STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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

Surrebuttal Testimony of

VALERIE H. GRACE

Consultant
Stafflogix Corporation

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

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I. INTRODUCTION AND BACKGROUND

A. Identification of Witness

Q. Please state your name and business address.

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

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

A. Yes.

B. Purpose of Surrebuttal Testimony

Q. What is the purpose of your surrebuttal testimony in this proceeding?

My surrebuttal testimony and its attachments respond to the rate design and tariff issues raised in the rebuttal testimony of Illinois Commerce Commission ("Commission" or "ICC") Staff ("Staff") witness William R. Johnson; the Illinois Attorney General ("AG") witness Scott J. Rubin; and Interstate Gas Supply of Illinois, Inc. ("IGS Energy") witness Vincent A. Parisi. The Utilities' witness Debra E. Egelhoff will address other aspects of Mr. Parisi's testimony and the Utilities' witness Kevin R. Kuse will address Mr. Rubin's use of AG witness David J. Effron's proposed sales volume adjustments which underlie the proposed revenue adjustments described below. Specifically, my surrebuttal testimony addresses:

1. Messrs. Johnson's and Rubin's rate design proposals for the Utilities' Service Classification ("S.C.") No. 1 non-heating ("NH") and heating ("HTG") customers.

2. Mr. Johnson's concern about the implementation of straight fixed variable ("SFV") rates if Rider VBA, Volume Balancing Adjustment, is not in effect.

3. Mr. Johnson's proposal to set compliance rates for service classifications that have blocked distribution charges.

4. Mr. Rubin's use of Mr. Effron's proposed revenue adjustment calculations.

5. Mr. Parisi's recommendations for excluding certain costs from charges to Choices For You ("CFY") customers and recovering transportation administrative charges from all CFY eligible customers.

C. <u>Summary of Conclusions</u>

Q. Please summarize the conclusions of your surrebuttal testimony.

A. In my surrebuttal testimony, I conclude the following:

1. The Utilities' S.C. No. 1 NH and HTG rebuttal rate design proposals which respond to the rate design proposals made by Mr. Johnson and Mr. Rubin are appropriate and based on sound ratemaking principles. They also aptly consider pending court challenges as well as the Commission's recent decisions on fixed cost recovery and decoupling and should be approved.

2. Mr. Johnson's proposed rate designs for the Utilities' S.C. No. 1 HTG customers should be rejected, particularly if the Commission does not also approve the Utilities' proposal to implement SFV rates if Rider VBA is not in effect.

3. Mr. Johnson's concern about customer confusion arising from tariff language regarding implementation of SFV rates in the event Rider VBA is overturned in the courts or otherwise invalidated can be easily addressed with proper notification procedures and tariff revisions.

4. Mr. Rubin's proposed rate design for S.C. No. 1 HTG customers diminishes fixed cost recovery, is not aligned with recent Commission decisions, adversely affects average and higher usage customers, and should be rejected.

5. Mr. Rubin's proposed revenue adjustment for Peoples Gas S.C. No. 1 is inconsistent with that proposed by Mr. Effron and the Utilities, reflects incorrect sales blocking and charges and should be corrected if the underlying sales volume adjustment proposed by Mr. Effron is approved by the Commission. Mr. Rubin did not provide sales blocking for Mr. Effron's S.C. No. 2 recommendations and that creates a gap in the AG's rate design testimony.

6. Mr. Parisi's proposal for recovery of transportation administrative charges continues to be based upon distortions and should be rejected by the Commission.

D. <u>Attachments to Testimony</u>

Q. Please describe the attachments to your surrebuttal testimony.

A. My surrebuttal testimony includes the following exhibits:

• NS-PGL Exhibit ("Ex.") 48.1	North Shore – S.C. No. 1 HTG Low Income and Elderly Customers - Bill Impact Comparisons Assuming Rebuttal Testimony Revenue Requirements
• NS-PGL Ex. 48.2	Peoples Gas – S.C. No. 1 HTG Low Income and Elderly Customers - Bill Impact Comparisons Assuming Rebuttal Testimony Revenue Requirements
• NS-PGL Ex. 48.3	North Shore – Corrected Revenue Adjustment Assuming AG Witness David J. Effron's Proposed Sales Adjustment
• NS-PGL Ex. 48.4	Peoples Gas – Corrected Revenue Adjustment Assuming AG Witness David J. Effron's Proposed Sales Adjustment

II. RATE DESIGN

A. S.C. No. 1, Small Residential Non-Heating

Q. Do Messrs. Johnson and Rubin agree with the Utilities' rebuttal rate design proposals for S.C. No. 1 NH customers?

A. Mr. Johnson agrees with all aspects of the Utilities' proposals for S.C. No. 1 NH customers and Mr. Rubin agrees with certain aspects. In his rebuttal testimony, Mr. Johnson supports the Utilities' rebuttal rate design proposals for S.C. No. 1 NH customers which recover 80% of non-storage related fixed costs through the customer charge and recover all remaining non-storage related costs through a flat distribution charge. Mr. Rubin accepts the Utilities' proposal to exclude storage related costs from what he calls the "flat charge" on page 2 of his rebuttal testimony[1]. Accordingly and for the reasons explained in my rebuttal testimony, I recommend that the Commission accept the Utilities' rebuttal rate design proposals.

[1] Presumably Mr. Rubin is referring to his proposal for a flat SFV charge for S.C. No. 1 NH customers.

B. <u>S.C. No. 1, Small Residential Heating</u>

Q. Do Messrs. Johnson and Rubin support the Utilities' rebuttal rate design proposals for S.C. No. 1 HTG customers?

A. No. Mr. Johnson continues to recommend that the Commission accept his direct testimony rate design proposals that would recover 68% and 61% of fixed costs through the customer charge for North Shore and Peoples Gas, respectively. Mr. Rubin continues to recommend that the Commission accept his direct testimony rate design proposals that would recover 60% and 53% of fixed costs through the customer charge for North Shore and Peoples Gas, respectively.

Q. Do you agree with Mr. Johnson's proposal for the Utilities' S.C. No. 1 HTG customers?

A. Not fully, for the reasons stated in my rebuttal testimony. Surprisingly, Mr. Johnson's rate design proposal for S.C. No. 1 HTG customers in conjunction with his recommendation to not implement SFV rates absent Rider VBA is inconsistent with his own description of Rider VBA, a full decoupling mechanism. On page 7 of his rebuttal testimony, Mr. Johnson describes the function of Rider VBA as "[t]he Companies currently have a true-up mechanism in place through Rider VBA that guarantees recovery of all of its fixed costs in the approved revenue requirement." Yet, he goes on to say that "[e]ven if Rider VBA is eventually overturned by the Court, [his] rate design proposal still provides movement towards greater fixed cost recovery through fixed charges." While I agree that Mr. Johnson's proposal provides movement, albeit only slight, toward fixed cost recovery, his recommendation against the implementation of SFV rates in the absence of Rider VBA is puzzling given that he apparently recognizes

the difference between the Commission providing a mechanism for recovery of all fixed costs and a rate design that places significant recovery of such costs in volumetric charges with no mechanism for recovering or refunding amounts of Commission-approved fixed costs that those volumetric charges under- or over-recover.

Q. In response to your observation that Mr. Johnson's proposal will leave the Utilities' S.C. No. 1 HTG rate classes as the only small residential rate classes among the state's largest utilities with fixed cost recovery less than 80%, Mr. Johnson opines that each utility's rates be set according to their own circumstances. Please comment.

A. I agree that costs are specific to each utility and will differ among utilities. Moreover, rates and rate designs will differ as costs, supporting cost studies, billing determinants and customer characteristics will differ. Accordingly, I am not suggesting that the Commission set the same rate design for each utility. However, with respect to policy, the Commission has shown that it supports increased fixed cost recovery through 80% fixed cost recovery in customer charges for Nicor and Ameren and through the Utilities' full decoupling rider mechanisms, Rider VBA. Absent Rider VBA, a lesser fixed cost recovery would nullify the Commission's established policy as it currently applies to the Utilities' small residential heating customers.

Q. Do you agree with Mr. Rubin's proposal for the Utilities' S.C. No. 1 HTG customers?

A. No. Mr. Rubin and I differ on how non-storage demand-related costs should be recovered. Mr. Rubin proposes to recover all non-storage demand-related costs through the volumetric distribution charge and suggests that this is required to set cost-based rates

for S.C. No. 1 HTG customers. His proposal is premised on his opinion that the S.C. No. 1 HTG class lacks homogeneity, therefore requiring recovery on a per-therm basis. However, my rebuttal testimony dispelled that notion by pointing out that Mr. Rubin incorrectly equated square footage homogeneity with usage homogeneity. Mr. Rubin's rebuttal testimony simply, without rationale, dismisses my observations. While the non-bifurcated S.C. No. 1 rate class was less homogeneous for the reasons explained in the rebuttal testimony of the Utilities' witness Joylyn C. Hoffman Malueg, S.C. No. 1 HTG is more homogeneous due to the proposed bifurcation which groups together costs underlying rates for small residential heating customers and removes costs for small residential non-heating customers.

Q. Mr. Rubin states that his proposal will result in lower bills for lower usage S.C. No 1 HTG customers and provides supporting exhibits that show bill impacts for customers that use 25% less than a typical customer. Please comment on Mr. Rubin's claims.

A. As Mr. Rubin's proposal for S.C. No. 1 HTG customers reduces the amount of non-storage fixed costs that will be recovered through the Utilities' customer charges and shifts such fixed cost recovery to volumetric distribution charges, certain lower usage customers will experience lower bills. However, because non-storage fixed costs would be recovered through volumetric distribution charges, rate class average and larger usage customers will see higher bills under Mr. Rubin's proposals.

Q. Please respond to Mr. Rubin's conclusion that you assume that demand costs are the same for each customer.

A. Mr. Rubin's conclusion does not give full credence to the accepted methodologies for recovering demand related costs. Demand related costs are fixed costs. Although demand related costs may be spread among rate classes using certain usage based allocation methodologies, demand related costs do not vary with customers' usage and cost-based ratemaking does not require that they be recovered through distribution charges. There is often disagreement on how to allocate demand-related costs. In fact, the Gas Distribution Rate Design Manual Prepared by the National Association of Regulatory Utility Commissioners ("NARUC") Staff Subcommittee on Gas (June 1989) states on pages 49-50:

> The most controversial issue is deciding where capacity [demand] costs belong in the rate. Because they are fixed costs, it is sometimes argued that they should be part of the customer charge. On the other hand, it can be argued that … those common fixed costs should be recovered evenly from all units of commodity sold. It is even occasionally proposed that these costs be spread between customer and commodity [distribution] charges.

This passage confirms that demand-related costs are fixed, and that there are a few acceptable methodologies for recovering such costs. The Utilities believe that consistent with accepted methodologies and recent Commission policy, such fixed costs should be recovered through a fixed charge such as the customer charge. In the interest of rate design continuity and gradualism, in this proceeding they propose to spread such costs between the customer and distribution charges for S.C. No. 1 NH and HTG customers. However, the Utilities have also proposed that if Rider VBA is not in effect, such costs will be recovered through a fixed SFV charge, another accepted demand-related cost recovery method.

Q. Please respond to Mr. Rubin's charge that you did not provide any facts or analysis to support your claim that his rate design proposal could present a burden for certain S.C. No. 1 HTG low-income and elderly customers who use gas at higher levels.

A. The Utilities' data show that, compared to the average use for the S.C. No. 1 HTG class, low income (for Peoples Gas) and elderly (for both companies) customers, on average, tend to use gas at higher levels. To illustrate this point, I developed normalized average use volumes for S.C. No. 1 HTG low-income and elderly customers assuming test year 2013 normal heating degree days. NS-PGL Ex. 48.1 shows the normalized use for test year 2013 S.C. No. 1 HTG class average, low-income and elderly customers and the bill impacts that would arise from North Shore's rebuttal testimony and Mr. Rubin's direct testimony rate design proposals assuming North Shore's rebuttal testimony revenue requirements. I reviewed impacts for annual bills and winter period (November through March) bills, when gas prices tend to be at their highest. As shown, normalized annual use for North Shore's S.C. No. 1 average, low-income and elderly customers are about 1,298 therms, 1,063 therms and 1,456 therms, respectively. North Shore's S.C. No. 1 HTG rate design proposal results in annual bills for average customers that are $5.48 lower than under Mr. Rubin's rate design proposal and winter period bills that are $20.67 lower. North Shore's S.C. No. 1 HTG rate design proposal results in annual bills for low-income customers that are only $4.60 higher than under Mr. Rubin's rate design proposal and winter period bills that are $14.11 lower. For elderly customers, North Shore's S.C. No. 1 HTG rate design proposal results in annual bills that are $12.62 lower than under Mr. Rubin's rate design proposal and winter period bills that are $24.48 lower. NS-PGL

Ex. 48.2 shows a similar analysis for Peoples Gas. As shown, normalized annual use for Peoples Gas' S.C. No. 1 average, low-income and elderly customers are about 1,067 therms, 1,259 therms and 1,404 therms, respectively. Peoples Gas' S.C. No. 1 HTG rate design proposal results in annual bills for average customers that are $6.46 lower than under Mr. Rubin's rate design proposal and winter period bills that are $38.73 lower. Peoples Gas' S.C. No. 1 HTG rate design proposal results in annual bills for low-income customers that are $27.01 lower than under Mr. Rubin's rate design proposal and winter period bills that are lower by $48.31. For elderly customers, Peoples Gas' S.C. No. 1 HTG rate design proposal results in annual bills that are $37.70 lower than under Mr. Rubin's rate design proposal and winter period bills that are $58.15 lower.

C. <u>Straight Fixed Variable Rates</u>

Q. Do you agree with Mr. Johnson's concern that customers will be confused if the Commission implemented tariffs that include SFV rates that would be implemented if Rider VBA is no longer in effect?

A. No. Mr. Johnson's concern that customers may be confused due to the lack of a specific effective date in the tariff can be addressed with tariff language and appropriate customer notification as shown in the proposed revised tariff language, with proposed new language underscored and deleted language lined through, below:

> If a court finds or holds that the Commission lacks or lacked authority to approve Rider VBA of this rate schedule or Rider VBA of this rate schedule is otherwise not permitted to remain in effect by action of the Commission, the Illinois General Assembly or any other body, then <u>90 days</u> ~~on and~~ after the date of such court or other action, <u>or such other date as ordered by such court or other body,</u> the monthly Customer Charge shall be $xx.xx for Non-Heating Customers and $xx.xx for Heating Customers.

> If a court finds or holds that the Commission lacks or lacked authority to approve Rider VBA of this rate schedule or Rider VBA of this rate schedule is otherwise not permitted to remain in effect by action of the Commission, the Illinois General Assembly or any other body, then 90 days ~~on and~~ after the date of such court or other action, or such other date as ordered by such court or other body, the Distribution Charge shall be x.xx cents per therm for Non-Heating Customers and xx.xx cents per therm for Heating Customers, for all gas delivered in any month.
>
> Within the later of 30 days of such court or other action or the date on which the Company knows the effective date, the Company shall revise this tariff sheet to show the effective date of the change in rates and file it with the Commission. The Company shall also provide written notice to customers prior to the date that such rates go into effect, and, if possible given the effective date ordered by the court or other body, shall provide at least 30 days' prior notice.

The "x's" in the tariff language above would reflect the SFV rates approved by the Commission in this proceeding. Consequently, the tariff filing would be in the nature of a compliance filing and not subject to suspension. As customers would receive notice that the rates are changing through direct notice and not merely through the filed tariff, they could make adjustments to their budgets as mentioned by Mr. Johnson with respect to the new rates going into effect for North Shore's Rider FCA. Moreover, as SFV rates are fixed and 80% SFV rates are nearly fixed, customers could budget for their gas bills with more certainty.

D. Compliance Rates

Q. Did you misunderstand Mr. Johnson's initial proposal to set compliance rates arising from the revenue requirement to be approved in this proceeding?

A. No. I agree with Mr. Johnson that the cost of service studies for Peoples Gas and North Shore need to be re-run and that the approved rate design should recover the revenue requirement approved in the Commission's final order. However, I have continued

concerns about Mr. Johnson's proposal that distribution charges for those service classifications with more than one rate block be adjusted on an equal percentage basis.

Q. Why are you concerned about Mr. Johnson's compliance rate proposal?

A. For S.C. No. 2, the Utilities proposed specific methodologies and specific percentages for recovering costs through their three-block distribution charges. If the Commission approves the proposals, Mr. Johnson's proposal would simply be unnecessary as the approved rate design would fully recover the final revenue requirement without a need for any additional adjustment to the distribution charges. Contrary to Mr. Johnson's claim, the Utilities would not unilaterally determine how S.C. No. 2 distribution charges are calculated because the methodologies are fully and specifically described in my direct testimony. This is consistent with how compliance rates have been set by the Utilities in their last three rates cases (Docket Nos. 07-0241/07-0242 (cons.), 09-0166/09-0167 (cons.) ("2009 Rate Case") and 11-0280/11-0281 (cons.) ("2011 Rate Case")).

E. <u>Revenue Adjustment</u>

Q. Did you review the revenue adjustments prepared by Mr. Rubin and shown on page 2 in AG Exs. 6.03 and 6.04 for Peoples Gas and North Shore, respectively?

A. Yes, I did.

Q. Did Mr. Rubin specifically discuss the revenue adjustments in his rebuttal testimony?

A. No, he did not.

Q. Do you understand why Mr. Rubin prepared the revenue adjustments?

A. It appears that Mr. Rubin prepared the revenue adjustments to include them in the revenue requirements proposed by AG witnesses Messrs. Effron and Michael L. Brosch so that he could develop new rates. Mr. Rubin used the AG's proposed revenue requirements to develop his proposed rates shown on page 3 in AG Exs. 6.03 and 6.04 for Peoples Gas and North Shore, respectively[2]. The Utilities witness Mr. Kuse describes the problems associated with Mr. Rubin's proposed sales volume adjustments which reflect an inaccurate blocking of the total sales volume adjustments.

Q. Are the revenue adjustments prepared by Mr. Rubin consistent with those proposed in Mr. Effron's direct testimony?

A. No, they are not. As discussed by Mr. Kuse, Mr. Effron proposes in his direct testimony, total sales volume and related revenue adjustments for Peoples Gas' S.C. Nos. 1 and 2 and North Shore's S.C. No. 2. Mr. Rubin's rebuttal testimony shows new revenue adjustments for Peoples Gas' S.C. No. 1 only. Mr. Effron's proposed revenue adjustments were determined by multiplying his proposed sales adjustment volumes for each rate class times the present rate average distribution charge per therm for each rate class[3], whereas Mr. Rubin's revenue adjustment for Peoples Gas' S.C. No. 1 was determined by multiplying the sales adjustment volumes for each block times a specific rate per block. Schedule DJE-2P of AG Ex. 2.1 in Mr. Effron's direct testimony shows a total revenue adjustment for Peoples Gas of $5,261,000 with $3,033,000 arising from S.C. No. 1 and $2,228,000 arising from S.C. No. 2. AG Exhibit 6.03, page 2, in Mr.

[2] The revenue requirements shown in these exhibits are allocated to S.C. No. 1 NH and HTG using a simple mathematic approach rather than an embedded cost of service study ("ECOSS"). Revenue requirement amounts for other rate classes are not shown. The Utilities and Mr. Johnson agree that the Utilities should use their ECOSS to set compliance rates.

[3] Mr. Effron determined average distribution charge per therm rates for Peoples Gas' S.C. Nos. 1 and 2 and North Shore's S.C. No. 2 by dividing total present rate distribution revenues by unadjusted total distribution sales.

Rubin's rebuttal testimony only shows an adjustment for Peoples Gas' S.C. No. 1 of $3,595,290. This differs from Mr. Effron's proposed S.C. No. 1 revenue adjustment by about $562,000. Moreover, as Mr. Rubin did not prepare blocked rate revenue adjustments for S.C. No. 2, the AG's revenue adjustments, some of which are determined on a non-blocked sales and revenue basis, are mismatched and incomplete.

Q. Are the revenue calculations proposed by either Mr. Effron or Mr. Rubin accurate?

A. No. Both calculations are inaccurate and problematic, but for different reasons. The average distribution charge per therm rates derived and applied in Mr. Effron's revenue calculation assumes that the sales volume adjustments are proportional to the unadjusted sales volumes. However, this is not the case as the sales volume adjustments, by block, are disproportional to the unadjusted sales. The rate block specific charges applied in Mr. Rubin's calculation include a sum of present rate distribution charges, Rider SSC storage service charges and Rider VBA adjustments. However, the Rider SSC storage service charges and Rider VBA adjustments should not have been included for reasons described below.

Q. Why should Rider SSC storage service charges adjustments be excluded from the rates used in the calculation of the revenue adjustment?

A. Rider SSC revenues are unaffected by changes in sales as the Utilities are allowed only to recover the storage revenue requirement approved by the Commission. Therefore, the present rate Rider SSC storage service charges which are shown in Peoples Gas' and North Shore's Schedule E-5s and used by Mr. Rubin to calculate his revenue adjustments, are charges derived by dividing the authorized Rider SSC revenue requirement to be recovered from sales customers by the applicable sales volumes. If

sales increase, the Rider SSC storage charge would decrease with Rider SSC storage service charge revenues remaining the same. Including the Rider SSC storage service charge in the revenue adjustment is inaccurate as it double counts the storage service charge revenue in the revenue adjustment. Mr. Rubin further compounds his error by applying the Rider SSC storage service charge to transportation customers' sales volume adjustments although the charge is not applied in that manner. This adds additional revenue on top of the double-counted revenue described above.

Q. Why should Rider VBA revenues be excluded from rates used in the calculation of the revenue adjustment?

A. Rider VBA adjustments would also change if sales volumes change as such adjustments reconcile distribution revenues to the present rate baseline approved by the Commission. Accordingly, Rider VBA revenues would be unaffected by a change in sales and should be excluded from the revenue adjustment calculation.

Q. Did the Utilities prepare a revenue calculation that would arise from Mr. Effron's proposed sales volume adjustments?

A. Yes. Although the Utilities have not addressed, and are not addressing, Mr. Effron's proposed sales volume adjustment, any revenue adjustment arising from the proposal should be accurate if it is approved by the Commission. Accordingly, the Utilities have prepared adjustments that address the problems described above. NS-PGL Exs. 48.3 and 48.4 show the revenue adjustments that would arise for North Shore and Peoples Gas, respectively, based on the adjusted blocking discussed in Mr. Kuse's surrebuttal testimony, if the Commission were to approve Mr. Effron's proposed sales volume adjustments. The exhibits show revenue adjustments, by rate class (including heating and

non-heating for Peoples Gas S.C. No. 1), sales type and in total. North Shore's revenue adjustments total $131,460 as shown in NS-PGL Ex. 48.3, line 15, column E, and Peoples Gas' revenue adjustments total $4,831,924 as shown in NS-PGL Ex. 48.4, page 2, line 16, column E.

Q. Why is so much detail provided for the revenue adjustments?

A. Unfortunately, Mr. Effron's and Mr. Rubin's less detailed revenue adjustments oversimplified a very complex matter. The Utilities will need to use the appropriate billing determinants, including the proposed sales volume adjustments if approved by the Commission, to set compliance rates arising from the Commission's order in this proceeding. Sales volumes are needed by rate class, and sales type (sales and transportation), by block where applicable, and for S.C. No. 1, by usage type (heating and non-heating) so that the Utilities can develop the rates that will comply with the Commission's approved revenue requirements. Also, as rates in this proceeding will go into effect in mid-2013, the sales volume adjustments will need to be allocated on a monthly basis for purposes of establishing calendar year 2013 Rider VBA distribution charge baselines, which must be prorated due to the mid-year rate change. The Utilities are also required to submit such baselines to the Commission. Neither Mr. Rubin nor Mr. Effron have considered or developed such details.

II. <u>TRANSPORTATION ADMINISTRATIVE CHARGES</u>

Q. Does Mr. Parisi offer any new evidence to support his proposals to exclude certain costs from CFY customers' bills and to recover transportation administrative charges from all customers who are eligible for Rider CFY?

A. No. Mr. Parisi merely recycles the arguments made in his direct testimony which continue to disregard and distort Commission orders and misrepresent hearing transcripts.

Q. Do you agree with Mr. Parisi's recommendation that the Utilities exclude certain costs, such as costs associated with bad debt and hedging from CFY customers' bills?

A. No. Customers do not need to be in good standing with the Utilities to begin or receive service under Rider CFY. Accordingly, it is possible that CFY customers may owe the Utilities when they switch to an alternative supplier under Rider CFY. Also, certain functions for example, functions associated with initiating service to a customer (such as credit review that is related to deposit requirements) and terminating service, apply to all customers. Credit reporting applies to all customers because customers owe the Utilities for delivery service charges and those amounts may become uncollectible expenses. Moreover, gas supply personnel provide support for securing and managing the services and assets which underlie storage and balancing services. Although CFY customers buy their gas from alternative suppliers, the Utilities continue to provide delivery service as well as storage and balancing services so that the transportation programs can exist. Suppliers have no obligation to deliver the precise amount of gas their customers use every day. Moreover, under certain conditions, CFY suppliers buy company supplied gas through cash-outs. To provide balancing services and company supplied gas, the Utilities use their total supply portfolios including supplies related to hedging. Mr. Parisi indirectly acknowledges that the Commission rejected a similar proposal made by him in the 2011 Rate Case. However, Mr. Parisi dismisses that recent decision and

inexplicably reverts to a 2008 Nicor agreement and language from the 2009 Rate Case Commission order which apparently did not influence the Commission's 2011 Rate Case decision.

Q. Mr. Parisi suggests that the Utilities' costs are misallocated to suppliers who pass such costs on to customers. Do you agree?

A. No. The Utilities' transportation administrative charges are assessed to suppliers based upon cost causation principles. The Commission agreed in the 2011 Rate Case. Such costs are merely part of suppliers' cost of doing business, much like the fees described in Mr. Parisi's testimony. Whether or how suppliers choose to pass on their business costs to their customers are business decisions. However, per Mr. Parisi's own admission, I expect that such business costs (e.g., taxes, overhead costs, etc.) are charged directly to customers who receive supplier services rather than recovered from customers who have a right to purchase supply from alternative suppliers but choose not to do so.

Q. Are there other reasons why transportation administrative costs should not be recovered from all customers who may receive service under Rider CFY?

A. Yes. The Utilities' S.C. No. 2 and Peoples Gas' S.C. No. 8 are eligible for transportation service under the CFY program or under the large volume transportation programs (Rider FST, Full Standby Transportation Service or Rider SST, Subscription Storage Transportation Service). Transportation administrative charges are billed to customers under Riders FST and SST. If transportation administrative charges are billed to all customers who are eligible for Rider CFY, then S.C. Nos. 2 and 8 FST and SST customers would be billed twice for transportation administrative charges.

Q. Does this complete your surrebuttal testimony?

A. Yes.