

432 A. The Companies' Rebuttal Testimony states:

433 Q. Has the Commission addressed this matter before?

434 A. Yes. The Commission addressed this matter in the 2011 Rate
435 Case, with the Commission agreeing with the Utilities and Staff
436 that the costs are appropriately assessed to suppliers. In the 2011
437 Rate Case, the Commission stated:

438

439 The Commission agrees with Staff and the Utilities and
440 finds that IGS' recommendation will not be adopted
441 inasmuch as sales customers do not cause the costs that are
442 incurred by the GTS department and related IT costs and
443 therefore they should not be assessed any of the costs.
444 There is no reason for sales customers to bear any portion
445 of this cost. The Commission further finds no need to
446 mandate the Utilities to undertake a detailed cost-causation
447 analysis.
448

449 (NS-PGL Ex. 32.0 at 43:991-1002).

450

451 **Q. What is your response to the Companies' statement about the Commission's**
452 **prior decision?**

453 A. The Companies fail to acknowledge the full story -- the Commission's history of
454 decisions on this issue is not as one-sided as they suggest. In fact, the
455 Commission previously found in favor of exactly the cost allocation approach that
456 IGS Energy advocates here. In the Nicor Gas 2008 Rate Case, for example, the
457 Commission approved recovery of administrative charges associated with Nicor
458 Gas's choice program from *all* customers. (See ICC Docket No. 08-0363, Final
459 Order dated march 25, 2009 at 128.) In that case, in recognition of the
460 opportunity presented to improve its choice program, Nicor engaged IGS Energy
461 and other parties in a productive discussion to formulate fair and equitable, pro-
462 competitive program modifications. Those discussions resulted in a
463 Memorandum of Understanding that included an allocation methodology for
464 recovering administrative charges for the choice program from all customers. The
465 Commission fully endorsed that outcome.

466 Then, in the Companies' 2009 Rate Case, the Commission issued a strong
467 statement endorsing the Nicor Gas choice program as the appropriate model for
468 modifications that were necessary to the Companies Choices For You program.
469 (See ICC Docket No. 09-0166/-0167 (cons.) Final Order dated Jan. 21, 2010 at
470 253.) The Commission specifically recognized the "compelling evidence" that
471 was provided by the Retail Gas Suppliers (which included IGS Energy) that

472 showed that the Companies' Choices For You Program was not functioning well
473 and criticized the Companies for their failure "to seriously respond" to the
474 proposal that the Retail Gas Suppliers advocated. (*Id.*) The omission of that
475 history from the Companies' testimony is telling.

476 Of course, the Companies regularly ask the Commission to revisit issues that are
477 important to them, and it is a basic rule of Commission procedure that similar
478 issues may be raised in succeeding proceedings. This approach makes sense, for
479 the simple reason that time and experience sometimes show that a decision made
480 at one moment may not apply to facts as they exist at a later moment. That is the
481 case here: the continued lack of robust competitive activity in the Companies'
482 service territories shows that the Choices For You program is not working as
483 effectively as it should. Indeed, the percentage of customers in the Choices For
484 You program today is even longer than it was when the Commission issued its
485 Order in the Companies' 2009 Rate Case. Notwithstanding the Commission's
486 view in the 2011 Peoples/North Shore Rate Case, the current facts, combined with
487 a history of problems with the Companies' Choices For You program, show that
488 the time is ripe to implement the pro-competitive approach to cost allocation that
489 the Commission endorsed for Nicor.

490

491 **Q. Why should the Commission revisit the administrative charges issue for the**
492 **Companies?**

493 A. As IGS Energy emphasized in its Direct Testimony, it is incumbent upon the
494 Commission to re-examine the administrative charges issue given the continued

495 failure of the competitive market to flourish in the Companies' territories. The
496 Companies have presented no evidence to suggest that their Choices For You
497 program is operating effectively and have expressed no opinion regarding
498 competitive markets to the contrary, and has not made even a perfunctory attempt
499 to rebut IGS Energy's position.

500 The Commission has supported and promoted fair and effective competition in
501 the Illinois gas market. IGS Energy's recommendation is completely consistent
502 with this well-known Commission policy, and encourages the Commission to
503 promote changes to current utility anti-competitive business practices.

504

505 **Q. What do the Companies state about IGS Energy's characterization of**
506 **Choices For You administrative charges?**

507 A. The Companies' Rebuttal Testimony states:

508 Q. Do you agree with IGS Energy witness Mr. Parisi's
509 characterizations of administrative charges and monthly customer
510 charges?

511 A. No. Mr. Parisi states, on page 30 of his direct testimony, that
512 "Administrative charges are fixed charges that are charged to an
513 entire class, and are referred to by Peoples and North Shore as
514 'monthly customer charges' for Choices For You eligible customer
515 classes, Rate 1 and 2." Administrative charges and customer
516 charges are different charges recovering different costs. The
517 administrative charges that are the subject of Mr. Parisi's
518 testimony are assessed to *suppliers* taking service under the
519 Utilities' Choices For You ("CFY") transportation programs and
520 are not assessed to customers taking utility delivery service under
521 S.C. Nos. 1 and 2. On the other hand, customer charges are
522 assessed to *customers* taking utility delivery service under their
523 respective rate classes, including S.C. Nos. 1 and 2. In addition,
524 transportation administrative charges recover from suppliers the
525 costs associated with administering the CFY program, while
526 customer charges recover from customers, the costs associated
527 with providing utility delivery service. Mr. Parisi's attempts to

528 conflate transportation administrative charges and customer
529 charges are misleading and should be rejected by the Commission.

530

531 (NS-PGL Ex. 32.0 at 43:977-990) (emphasis in original).

532

533 **Q. How do you respond to the Companies' assertion that IGS Energy has**
534 **mischaracterized the Choices For You administrative charges?**

535 A. The Companies' testimony attempts simply to wave away the misallocation of
536 costs by suggesting that the costs are not being misallocated among *customers*
537 because some of them are charged to ARGS in the first instance, rather than being
538 charged to customers directly. This argument completely ignores basic principles
539 of doing business and fails to come to grips with the misallocations that have been
540 identified.

541 In all industries, charges, taxes, fees, and costs incurred by the supplier of a
542 product or service are passed on to the consumers of that product or service. The
543 customer charge and the supplier charge described by the Companies both
544 ultimately are paid by the *customer* -- there is no other mystical source of funds
545 that ARGS can tap into to pay these charges. For the Companies to suggest
546 otherwise is at best an attempt to divert attention from the misallocation of costs
547 detailed in my Direct Testimony.

548

549 **Q. Did the Companies respond to your recommendation that administrative**
550 **charges should be spread among all customers?**

551 A. No. The Companies ignore that key point of my Direct Testimony. My Direct
552 Testimony emphasizes that competition benefits *all* ratepayers, regardless of

553 whether a customer remains with the utility or switches to a competitive supplier.
 554 Accordingly, the administrative charge should be spread amongst all eligible
 555 customers, resulting in a level playing field for suppliers who can then inform
 556 customers about choice. The Companies have made this exact same "collective
 557 benefits" argument in the past, and persuaded the Commission to spread costs of
 558 energy efficiency over all customers:

559 Staff considers the [Energy Efficiency Program] unfair, the
 560 Utilities note, because not everyone will necessarily participate.
 561 [citation omitted]. In the Utilities view, however, this is a rather
 562 small argument. Many things work this way, including almost
 563 everything paid for by taxes. Taxes pay for roads that many
 564 citizens will never drive on, and fire fighters that most people,
 565 thankfully, may never call. Does this make taxes —unfair? Surely
 566 Staff would not take the argument quite that far. Given all the
 567 positive effects of a well-designed energy efficiency program, the
 568 Utilities argue, it should not be considered so unfair as to be not
 569 worth undertaking as long as the benefits are equally available to
 570 all customers.

571 (ICC Dockets 07-0241/-0242 (cons.), Final Order dated February 5, 2008 Order at
 572 163-4.) The Commission agreed with the Companies' position. (*Id.* At 182.)

573 In addition, Companies' witness Ms. Grace discussed application of the same
 574 principle in Peoples and North Shore's 2009 Rate Case:

575 Q. But it's appropriate for the Choices For You customers and
 576 the sales customers to pay the same charge for the
 577 Company offering its Call Center?

578 A. And they do.

579

580 Q. I'm sorry, so that's a yes?

581 A. Yes, they do.

582

583 Q. And that's appropriate?

584 A. Yes.

585

586 Q. And why is it appropriate for that cost to be spread out over
 587 all customers?

588 A. Because the Call [C]enter services all customers.

589

590

Q. All customers are eligible to call the Call Center?

591

A. And all suppliers are eligible to call Gas Transportation services and the costs are allocated among suppliers.

592

593

594

Q. And because all customers are eligible to call the Call Center, it's consistent with the cost causation principles that all customers be charged for the Call Center, right?

595

596

597

A. Yes.

598

(ICC Docket No. 09-0166/-0167 (cons.), Tr. At 246:4-247:4.) Clearly, Peoples

599

and North Shore agree with the concept that when a service benefits all customers

600

-- even if all customers do not take advantage of the service -- that the costs

601

should be socialized over all customers that could use the service. That principle

602

applies precisely to customer choice administrative fees.

603

604 **Q.**

Are there any pending matters before the Commission in which the allocation of administrative costs amongst all customers is an issue?

605

606 **A.**

Yes. Commonwealth Edison Company ("ComEd") is currently seeking approval

607

of its Peak Time Rebate ("PTR") program and proposes to recover the

608

implementation costs of PTR, i.e. start-up costs, administrative costs, and

609

evaluation costs, from *all* eligible customers. (*See* ICC Docket No. 12-0484,

610

ComEd Petition at 4, stating that ComEd will recover the costs of the startup and

611

administration of the PTR program from all residential customers through rates

612

for delivery service). Commission Staff is fully supportive of this approach. (*See*

613

id., Direct Testimony of Alicia Allen on behalf of the Staff of the Commission at

614

4-5). Clearly, Commission Staff and utilities other than the Companies

615

understand that allocating the administrative costs of new customer-friendly

616

programs amongst all eligible customers is vital to their development.

617

618 **Q. What is your recommendation for the Commission with regards to the way**
619 **in which the Companies recover their administrative costs?**

620 A. The Commission should direct the Companies to better revise their administrative
621 charges so that they better reflect cost causation principles. Since the Utilities
622 have not presented that evidence in this proceedings, the Commission should
623 direct the Utilities to simply spread all the administrative costs among all
624 customers who have the option to participate in the Choices For You program,
625 mitigating the need to further examine such base rate costs.

626

627

IV.

628

629

630

THE COMMISSION SHOULD INVESTIGATE WHETHER THE UTILITIES SHOULD EXIT THE MERCHANT FUNCTION

631 **Q. Did you address whether the Commission should continue to allow utilities to**
632 **serve as the provider of last resort in your Direct Testimony?**

633 A. Yes. My Direct Testimony requests that the Commission investigate whether it is
634 necessary or appropriate for the utilities to continue act as the provider of last
635 resort. At this stage of market development, requiring customers to pay the
636 utilities to perform this default function is unnecessary and contrary to the pro-
637 competitive principles that the Commission repeatedly has embraced. Other state
638 paradigms demonstrate that there are effective alternatives to regulated default
639 service. Two of those alternative paradigms -- in Georgia and Ohio -- are
640 discussed in my Direct Testimony at pages 40-44.

641

642 **Q. Did the Companies respond to your recommendation?**

643 A. The Rebuttal Testimony of Companies' witness Egelhoff, at Pages 3 through 4,
644 states:

645 Q. Mr. Parisi recommends that the Commission investigate whether it
646 is necessary or appropriate for the utilities to continue to act as the
647 provider of last resort. Please comment.

648 A. This rate case proceeding is not the proper case to "investigate" a
649 broad policy question that applies generally to the gas market. Mr.
650 Parisi's recommendation applies only to North Shore and Peoples
651 Gas, as clarified in IGS Energy's response to NS-PGL data request
652 2.15. If the Commission elected to open a proceeding applicable
653 to all Illinois gas utilities, North Shore and Peoples Gas would
654 participate.

655
656 (NS-PGL Ex. 36.0 at 3:62-4:70). That is the full extent of the Utilities' response.

657

658 **Q. Did anything in Ms. Egelhoff's Rebuttal Testimony change your opinion on**
659 **this issue?**

660 A. No. Given the fact that the Companies have taken no steps to advance pro-
661 consumer, pro-competitive programs or accurate cost allocation policies, IGS
662 Energy still believes that the Commission should open a docket to advance the
663 discussion on the Companies' exiting the role of provider of last resort. Certainly,
664 the Companies prior issues both with affiliate dealings and with supply
665 procurement would counsel in favor of having the Companies focus solely upon
666 delivery the natural gas. (*See* Jan. 10, 2012 Final Order, ICC Docket No. 11-
667 0280/0281 (cons.) at 88-98; *see also generally* ICC Docket No. 12-0273.) Now
668 that the Companies have openly committed themselves to participate in a case that
669 would examine having them exit the merchant function, the proceeding should be
670 all the more productive.

671

672 **Q. Would opening such an investigation with a Commission docket be**
673 **unprecedented?**

674 A. No. The Commission possesses broad investigatory authority under the Public
675 Utilities Act and regularly conducts investigative proceedings on a wide variety of
676 topics ranging from utility rate design to energy efficiency goals to disclosure of
677 customer information to remedies and sanctions in connection with the
678 unauthorized sales of gas. (*See, e.g.*, ICC Docket Nos. 08-0532; 11-0592; 11-
679 0593; 10-0519; 10-0520; 11-0434; 04-0392.) Also, it is notable that public
680 service commissions in other states, including Ohio and Pennsylvania have
681 initiated similar proceedings to investigate this question. (*See, e.g.*, Dec. 12, 2013
682 Initiating Entry, and Nov. 8, 2012 Tentative Order, *In the Matter of the*
683 *Commission's Investigation of Ohio's Retail Electric Service Market*, Case No.
684 12-3151-EL-COI before The Public Utilities Commission of Ohio; Apr. 28, 2011
685 Initiating Order, *Investigation of Pennsylvania's Retail Electricity Market*, Case
686 No. I-2011-2237952 before the Pennsylvania Public Utility Commission.)
687 Accordingly, it would be wholly appropriate for the Commission to take this step.

688

689

V.

690

CONCLUSIONS

691 **Q. Please summarize your recommendations.**

692 A. The Commission should adopt IGS Energy's recommendations as a way to
693 advance customer choice for all customers:

694 **1. The Companies must appropriately allocate administrative charges.**
695 Because IGS Energy is no longer recommending a POR program (and the
696 Companies do not appear interested in instituting one on their own), it is
697 critically important that the Commission direct the Companies to take two
698 steps to eliminate charges that are based on inaccurate cost allocation.
699 This is particularly necessary now: while customer choice is vibrant and
700 growing on the electric side in Illinois, it is stagnant and broken in the
701 Companies territories for their natural gas customers. First, Choices For
702 You customers should not be billed for administrative costs they do not
703 cause and from which they receive no benefit. Second, Choices For You
704 customer charges should be recovered from all customers who have the
705 opportunity to participate in the Choices For You program. What the
706 Utilities have done is pulled out the one set of administrative costs
707 associated with Choices For You and recovered those costs solely from
708 Choices For You customers while continuing to charge the Choices For
709 You customers for administrative costs incurred to provide service to the
710 Utilities' sales customers.

711 **2. Investigate whether the utilities should remain the provider of last**
712 **resort.** Given the long history of the Illinois competitive natural gas
713 market, the Commission should investigate whether it is necessary or
714 appropriate for the utilities to continue to act as the provider of last resort.
715 The Companies has committed itself to participate in such a proceeding,
716 and IGS Energy looks forward to a productive process.

717 **Q. Does this conclude your Rebuttal Testimony?**

718 A. Yes.