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1 EXHIBITS ADMITTED INTO EVIDENCE:

2 NS Exhibits 13.0 through 13.8 and Page 671
NS-PGL Exhibits 33.0 through 33.15
3 Union's Exhibit 1.0 Page 705

4

EXHIBITS ADMITTED INTO EVIDENCE (Cont.)

5 NS Exhibit 10.0, 10.1, PGL Exhibit Page 711
10.0, 10.1 and NS-PGL Exhibit 30.0
6 revised and 30.1 and NS-PGL
Exhibit 46.0 and 46.1

7

Staff Exhibits 12, 13, 14 and 15 Page 713

8

CUB City Exhibit 1.0, along with Page 782
9 attachments 1.1 through 1.4 and
CUB Exhibit 2.0, along with
10 attachment 2.1, and CUB City
Exhibit 3.0

11

NS Exhibits 12.0 revised and NS Page 785
12 Exhibits 12.1 through 12.11;
PGL Exhibit 12.0 revised, along
13 with PGL Exhibits 12.1 through
12.11; NS-PGL Exhibits 32.0

14

15 Exhibit 48.0 revised, along with
16 NS-PGL Exhibits 48.1 through 48.4

17

AG Cross Exhibits 24 and 25 Page 798

18

IGS Cross Exhibits 15, 16, 17 Page 898

19

19, 20, 21, 22, and 23.

20

21

22

1 JUDGE DOLAN: By the direction and according to
2 the Illinois Commerce Commission, I call Docket
3 No. 12-0511 and 12-0512, North Shore Gas Company and
4 Peoples Gas Light and Coke Company, proposed general
5 increases in rates for gas service.

6 To order, the parties need to enter
7 themselves for the record.

8 MS. CARDONI: On behalf of staff witnesses for
9 the Illinois Commerce Commission, Jessica Cardoni,
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12 MS. LUSSON: On behalf of the People of the
13 State of Illinois, Karen Lusson, L-U-S-S-O-N, and
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19 MR. REDDICK: Appearing for the City of Chicago,
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11 MR. EIDUKAS: Also appearing on behalf of the
12 North Shore Gas Company and the Peoples Gas Light and
13 Coke Company, Theodore T. Eidukas, spelled
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18 Gas and North Shore, Carla Scarsella and John
19 Ratnaswamy of the Law Firm of Rooney, Rippie &
20 Ratnaswamy, LLC, 350 West Hubbard Street, Suite 600,
21 Chicago, Illinois 60654.

22 JUDGE DOLAN: Let the record reflect there are

1 no other appearances.

2 It looks like we have

3 Miss Hoffman Malueg.

4 MS. KLYASHEFF: North Shore and Peoples Gas
5 will call Joylyn Hoffman Malueg.

6 THE WITNESS: Yes, this is Joylyn Hoffman
7 Malueg on the line.

8 (Witness sworn.)

9 JOYLYN HOFFMAN MALUEG,
10 called as a witness herein, having been first duly
11 sworn, was examined and testified as follows:

12 DIRECT-EXAMINATION

13 BY MS. KLYASHEFF:

14 Q. Ms. Hoffman Malueg, will you please state
15 your name and business address for the record,
16 spelling your last name?

17 A. Jolyn C. Hoffman Malueg. Last name is
18 spelled H-O-F-F-M-A-N M-A-L-U-E-G. My business
19 address is 700 North Adams Street, Green Bay,
20 Wisconsin 54307.

21 Q. Do you have before you the following
22 documents: a document entitled Direct Testimony of

1 Joylyn C. Hoffman Malueg on behalf of North Shore Gas
2 Company marked for identification as NS 13.0, which
3 includes NS Exhibits 13.1 through 13.8, the Direct
4 Testimony of Joylyn C. Hoffman Malueg on behalf of
5 the Peoples Gas Light and Coke Company marked for
6 identification as PGL Exhibit 13.0 and including PGL
7 Exhibits 13.1 through 13.8, and the Rebuttal
8 Testimony of Joylyn C. Hoffman Malueg marked for
9 identification as NS-PGL Exhibit 33.0 and including
10 NS-PGL Exhibits 33.1 through 33.15?

11 A. Correct, I do.

12 Q. Do you have any changes or corrections to
13 any of those documents?

14 A. No, I do not.

15 Q. Are those documents true and correct to the
16 best of your belief?

17 A. Yes, they are.

18 Q. Today, if I were to ask you the questions
19 included in that testimony, would your answers be the
20 same as set forth in the testimony?

21 A. Yes, they would.

22 Q. Do you adopt these documents as your sworn

1 testimony in this proceeding?

2 A. Yes, I do.

3 MS. KLYASHEFF: Subject to cross, I move for
4 the admission of NS Exhibits 13.0 through 13.8 filed
5 on E Docket July 31st of 2012. PGL Exhibits 13.0
6 through 13.8 filed on E Docket July 31, 2012, and
7 NS-PGL Exhibits 33.0 through 33.15 filed on E Docket
8 December 18, 2012.

9 JUDGE DOLAN: Any objections?

10 (No response.)

11 JUDGE DOLAN: Hearing none, NS Exhibits 13.0
12 through 13.8 will be admitted into the record. PGL
13 Exhibits 13.0 through 13.8 will be admitted into the
14 record, and NS-PGL Exhibits 33.0 through 33.15 will
15 be admitted into the record.

16 (The aforesaid exhibits were
17 admitted into evidence.)

18 MS. KLYASHEFF: Witness is available for
19 cross-examination.

20 JUDGE DOLAN: Proceed.

21

22

1 CROSS-EXAMINATION

2 BY MS. LUSSON:

3 Q. Good morning, Miss Hoffman Malueg.

4 Did I pronounce your name correctly?

5 A. Hoffman Malueg.

6 Q. My name is Karen Lusson. I'm from the
7 Attorney General's Office, I just have a few
8 questions for you regarding your testimony and your
9 Embedded Cost of Service Study.

10 First I'd like to direct you to Pages
11 7 and 8 of your direct testimony.

12 A. I'm there.

13 Q. There you discuss the procedures you used
14 in performing your Embedded Cost of Service Study.
15 Do you see that?

16 A. Yes, I do.

17 Q. If I could, let me just make sure I
18 understand the -- I think it's three steps, a couple
19 steps that you outline there.

20 You say the first step, Cost
21 Functionalization, identifies and separates plant and
22 expenses into specific categories based on their

1 purpose and various characteristics of utility
2 operation. Do you see that?

3 A. Yes, I do.

4 Q. And then at Line 155, as I understand your
5 testimony, the next step, Step Two, is Cost
6 Classification, which further separates the
7 functionalized plant and expenses into the categories
8 based upon how they are incurred, is that correct?

9 A. Yes.

10 Q. Now, at Lines 166 and 169, you discuss and
11 define the category of costs known as Demand Costs.
12 Do you see that?

13 A. Yes, I do.

14 Q. And there's a phrase there that says --
15 well, you say demand-related costs are incurred to
16 service the peak demand of the system, and examples
17 of costs -- classified demand classification include
18 transmission and distribution mains and localized
19 distribution facilities designed to meet customer
20 maximum peak day demand. Did I read that right?

21 A. Correct.

22 Q. And by the words "designed to meet customer

1 maximum peak day demand," are you talking about gas
2 usage there?

3 A. I'm talking about our customers demand.
4 When I hear the word customer usage, I equate that
5 with through put, and that's a different term than
6 customer demand.

7 Q. And what's the difference between through
8 put and demand?

9 A. From my perspective, a customer's through
10 put is their annual usage. A customer's demand could
11 go above and beyond what they would demand; for
12 example, the coldest winter day, their peak usage.

13 Q. Okay. So when we use the word demand, it
14 is not any kind, for example, demand to initiate
15 service from Peoples Gas or North Shore, but rather
16 it looks specifically at demand for natural gas at
17 its peak, is that right?

18 A. Correct.

19 Q. Now, do you recall in AG Witness Rubin's
20 testimony he made a series of calculations on the
21 bottom of Pages 6 and 7 for Peoples Gas. We'll start
22 there. If you could turn to that.

1 A. The direct testimony?

2 Q. Yes.

3 A. And you said Page 6.

4 Q. Yes.

5 A. Okay, I'm there.

6 Q. And if you look there -- okay. Now, he
7 makes a calculation there where he indicates that --
8 this is first for nonheating customers at the bottom
9 of the page, Line 150. He makes a calculation
10 regarding rate-based revenues and the total cost to
11 serve nonheating customers as listed in your ECOSS.
12 Do you see that calculation there in that testimony?

13 A. Yes, I see those numbers.

14 Q. And just so I'm clear, you're not taking
15 issue with his calculation there, per se, are you?

16 A. No, I am not.

17 Q. And is the same true for the calculations
18 he makes for North Shore on Pages 12 and 13 for the
19 nonheating customers? Again, he looks at the
20 revenues and the cost as reported in your ECOSS.

21 A. Correct. I do not have issues with those
22 numbers.

1 Q. We're done with Mr. Rubin's testimony now.

2 If you could go back to Page 7 of your
3 direct testimony.

4 A. I'm there.

5 Q. You discuss the S.C. 1 Class and state that
6 the cross-subsidization that has been occurring
7 amongst the customers within S.C. No. 1, and the
8 utilities' ECOSS -- that's the acronym for Embedded
9 Cost of Service Study -- is due to nonhomogeneity.
10 Do you see that?

11 A. Are you talking about the direct testimony
12 or rebuttal?

13 Q. I'm sorry, rebuttal. Did I say direct?

14 A. Yeah. So rebuttal Page 7.

15 Q. Yes.

16 A. Okay, I'm there.

17 Q. At the top of the page there --

18 A. Okay.

19 Q. -- the first sentence.

20 A. Yes.

21 Q. When you reference nonhomogeneity, is it
22 fair to conclude that you're saying there that there

1 are certain characteristics that are not common to
2 all customers assigned to that particular rate class?

3 A. That is what the Cost of Service Study is
4 showing, correct, for Service Class 1.

5 Q. If you could turn the page to your first
6 sentence at the top of Page 7, again, your rebuttal,
7 Line 48.

8 A. I'm there.

9 Q. You say any suggested over-recovery of
10 costs by S.C. No. 1 nonheating would be due to the
11 nonhomogeneity amongst the residential customers when
12 both heating and nonheating customers are combined
13 into one rate class within S.C. No. 1; is that a fair
14 reading?

15 A. Yes.

16 Q. Would you agree that one characteristic of
17 the current S.C. 1 Class that makes it nonhomogeneous
18 is the variance and usage amongst customers? And I'm
19 not talking about the divided residential customer
20 class that the company is proposing. Right now, I'm
21 talking about the current S.C. 1 Class.

22 A. Yes, and I would say that there's going to

1 be differences amongst the customers and Service
2 Class 1 according to their usage, and that would
3 occur naturally in any service classification. It is
4 more distinct than Service Class 1.

5 Q. And does it follow that if the usage is the
6 driver of nonhomogeneity, then a rate design that
7 minimizes reliance on the usage charges to recover
8 the company's cost is more likely to trigger greater
9 levels of cross-subsidization, all else being equal?

10 A. Are you talking about within a service
11 model?

12 Q. I'm talking about in general. If you're
13 stating that -- I think you agree that one
14 characteristic that makes the S.C. 1 Class
15 nonhomogeneous is the variance in usage?

16 A. Correct.

17 Q. So does it follow that if usage is a driver
18 of nonhomogeneity, which I think you just verified,
19 is that right?

20 A. Correct.

21 Q. Would you agree that a rate design that
22 minimizes reliance on usage charges to recover the

1 company's costs is more likely to trigger greater
2 levels of cross-subsidization given that assumption,
3 all else being equal?

4 A. I guess I'm not completely sure that a
5 cost of service model would display that statement,
6 because a cost of service model, when it looks at
7 revenue requirements for a service plan, it looks
8 into the simplified explanation, but it
9 looks at one pot of revenues, one bucket, this is an
10 example, that are Class 1, and it subtracts off
11 operating costs, taxes, and a rate of return to
12 arrive at a revenue requirement. The Cost of Service
13 Model does not, per se, care where that bucket of
14 revenue came from. It's driven by a fixed charge,
15 and it's driven by a per use charge.

16 So to answer your question, I don't
17 think the Cost of Service Model would provide a
18 descriptor of that.

19 Q. My question really wasn't addressing the
20 Cost of Service Model. I mean, you take issue with
21 the notion that, as I understand your testimony, that
22 the over-recovery -- when he indicated that he felt

1 that the over-recovery of costs through the fixed
2 customer charge led to cross-subsidization, and I
3 understand your testimony to take issue with that, is
4 that right?

5 A. That is correct, because --

6 Q. I'm sorry. Go ahead.

7 A. That's because, like I just explained, a
8 Cost of Service Study does not take into
9 consideration where those -- what rate design those
10 revenues are driven from. It just looks at the pot
11 of revenues as a whole.

12 So therefore, I don't think Mr. Rubin
13 can make an accurate statement by saying it's the
14 Cost of Service Study that is stating the SSE rates
15 are causing the nonhomogeneity.

16 Q. But wasn't he commenting on the rate
17 design, not the Cost of Service Study? Would you
18 agree Mr. Rubin did not take issue with your Cost of
19 Service Study?

20 A. Correct.

21 Q. If I could refer you to your Lines 152
22 through 155.

1 A. Yes, I'm there.

2 Q. And then you did indicate that variance in
3 usage is one characteristic of the S.C. 1 Class that
4 makes it nonhomogeneous, right?

5 A. Right.

6 Q. So would you agree then that if variance in
7 usage drives whether or not a class is homogeneous,
8 would you agree that a rate design that minimizes
9 cost recovery through usage charges is more likely to
10 trigger greater levels of cross-subsidization that
11 you comment on?

12 A. I guess when you phrase a question in that
13 manner, it's hard for me to answer, because I'm not a
14 rate design personnel. I only look at it from a cost
15 of service perspective. I can't speculate as to what
16 a rate design would do to the cost of service until I
17 see, like I said, that one whole bucket of revenue.

18 Perhaps Miss Grace, Valerie Grace, can
19 attest better as to whether a rate design would have
20 the impact you're talking about. Like I said, from a
21 cost of service perspective, how the rate design
22 recovers revenues, it doesn't play into what a cost

1 service model shows.

2 Q. Well, Miss Hoffman Malueg, at Line 150 --
3 please look at Line 122 of your rebuttal testimony.

4 A. Okay, I'm there.

5 Q. You say -- when you're talking about the
6 level of cross-subsidization among customers within a
7 given rate class, you are note that
8 cross-subsidization will always naturally exist, and
9 that's because rate design was performed at a rate
10 class level, not at the individual customer level.
11 Do you see that?

12 A. Correct.

13 Q. And by stating that, are you acknowledging
14 that rate design by nature can't recover the revenues
15 through individualized rate design for every
16 customer? Is that essentially what --

17 A. Correct. It would be almost impossible
18 from my perspective for a utility company to create a
19 rate design unique to every individual customer.
20 That would be too hard and tedious.

21 Q. Do you have an opinion as to whether it's
22 appropriate -- I understand you're not the rate

1 design witness, but I'm wondering if the person who
2 examines the costs of the companies and performs the
3 Embedded Cost of Service Study, do you endorse the
4 concept of splitting the residential customers into
5 nonheating and heating customers?

6 MS. KLYASHEFF: Objection.

7 THE WITNESS: I guess I really don't have an
8 opinion either way. We were under the direction --
9 when I say we, the company was under the direction to
10 split Service Class 1 and the ECOSS model.
11 Therefore, I followed that directive, but I
12 personally do not have an opinion one way or the
13 other.

14 BY MS. LUSSON:

15 Q. But you do have an opinion about what makes
16 a customer class homogeneous, is that right?

17 A. Correct.

18 Q. And you would agree then -- I think you
19 stated that usage is a driver of whether or not it's
20 homogeneous?

21 A. Yes. That's one factor, and that's what it
22 appears to be for Service Class 1.

1 Q. And do you believe that nonhomogeneity to
2 exist within the newly created nonheating class and
3 heating residential classes separately and apart from
4 the S.C. 1 Class as a whole?

5 A. Can you restate that question?

6 Q. Sure. I understand you believe that there
7 is nonhomogeneity within the existing S.C.
8 Residential 1 Class. Is it also your view that there
9 is nonhomogeneity among nonheating customers, and
10 that there's nonhomogeneity among heating residential
11 customers? Do you understand the distinction I'm
12 making?

13 A. Yes, yes, yeah. Like I stated in my
14 rebuttal testimony, a small level of that
15 nonhomogeneity will exist within a service class. I
16 believe once you split Service Class 1 amongst
17 nonheating and heating, that level of nonhomogeneity
18 disperses or gets reduced, but yes, naturally, some
19 nonhomogeneity will still exist in nonheating as well
20 as Heating Service Class 1, but not to the extent,
21 though, of when they are combined into one class.

22 Q. Would you agree then that when you're

1 looking at the rate of nonhomogeneity in the
2 residential heating class, that examining usage is --
3 let me restate that.

4 Would you agree that when examining
5 the nonhomogeneity of the heating residential class
6 that usage is a driver of that nonhomogeneity?

7 A. Yes, it could be one factor.

8 Q. Any other factors?

9 A. In general, probably not for North Shore
10 PGL, but I've seen it in other cost service studies
11 and other service classes I've examined throughout
12 Green Bay area, but probably not for PGL and North
13 Shore.

14 Q. So the level of customer usage then is the
15 primary driver of homogeneity?

16 A. When you're looking at Service Class 1
17 heating, yes.

18 Q. Is it also true that, if you know, if the
19 level of nonhomogeneity is greater in the heating
20 class than in the residential nonheating classes?

21 A. That I do not know.

22 Q. So you haven't examined that?

1 A. No, I have not.

2 Q. Would you agree that there are substantial
3 variances in usage among the heating class for both
4 Peoples Gas and North Shore?

5 A. That I do not know. I have not looked at
6 individual customer usage.

7 Q. Finally, I would like for you to turn to
8 your Exhibit 33.7, Page 1.

9 A. I'm there.

10 Q. Okay. I wonder if we could just quickly
11 walk through the calculation of the percentage of
12 demand costs for each residential customer class as
13 compared to total costs.

14 A. I just want to verify we're looking at the
15 same document. It states North Shore Functional
16 Revenue Requirement Under Proposed Rate Design?

17 Q. Yes.

18 A. Those are all dollar values on that page.
19 They're not percentages.

20 Q. Right. So we'd have to do a calculation.

21 A. I'm sorry, I don't have a calculator on me.

22 Q. Okay. Well then, let's do this: If you

1 were to calculate the demand as a percentage of cost,
2 would you take the number listed on Line -- looking
3 at Column C first, would you take the number listed
4 as demand at Line 38 and that \$24,180 figure, is that
5 right?

6 A. Correct.

7 Q. And divide that by the total revenue
8 requirement there, the 383,029 figure?

9 A. Okay.

10 Q. And that would give you a percentage of
11 demand costs?

12 A. That would give you the percentage of the
13 revenue requirement for Nonheating Service Class 1.
14 That is demand classified.

15 Q. And then the same would be true for
16 purposes of calculating the percentage of demand for
17 the heating customer revenue requirement, and that
18 is, that you would take that 20,685,801 and divide it
19 by the 65 million figure listed two lines below?

20 A. Correct.

21 Q. And then if you look at your Exhibit 33.14,

22 Page 1.

1 A. I'm there.

2 Q. There again, if we want to calculate the
3 demand as a percentage of the required revenues for
4 the residential classes, would we take the figure
5 listed at Line 38 under Column C, the 1.5 million
6 figure and divide that by the \$22.236 million figure?

7 A. Correct. That would give you the
8 percentage of revenue requirement for Nonheating
9 Service Class 1 for PGL, percentage of demand
10 classified.

11 Q. And then the same is also true for
12 residential heating under Column D: You take the
13 147.8 million figure and divide that by the \$387.7
14 million figure, is that correct?

15 A. Correct.

16 MS. LUSSON: Thank you, Ms. Hoffman Malueg. No
17 further questions.

18 JUDGE DOLAN: Mr. Reddick?

19 CROSS-EXAMINATION

20 BY MR. REDDICK:

21 Q. Good morning, Miss Hoffman Malueg.

22 The voice you hear belongs to Conrad

1 Reddick. I represent the City of Chicago.

2 A. Good morning.

3 Q. We're moving things around on the table
4 here.

5 Let me direct you first to your
6 Exhibit 13.0, your direct testimony, Page 9.

7 A. I'm there.

8 Q. Around Line 197, you recount that the 2011
9 rate case order directed Peoples Gas to present an
10 ECOSS that distinguishes between low use and high use
11 in Service Classification No. 1 customers.

12 I take from that that when you
13 performed the ECOSS for Peoples Gas you were aware of
14 the focus of the Commission directive you referenced
15 there; that is, low-use and high-use S.C. 1
16 customers?

17 A. Correct.

18 Q. Peoples in its proposed rate design had
19 distinguished heating and nonheating customers in
20 Service Class 1. Did you use that same distinction
21 in your cost study?

22 A. Yes.

1 Q. And did you use that distinction as a
2 surrogate for a low-use/high-use split among
3 customers in Service Class 1?

4 A. Yes, that is correct.

5 Q. But they are not exactly the same, are
6 they?

7 A. Yeah, I would guess that they're not
8 exactly identical, correct.

9 Q. And you're the cost of service expert for
10 Peoples Gas, are you not?

11 A. Correct.

12 Q. And you were responsible for conducting a
13 study that followed the Commission's directive?

14 A. Correct.

15 Q. Did you make the decision to use the
16 heating/nonheating customer distinction in the cost
17 study, correct?

18 A. I would say it was analyzed as to how I
19 could receive the data on our ECIS System. I
20 collectively discussed that with other personnel
21 within the company to assure that that was an
22 adequate definition.

1 Q. Adequate in what sense?

2 A. That I was meeting the requirements of the
3 rate order directive.

4 Q. Was that decision to use the
5 heating/nonheating distinction made before or after a
6 direct investigation of actual costs for low-use and
7 high-use customers?

8 A. That I could not say. I'm unsure if that
9 analysis was done before or after. I'm not sure.

10 Q. So when you performed your ECOSS, you used
11 the heating/nonheating distinction without being
12 looking at the actual cost of the heating/nonheating
13 class to see whether or not it was a satisfying --
14 that's a bad word -- whether it satisfied the
15 Commission's directive for a low-use/high-use
16 distinction?

17 A. It was my understanding that PGL and North
18 Shore did propose a bifurcation of Service Class 1 in
19 the past, and that the distinction kept in our ECIS
20 System of heating and nonheating followed the same
21 general principles of low use versus high use.

22 Am I answering your question, or could

1 you repeat it, if I'm not?

2 Q. I don't think you did. Let me try a
3 different question.

4 Was a decision to use the
5 heating/nonheating distinction in your Cost of
6 Service Study based on some direct investigation of
7 the correlation between heating and nonheating and
8 high-use and low-use customer groups?

9 A. No, it was not. It was based upon the
10 Commission order directive, and because we had had
11 high-use and low-usage categorization in our ECIS
12 System and because of past proposals made by the
13 company using those categories, that's what we
14 continued to use in this proposal in this rating.

15 Q. Does your testimony present a report any
16 investigation PGL performed that demonstrates that
17 the heating/nonheating distinction used in your ECOSS
18 would produce the, quote, "ECOSS that distinguishes
19 between low-use and high-use Service Classification
20 No. 1 customers" that the commission ordered?

21 A. I'm sorry, can you repeat that question?

22 Q. Does your testimony present a report of any

1 investigation PGL performed that demonstrates that
2 the high -- I'm sorry -- heating/nonheating
3 distinction used in your ECOSS would produce the,
4 quote "ECOSS that distinguishes between low-use and
5 high-use Service Classification No. 1 customers," end
6 quote, that the Commission ordered?

7 A. Nothing beyond my exhibit and my cost of
8 service model showing Service Class 1 designed
9 between heating and nonheating.

10 Q. We turn now to your rebuttal testimony,
11 Page 8.

12 A. I'm there.

13 Q. Somewhere around Line 128.

14 A. Can I stop you? On Page 8 of my rebuttal?

15 Q. I believe so. I may have the reference
16 wrong. It's the language you discussed with Miss
17 Lusson regarding the characteristics that are common
18 to all customers.

19 A. Okay.

20 Q. Could you give me the proper reference?

21 A. If you're talking about the -- on Page 6,
22 I'm talking about when I would collectively add an

1 entire rate class with respect to over or under
2 recovery and cross-subsidization. Is that what
3 you're referring to?

4 Q. Hold on just minute. I'll get us both on
5 the same page.

6 A. Okay.

7 Q. It's Page 6, not Page 8.

8 A. Of my rebuttal?

9 Q. Yes.

10 A. Okay, I'm there.

11 Q. And it is Line 128, but wrong page.

12 A. Okay.

13 Q. There you say all customers within a rate
14 class should be considered homogeneous, or
15 homogeneous, however you want to pronounce it,
16 meaning that there are certain characteristics that
17 are common to all customers assigned to that
18 particular rate class. Are we on the same page now?

19 A. Yes.

20 Q. Is there a usage level characteristic that
21 is common to all customers in the heating S.C. 1
22 Class?

1 A. That is my understanding, but I have not
2 analyzed that individually myself.

3 Q. Would your answer be the same with respect
4 to the nonheating customer class?

5 A. Yes, it would.

6 Q. Could you tell me from whom you received
7 that understanding?

8 A. I guess it's inherent to the fact that we
9 categorize our customers in the ECIS System based on
10 heating and nonheating.

11 Q. Well, I think I know the answer to the next
12 one will be, but I'll ask it, anyway. Is usage level
13 the defining or dominant characteristic for the
14 heating class?

15 A. I would say yes.

16 Q. All of my questions relate to S.C. 1, by
17 the way.

18 A. Yes.

19 Q. How can you say that?

20 A. If our ECIS System is categorizing them to
21 a key designation, I can only assume that appropriate
22 analysis of that customer has been performed in order

1 to categorize them correctly.

2 Q. Again, back to your direct testimony, and I
3 should probably check the records before I give it to
4 you. I think it's Page 8.

5 A. Okay, I'm there.

6 Q. Line 167. There you say demand-related
7 costs are incurred to service the peak demands of the
8 system. Examples of cost cuts, hikes that demand
9 classification include transmission and distribution
10 mains and localized distribution of facilities
11 designed to meet customer maximum peak day demand.

12 A. Yes.

13 Q. Do you agree that none of the cost
14 classifications used in your ECOSS are related to
15 solely to one factor; that is, that each can be affected
16 by various factors?

17 A. I would say that will hold true for some
18 costs, not all of them.

19 Q. I'm not sure our questions and answers
20 match. Let me repeat it. If you give the same
21 answer, that's fine. Do you agree that none of the
22 cost classifications used in your ECOSS are related

1 solely to one factor; that is, that each cost
2 classification can be affected by various factors?

3 A. Correct.

4 Q. And if I understand your testimony, you
5 don't maintain that demand costs are completely
6 unrelated to customer usage?

7 A. Correct, not completely.

8 Q. And I believe in your discussion with Miss
9 Lusson you indicated that when you hear the word
10 usage you think through put, but in the ordinary
11 sense of the word usage, there is customer usage when
12 they create a demand on a PGL system?

13 A. Correct.

14 Q. In an engineering sense, there is use of a
15 delivery system when a customer creates demand?

16 A. Correct.

17 Q. At another point in your testimony -- if
18 you need it, I'll find, but I think you can answer
19 this without it. You refer to something being
20 directly related. Could you tell me what you mean by
21 that?

22 A. I can assume what you're referring to is

1 when I try to direct assign costs to service
2 classification.

3 Q. No. I believe it had to do with something
4 varying directly with usage or some other factor.

5 A. It's possible. Could you point me to my
6 testimony on that?

7 Q. Okay. Rebuttal testimony, and this one
8 actually is on Page 8, Line 188, thereabouts.

9 A. Okay, I'm there.

10 Q. Do you see the phrase directly vary with
11 the number of customers or their annual usage?

12 A. I see the words do not directly vary with,
13 yes.

14 Q. What do you mean by directly vary there?

15 A. As an example -- for example, a
16 distribution main. It could service a hundred
17 customers; it could service one customer. Therefore,
18 it does not -- the cost of that distribution main
19 does not directly vary with the number of customers.
20 The cost of that distribution main does not directly
21 vary with the number of customers. Once we install
22 that distribution main say at, oh, \$10,000, it can

1 serve either a hundred customers or one customer, and
2 that cost does vary with respect to the number of
3 customers it's serving.

4 Q. Thank you. Again, referring back to your
5 conversation with Miss Lusson, you indicated for
6 purposes of your cost study when you hear usage you
7 relate it to through put. Did I get that right?

8 A. Correct.

9 Q. And that is the definition that you were
10 working with when you performed the ECOSS?

11 A. Correct.

12 Q. So if I understand that definition, when
13 something did not vary differ directly with usage, it
14 was classified as a fixed cost?

15 A. Items or costs are classified to the
16 customer classification.

17 Q. I'm sorry. I picked a word that has a
18 special meaning in ECOSS. Let's not use the word
19 classify.

20 A. Okay.

21 Q. When you describe costs that are not --
22 vary directly with usage, you describe them as fixed

1 costs?

2 A. I guess can you point me to where I'm
3 stating that so I can read it in context?

4 Q. I don't believe you stated that. I'm
5 trying to understand the rest of your testimony. I'm
6 trying to understand the concept of fixed cost as you
7 use it.

8 A. To me a fixed cost in general in the ECOSS
9 is a cost that will not change. It's a cost -- going
10 back to the example I gave for the distribution main
11 for \$10,000, that cost will not vary no matter how
12 many customers it serves. So therefore, I would
13 consider it to be a fixed cost.

14 Q. I understand in the example. Could you
15 give me a definition of fixed cost?

16 A. A cost that does not change.

17 Q. With what?

18 A. Once it's installed with respect to an
19 asset.

20 Q. And what about operational costs?

21 A. I would view those -- if you're going to
22 define operational cost as a fixed cost --

1 Q. I'm not trying to define anything. I'm
2 trying to understand your definition.

3 A. I guess I don't truly define that in my
4 testimony or in my ECOSS. I only perform
5 functionalization, classification, and allegation.

6 Q. So in your view, the ECOSS doesn't require
7 treatment of any particular costs that is fixed or
8 not fixed?

9 A. It's not required, no. I guess, too, it
10 would also depend -- you can look at fixed versus
11 variable costs in a couple different contexts, but I
12 don't believe that's what is inherent to an ECOSS
13 model.

14 Q. Thank you. A tangential question. When
15 PGL installs the mains you were talking about earlier
16 that could serve one customer to a hundred customers,
17 does Peoples install the main based on what it
18 expects the usage or demand to be?

19 A. That is my understanding as the
20 distribution design to be what the expected peak
21 demand is going to be. Again, I'm not an engineer,
22 but that's my understanding.

1 Q. Could you tell me if you agree with this
2 statement, the following statement: Demands costs
3 are largely joint or common costs and their
4 allocation generates the largest controversy
5 surrounding a Cost of Service Study? This subject
6 has been studied and argued for years without
7 resolution and often represents the largest item,
8 which can dramatically alter the results of the
9 study?

10 A. I would agree in general. I'm not sure if
11 I would agree with using the word largest. I think
12 that would depend on the individual utilities, but in
13 general, I would agree with that statement.

14 Q. Do you recognize that as coming from the
15 (INAUDIBLE) Manual you quote in your testimony?

16 A. Yes, I do.

17 MR. REDDICK: No further questions?

18 JUDGE DOLAN: Thank you. Redirect.

19 MS. KLYASHEFF: No redirect.

20 JUDGE DOLAN: Ma'am, you're excused. Thank
21 you.

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(Witness excused.)

MR. ELFENBAUM: Good morning. My name is Ian Elfenbaum. I'm counsel for Gas Workers Local 18007, the Utility Workers Union.

The Union intervened in January, and their paperwork is on file. Motion to intervene is pending before the Commission. We'd like for that to be moved on at this time.

JUDGE DOLAN: Any objections?

MS. SCARSELLA: No, your Honor.

JUDGE DOLAN: Then the Union's petition to intervene will be granted.

MR. ELFENBAUM: The business manager of the local, Richard Passarelli, who is also here today, has filed testimony and rebuttal testimony in the past month, received electronically by the Commission.

At this time, I'd like to state for the record that he has no changes to offer or of any follow-up testimony with regards to those written statements.

JUDGE DOLAN: Why don't we just bring him up,

1 and we'll just have him sworn in real quick, so he
2 can verify that on the record. Either that or he has
3 to file an affidavit. Since he's here, we can just
4 swear that there's no changes, and we can just go
5 from there.

6 (Witness sworn.)

7 JUDGE DOLAN: If you just want to introduce as
8 exhibits, you know, just make sure that there's no
9 changes or anything.

10 MR. ELFENBAUM: Very good.

11 RICHARD PASSARELLI,
12 called as a witness herein, having been first duly
13 sworn, was examined and testified as follows:

14 DIRECT-EXAMINATION

15 BY MR. ELFENBAUM:

16 Q. Mr. Passarelli, you filed a motion to
17 intervene on behalf of the local, and you also have
18 electronically filed two separate statements of
19 testimony for this matter, is that correct?

20 A. That's correct.

21 Q. And do you have any changes or additions,
22 deletions you'd like to make at this time?

1 A. I do not.

2 JUDGE DOLAN: What's this marked as?

3 MR. ELFENBAUM: We have the rebuttal testimony
4 marked as Union Exhibit 10. We do not have a hard
5 copy of the original testimony with us today.

6 JUDGE DOLAN: Exhibit 10. What's the first
7 exhibit.

8 THE WITNESS: It's actually Exhibit 1.

9 MR. ELFENBAUM: 1.0.

10 JUDGE DOLAN: Any objection to the Union's
11 rebuttal testimony?

12 MS. SCARSELLA: No, your Honor.

13 JUDGE DOLAN: Then Union's Exhibit 1.0 will be
14 admitted into the record. Thank you, sir.

15 (The aforesaid Exhibit was
16 admitted into evidence.)

17 JUDGE DOLAN: At this time, I believe we're
18 going to go with Mr. Stabile.

19 MS. SCARSELLA: Actually, we're going to first
20 recall Miss Moy.

21 JUDGE DOLAN: Okay, Miss Moy, I will remind you
22 are still under oath, okay?

1 THE WITNESS: Yes.

2 SHARON MOY,

3 called as a witness herein, having been first duly
4 sworn, was examined and testified as follows:

5 CROSS-EXAMINATION

6 BY MR. FEELEY:

7 Q. Good morning, Miss Moy. My name is John
8 Feeley. I have one or two questions for you.

9 A. Okay.

10 Q. With respect to your surrebuttal testimony
11 at Lines 292 to 293 --

12 A. Okay.

13 Q. At those lines, you discuss reflecting NOL
14 carried forward into a deferred tax asset. Do you
15 see that?

16 A. Yes.

17 Q. Miss Moy, do you have agree that the
18 reduction to the deferred income tax asset or NOL for
19 either Peoples gas or North Shore should only be done
20 to the extent that the deferred tax asset is reduced
21 to zero?

22 A. That's my understanding, yes.

1 MR. FEELEY: Thank you, Miss Moy. Thank you
2 for coming back. That's all I have.

3 JUDGE DOLAN: Redirect?

4 MS. SCARSELLA: No, your Honor.

5 JUDGE DOLAN: You're excused.

6 MS. SCARSELLA: Peoples Gas/North Shore calls
7 John Stabile.

8 (Witness sworn.)

9
10 JOHN STABILE,
11 called as a witness herein, having been first duly
12 sworn, was examined and testified as follows:

13 DIRECT-EXAMINATION

14 BY MS. SCARSELLA:

15 Q. Can you state your name and spell your last
16 name?

17 A. Sure. My name is John P. Stabile,
18 S-T-A-B-I-L-E.

19 Q. Who is your employer and what's your
20 business address?

21 A. Integrys Business Support, LLC, and the
22 address is 130 East Randolph, Chicago, Illinois

1 60601.

2 Q. And what is your position?

3 A. I am a tax director.

4 Q. Before you marked for identification
5 purposes is NS Exhibit 10.0 with attachment 10.1. It
6 is identified as the Direct Testimony of John P.
7 Stabile. Was this document prepared by you or under
8 your direction and control?

9 A. Yes, it was.

10 Q. Also before you is what's been marked for
11 identification purposes as PGL Exhibit 10.0, with
12 attachment 10.1, also entitled Direct Testimony of
13 John P. Stabile. Was that prepared by you or under
14 your direction and control?

15 A. Yes, it was.

16 Q. Do you have any additions or corrections to
17 your direct testimony?

18 A. No, I do not.

19 Q. Subject to revisions of later testimony, is
20 your direct testimony true and correct to the best of
21 your knowledge?

22 A. It is.

1 Q. If I were to ask the same questions set
2 forth in your direct testimony today, would your
3 answers be the same?

4 A. They would.

5 Q. Also before you marked for identification
6 purposes is NS-PGL Exhibit 30.0 revised with
7 attachments, 30.1, which is entitled The Rebuttal
8 Testimony of John P. Stabile. Was this document
9 prepared by you or under your direction and control?

10 A. It was.

11 Q. Do you have any additions or corrections to
12 your rebuttal testimony?

13 A. No.

14 Q. Subject to any revisions made in your
15 surrebuttal testimony, is your rebuttal testimony
16 true and correct to the best of your knowledge?

17 A. It is.

18 Q. If I were to ask you the same questions
19 today as set forth in your rebuttal testimony, would
20 your answers be the same?

21 A. They would.

22 Q. Finally, what's marked for identification

1 purposes as NS-PGL Exhibit 46.0 with attachment 46.1,
2 which is entitled The Surrebuttal Testimony of John
3 P. Stabile, was this document prepared by you or
4 under your direction and control?

5 A. Yes, it was.

6 Q. Do you have any additions or corrections to
7 your surrebuttal testimony?

8 A. No, I do not.

9 Q. Is your surrebuttal testimony true and
10 correct to the best of your knowledge?

11 A. Yes.

12 Q. If I were to ask you the same questions
13 today as set forth in your surrebuttal testimony
14 would your answers be the same?

15 A. They would.

16 MS. SCARSELLA: Your Honor, at this time, I
17 would like to move into the record NS Exhibit 10.0
18 with attachment 10.1, PGL Exhibit 10.0 with
19 attachment 10.1, NS-PGL Exhibit 30.0 revised with
20 attachment 30.1, and NS-PGL Exhibit 46.0 with
21 attachment 46.1.

22 JUDGE TEAGUE: Any objections?

1 MS. LUSSON: At this time, we would renew our
2 objections as reflected in our motion to strike.

3 JUDGE TEAGUE: The following exhibits are
4 admitted into the record: NS Exhibit 10.0, 10.1, PGL
5 Exhibit 10.0, 10.1, and NS-PGL Exhibit 30.0 revised
6 and 30.1 and NS-PGL Exhibit 46.0 and 46.1.

7 (The aforesaid exhibits were
8 admitted into evidence.)

9 MS. SCARSELLA: Mr. Stabile is available for
10 cross-examination.

11 MR. FEELEY: If I could go first, I actually
12 don't have 20 minutes.

13 CROSS-EXAMINATION

14 BY MR. FEELEY:

15 Q. Good morning, Mr. Stabile. My name is John
16 Feeley, and I represent the staff.

17 A. Good morning.

18 Q. I'm going to have some Cross Exhibits for
19 you to look at.

20 Can I approach the witness?

21 JUDGE TEAGUE: Yes.

22

1 BY MR. FEELEY:

2 Q. I'll go through these one at a time. I've
3 handed to you a document that's been marked for
4 identification as Staff Cross Exhibit No. 12. It's
5 North Shore Gas Company's Response to Staff Data
6 Request 15.01, and there's one attachment. Do you
7 have that in front of you?

8 A. I do.

9 Q. It's my understanding that you're
10 responsible for the response to that request?

11 A. That's correct.

12 Q. The next document, it's been marked for
13 identification as Staff Cross Exhibit No. 13. It's
14 the Peoples Gas Light and Coke Company's Response to
15 BAP 15.01, and it also has one attachment. Is it
16 true that you're responsible for Peoples Gas Light
17 and Coke Company's Response to BAP 15.01?

18 A. That is correct.

19 Q. The third document has been marked for
20 identification as Staff Cross Exhibit No. 14, and
21 that's North Shore Gas Company's response to BAP
22 19.01, and it's one-page document. Do you have that

1 in front of you?

2 A. I do.

3 Q. And are you responsible for the response to
4 that data request?

5 A. I am.

6 Q. The last document been marked for
7 identification as Staff Cross Exhibit No. 15. It's
8 People Gas Light and Coke Company's response to BAP
9 19.01, and it's a two-page
10 document. Do you have that in front of you?

11 A. I do.

12 Q. And you're responsible for the response to
13 that data request?

14 A. I am.

15 MR. FEELEY: Your Honor, at this time, the
16 Staff would move to admit into evidence Exhibits
17 Cross Exhibits 12, 13, 14, and 15.

18 JUDGE TEAGUE: Are there any objections?

19 MS. SCARSELLA: No, your Honor.

20 JUDGE TEAGUE: Staff Cross Exhibits 12, 13, 14,
21 and 15 are admitted into the record.

22

1 (The aforesaid exhibits were
2 marked into evidence.)

3 MR. FEELEY: Thank you, Mr. Stabile. That's
4 all I have for you.

5 JUDGE DOLAN: Cross?

6 CROSS-EXAMINATION

7 BY MS. SODERNA:

8 Q. My name is Julie Soderna. I represent the
9 Citizens Utility Board.

10 I'm going to start by asking you
11 questions about the Illinois state corporate income
12 tax rate.

13 Would you agree that the currently
14 enacted state corporate income tax rates that are
15 specified in the Illinois State Statute have an
16 impact on deferred state income tax expense for the
17 2013 test year?

18 A. I would not agree with that, because
19 consistent with Order 83-0309, at this point in time,
20 the state tax rates have not changed. They would
21 affect the company's balance sheet, but they would
22 not affect the company's income statement.

1 Q. Are you familiar with the concept of using
2 the applicable enacted tax rate and provisions of the
3 enacted tax law to defer state income tax expense?

4 A. I am.

5 Q. And you're aware, aren't you, that the
6 provisions in enacted Illinois Statute provides for
7 scheduled increases in the Illinois tax rate?

8 A. Correct.

9 Q. And am I correct that the Illinois
10 corporate income tax rate as specified in the
11 Illinois Statute is currently 9.50 percent, which
12 applies for the years 2011 through 2014, which is
13 then reduced to 7.75 percent in 2015, and then
14 further reduced to 7.3 percent in 2025?

15 A. Yes, that's correct.

16 Q. And as you stated throughout your rebuttal
17 testimony and surrebuttal testimony, you reference
18 the ICC order and docket number 83-0309 as the
19 primary source of support for your position that only
20 the 9.5 percent Illinois state income tax rate should
21 be used to compute deferred state income tax expense
22 for purposes of the 2013 tax year, is that right?

1 A. Okay. When performing a deferred tax
2 computation consistent with that order and consistent
3 --

4 Q. I just asked if that was your primary
5 source of support for your position.

6 A. Right, but the remaining portion of the
7 question has a conclusion in it.

8 MS. SCARSELLA: I believe the witness should be
9 able to answer her question fully. If it's not a yes
10 or no answer, he should be able to respond.

11 BY MS. SODERNA:

12 Q. I didn't hear a yes or a no. Is your
13 response conditional?

14 A. I'd like to address the last part of the
15 question, because I don't know if I can give a yes or
16 no. I mean, I would give a yes or a no to that
17 question, but that's not -- it would look like I was
18 saying that the primary source was not Order 83-0309
19 because of the following part of the question.

20 MS. SCARSELLA: Perhaps counsel could rephrase
21 since there is a conclusion in her question.

22 JUDGE TEAGUE: Can you rephrase?

1 BY MS. SODERNA:

2 Q. You reference the IC's Order and Docket
3 No. 83-0309 for your primary source of support for
4 your position with regard to your calculation of the
5 applicable state income tax rate in this proceeding,
6 is that right?

7 A. That is correct.

8 Q. Okay, and would you agree with me that one
9 of the stated objectives in the Commission 83-3039
10 Order was how consistency for income taxes among
11 Illinois utilities?

12 A. I would agree.

13 Q. And you are generally familiar, aren't you,
14 with the formula rate reconciliation proceeding of
15 Commonwealth Edison Company, which is Docket No.
16 12-0321 in which the Commission entered its final
17 order on December 19, 2012?

18 A. By generally, if you mean the public record
19 as introduced in testimony, etcetera, within this
20 proceeding, yes.

21 Q. And similarly, are you also generally
22 familiar with the Ameren formula rate reconciliation

1 proceeding, Docket No. 12-0293, in which the
2 Commission entered its final order on December 5,
3 2012?

4 A. Yes.

5 Q. And is it your understanding that in each
6 of these dockets the Commission approved computation
7 of each utility's deferred state income tax expense
8 in a manner that recognizes the reduction of the
9 Illinois state income tax rate as specified in the
10 statute that we discussed earlier for purposes of
11 establishing its formula rate revenue requirement?

12 A. Yes.

13 Q. In your rebuttal testimony, you discussed
14 the Commission's order in Docket No. 83-0309, and the
15 portion of the order that you discussed at Page 11,
16 Line 259 of your rebuttal, there's a quote there from
17 the order, and that quote discusses APB-11, which
18 stands for Accounting Principles Board, Opinion
19 No. 11, is that right?

20 A. Yes.

21 Q. Do you know when APB-11 was issued?

22 A. I don't know the exact date, but roughly in

1 the 1960s, early maybe.

2 Q. I'll generally reference that as APB
3 Opinion No. 11, is that fair?

4 A. Yes.

5 Q. And that is no longer a part of the general
6 accepted accounting principles for income taxes, is
7 it?

8 A. That is true.

9 Q. Would you agree with me that APB, Opinion
10 11, has been superseded by Financial Accounting
11 Standard Board or FASB Statement 109?

12 A. Yes.

13 Q. And the current generally accepted
14 accounting principles for income taxes are found in
15 the Accounting Standards Codification or ASC,
16 Section 740, isn't that right?

17 A. That's true.

18 Q. Under ASC-740, the deferred income tax
19 impact for temporary book tax basic differences are
20 to be accounted for the statutory income tax rate,
21 isn't that right?

22 A. That's generally correct, yes.

1 Q. And at that same quote from that I
2 referenced earlier on Page 11 of your rebuttal
3 testimony, the quote from Order 83-0309, that part of
4 the Commission's order references the so-called
5 weighted average method or what is also referred to
6 as the average rate assumption method, or A-R-A-M,
7 ARAM for short. Do you see that?

8 A. Yes.

9 Q. And the Commission concluded that the ARAM
10 was consistent with generally-accepted accounting
11 principles. Do you agree?

12 A. I agree.

13 Q. Generally-accepted accounting principles
14 are currently specified in the Accounting Standards
15 Codification, Section 740, is that right?

16 A. That's correct.

17 Q. And the recording of deferred state income
18 tax expense by ComEd and Ameren in their formula rate
19 reconciliation proceeding that we discussed earlier
20 is consistent with generally-accepted accounting
21 principles that are now in effect, isn't it?

22 A. Only to the extent of new originating

1 differences within the year, as their testimony
2 outlined any tax expense that results from the 2010
3 balance, and deferred taxes is done consistent with
4 Order 83-0309 and if amortized under that order. So
5 the whole of their expense is not consistent with
6 ASC-740, only the originating differences that occur
7 in the year.

8 Q. And the same quote that you take from the
9 83-0309 order that you were just referencing
10 addresses reversals resulting from changes in federal
11 and Illinois corporate income rates we previously
12 established deferred income tax, doesn't it?

13 A. That is correct.

14 Q. And the same income tax rate that was used
15 to set up the initial recording of deferred income
16 taxes should be used for reversals, shouldn't it?

17 A. Can you repeat that question?

18 Q. The same income tax rate that was used to
19 set up the initial recording of deferred income taxes
20 task should be used for reversals, shouldn't it?

21 A. The weighted average that exists at the
22 time of a reversal should be used for reversal. That

1 may or may not be. Any given years deferred tax
2 provision would be at the rate in effect in that
3 year.

4 Q. Okay. I'd like to refer you to the
5 company's -- North Shore's Response to a Staff Data
6 Request BAP 22.05. This is in actually -- well, it
7 will be soon in the record as CUB City Exhibit 2.1,
8 which is on Pages 18 and 22. I have an extra copy,
9 if you need it.

10 A. BAP 22.0 --

11 Q. 22.05.

12 MS. SCARSELLA: Wasn't it an attachment to
13 Mr. Smith's rebuttal testimony?

14 MS. SODERNA: It was an attachment to
15 Mr. Smith's rebuttal testimony. I have extra copies.

16 THE WITNESS: I have it without the attachment.

17 MS. SODERNA: I just have one complete copy. It
18 was North Shore's Response to Staff Data Request
19 BAP 22.05. I'm not going to be marking this as an
20 exhibit. It's already marked. Do you have it?

21 MS. SCARSELLA: Yeah, I do.

22

1 BY MS. SODERNA:

2 Q. That particular response is on Page 18 to
3 22 of CUB Exhibit 2.1. I can show Mr. Stabile this
4 copy for your convenience. That's that last page.

5 A. Okay. I recall.

6 Q. Now, was this response prepared by you?

7 A. Yes, it was.

8 Q. And the fourth page of this response to
9 NS-BAP 22.05 is an Excel spreadsheet, and this shows
10 an illustrious example of how deferred income tax
11 expense for the 2013 test year could be computed to
12 recognize the enacted state income rate and
13 provisions of enacted Illinois state income tax law
14 and shows that the subsequent reversals shown there
15 to occur during 2013 through 2024 would reverse at
16 essentially the same income tax rate that was used to
17 set up the initial reporting of deferred income
18 taxes, would you agree?

19 A. The intent of this attachment was to
20 respond to their request if an adjustment were made
21 what would have to be done, and so essentially, what
22 this adjustment is doing, subject to all of the

1 bullet points in the data request, is to indicate
2 that if an adjustment were done to protect all
3 parties it should include an amortization schedule,
4 because essentially, if the benefit is of the
5 lower -- future lower tax rates are flowed through
6 all in the first year of the originating difference,
7 we'd have to have assurance that as the average rate
8 assumption method that our system provide flows
9 through that there be an agreed to amortization
10 schedule, and the amortization schedule here was
11 arbitrary, but it was to the extent of the same
12 period of time that the state tax rates are
13 different. So essentially, this wouldn't give the
14 exact same amortization that the ARAM method would
15 give, but it was a proxy for it.

16 Q. Would you agree that the way you use the
17 term amortization and the way it's shown here is used
18 in the same manner as Mr. Smith uses the phrase
19 reversal, the term reversal?

20 A. Well, the reversal itself is the reversal/AL
21 of the temporary difference. Ultimately, because
22 there is a -- if the state tax rates do indeed

1 change, there ultimately would be a difference
2 between the amount of the -- you know, providing the
3 deferred taxes at the rates in effect for a year,
4 consistent with normalization rules, to how it would
5 be -- you know, the ultimate liability over the life
6 of the asset would occur.

7 So what happens is when using the
8 weighted average method or the ARAM method, the
9 difference between what comes from that method and
10 the current tax rate in the year flows through to
11 cost of service, and people commonly refer to that as
12 an amortization from the ARAM method.

13 Q. And what you just described with regards to
14 the analysis that was done to the Staff response is
15 similar to the calculation that was performed in the
16 ComEd/Ameren reconciliation proceedings that we
17 discussed earlier, right?

18 A. As I understand it. I'm not sure that
19 ComEd and Ameren never addressed or dealt with how
20 they would deal with the issue that was created by
21 flowing these things through immediately knowing that
22 at least ComEd uses the same systems we do. There

1 wouldn't be a mechanism, be like a system, you can't
2 turn on a button and just do it this way.

3 So essentially, they never talked
4 about how they'll ensure, ultimately, that the
5 reversal of that adjustment will be made. So I don't
6 know that aspect, but essentially, assuming that by
7 including the adjustment in the first year they're
8 doing something to eliminate the ARAM effect, if you
9 want to call it that, in the future years.

10 Q. In what you just said, you indicated that
11 you believe that ComEd uses the same tax software
12 system that your companies use?

13 A. It's my understanding, yes.

14 Q. I'm going to move on and discuss with you
15 the issue of repair deduction that you discuss in
16 your testimony, and first, I'll refer you to your
17 direct testimony at Page 9. There you discuss the
18 safe-harbor method for repair deductions. Do you see
19 that?

20 A. The safe harbor that was issued for
21 electric transmission and distribution property, yes.

22 Q. And that was articulated in the Revenue

1 Procedure 2011-43, which was issued on August 11,
2 2011, isn't that right?

3 A. That's correct.

4 Q. And you also referenced the proposed
5 treasury rates under Section 1.263 (A)-3T which were
6 issued on December 27, 2011, concerning the
7 safe-harbor method for repair deductions, right?

8 A. Yes. Those proposed regulations were
9 repropoed, and in it, they indicated that --

10 Q. I just asked you if that was the reference.

11 A. Um-hmm.

12 Q. Thank you. On that same page, in your
13 testimony, your narrative testimony, on Lines 204 and
14 205, you state that Peoples Gas will be satisfied
15 with the tax benefit that the safe-harbor method
16 provides and will elect a method. Is that still the
17 company's position?

18 A. We do believe that at this point still when
19 a safe harbor is issued related to gas that we
20 ultimately will take that safe harbor and elect to
21 use it.

22 Q. Now, referring you to your rebuttal

1 testimony at Page 18, Lines 421 through 423.

2 A. Yes.

3 Q. And there you state with respect to the
4 repair change the utilities no longer believe that it
5 is reasonable to expect the Internal Revenue Service
6 or IRS to allow the repair deductions to be taken on
7 AMRP projects. Do you see that?

8 A. That's correct.

9 Q. And in your testimony, you do not cite to
10 specific documents to substantiate your opinion
11 regarding the alleged risk of whether the IRS will
12 allow repair deductions on ARMP projects, do you?

13 A. There has been no safe-harbor guidance
14 issue for the gas industry, so there would actually
15 be nothing to -- you can't reference a safe harbor
16 that doesn't exist. However, we have, as described
17 in my testimony, seen how there have been significant
18 issues in the interpretation of that safe harbor
19 relative to the electric industry.

20 Q. With regard to gas distribution utilities,
21 is it your understanding that other similar gas
22 distribution utilities in the U.S. are continuing to

1 to pay for repair deductions for portions of their
2 accelerated pipe replacement costs?

3 A. I do not know what other companies are
4 doing relative to any particular program that they
5 have. I don't know their facts and circumstances.

6 Q. And then on Page 18, Line 428, you
7 reference that -- you testify that GAAP would not
8 allow recognition of the tax benefit resulting to
9 deferred taxes.

10 What specific provision of GAAP are
11 you relying upon?

12 A. ASC-740, as it was updated by FIN 48. In
13 other words, it would be our position with everything
14 that we know at the time of rebuttal that we would
15 not be able to get to a more likely position, and
16 therefore, could not record the benefit.

17 Q. Are you familiar with the term tax basis?

18 A. Yes.

19 Q. Would you agree with me that a tax basis
20 can be described as a taxpayer's cost of an asset?

21 A. Generally, tax basis comes from cost,
22 original cost.

1 Q. And a tax basis is subject to being
2 depreciated for income tax purposes, isn't it?

3 A. If the asset is subject to depreciation,
4 yes.

5 Q. And taking a tax deduction for repairs that
6 would otherwise have been capitalized for income tax
7 purposes results in a higher tax basis, doesn't it?

8 A. Could you say the first part of the
9 question again?

10 Q. Taking a tax deduction for repairs that
11 would otherwise have been capitalized for income tax
12 purposes results in a higher tax basis, doesn't it?

13 A. No. It results in a lower tax basis if
14 you're taking a tax deduction for it. It wouldn't be
15 in the capital base in the tax basis.

16 Q. As a general matter, if the company claims
17 lower deductions for repairs and instead capitalizes
18 such costs for income tax purposes, it would have a
19 higher tax basis in the assets, wouldn't it?

20 A. That's correct.

21 Q. Now, you are familiar and you discussed in
22 your testimony the 2012 Taxpayer Relief Act, which

1 was signed by President Obama on January 2, 2013,
2 right?

3 A. Correct.

4 Q. And that act extended for federal income
5 tax purposes the 50-percent bonus tax depreciation
6 through the year 2013, didn't it?

7 A. That's true.

8 Q. But the 2012 Taxpayer Relief Act did not
9 make any changes to the 2012 bonus tax depreciation,
10 did it?

11 A. Correct.

12 Q. And would you agree with me that 50-percent
13 bonus federal income tax depreciation was available
14 through 2012?

15 A. Yes.

16 Q. All things being equal, if the companies
17 are intending to claim lower repair deductions in
18 2013, they would have a higher tax basis in 2013
19 plant addition and could claim 50 percent of its tax
20 depreciation for 2013 federal income tax purposes,
21 couldn't they?

22 A. I think what you're saying is, if a repair

1 deduction weren't taken, the qualified basis for
2 bonus and depreciation would be higher and we'd get a
3 bigger bonus depreciation deduction; that's true.

4 Q. I'm moving on to the invested capital tax
5 issue.

6 A. Okay.

7 Q. Now, the company account for invested
8 capital tax by making monthly and quarterly accruals,
9 don't they?

10 A. Monthly and quarterly accruals? Yeah, we
11 have quarterly accruals, but we do it every month.
12 Did you mean quarterly payments? We make quarterly
13 estimated payments.

14 Q. Monthly accruals for quarterly payments,
15 yes.

16 A. Yes.

17 Q. And for invested capital tax, the monthly
18 accrual is based upon last year's tax dividends
19 divided by 12 months, isn't it?

20 A. No. In the situation for 2012, the way the
21 monthly accrual was estimated was via that method;
22 however, that's just an estimation method.

1 The monthly accrual for accounting
2 purposes should be your best estimate of what that
3 tax will be for that taxable period in the same
4 accounting period.

5 Q. So the estimation is calculated based upon
6 last year's tax dividends divided by 12 months, is
7 that right?

8 A. Specifically to 2012, that was how it had
9 been done, yes.

10 Q. And similarly, for invested capital tax,
11 the quarterly accruals that the companies record are
12 also based upon last year's tax dividends divided by
13 four, aren't they, the quarterly payments?

14 A. Yeah. What happens is like an income tax.
15 The tax is for a period, but you have to estimate and
16 make payments throughout the period. They don't wait
17 until the return is filed. You know, similar to your
18 income tax returns, you have withholdings constantly,
19 but the provisions of the law require -- it's not
20 even a safe harbor that you pay, at least last year's
21 liability. The way you estimate your payment for the
22 law is to just pay the prior year's liability.

1 Q. With that understanding, that statement was
2 correct, right, that the company -- the quarterly
3 payments the company records are based upon last
4 year's taxes divided by four, right?

5 A. Yeah. The estimated payments that you have
6 for the current year are equal to one-fourth each
7 quarter of the past year's liability.

8 Q. And for invested capital tax, the tax
9 return for 2011 of the company was filed on
10 February 29, 2012, wasn't it?

11 A. That's correct.

12 Q. And for invested capital tax for the tax
13 return for 2012 will be filed sometime this month,
14 won't it?

15 A. This month or by the due date of
16 March 15th.

17 Q. And a tax return for the 2012 invested
18 capital tax will be based on amounts as of the
19 beginning and the end of the year, won't it?

20 A. For 2012, correct.

21 Q. For accounting purposes for the 2013
22 calendar year, the company will use the amount of

1 invested capital tax from the 2012 invested capital
2 tax filed in February or early March 20, 2013, as a
3 basis for monthly accrual and quarterly payments
4 during calendar year 2013, won't it?

5 A. No. The company will have to estimate the
6 liability that the 2013 invested capital tax will
7 have, and essentially, while on occasion, the prior
8 year liability has been used to approximate the
9 current year estimate, and in 2012, that is what
10 occurred. Sometimes that amount is increased.
11 Sometimes if the company knows of significant
12 financing, that estimate can be adjusted and any
13 other way to get the best accrual possible.

14 Q. Do you anticipate any of those types of
15 adjustments for 2013?

16 A. For 2013, we have talked about abandoning
17 the simplified method of simply repeating the last.
18 We think we need to do a better job of estimating
19 that accrual for accounting purposes.

20 Q. Can you say sitting here how the company
21 plans to improve that estimate?

22 A. Essentially, what happens is during a --

1 you know, the annual budget process, the estimate
2 usually comes from, for the budget, an estimate of
3 invested capital we receive from say the budgeting
4 people or treasury people.

5 Subsequent to that when we're
6 recording our first accrual in January in 2012 as we
7 had discussed, the prior year of liability had been
8 used to approximate that.

9 I believe what we need to do now is --
10 so for example, for this January closing, we have to
11 at least look to that estimate. We did a budget or
12 get an updated estimate of what the invested capital
13 tax at the end of 2013 will be.

14 We need to at least update it the next
15 budget cycle, and we should be better at monitoring
16 whether or not there are, you know, financings,
17 etcetera, that happen throughout the year. So
18 essentially, our accrual based on, you know, having
19 this highlighted is going to improve.

20 Q. I heard you say that you believe that that
21 methodology should improve in that way. Is that
22 something that the companies have committed to do?

1 Have they made any decisions in that regard?

2 A. Yes, we are doing that.

3 Q. In fact, what you just described is a
4 modification or an enhancement to the essential
5 estimation technique that we just discussed?

6 A. Correct.

7 Q. Now, I just wanted to go back -- getting
8 off the capital tax issue, going back to the state
9 income tax issue. I just want to go back and make
10 sure that I heard you correctly or got the answer
11 that I thought I did.

12 We were discussing that North Shore's
13 Response to BAP 22.05 and that spreadsheet that was
14 produced. So we talked about the fact that ComEd
15 performed this calculation in its reconciliation in
16 12-0321, correct?

17 A. Correct.

18 Q. And this calculation that you performed for
19 the response to the data request, would it be fair to
20 say that this is simplified methodology of making the
21 same adjustment made in the ComEd and Ameren
22 reconciliation proceeding for rating purposes?

1 A. Good morning.

2 Q. Mr. Stabile, I'd like to go back, first of
3 all, to the discussion of the repairs expense
4 deduction.

5 A. Okay.

6 Q. If you could turn to Page 17 of your
7 rebuttal testimony, first, is it correct that in the
8 company's direct case, Peoples Gas included an
9 estimation of a repairs allowance deduction that it
10 plans to take for its Accelerated Main Replacement
11 Program project that would have reduced the test-year
12 rate base for deferred tax liabilities related to
13 that deduction?

14 A. Yes, that is true.

15 Q. And is it correct that a repairs allowance
16 deduction if taken by a company means that the
17 company recognizes work on the project, in this case,
18 the AMRP, as an expense deduction rather than a
19 capitalized investment?

20 A. For tax purposes, yes.

21 Q. Is it also correct that the first time the
22 company indicated that it did not plan to take that

1 repairs deduction was in the rebuttal filing?

2 A. Correct.

3 Q. Now, the results of your rebuttal testimony
4 on that issue is to decrease by 47.2 million as of
5 December 31st of the test year in deferred tax
6 liabilities reflecting AMRP costs being capitalized
7 as an expense, right?

8 A. Correct.

9 Q. And that thereby increases the rate based
10 upon that amount?

11 A. Correct.

12 Q. Let's to your surrebuttal, Page 24. That's
13 where you've been discussing the issue there, and
14 then going on to Pages 25 and 26, you comment on
15 Mr. Effron's reference in his rebuttal testimony to
16 another utility company that's been taking income tax
17 deductions for repair allowances. Do you see that
18 testimony?

19 A. I do.

20 Q. In Line 601, you note that the 48.33
21 percent estimate appears to be the percentage
22 National Grid, which was the other utility cited by

1 Mr. Effron in his rebuttal testimony, used in filing
2 its fiscal year 2011 tax return in December 2011. Do
3 you see that?

4 A. Correct.

5 Q. Now, you indicate -- going on to the top of
6 Page 26, you say, Therefore, it's not necessarily
7 reflective of National Grid's assumption today and is
8 clearly not an analytical estimate applying technical
9 merits to actual spend that Peoples Gas is relying
10 on.

11 So is your point there that you
12 believe that it's uncertain or that it dates back to
13 2011 and is therefore unreliable after you reviewed
14 that National Grid information?

15 A. I think it's a combination of the fact that
16 I'm looking at what's publicly available, and to some
17 extent, trying to draw relationships, but in general,
18 I don't know their exact facts and circumstances, and
19 just mentioning another company doing a certain thing
20 does not mean that it would -- that the technical
21 merits of an AMRP deduction relative to our facts and
22 circumstances would be warranted.

1 Q. Let's look at your questioning about
2 whether it's still applicable in these current times.

3 I'm going to show you what we'll mark
4 as AG Cross Exhibit 21, I believe. Now, this is a
5 copy of a document that I believe the company
6 received in response to a data request forwarded to
7 Mr. Effron entitled National Grid, the Narragansett
8 Gas Company Gas Infrastructure Safety and Reliability
9 Plan FY 2014 Proposal.

10 Do you recall reviewing this document
11 as part of the company's discovery in your testimony
12 indicating that you believe that the 48.33 estimate
13 appears to be the percentage National Grid used in
14 its filing in fiscal year 2011 tax return?

15 MS. SCARSELLA: Excuse me. What DR response
16 was that attached to?

17 MS. LUSSON: That was attached to DR 7.01.

18 MS. SCARSELLA: AG-7?

19 MS. LUSSON: Yes.

20 MS. SCARSELLA: I apologize. Was that sent
21 after Mr. Stabile filed -- I guess when was the data
22 request sent?

1 MS. LUSSON: I just don't recall offhand.

2 BY MS. LUSSON:

3 Q. Did you review -- let me ask you this,
4 Mr. Stabile: Did you review the information supplied
5 by Mr. Effron on this issue related to his statement
6 about National Grid work and whether or not they had
7 taken a repairs deduction?

8 MS. SCARSELLA: I apologize. Shouldn't the
9 question be if he saw this document before?

10 MS. LUSSON: First I want to see if he reviewed
11 the information supplied in the data request.

12 THE WITNESS: I have not seen the replies in
13 the data request.

14 BY MS. LUSSON:

15 Q. So you were not involved in the request to
16 provide citations to the final order of your
17 testimony or other exhibits in the National Grid
18 proceeding referring to the testimony supporting the
19 48.33 percent of plant additions that would qualify
20 as tax repairs?

21 A. I didn't see any.

22 Q. So I take it you're not familiar with this

1 document?

2 A. I'm not.

3 Q. Do you know, sitting here today, whether or
4 not -- what documents did you review in making your
5 statement about the tax date, what your opinion was
6 of the National Grid taking a decision to take the
7 deduction?

8 A. Just what I could get it by doing internet
9 searches. And.

10 Q. And do you recall what you looked at?

11 A. I don't recall the specifics, just I've
12 looked and read it and the different things I could
13 find.

14 Q. Will you accept, subject to check, that
15 this is a copy of the National Grid's Gas
16 Infrastructure Safety and Reliability Plan FY 2014
17 Proposal to the Rhode Island Commission of Public
18 Utilities Carriers?

19 MS. SCARSELLA: I'm going to object for lack of
20 foundation. He didn't review the document. He
21 hasn't seen it.

22 MS. LUSSON: He indicated he's not sure what

1 documents he looked at. He did a Google check.

2 MS. SCARSELLA: He looked at documents. He
3 doesn't recall seeing them. I think he clearly
4 stated he didn't recall seeing the documents.

5 JUDGE DOLAN: Her question was, would you take,
6 subject to check, that that's what this document is.
7 I'm not sure what your objection is.

8 MS. SCARSELLA: But he didn't use it to draw
9 his conclusions and his testimony. He wouldn't be
10 answering questions on a document that he's just
11 looking at for the first time right now.

12 MS. LUSSON: Although the witness did make
13 statements about what National Grid did or did not do
14 with respect to its repair deduction.

15 MS. SCARSELLA: And it wasn't based on this
16 document. It's tantamount to reading a news article
17 and asking him questions about an article.

18 JUDGE TEAGUE: We're going to sustain your
19 objection.

20 BY MS. LUSSON:

21 Q. Okay. Mr. Stabile, let's look at, again,
22 Line 671 of your testimony where you state: Further

1 the 48.33 percent estimate appears to be the
2 percentage National Grid used in filing its fiscal
3 year 2011 tax return in December, 2011? Do you see
4 that? I'm sorry, the bottom of Page 25.

5 A. Yes.

6 Q. And if you turn the page, you indicate,
7 Therefore, it's not necessarily reflective of
8 National Grid's assumption today and is clearly not
9 an analytical estimate applying technical merits to
10 actual spend that Peoples Gas is relying on. Do you
11 see that as well?

12 A. Yes.

13 Q. What documents did you rely on to conclude
14 that it's not necessarily reflective of National
15 Grid's assumption today?

16 A. I worked with people in our department who
17 helped me with this, and I got a summary of what they
18 could find by doing internet searches, and I looked
19 myself, and essentially, I just concluded from that
20 that there wasn't enough there to rely on relative to
21 our facts and circumstances. It's difficult to
22 compare across companies.

1 Q. The basis for that that the conclusion that
2 it's not necessarily reflective of National Grid's
3 assumption today is based on a summary of internet
4 searches provided by other people in your department?

5 A. Correct, and things I did myself to try to
6 verify those.

7 Q. Were you aware of reports that indicated
8 what the company's intentions were with respect to a
9 repairs deduction as of fiscal year -- and dated
10 November 1, 2012, as late as November 1, 2012?

11 A. I'm not intimately involved with National
12 Grid's particulars and programs. Again, when I'm
13 rebutting this, I'm looking at what I can find, but I
14 don't have any direct knowledge of their facts and
15 circumstances or their programs; that I can just do
16 what I can do, and to look at that relative to our
17 circumstances. I just couldn't see anything --
18 I think all I'm trying to say here is I can't see
19 anything where I can go, oh, yes, this is exactly
20 like us and consider something different.

21 Q. Well, my question isn't about whether the
22 National Grid Program is exactly like Peoples Gas's.

1 I'm just trying to understand the basis for your
2 conclusion that the repairs deduction dates back to
3 December 2011 and is it current now.

4 MS. SCARSELLA: Again, that's been asked and
5 answered. I think he just said he found the
6 documents that he could find relating to the and
7 couldn't find anything more recent.

8 THE WITNESS: And my testimony does not say
9 isn't currently. It just says is not necessarily
10 reflective. I don't know. I can't know what they've
11 done.

12 BY MS. LUSSON:

13 Q. If you could turn to Page 27, at Line 641,
14 you state that Peoples did not take a repair
15 deduction for any AMRP projects. Do you see that?

16 A. I do.

17 Q. And that's again in your 2011 tax return?

18 A. Correct. So the last return we filed we
19 did not take a deduction for AMRP projects.

20 Q. And you'll be filing your 2012 tax return
21 when?

22 A. On or before September 15th of 2013.

1 Q. I want to show you what I'll mark as AG
2 Cross Exhibit 22.

3 AG Cross Exhibit 22 is the company's
4 response. Do you recognize this to be the company's
5 response to AG data request 15.11?

6 A. Yes.

7 Q. Was this response prepared by you or under
8 your supervision?

9 A. Yes.

10 Q. On the first page is directed to North
11 Shore. The second page, I believe, talks about the
12 response to Peoples Gas.

13 On the third page, it says that in
14 September -- which is actually the last page of the
15 exhibit. In September of 2012, Integrys filed its
16 2011 return implementing 2011-43, and that the
17 release of revenue procedure 2012-039 came too late
18 and quote "did not give Integrys enough time to
19 eliminate what had been done to implement 2011-43."
20 Do you see that?

21 A. That's correct.

22 Q. Would you agree that this response seems to

1 imply that no change to the applicability of the
2 repairs deduction was made from what had been an
3 assumed work order?

4 A. This is discussing Integrys, and Integrys
5 has two electric utilities. The electric utilities
6 can use the electric transmission and distribution of
7 safe harbor. It's not applicable to gas companies.
8 We are using this safe harbor to get an idea of what
9 could happen when the gas transmission and
10 distribution -- when the gas distribution safe harbor
11 basically comes out and what the timeline is is
12 showing is that even within the electric utility
13 industry where this guidance is applicable, there
14 have been so many questions raised that the IRS has
15 delayed the implementation by one year.

16 Our electric companies in Integrys
17 were not able to undue the method change that was in
18 there, but this would not have any direct
19 applicability. It didn't change Peoples Gas's
20 determination. Peoples Gas's determination in the
21 '11 return essentially is, and at this point, we
22 can't take the repair deduction.

1 Q. Everything you've just described is not
2 indicated in this response, is it; I mean, in terms
3 of the electric distinction and the gas distinction?

4 A. Well, it says revenue proceeding was issued
5 allowing electric utilities the ability to delay
6 presentation. Throughout this whole case, we've made
7 it clear that revenue procedure for the electric
8 transmission and distribution related only to
9 electric transmission and distribution for taking
10 repairs deductions and generating these tax benefits
11 early without the applicable gas guidance, and we're
12 trying to do the best we can to properly estimate
13 what we think is the repair deduction we can take on
14 a return, given all of the moving parts during all of
15 these periods.

16 Q. Let's continue with the company's evolution
17 of thinking on this matter.

18 If you could look at Pages 30 and 31
19 of your surrebuttal testimony.

20 A. Yes, ma'am.

21 Q. Beginning at Line 726, you explain why
22 Peoples' change estimate of the repairs deduction in

1 your rebuttal, correct?

2 A. Correct.

3 Q. One factor you cite is the testimony of
4 Staff Witness Seagle in particular. Do you see that?

5 A. Yes.

6 Q. Is it correct that given the size of the
7 disallowance proposed by Mr. Seagle to the AMRP plant
8 investment that the company's tax treatment of
9 repairs disallowing estimates would necessarily
10 change?

11 A. It would change, yes.

12 Q. And you state that this is only one
13 example, and that many more can be found looking at
14 the rebuttal testimony and attachments of staff and
15 AG witnesses Effron, Seagle, and Buxton. Do you see
16 that?

17 A. Yes.

18 Q. How can the rebuttal testimony and
19 attachment of staff and AG witnesses possibly explain
20 why Peoples Gas changed its estimate for a tax repair
21 deduction in rebuttal on December 18, 2012, if the
22 rebuttal testimony and attachments of Staff and AG

1 witnesses weren't filed until January 16, 2013?

2 A. At the time of doing surrebuttal, which is
3 what this is, the company would have to consider
4 everything that it would know relative to the repair
5 deduction, and essentially, the point in the
6 testimony that this is going to is whether or not the
7 safe harbor method related to a certain aggregation
8 rule would apply, and the more that this looks like
9 it's a specific program approved by a Commission, the
10 more that that falls into -- in each step as I'm
11 doing my surrebuttal, I'm looking at everything to
12 see if it's still supported.

13 Q. If you could go back to the Response Data
14 Request 15.11, Page 3. In particular, focus on the
15 the item labeled October 2012. It states IBS Tax
16 reviewed the utility's testimony related to estimates
17 of capital expenditures related to gas main
18 replacements. You can read on there. Based on this
19 analysis, IBS Tax started looking at how an AMRP
20 would be viewed. Is that your testimony there?

21 A. That's the response to the data request.

22 Q. Which was prepared by you?

1 A. Yes.

2 Q. And you are the tax director of Integrys
3 Business Support, right?

4 A. Right, of their research and planning and
5 accounting for income taxes.

6 Q. Is it testimony then that IBS Tax started
7 looking at how AMRP would be used for income taxes
8 only in October of 2012 for a tax deduction affecting
9 the 2011 through 2013 AMRP time periods?

10 A. No. That's just updating that at that
11 point in time, which was near when supplemental
12 direct filing was occurring, we were looking at the
13 issue and started thinking about it, because we made
14 no change in supplemental direct filing at that point
15 in time, but it was getting our attention.

16 Q. You also cite a Commission order in another
17 case, at Page 33 of your surrebuttal, Line 788. You
18 cite what was done in 10-0467, a recent ComEd case.

19 A. Yes.

20 Q. Now, in that case, ComEd did not in its
21 rebuttal testimony, as Peoples Gas has in this case,
22 changed its treatment of any tax deductions from what

1 the treatment had been in its direct testimony, did
2 it?

3 A. I believe ComEd at that point in time
4 without guidance -- during their proceeding at some
5 point, had never proposed a repair deduction, and
6 Mr. Effron had tried to impute the deferred tax
7 liability that would exist. I don't know -- I guess
8 they just never had done a repair deduction. They
9 hadn't done one and then tried to change it.

10 But essentially, it's the same thing.
11 With what we know at rebuttal and today and what we
12 did on our 2011 return, we can't take that tax
13 deduction.

14 Q. In fact, shortly after third quarter of
15 2011, after that order was issued, didn't ComEd
16 implement revenue procedure, revenue procedure, and
17 take a tax deduction of approximately 600 million,
18 plus an ongoing annual deduction of 200 million
19 related to repair amounts?

20 A. I believe based on the information that was
21 included related to the safe-tax deduction explaining
22 the reason the originating differences were so large

1 they do mention implementing in 2011 the repair
2 deduction.

3 Q. And wasn't this done in spite of the fact
4 that some, as you put it, ComEd had no current plans
5 to take any such deductions just a few months in
6 Docket 10-0467?

7 A. I'm not sure exactly what that test period
8 was for the ComEd docket, so I don't know, but I
9 would imagine that the test period was not 2011 in
10 that document.

11 Q. In which docket, 10-0467 or 11-0721?

12 A. They might have had a historical test year
13 in that one.

14 Q. If Peoples Gas decides to take a repair
15 deduction in September of 2013, the effects -- the
16 reduction to the rate base and the savings that
17 Peoples Gas would occur would not be shared with rate
18 payers, at least as a result of this order, is that
19 right?

20 A. I think what you're asking is that on or
21 before September of 2013, if Peoples Gas did take the
22 repair deduction?

1 Q. Um-hmm.

2 A. Yes. At that point in time, there would be
3 an adjustment to deferred tax liabilities, and those
4 liabilities would be there and would be there at the
5 time of the next rate case.

6 Q. But for purposes of the rates set in this
7 case, rate payers would not see their benefit, would
8 you agree?

9 A. I would agree, but I don't agree with the
10 premise. Right now, I don't believe Peoples Gas --
11 they didn't take one in 2011, and I believe there's
12 no basis for '12 or '13 with what I know today.

13 Q. If Peoples chooses to take repairs
14 deduction similar to ComEd's original belief that
15 they weren't going to take repairs deduction, and
16 then ultimately did take their repairs deduction,
17 would you agree that shareholders would benefit but
18 not rate payers because that benefit would not be
19 reflected in the rates set in this case?

20 A. For the limited time frame, whatever that
21 is, of regulatory lag, that would be true, but on the
22 other hand, to the extent that, with what I know

1 today, Peoples Gas did that, they would be subject to
2 significant audit risk, including interest and
3 penalties, which would be born by the shareholders.

4 Q. Let's turn back to the subject of income
5 tax normalization accounting. Look at Page 3 of your
6 rebuttal testimony.

7 First, generally speaking, is it
8 correct that the concept of books -- general concept
9 of books to tax differences -- is that for temporary
10 timing differences where tax deductions occurred in a
11 different period than book expenses, utilities are
12 required to report deferred income taxes?

13 A. Yes.

14 Q. Is it correct that both common and
15 temporary book-to-tax differences related to
16 depreciation expense for plant and service where the
17 rate of depreciation differ for book and tax
18 purposes?

19 A. Yes.

20 Q. With respect to the depreciation
21 book-to-tax differences, would you agree that tax
22 depreciation is accelerated, and in some years, bonus

1 depreciation is allowed such that tax depreciation is
2 generally a much larger number than the book
3 depreciation in any given year?

4 A. On a net basis overall, yes.

5 Q. And then at Line 100 of Page 4 of your
6 rebuttal testimony, you state that the utilities have
7 applied the full normalization and average rate
8 assumption method or ARAM, which you discussed with
9 Miss Soderna, and the Commission's Order of 83-0390.

10 Do you see that testimony?

11 A. Yes.

12 Q. And is it correct that under full
13 normalization accounting for books-to-tax differences
14 that utilities are required to record a provision for
15 deferred income tax is when the tax depreciation
16 deduction is larger than the associated book
17 depreciation expense?

18 A. Correct.

19 Q. And this provision for deferred income
20 taxes would be a debit to deferred income tax expense
21 and a credit for the accumulated deferred income tax
22 account that is used to reduce the rate base?

1 A. Correct.

2 Q. If future years, when all the tax
3 depreciation has been taken on a particular vintage
4 of utility property, is it correct that the
5 book-to-tax differences reverses, because at that
6 time, book depreciation exceeds tax depreciation?

7 A. Correct.

8 Q. And the point where book depreciation
9 exceeds the tax depreciation under full normalization
10 accounting, the entries we previously discussed are
11 reversed, such that deferred income tax expense is
12 credited, and the accumulated deferred income tax
13 balance is debited; is that how it works?

14 A. That's correct.

15 Q. So can we agree that provisions for
16 deferred taxes are what happens first in the year the
17 book-to-tax timing differences originate, and then
18 reversals of deferred taxes are what happens later
19 when the book-to-tax differences unwinds or are
20 eliminated?

21 A. Yes. I might sometimes use the word
22 originating difference, or you can use provisions,

1 but it's the same thing.

2 Q. And then looking at Page 11, Line 250 of
3 your rebuttal. Let's go back to that 83-0309 order,
4 and you quoted at Line 250 -- or 253. You state
5 that -- in the reference section that you quote
6 there, you state that they make it clear that
7 normalization of deferred taxes using ARAM, A-R-A-M,
8 is the prescribed method of accounting that we
9 clearly should use and apply the changes in federal
10 and Illinois corporate income tax rate; is that your
11 testimony?

12 A. Yes.

13 Q. Would you agree that back in 1983 the
14 situation being addressed in the order is quote, "Is
15 how to account for reductions in federal income
16 taxes, tax rates, in connection with excessive
17 accumulated deferred tax balances that had been
18 provided in prior years at generally higher federal
19 income tax rates." Do you know?

20 A. The order of scope is not limited to that.
21 I believe a particular federal income tax rate
22 decrease that happened in the late '70s or early '80s

1 brought the issue to the forefront.

2 Q. But you agree that was one of the issues
3 being addressed in the order?

4 A. Yes.

5 Q. Mr. Stabile, I'm showing you -- or
6 Mr. O'Brien is handing you what's previously been
7 marked a part of AG Exhibit 1.9, and this is the
8 order you reference, and it's now attached to
9 Mr. Brosch's direct testimony.

10 So I pulled out of that exhibit the
11 LexisNexis copy of the order. Subject to check, is
12 this a true and correct copy of that Commission
13 order?

14 A. I will.

15 Q. Now, first, back in the quoted language
16 that you have on Page 254, you indicate that
17 so-called weighted average method requiring reversals
18 or debits to the accumulated deferred tax reserve
19 account by applying a weighted average historical
20 rate to the excess.

21 Does that indicate it's talking about
22 reversals rather than provisions of the deferred

1 income taxes?

2 A. It is, because under full normalization is
3 consistent with General Instruction 18 of the Uniform
4 System of Accounts, which Illinois adopted, which
5 that instruction is based on the FERC Order No. 144.
6 Essentially, it's a definition of a provision is the
7 amount that the tax liability would be different if
8 the deductions were based on what's used in cost of
9 service and rate making instead of the tax return.

10 In the FERC definition or provision,
11 there's no discussion of a particular rate. It's a
12 particular amount of deferred tax to provide. So
13 inherently, what happens is by virtue of that, and by
14 virtue, using full normalization as Order 144
15 provides, there's recognition that tax rates change,
16 and tax rates could be in excess or they could
17 deficient, and the order addresses that has to be
18 dealt with. In Illinois, the way that it's dealt
19 with is by reversing --

20 Q. Can I stop you?

21 MS. SCARSELLA: She's interrupting mid answer.

22 MS. LUSSON: I'm happy to let him finish, but

1 my original question was whether that quoted language
2 is talking about reversals rather than provisions of
3 deferred income taxes. So that to me would be a
4 simple answer.

5 MS. SCARSELLA: Obviously not. Mr. Stabile was
6 trying to explain to her what his understanding of
7 that section of the order is.

8 THE WITNESS: Yes. So essentially, because
9 provisions --

10 MS. SCARSELLA: I think he should be allowed to
11 finish his answer.

12 JUDGE TEAGUE: Yes.

13 BY MS. LUSSON:

14 Q. Carry on, Mr. Stabile.

15 A. I think where I left off was that, yes,
16 this deals with reversals because of the way
17 provisions are required to be done there can be
18 created an excess or a deficiency. That's what the
19 order addresses.

20 Q. Down at Line 271 in the ordering provision
21 of this 1983 order, is the Commission talking about
22 how Illinois utilities, quote, "shall for rate-making

1 purposes account for reversals resulting from changes
2 in federal and Illinois corporate income tax rates
3 for income tax deferred in prior years."

4 Would agree that that's what it was
5 talking about there?

6 A. Yes.

7 Q. And based on our earlier discussion, the
8 amount of quote/unquote, "deferred in prior years"
9 being referenced at Line 272 here of your testimony
10 would be a reference to the provisions of deferred
11 income tax expenses in those prior years, is that
12 correct?

13 A. That's correct.

14 Q. Now, if you could look at the order you
15 have in front of you, a copy of the 83-0309 order, if
16 look at the bottom of Page 10 where it begins it is
17 therefore ordered -- I'm looking at Page 10 of
18 Mr. Brosch's exhibit.

19 MS. SCARSELLA: I apologize.

20 BY MS. LUSSON:

21 Q. Is it correct that your rebuttal testimony
22 quotes most but not all of the Commission's ordering

1 language?

2 A. Yes.

3 Q. Is there any place in the 83-0309 paragraph
4 starting it is therefore ordered language that you
5 can point me to that specifies that utilities are
6 required to use an average rate for provisions of
7 deferred taxes?

8 A. No. There is no place requiring an average
9 rate for provisions.

10 Q. In fact, would you agree that that order
11 specifies using an average rate assumption method
12 only for reversals of deferred income taxes that were
13 deferred in prior years?

14 A. Yes. It describes how the rate to apply to
15 a reversal.

16 Q. I just want to ask you a few more questions
17 about an issue that you did discuss with
18 Miss Soderna. I'll try not to duplicate or be
19 repetitive.

20 If you could turn to Page 17 of your
21 surrebuttal where you describe what ComEd did
22 according to the testimony in Docket 12-0321.

1 A. I'm sorry. Did you say rebuttal or
2 surrebuttal?

3 Q. Surrebuttal.

4 A. I'm sorry. The page number again?

5 Q. 17, Line 395?

6 A. Yes.

7 Q. As I understand your testimony, is that
8 ComEd chose to flow through the future excess versus
9 normalizing the benefit over the service life of the
10 underlying property as occurs with ARAM, A-R-A-M, is
11 that right?

12 A. Correct.

13 Q. The parenthetical refers to Docket 12-0321
14 there. Line 392 refers to Docket 12-0321, but your
15 question at Line 394 refers to Docket 11-0721. Did
16 you mean to refer to 12-0321 in all three places?

17 A. I believe so.

18 Q. If you know, it seems to be the same
19 testimony that you're quoting from that both
20 Mr. Smith and Mr. Brosch quoted from in their
21 testimony?

22 A. It is.

1 Q. I think you attached a copy of the ComEd
2 Exhibit 3.0 revised, testimony from the referenced
3 comments to your surrebuttal, is that right?

4 Line 395 of your characterization for what ComEd
5 chose to do. No. Actually, you did not, did you?

6 MS. SCARSELLA: Are you asking if he attached
7 it?

8 MS. LUSSON: Yeah.

9 MS. SCARSELLA: No, he did not.

10 BY MS. LUSSON:

11 Q. I'm going to show you what we'll mark as
12 AG Cross Exhibit 23.

13 Mr. Stabile, AG Cross Exhibit 23 is a
14 copy of Mr. Fruehe. Do you recognize it to be a copy
15 of Mr. Fruehe's testimony in Docket 12-0321?

16 A. It says it's the direct testimony of
17 Mr. Marvin G. Fruehe.

18 MS. SCARSELLA: That's the only notation I
19 would make. I believe it was revised.

20 MS. LUSSON: Yes, I would note that. We looked
21 in both E Docket and in our filing and did not locate
22 at ComEd 3.0 revised.

1 I think I can state, though, with
2 confidence that the portion I'm focusing on in
3 Mr. Fruehe's testimony at Line 783 was not revised,
4 and obviously, Mr. Stabile can check that; feel free
5 to check that.

6 BY MS. LUSSON:

7 Q. If you could look at Mr. Fruehe's testimony
8 at Line 783, which I believe is Page 37, on line --
9 did you find the paragraph at the bottom of the page?

10 A. Yes, I've got it.

11 Q. If you could read that paragraph, take a
12 moment to read that.

13 A. Okay.

14 Q. Would you agree that Mr. Fruehe did not
15 describe this tax benefit as what that company chose
16 to do as you suggested Line 395 of your surrebuttal,
17 but rather what was recorded on ComEd's books?

18 A. I guess I was viewing it in light of the
19 fact that essentially they were stating income tax
20 rates that changed and ComEd chose to say that Order
21 83-0309 applied relative to the balances at December
22 31, 2010, but did not use the same order relative to

1 the originating differences in 2011. I guess my
2 choice of words was that they analyzed the order and
3 made a choice.

4 Q. Is it true that Mr. Fruehe did not
5 characterize the income tax benefit he was describing
6 as flow-through accounting anywhere within his
7 testimony.

8 A. He does not.

9 Q. Do you see where Mr. Fruehe states that
10 some of the deferred taxes recorded in 2011 will
11 reverse in later years when the state income tax rate
12 is scheduled to be lower? Do you see that?

13 A. That's correct.

14 Q. The reference the deferred taxes recorded
15 in 2011 that Mr. Fruehe is making, the provision of
16 deferred income expenses for book-to-tax differences
17 that are originating?

18 A. Originating differences in '11 will reverse
19 in future years.

20 Q. So you agree?

21 A. I believe so, yes.

22 Q. When Mr. Fruehe talks about how some of the

1 deferred taxes recorded in 2011 will reverse in later
2 years when the state income tax rate is scheduled to
3 be lower, would these be the reversal of book-to-tax
4 differences that we discussed earlier?

5 A. Yes.

6 Q. And is it your testimony that when ComEd
7 recognized the deferred income tax provision benefit
8 described by Mr. Fruehe here in this testimony due to
9 state income tax changes that ComEd was violating the
10 income normalization requirements of the Internal
11 Revenue Code?

12 A. Because this relates to state income taxes,
13 I cannot say that that would be a violation of the
14 Federal Income Tax Code; however, I do believe it's
15 inconsistent with the definition of normalization
16 within the Federal Income Tax Regulations, and it's
17 inconsistent with normalization definition in FERC
18 Order 144.

19 Q. Is it your testimony that when ComEd
20 recognized the deferred income tax provision benefits
21 described by Mr. Fruehe due to state income tax rate
22 changes ComEd was violating the income tax accounting

1 requirements under generally-accepted accounting
2 principles or GAAP, G-A-A-P?

3 A. No, they were not, but they were
4 inconsistent with Order 83-0309 and the normalization
5 rules of FERC Order 144.

6 Q. So you believe ComEd as in violation of the
7 IRS Code?

8 A. I said no to the Internal Revenue Code
9 because it's state taxes.

10 Q. To your acknowledge, has ComEd incurred any
11 penalties or any warnings as a result of your view
12 that they violated normalization, I think you
13 indicated, or normalization requirements?

14 A. Outside of the normalization requirements
15 related to federal income tax, there would be no
16 other penalties that I could think of, and so there
17 would be no other penalties to be subject to.

18 Q. By that answer, are you suggesting there
19 was a penalty?

20 A. No. I'm saying that I've already said
21 that, in my testimony and now, that I don't believe
22 this is a direct violation of the Federal Income Tax

1 Normalization Rules because this is state income tax.
2 So there's no other penalty I'm aware of. The
3 Federal Income Tax Rules would have the consequence
4 of violating a normalization. The state income tax
5 wouldn't have that same consequence.

6 Q. Is it your testimony that ComEd recognizes
7 the deferred income tax provision benefits described
8 by Mr. Fruehe due again to the state income tax rate
9 changes that ComEd was violating the Commission's
10 order 30 years ago in the 83-0309 docket?

11 A. The Commission's order says at the bottom
12 that it's presumption, and for good cause, a change
13 could be made. I'm making an inherent assumption
14 that they felt they good cause, and there was no
15 discussion in the record related to this issue, and
16 there was no dispute. I'm basically assuming that
17 they could do that, and no one questioned them.

18 Q. With respect to the Peoples Gas/North Shore
19 proposed method of accounting, is it true that no tax
20 savings benefits of the type recognized by ComEd are
21 used to reduce Peoples Gas revenue requirements in
22 contemplation of the scheduled reduction as per the

1 tax rate?

2 A. No, because they will receive those
3 benefits over the life of the asset as when they flip
4 through under the method provided in Order 83-0309.

5 Q. Would you agree that ComEd is subject to
6 the same GAAP, IRS Code, and APB Accounting Rules
7 with regard to state income tax and expenses that
8 Peoples and North Shore are subject to?

9 A. Yes.

10 Q. And we do agree that Ameren Illinois
11 Utilities are subject to the same GAAP, Internal
12 Revenue Code, and APB Accounting Rules with regard to
13 income tax and expense that Peoples and North Shore
14 are?

15 A. Yes.

16 MS. LUSSON: No further questions.

17 I would move for the admission of
18 AG Exhibit Cross Exhibit 22 and 23, which was
19 Mr. Fruehe's testimony.

20 MS. SCARSELLA: Your Honor, I have no objection
21 to 22 and really don't have an objection to 23, per
22 se, but I think only the relevant pages of

1 Mr. Freuhe's testimony should be included in the
2 exhibit. I don't know why the entirety of his
3 testimony needs to be here.

4 MS. LUSSON: I'm fine with just admitting the
5 the pages. So there's a context for the response,
6 Pages 36, 37, and 38, along with the cover page, and
7 the table of content.

8 However, if you look at the testimony,
9 it will kind of give you a context as to who
10 Mr. Fruehe is. So it might be easier --

11 MS. SCARSELLA: If you want to include his
12 background, that's fine, but I'm fine with 36 through
13 38 and the page that describes Mr. Fruehe's
14 background.

15 MS. LUSSON: I'm happy to do that; obviously,
16 whatever you think, but it just seems to be extra
17 work, and it's only three copies in the record.

18 MS. SCARSELLA: He testified as to a number of
19 questions in there. Once it's in the record, it's in
20 the record. I don't see why all these other topics
21 of discussion that he testified needs to be needs to
22 be included in here.

1 JUDGE TEAGUE: We're going to admit AG Cross
2 Exhibit 22, and then AG Cross Exhibit 23, but just
3 the cover, the Table of Content, the first page, and
4 then Page 36 through 38?

5 MS. LUSSON: Thank you, your Honor.

6 JUDGE TEAGUE: We have one quick question.

7 Would the 2013 net operating loss
8 adjustment be different if the 2012 net operating
9 loss adjustment is not included in the revenue
10 requirement?

11 THE WITNESS: I'll answer the mechanical
12 question first, and then I do feel obligated to
13 mention something relative to the normalization rules
14 as well.

15 But the first answer is that 2013, as
16 long as -- the 2012 amount is a balance, and it would
17 be there at the beginning of the year. So the 2013
18 activity, depending on the adjustments that are made
19 in the proceeding and the revenue requirement that
20 results, would either increase or decrease that
21 balance.

22 If the amounts serve to simply

1 increase the balance, then the amounts would serve to
2 increase the balance under either circumstances.

3 If the amounts were to decrease the
4 balance, then the amount of balance to be decreased
5 would be different if there is no opening balance.
6 Does that make sense?

7 And then that being said, though, I do
8 want to be clear that, essentially, including the NOL
9 is a requirement of the Federal Income Tax
10 Regulations, and therefore, I think my answer would
11 be -- my true answer would be if the 2012 NOL balance
12 is not included there would be a violation of
13 normalization that would occur, which would result in
14 the loss of accelerated depreciation, including bonus
15 depreciation, and so I would have significant
16 concerns about that, but I would say the proper
17 adjustment then would to not only be to eliminate the
18 NOL balance but to eliminate the rate base that the
19 increased -- you know, that the accelerated
20 depreciation and bonus depreciation deductions
21 provided.

22 JUDGE TEAGUE: Thank you very much.

1 JUDGE DOLAN: Off the record.

2 (Discussion off the record.)

3 JUDGE DOLAN: Do you have any questions?

4 MS. SCARSELLA: Just a couple questions.

5 REDIRECT-EXAMINATION

6 BY MS. SCARSELLA:

7 Q. Mr. Stabile, do you remember when
8 Miss Soderna asked you about consistency in the
9 Commission's order and the ComEd and Ameren cases
10 with regards to 83-0309?

11 A. Yes.

12 Q. Would the Commission be inconsistent in
13 this case if it adopted its ruling from 83-0309?

14 A. No. I think there's two things to think
15 about with that one. The first one is there are
16 other utilities in the state, and I don't know what
17 they are or aren't doing, but if they were to adopt
18 the method that Ameren and Edison had and they did
19 not have a test year between the years 2011 and 2014,
20 and assume that that was a good and valid method,
21 those benefits by not using Order 83-0309, those
22 deferred tax benefits would flow through to income an

1 never go to a rate payer, and so using Order 83-0309
2 would consistently, across all utilities, would take
3 those benefits and spread it over the remaining life
4 of assets, and the risk of those benefits not making
5 it to rate payers consistently across the state would
6 be mitigated.

7 Q. Miss Soderna also asked you, as well as
8 Miss Lusson, about the Peoples Gas claiming the
9 repairs deduction. To clarify, what exactly is
10 Peoples Gas claiming on their tax return with regards
11 to repairs?

12 A. Peoples Gas, like North Shore, still have a
13 repair deduction. All Peoples Gas changed was the
14 repair deduction relative to AMRP assets.

15 Q. With respect to repair deductions,
16 Miss Soderna also asked you about the company's
17 ability to take bonus depreciation in 2012 and 2013.

18 What was your proposal and direct
19 testimony with respect to the repairs deduction as it
20 relates to AMRP projects in 2012 or as it relates to
21 AMRP projects?

22 A. In terms of bonus depreciation?

1 Q. In terms of --

2 A. Bonus depreciation wouldn't have played
3 into it.

4 Q. Let me try this again.

5 What was the Peoples Gas position in
6 direct testimony with regards to the repairs
7 deduction as it relates to AMRP projects?

8 A. For AMRP projects, Peoples Gas was taking,
9 I believe, approximately 40 percent of those amounts
10 as a repair deduction.

11 Q. At the time, was the fact that Peoples Gas
12 didn't take bonus depreciation in 2012 a factor --

13 A. No.

14 Q. -- in making that proposal?

15 A. No.

16 Q. What was the company's position in rebuttal
17 testimony with respect to the repairs deduction as it
18 relates to AMRP project?

19 A. That AMRP projects would no longer qualify,
20 that we could not take a tax deduction on a tax
21 return for an AMRP project related to repairs.

22 Q. And the ability to take bonus depreciation

1 a factor in that decision-making process?

2 A. No.

3 Q. What's your position today with respect to
4 the ability to take repairs deduction with respect to
5 AMRP projects?

6 A. It's the same as the rebuttal position.

7 Q. The ability to take bonus depreciation
8 affect that decision?

9 A. It didn't affect the decision.

10 MS. SCARSELLA: That's all I have, your Honor.

11 JUDGE TEAGUE: Any recross?

12 MS. LUSSON: No.

13 JUDGE TEAGUE: Thank you, Mr. Stabile.

14 MS. SODERNA: I don't have any recross.

15 JUDGE TEAGUE: Mr. Stabile, you're excused.

16 Thank you very much.

17 JUDGE DOLAN: Off the record.

18 (Lunch recess had.)

19

20

21

22

1 JUDGE DOLAN: Before we take our next witness,
2 Miss Hicks will submit testimony into the record.

3 MS. HICKS: Thank you, your Honor.

4 I would like to submit the testimony
5 of Ralph Smith on behalf of the Citizens Utility
6 Board and the City of Chicago. That's CUB City
7 Exhibit 1.0 with attachments 1.1 through 1.4, the
8 direct testimony of Ralph Smith filed on E Docket
9 November 20, 2012.

10 CUB City Exhibit 2.0 with attachment
11 2.1, the rebuttal testimony of Ralph Smith filed on
12 E Docket on January 16, 2013, and CUB City Exhibit
13 3.0, the affidavit of Mr. Smith filed on E Docket
14 February 7, 2013. Move for the admission of CUB City
15 Exhibit 1.0, 1.1 through 1.4, 2.0 with 2.1, and CUB
16 City 3.0.

17 JUDGE DOLAN: Any objections?

18 MS. KLYASHEFF: No objection.

19 JUDGE DOLAN: CUB City Exhibit 1.0, along with
20 attachments 1.1 through 1.4 and CUB Exhibit 2.0,
21 along with attachment 2.1, and CUB City Exhibit 3.0
22 will be admitted into the record.

1 (The aforesaid exhibits were
2 admitted into evidence.)

3 MS. HICKS: Thank you, your Honor.

4 MS. KLYASHEFF: North Shore and Peoples Gas
5 call Valerie Grace.

6 (Witness sworn.)

7 VALERIE GRACE,
8 called as a witness herein, having been first duly
9 sworn, was examined and testified as follows:

10 DIRECT-EXAMINATION

11 BY MS. KLYASHEFF:

12 Q. Miss Grace, you have before you the
13 following documents: A document entitled Direct
14 Testimony of Valerie H. Grace on behalf of North
15 Shore Gas Company and marked for identification as NS
16 Exhibit 12.0 revised, which included NS Exhibits 12.1
17 through 12.11; the Direct Testimony of Valerie H.
18 Grace on behalf of the Peoples Gas Light and Coke
19 Company, marked for identification as PGL Exhibits
20 12.0 revised, which included PGL Exhibits 12.1
21 through of 12.11; the rebuttal testimony of
22 Valerie H. Grace marked for identification as NS-PGL

1 Exhibit 32.0, which included NS-PGL Exhibits 32.1
2 through 32.17, and finally, the surrebuttal testimony
3 of Valerie H. Grace marked for identification as
4 NS-PGL Exhibit 48.0 revised, which included NS-PGL
5 Exhibits 41.1 through 48.4.

6 A. Yes.

7 Q. Other than the revisions that were filed
8 this morning to your direct testimony on behalf of
9 each company and your surrebuttal testimony, do you
10 have any changes or corrections?

11 A. No, I do not.

12 Q. Are these documents true and correct to the
13 best of your belief?

14 A. Yes, they are.

15 Q. If today I asked you the questions included
16 in those documents, would your answer be the same as
17 included in the documents?

18 A. Yes, they would.

19 Q. Do you adopt these documents as the sworn
20 testimony that you are giving in this proceeding?

21 A. Yes.

22 MS. KLYASHEFF: Subject to cross-examination, I

1 move for the admission of NS Exhibit 12.0 revised
2 file on E Docket February 8, 2013, NS Exhibits 12.1
3 through 12.11 filed on E Docket July 31st; PGL
4 Exhibits 12.0 revised filed on E Docket February 8,
5 2013; PGL Exhibits 12.1 through 12.11 filed on
6 E Docket July 31st; NS-PGL Exhibits 32.0 through
7 32.17 filed on E Docket December 18th, and then PGL
8 Exhibit 48.0 revised, filed on E Docket February 8,
9 2013, and NS-PGL Exhibits 48.1 through 48.4 filed on
10 E Docket January 25, 2013.

11 JUDGE DOLAN: Are there any objections?

12 (No response.)

13 JUDGE DOLAN: Hearing none, NS Exhibits 12.0
14 revised and NS Exhibits 12.1 through 12.11 will be
15 admitted into the record. PGL Exhibit 12.0 revised,
16 along with PGL Exhibits 12.1 through 12.11 will be
17 admitted into the record; NS-PGL Exhibits 32.0
18 through 32.17 will be admitted into the record; and
19 NS-PGL Exhibit 48.0 revised, along with NS-PGL
20 Exhibits 48.1 through 48.4 will be admitted into the
21 record. Thank you.

22

1 (The aforesaid exhibits were
2 admitted into evidence.)

3 MS. KLYASHEFF: The witness is available for
4 cross-examination.

5 JUDGE DOLAN: Miss Lusson?

6 MS. LUSSON: Thank you, your Honor.

7 CROSS-EXAMINATION

8 BY MS. LUSSON:

9 Q. Good afternoon, Miss Grace.

10 A. Good Afternoon.

11 Q. Now, is it correct that the revisions
12 you've made to your, as I understand it, direct
13 testimony and surrebuttal testimony address changes
14 to the conditional rider -- I'm sorry, strike that.
15 The conditional straight fixed variable tariff,
16 otherwise known SFV?

17 A. It relates to the alternative SFV rate,
18 yes.

19 Q. And did you make the decision to at the --
20 let me ask you this: When did the company decide to
21 strike certain language from that tariff?

22 A. Yesterday.

1 Q. Can you explain why the company chose to do
2 that?

3 A. Just to narrow the issues in this
4 proceeding.

5 Q. Was that your decision?

6 A. It was a decision that was made by the
7 company's leadership.

8 Q. And who would that have been, Mr. Schott?

9 A. It was a meeting of various parties of
10 Mr. Schott.

11 Q. And other employees?

12 A. And my former leadership. I'm now a
13 contractor working for the company, but Mr. Schott
14 and Mr. Revis. (Phonetic)

15 Q. I want to ask you a few questions about
16 that particular tariff.

17 So as I understand the changes what
18 has been now stricken as any reference to an action
19 by the Illinois General Assembly or any other body,
20 that would in effect translate into the existing
21 Rider VBA being nonexistent or unlawful, is that
22 correct?

1 A. It removed any reference to General
2 Assembly.

3 Q. As I understand your testimony -- pardon
4 me.

5 The tariff language now strikes the
6 reference to action by the General Assembly, is that
7 right?

8 A. Yes.

9 Q. And then adds a 90-day provision after the
10 date of such court or Commission action or such other
11 date as ordered by such court or the Commission, is
12 that right?

13 A. The 90-day provision was included in my
14 surrebuttal testimony previously.

15 Q. So then the only new changes are the
16 removal of the language the Illinois General Assembly
17 or any other body?

18 A. Yes.

19 Q. So then that leaves a court decision ruling
20 Rider VBA unlawful as a trigger mechanism for the
21 straight fixed variable tariff or action by the
22 Commission, again, with this -- the tariff would take

1 effect 90 days after either of those actions. Is
2 that how it's supposed to read?

3 A. The only thing that's changed in this
4 revised testimony is we struck any reference to the
5 General Assembly or any related tax. As far as the
6 timing of when the alternative rates would take
7 effect, that's the same as what was in my surrebuttal
8 testimony.

9 Q. Let's explore what that means, the 90 days
10 after the action. So as I understand it, is it
11 correct then to assume that after quote, action of
12 the --

13 A. It would probably be best if I just read
14 it.

15 Q. That's all right. Let me see if I can
16 summarize it. Thank you, though.

17 So the tariff would take effect
18 90 days after a court decision declaring it unlawful
19 or a Commission decision that invalidated Rider VBA.
20 Is that what the tariff is designed to do?

21 A. No. There's another provision that's
22 included in my surrebuttal testimony that says or

1 such other date as ordered by such court or the
2 Commission.

3 Q. So is it your testimony then that the court
4 would order a certain date by which a tariff would
5 take effect?

6 A. A court could order many things. I'm not a
7 lawyer who can tell you what the court could order,
8 what the court could order a date or the Commission
9 could order a date. It means the court or the
10 Commission. So if either one of those particular
11 bodies order a date, that's when the tariff would
12 take effect.

13 Q. Okay, and I understand you've indicated
14 you're not a lawyer, and I'm not asking for legal
15 opinions, but just so the Commission has a clear
16 understanding of how this tariff would work, if this
17 Rider VBA Tariff is ruled unlawful by a court, what
18 would happen if the utilities or the Commission file
19 a petition for leave to appeal to the Illinois
20 Supreme Court? Does the 90-day trigger take effect
21 then?

22 A. Again, it depends in what's in that

1 decision by the court or the Commission.

2 Q. But a Court's decision, would you not
3 agree, that a court's decision has no impact or --
4 strike that.

5 The decision to whether utilities or
6 the Commission files a petition for leave to appeal
7 to the Illinois Supreme Court is not dictated by the
8 court, per se. I mean, would you agree that that's a
9 right that either of those parties retains no matter
10 what the court decision says?

11 MS. KLYASHEFF: Objection, calls for a legal
12 opinion.

13 MS. LUSSON: Your Honor, I suppose in a way it
14 does, but they've tied the effective date of this
15 tariff to a legal decision, and for the Commission to
16 understand how this works and when the tariff would
17 take effect, I think that needs to be clear, and
18 if -- I'll leave it at that.

19 JUDGE DOLAN: Well, it does call for a legal
20 conclusion, but I guess if she can answer it, we'll
21 have her answer it.

22 THE WITNESS: I've lost track of the question.

1 MS. LUSSON: Can you read the question back,
2 please?

3 (Question Read.)

4 THE WITNESS: The court's decision may include
5 a date. The Commission's decision may include a
6 date. It depends on what's in that decision or
7 what's in the Commission's order that will determine
8 when the rates go into effect.

9 BY MS. LUSSON:

10 Q. And would you agree it also depends on
11 whether the parties appeal that decision?

12 A. Again, I'm not a lawyer, so I can't respond
13 to how an appeal would affect the decision of the
14 court or the Commission.

15 Q. And again, I know you're not a lawyer and
16 you're not trying to answer as a lawyer or otherwise,
17 but if a court issues a decision, would the tariff
18 take effect when the mandate was issued by the court
19 or the date of the decision of the court?

20 MS. KLYASHEFF: Objection. It's not just
21 calling for a legal conclusion. It assumes
22 familiarity with terms that are fairly technical in

1 nature.

2 MS. LUSSON: Your Honor, I think I'm forced to
3 ask those questions, because again, this tariff is
4 tied to the action of a court, and so again, for the
5 Commission to have a clear understanding as to when
6 this tariff takes effect, I think we're entitled to
7 explore whether those -- whether the issuance of a
8 mandate or the date of a decision acts as the
9 effective trigger date, and if the witness doesn't
10 know that, then the witness can indicate that.

11 JUDGE DOLAN: Overruled.

12 THE WITNESS: The witness -- excuse me -- as a
13 nonattorney, I wouldn't know, but I think it would
14 depend on whatever's included in the court's decision
15 or any action that's taken by the Commission.

16 BY MS. LUSSON:

17 Q. Finally, Miss Grace, I want to show what
18 I've marked as AG Cross Exhibits 23 and 24.

19 Miss Grace, first looking at AG Cross
20 Exhibit 24, first AG Cross Exhibit 24 is a
21 compilation of the company's customer charges listed
22 as of those date for Service Classification 1, and

1 the years indicate the rates that the company filed
2 rate cases, and if you turn the page, attached to
3 this chart is a schedule, an E Schedule from each of
4 the rate cases in which Peoples proposed increases in
5 the customer charge.

6 So if you look at 2007, Page 2 of this
7 exhibit shows North Shore's proposed customer charge
8 for that test year. The next page shows the
9 company's proposed customer charge for the 2009 case.
10 The following page shows it for the 2011 case, and
11 then the final page shows it for the current case,
12 for test year 2013, and then the first column lists
13 those customer charges that existed at the time of
14 the company's filing of those rate cases.

15 So in 2007, as indicated on Page 2,
16 the customer charge was 850 as a result of the 2007
17 rate case, that increased to 1350, and then for the
18 2011 case, the customer charge was then 1780, and so
19 on, and I would ask that you examine this and see if
20 that is a fair representation of the customer charge
21 changes for the last four rate cases and the proposal
22 in this rate case based on those attachments, your

1 recollection, and the final rebuttal proposal in this
2 docket.

3 I could probably preface that by
4 asking is it correct that you were the company's rate
5 design witness for 2007, 2009, 2011, and this case as
6 well, the rate design witness for both companies?

7 A. That's correct.

8 Q. I'll let you have a chance to look at it.

9 A. I looked it over.

10 Q. And looking at that first column listed as
11 customer charge, is that an accurate representation
12 of the charges for those years in those rate filings?

13 A. They appear to be the charges for sales
14 customers. There were some years that the charges
15 were different for sales and transportation
16 customers. I don't see those charges.

17 Q. And with respect to the percentage change
18 indicated there, would you accept, subject to check,
19 that those were percentage increases from 2007
20 through 2012?

21 A. I would accept that's what it shows.

22 Q. And would you accept, subject to check, the

1 rebuttal customer charge represents -- with that
2 added in, it represents that level increase from 2007
3 to 2013?

4 A. That's what it shows.

5 Q. And I would ask if you could verify that
6 those numbers correspond in the therms. The first 50
7 therms and over 50-therms columns corresponds with
8 the numbers listed on the schedule?

9 A. They do.

10 Q. And would you accept, subject to check, the
11 two-percentage change -- the four-percentage change
12 numbers listed on that front schedule?

13 A. Yes, that's what it shows.

14 Q. Looking at Peoples Gas, my questions would
15 be the same, if you could take a moment to verify
16 that those are the customers charge were in effect in
17 the year that rate cases were filed?

18 A. I checked both.

19 Q. Are the numbers reflected on this cover's
20 schedule that we've created accurate in terms of
21 what's reflected in Part C?

22 A. It reflects what's shown in the attachment,

1 yes.

2 Q. Would you agree that the number reflected
3 in the attachment for the columns listed there took
4 the numbers listed as present charges from each of
5 those pages?

6 A. Yes.

7 Q. And would you also accept, subject to
8 check, all six of the percentage figures listed on
9 the columns on the Peoples Gas cover?

10 A. The last rate that -- the PGL rebuttal rate
11 is not included in the attachments, so I would need
12 to check that.

13 Q. That's referenced from your Exhibit 32.6,
14 which is already in the record.

15 A. Just to be clear the percentages, you had
16 mentioned six percentages. So just the three
17 percentages for North Shore Gas after 2007 through
18 2012, and the three percentages after Peoples Gas
19 after 2007 through 2012.

20 Q. Yes?

21 A. Yes.

22 MS. LUSSON: Those are all the questions I

1 have, and I would move for the admission of AG Cross
2 Exhibits 24 and 25.

3 JUDGE DOLAN: Any objection.

4 MS. KLYASHEFF: No objection.

5 JUDGE DOLAN: I have a quick question.

6 What's the H, that handwritten H.

7 MS. LUSSON: Yes. I should have that, your
8 Honor.

9 In the years 2007, 2009, and 2011 and
10 2012, Peoples Gas S.C. 1 Class combined heating and
11 nonheating customers, so there was one class.

12 In this case, Peoples Gas is proposing
13 that heating and nonheating be segregated, and so the
14 figure that's listed on both the Peoples and North
15 Shore exhibit with the H is the heating customer
16 charge.

17 JUDGE DOLAN: Thank you. With that AG Cross
18 Exhibits 24 and 25 will be admitted into the record.

19 (The aforesaid exhibits were
20 admitted into evidence.)

21

22

1 CROSS-EXAMINATION

2 BY MR. REDDICK:

3 Q. Miss Grace, my name is Conrad Reddick, and
4 I'm representing the City of Chicago. Like Miss
5 Lusson, I'm a little confused by the tariffs. I do
6 have one question on that.

7 A. Could you repeat yourself?

8 Q. I do have questions about the tariff
9 language. I have one question in particular on that.

10 A. Okay.

11 Q. The phrase in the tariff language ordered
12 such other dates as ordered by such court or the
13 Commission. Does that phrase refer to the date of
14 the court action or the date the tariff becomes
15 effective?

16 A. Any date that's ordered by the court or the
17 Commission which refers to the effective date of the
18 tariff.

19 Q. Refers to the date of the court order. So
20 if the court said this decision shall take effect in
21 30 days, how would you measure the effective date of
22 the tariff?

1 A. It depends on what date the order is
2 received and what date the court says.

3 Q. How would we measure the effective date of
4 tariff if the court's decision was this decision is
5 effective in 30 days?

6 A. If it's March 1st and the Commission says,
7 then it's effective in 30 days, and it would be
8 effective March 31st.

9 Q. Let me rephrase and see if I can make it
10 clearer. If we receive a court decision that says
11 the decision of this court is effective in 30 days,
12 how do we determine the effective date of the tariff?

13 A. It depends on what's in the decision.

14 Q. I just told you what's in the decision.

15 A. And I just told you what I understood it to
16 mean.

17 Q. If the court issues an order on March 1st
18 that says this decision is effective on April 1st,
19 what is the effective date of the tariff?

20 A. It depends on what's in the court's
21 decision and how the Commission responds.

22 Q. Miss Grace, I believe you have all the

1 information needed to answer the question. If not,
2 we may have a defective tariff. Could you give
3 another shot?

4 MS. KLYASHEFF: Objection. This is asked and
5 answered. He's saying this decision is effective,
6 but he's not saying what the decision, which is what
7 the witness has been answering.

8 MR. REDDICK: I'll rephrase the question. I
9 think I did include that information.

10 A court decision comes down and says
11 the decision of this court is effective in 30 days.
12 How do we determine the effective date of the tariff?

13 MS. KLYASHEFF: I still object because he says
14 the decision, but he doesn't say what that decision
15 is.

16 MR. REDDICK: I said the decision of the court.

17 MS. KLYASHEFF: Decision of the court saying
18 what?

19 JUDGE DOLAN: That the order is effective in
20 30 days.

21 MS. KLYASHEFF: Which does not tell me anything
22 that's relevant to this tariff. The tariff is

1 specific court decision about a particular matter.

2 If the court decision says that the
3 return on equity is different, that's not relevant to
4 this proposed tariff. So I think the witness has
5 been answering. She needs to know what the decision
6 of the court is that takes effect in 30 days.

7 MR. REDDICK: I assume we were talking about
8 things relative to this, but I'll be more specific.

9 BY MR. REDDICK:

10 Q. A decision of the Appellate Court reversing
11 the effectiveness of Rider VBA is issued on March 1.
12 That decision says the decision of this court on this
13 issue is effective in 30 days. When is the effective
14 date of the tariff?

15 A. It depends on what's in the decision, that
16 could be part of what's in the decision, what's
17 directed to the Commission, how the Commission
18 responds, that will determine when the tariff becomes
19 effective.

20 Q. Is that the best answer you can give?

21 A. Based on the unknowns that you've provided
22 to me, yes.

1 Q. And what would you have to know?

2 A. What's included in the court's decision.

3 Q. The decision is Rider VBA is no longer
4 effective.

5 A. Again, speaking as a nonlawyer, I believe
6 that the Commission has an opportunity to respond,
7 and the court may offer directive to the Commission.
8 Depending on what the court says and how the
9 Commission responds, that determines when the Rider
10 goes into effect.

11 Q. So Miss Lusson's concerns about appellate
12 procedure were valid concerns because that could
13 affect the effective date of the tariff?

14 A. I'm not a lawyer, so I can't give you an
15 opinion on appellate procedure.

16 Q. How then will Peoples Gas implement this
17 tariff?

18 A. Again, it depends on what's in the court's
19 decision, what's directed to the Commission, and how
20 the Commission responds. We will do what the court
21 and what the Commission tells us to do with respect
22 to implementing this tariff.

1 Q. And that's the best you can--

2 A. That's my answer.

3 Q. That's just fine for us.

4 Miss Grace, are Peoples Gas's proposed
5 rate structure and rates just and reasonable only if
6 Rider VBA is in place?

7 A. No.

8 Q. So even if Rider VBA is not in place, the
9 rate and rate structures that Peoples Gas proposes
10 are just and reasonable?

11 A. Peoples Gas rates are just and reasonable
12 based on the order that's rendered by the Commission.
13 If VBA is in place, it will make sure that the
14 revenue requirement -- the distribution revenue
15 requirement that's been authorized by the Commission
16 would be recovered by the company.

17 MR. REDDICK: Your Honor, I move to strike as
18 nonresponsive.

19 MS. KLYASHEFF: I think the witness was
20 explaining her understanding of just and reasonable.

21 JUDGE DOLAN: She went farther than you wanted,
22 is that what you're saying?

1 MR. REDDICK: I don't know the answer. I don't
2 know whether it's yes or no.

3 JUDGE DOLAN: I thought you said her answer was
4 nonresponsive.

5 MR. REDDICK: Yes, to my question.

6 JUDGE DOLAN: I'll sustain the objection.

7 MR. REDDICK: Would you like the question read
8 back, Miss Grace?

9 (Question Read.)

10 THE WITNESS: Yes.

11 BY MR. REDDICK:

12 Q. Under the proposed conditional tariff, the
13 conditional rates would go into effect without an
14 opportunity for the Commission to review and consider
15 the rate order that overturned Rider VBA is my
16 understanding of the tariff, correct?

17 A. No.

18 Q. Then would you explain to me the meaning of
19 the quotation in your testimony, in your surrebuttal,
20 Page 11, Line 251, that says quote, "The tariff
21 filing would be in the nature of a compliance filing
22 and not subject to suspension," end quote?

1 A. The tariff allows at least 90 day for the
2 Commission to review or to determine the rates that
3 will go into effect or whatever date is reflected in
4 the court's decision or any order that may be
5 rendered by the Commission. So there is a reasonable
6 time period that's included in the tariff language
7 that will allow the Commission to review the rates.

8 Q. But it would not be able to suspend the
9 tariff?

10 A. The rates that are included and the
11 company's proposed tariff in this proceeding reflect
12 the rates that would recover the revenue requirement
13 that's proposed in this proceeding. So the rates
14 would be included in the tariff. So the Commission
15 would know prior to the court's decision whether
16 those rates meet the revenue requirement that's been
17 authorized by the Commission. The company will not
18 file a new set of rates. Those rates will be known.

19 MR. REDDICK: Move to strike, nonresponsive,
20 your Honor.

21 JUDGE DOLAN: Sustained.

22 MR. REDDICK: Would you like the question

1 again?

2 THE WITNESS: Yes, please.

3 MR. REDDICK: May I, your Honor, ask the
4 reporter to read the question?

5 JUDGE DOLAN: Yes.

6 (Question Read.)

7 BY MR. REDDICK:

8 Q. So the Commission would not be able to
9 suspend the tariff?

10 A. It would be a compliance filing. It would
11 not be suspended.

12 Q. The Commission would not be able to suspend
13 the tariff under the language that you propose?

14 A. Again, it would be in the form of a
15 compliance filing, meaning that we're complying with
16 the Commission's order. The rates are already known.

17 Q. Could I get a yes or no answer. Will
18 Commission be able to suspend --

19 A. You're asking me a yes and no answer, and
20 I'm trying to explain as best as I can.

21 Q. May I have a yes or no, please?

22 A. The rates will be known. The Commission

1 would have no need to suspend the tariff because the
2 rates would be known.

3 Q. My question is whether the tariff allows
4 the Commission to suspend the tariff, not whether it
5 would choose to, but whether under the tariff it
6 could?

7 A. I expect the Commission can do whatever it
8 chooses.

9 Q. So the language in the tariff would not
10 prohibit a suspension?

11 A. If the Commission feels that it does not
12 prohibit a suspension, the language can be revised to
13 adapt to whatever the Commission feels is appropriate
14 to give it the oversight that it needs for the rates
15 to go into effect.

16 Q. My question was about your proposed
17 language.

18 A. My proposed language, if the Commission
19 feels that it's inappropriate, it can be revised.
20 That's for the Commission to decide.

21 Q. As written, Miss Grace, would the
22 Commission be allowed to suspend the tariff under

1 your language?

2 A. We see it as a compliance filing. I think
3 the Commission will decide whether it can be
4 suspended or not.

5 MR. REDDICK: Your Honor, may I please ask you
6 to instruct the witness to answer the question.

7 JUDGE DOLAN: Please just answer yes or no in
8 your language as written.

9 THE WITNESS: We're making a compliance filing.
10 So yes, the Commission could suspend it, just as with
11 any other compliance filing that you're making.

12 BY MR. REDDICK:

13 Q. So the language in your testimony and not
14 subject to suspension should be removed?

15 MS. KLYASHEFF: Objection. He's been asking
16 her about tariff language. The language he's
17 referring to is in her testimony, not words in the
18 tariff.

19 JUDGE DOLAN: Sustained.

20 BY MR. REDDICK:

21 Q. I'll take bit of information and see if we
22 can clarify further. Is the language in your

1 testimony that the tariff would not be subject to
2 suspension intended to be either a part of it, a part
3 of the tariff?

4 A. The language in my testimony is not in the
5 tariff language. It's my understanding of how a
6 compliance file would work.

7 Q. And as proposed, is this meaning in your
8 testimony an accurate reflection of what the tariff
9 language is supposed to do?

10 A. It is not explicitly stated as the tariff
11 language. That's my understanding of how a
12 compliance filing would work. A compliance filing is
13 made to file the rates that's an outcome of the
14 authorized revenue requirement. The Commission staff
15 has several days to review those rates.

16 Q. Miss Grace, I think we all know what a
17 compliance filing is, but that wasn't the question to
18 you.

19 Does the language that you are
20 proposing have the effect that you described in your
21 testimony or not?

22 A. The language in my tariff language is

1 aligned with the language in my testimony.

2 Q. So as you understand the language of the
3 tariff, the tariff filing would be in the nature of a
4 compliance filing and not subject to suspension?

5 A. As with any compliance filing.

6 Q. Is that a yes?

7 A. Yes.

8 Q. Would the conditional tariff that Peoples
9 is proposing increase monthly charges above those in
10 the proposed rate structure that you're advancing
11 with Rider VBA in place?

12 A. Which rates are you referring to, the
13 primary proposed rates? What rates?

14 Q. How would you like to refer to your --

15 A. The rates include a customer charge.

16 Q. Let's clarify the language. What do you
17 call your proposed rates that would be in effect as
18 soon as the Commission orders? What do you call
19 those, the ones that are not the condition of the
20 tariff.

21 A. Can you repeat the question? Because I
22 thought you went to the rate proposal and had moved

1 away from this language, but it seems like you're
2 still with this language, but can you just repeat the
3 question for me so that I can give you the answer
4 that you're seeking.

5 Q. What do you call the rates you're proposing
6 in this case?

7 A. We proposed rates that's shown in my direct
8 testimony. We presented an alternate proposal in my
9 rebuttal testimony.

10 Q. So the alternate proposal is the
11 conditional tariff?

12 A. The proposed rates of my rebuttal testimony
13 reflect rates that's a result of our rebuttal revenue
14 requirement. That includes for rate one a customer
15 charge and a distribution charge. One is fixed; one
16 varies with customers' gas usage, and if Rider VBA is
17 not into effect, a straight fixed variable rate would
18 go into effect.

19 Q. You've described three different sets of
20 rates. I'd like to agree on terminology for each.
21 Would you tell me what you prefer to refer to them
22 as?

1 A. Our primary rate design proposal and my
2 rebuttal testimony reflects a customer charge and a
3 distribution charge.

4 Q. I just need the name, a reference. How
5 would you refer to it? We need a name for each of
6 these sets of rates.

7 A. The rates we proposed in my rebuttal
8 testimony reflect the rebuttal rate design proposal.

9 Q. And what do you call the rates that would
10 be in effect without Rider VBA?

11 A. The rebuttal straight fixed variable rate
12 proposal.

13 Q. So the rebuttal rate proposal would be in
14 effect with Commission approval, and if Rider VBA
15 were not in effect and the Commission approves the
16 alternative, these -- what did you call these?

17 A. Rebuttal straight fixed variable rate
18 proposal.

19 Q. Could you tell me what those words mean in
20 the context of the rate design, straight fixed
21 variable? What's the straight mean?

22 A. It's the terminology that's used for a rate

1 design proposal where fixed costs are recovered
2 through fixed charges.

3 Q. I'm trying to figure out what the words
4 mean.

5 A. I did not create the name for the rate
6 design, so I can't tell you what straight means, but
7 it's a common term in rate making among the utilities
8 and pipelines.

9 Q. So I guess the right way to phrase the
10 question is would the rebuttal straight fixed
11 variable rate raise the monthly charge above the
12 rebuttal primary rate proposal?

13 A. Again, they're two different rate designs.
14 So you're looking for a yes/no answer, and there's no
15 yes/no answer, because one rate design has a fixed
16 charge and a variable component, and the straight
17 fixed variable is just a fixed component, but they
18 both recover the same revenue requirement.

19 Q. From a customer perspective, Miss Grace, a
20 customer who receives a bill, would the monthly
21 charge under the rebuttal primary proposal be higher
22 or lower than the monthly charge under the rebuttal

1 straight fixed proposal?

2 A. It could be higher, lower, or the same.

3 Q. Depending on what?

4 A. It depends on how much gas you use in a
5 given month.

6 Q. The monthly charge would change?

7 A. The monthly charge would not change. The
8 monthly bill would change.

9 Q. My question was about the monthly charge.

10 A. The monthly charge would be the same.

11 Q. Under both the primary proposal and the
12 straight fixed variable proposal?

13 A. Mr. Reddick, are you speaking with respect
14 to the rate, or are you speaking with respect to the
15 amount on the bill? You're interchanging terms, and
16 it's very confusing.

17 Q. Monthly charge.

18 A. The monthly charge. The rate that's in the
19 tariff?

20 Q. Tell me what you mean by -- when I say
21 monthly charge, what do you mean?

22 A. The rate that's in the tariff.

1 Q. Now, let's use that definition. Would the
2 monthly charge in the tariff be higher or lower?

3 A. The monthly charge when compared to a
4 straight fixed variable rate would be lower, but then
5 there's a distribution charge. It's a two-part rate.

6 Q. Miss Grace, I only asked you about one part
7 of the rate. Thank you.

8 I'm told customer charge may
9 communicate better.

10 A. Yes.

11 Q. Does it?

12 A. The customer charge is part of the
13 customer's rate, just a part.

14 Q. And I want you to tell me, with the
15 customer charge, under your primary rebuttal
16 proposal, be higher or lower than the customer charge
17 under your rebuttal straight fixed variable rate?

18 A. They wouldn't recover the same revenue
19 requirement. So the customer charge under the
20 primary proposal would be lower because it would
21 recover a lesser revenue requirement.

22 Q. We'll be here all afternoon, Miss Grace, if

1 you don't answer the questions.

2 A. It would be lower. I'm trying to line
3 apples and apples for you.

4 Q. All I want is a comparison of the customer
5 charge.

6 A. The customer charge --

7 Q. We all know the rate structures are
8 different? I'm just asking for a comparison for the
9 customer charge.

10 A. With a two-part rate, the customer charge
11 would be lower than a straight fixed variable rate,
12 yes.

13 Q. Thank you. Do you agree that if the
14 Commission, this Commission, took action to
15 discontinue VBA that action would indicate a
16 significant change in the Commission's policy or a
17 change in the circumstances that the Commission
18 considered when it approved VBA?

19 A. No.

20 Q. So in your mind, there could be another
21 reason for the Commission to discontinue VBA?

22 A. Could you repeat that question?

1 Q. Do you agree that if the Commission took
2 action to discontinue Rider VBA that action would
3 indicate a significant change in the Commission's
4 policy or a change in the circumstances the
5 Commission considered when it approved Rider VBA?

6 A. I'm going to change my answer now that I've
7 heard the question. I don't know if you said it the
8 same way before, but it would be a departure from
9 previous Commission policy if they decided not to
10 allow VBA to remain in effect.

11 Q. Is it correct that under the company's
12 rebuttal SVC proposal, which is conditional, that if
13 the Commission discontinued Rider VBA, the Commission
14 would have barred itself from considering whether
15 that change in policy or circumstances might also
16 make the conditional tariff inappropriate?

17 A. I can't speak on behalf of the Commission.

18 Q. The question is whether the tariff would
19 bar the Commission from considering the change in
20 policy or changed circumstances before the tariff
21 went into effect?

22 A. I'm going to ask you to repeat that

1 question.

2 Q. Under your tariff language, if the
3 Commission itself --

4 A. Which tariff language are we referring to?

5 Q. All of my questions are about the
6 conditional tariff language.

7 A. Okay.

8 Q. Your language from this morning.

9 A. Okay.

10 Q. Under the company's conditional tariff
11 proposal, if the Commission itself discontinued
12 Rider VBA, will the Commission have barred itself
13 from considering its change in policy or changed
14 conditions before the tariff becomes effective?

15 A. I don't have an answer to that question.

16 Q. When the Commission tries to implement your
17 conditional tariff, should it go forward with the
18 idea that it can do whatever it deems appropriate,
19 notwithstanding the tariff language, just as a
20 practical question, implementing by the Commission?

21 A. I think the Commission can do whatever it
22 pleases.

1 Q. Okay. So the Commission shouldn't feel
2 bound that it could not investigate or suspend the
3 tariff become it became effective?

4 A. Again, I think the Commission can do
5 whatever it pleases.

6 Q. How will Peoples Gas determine whether a
7 customer is a heating or nonheating customer?

8 A. Our customer accounts and our customer
9 information system designates whether a customer uses
10 gas for heating or nonheating purposes.

11 Q. On what basis?

12 A. On information that's collected from the
13 customer, on information that's gathered from site
14 visits from the customer personnel, information
15 that's maintained in our customer information system
16 for a number of years.

17 Q. To some extent, it depends on
18 self-reporting by customers?

19 A. Initially, but then again, if they're site
20 visits, we can determine what appliances are at the
21 customer's premise, and then also we can look at
22 certain characteristics of the customer's account, if

1 necessary.

2 Q. And how often do you check those?

3 A. Our customer relations area would be
4 responsible for that, and that's a question that I
5 can't address at this moment.

6 Q. And a customer who moved into a house with
7 a gas furnace and decided not to use it, would that
8 customer have to report that to Peoples Gas?

9 A. You said decide not to use it. Can you be
10 more specific? Turn it off for a day, a month?

11 Q. Not use it at all, an alternative heating
12 source.

13 A. The customer would not be required to
14 report it.

15 Q. And if the customer didn't, would you have
16 an accurate rate classification for that customer?

17 A. Not initially.

18 Q. When would you?

19 A. It could be determined at some later point
20 when the customer self reports it or we make a visit
21 to the customer's premise or if we were to do an
22 analysis of that customer account.

1 Q. So if the customer account came up zero six
2 months in a row, would you reclassify?

3 A. It would depend on if the customer was an
4 active account or an inactive account, but I expect
5 we would have provisions in place, procedures in
6 place, to check the status of that particular
7 customer.

8 Q. These procedures don't now exist for the
9 heating/nonheating split?

10 A. There are some procedures that are in
11 place, but again, not being in the customer relations
12 area, I can't detail to you today what those
13 procedures may be.

14 Q. Could you turn to your Exhibit 48.1. Are
15 you there?

16 A. What page?

17 Q. This exhibit shows certain usage data and
18 rate effect for an average customer, am I correct?

19 A. Yes.

20 Q. And an average customer is a customer whose
21 usage characteristics exactly match the average of
22 those characteristics for the entire group?

1 A. Yes.

2 Q. And because this is a calculated result, a
3 real customer with those precise characteristics may
4 not actually exist?

5 A. Rates are set based on average use, but a
6 customer may or may not experience that level, give
7 or take a therm or a few therms.

8 Q. A real customer with those precise
9 characteristics may not actually exist?

10 A. May or may not, but it's an average
11 customer for their rate class.

12 Q. So the answer is yes, a real customer may
13 not actually exist?

14 A. That's possible.

15 Q. And this average customer analysis does not
16 show what happens to a typical customers whose usage
17 may be very different?

18 A. It depends on how you define typical.

19 Q. I believe your exhibit defines typical as
20 average, doesn't it?

21 A. It depends on how you define typical, but
22 if you're defining typical as average --

1 Q. I'm not defining it, Miss Grace. I believe
2 your exhibit has the word typical in parens.

3 A. Okay.

4 Q. That's how I define typical.

5 A. Okay.

6 Q. So this exhibit does not show what happens
7 to atypical customers whose usage may be very
8 different?

9 A. If a typical customer is consistent with
10 the average customer, that be would the customer
11 usage.

12 MR. REDDICK: Move to strike as nonresponsive.

13 JUDGE DOLAN: Sustained.

14 THE WITNESS: I will define a typical customer
15 as an average customer.

16 BY MR. REDDICK:

17 Q. We don't quarrel with that.

18 My question is, does this exhibit show
19 what happens to atypical customers whose usage may be
20 very different? Atypical is one word, not a typical.

21 A. Thank you. No, it does not.

22 MR. REDDICK: That's all, your Honor.

1 CROSS-EXAMINATION

2 BY MR. TOWNSEND:

3 Q. Good afternoon, Miss Grace.

4 A. Good afternoon, Mr. Townsend.

5 Q. Chris Townsend appearing on behalf of
6 Interstate Gas Supply and Illinois, Inc., also known
7 IGS Energy.

8 You're a consultant with the Staff
9 Logics Corporation, is that correct?

10 A. That's correct.

11 Q. And in that role, you act as a consultant
12 providing services to Integrys Business Support, LLC,
13 on behalf of North Shore and Peoples Gas, correct?

14 A. That's correct.

15 Q. What is Staff Logics Corporation?

16 A. That's a company that provides staffing
17 services to various companies, including Integrys
18 business Support.

19 Q. It's not an affiliate, Integrys, is it?

20 A. No.

21 Q. And you were previously the manager of the
22 Gas Regulatory Services Department at Integrys

1 Business Support, correct?

2 A. That's correct.

3 Q. And in that role, you performed and managed
4 activities relating to rate research, rate design,
5 rate and tariff administration and developed
6 recommendations regarding rate policies for North
7 Shore Gas and Peoples Gas Light and Coke Company, is
8 that correct?

9 A. That's correct.

10 Q. What services do you currently perform for
11 Peoples Gas and North Shore Gas?

12 A. I'm currently serving as the rate design
13 witness in this proceeding. That's the service that
14 I'm providing currently.

15 Q. Do you have an ongoing relationship with
16 Peoples and North Shore after this proceeding?

17 A. I'm contracted to provide services for this
18 particular proceeding.

19 Q. And you're testifying today on behalf of
20 both Peoples Gas and/North Shore Gas, correct?

21 A. That's correct.

22 Q. Unless I specify otherwise in the question,

1 please assume that my questions relate to both
2 Peoples Gas and North Shore Gas, okay?

3 A. Yes.

4 Q. And unless you specify otherwise in your
5 answer, I will assume for the record that your
6 answers apply to both Peoples Gas and North Shore
7 Gas, okay?

8 A. Yes.

9 Q. Now, I'm going to refer to Peoples Gas and
10 North Shore Gas collectively as the companies or the
11 utilities. Are you all right with that approach?

12 A. Yes.

13 Q. As a consultant to the companies and the
14 former manager of the Gas Regulatory Department,
15 you're familiar with the operations of both Peoples
16 Gas and North Shore Gas?

17 A. Certain operations, yes.

18 Q. And you're familiar with various service
19 options and other programs that the companies offer
20 to consumers?

21 A. Yes.

22 Q. So for example, in this proceeding, you

1 provided testimony about the Choices For You Program
2 that's available for its residential and small
3 commercial customers?

4 A. In a specific capacity with respect to
5 rates.

6 Q. So the answer is yes, you did?

7 A. Yes.

8 Q. And you've previously testified about other
9 programs that are offered by the companies as well,
10 correct?

11 A. Yes.

12 Q. And as a consultant to the companies and
13 the former manager of the Gas Regulatory Services
14 Department, you're familiar with the approach to
15 rate-making issues and policies of both Peoples Gas
16 and North Shore Gas, correct?

17 A. That's correct.

18 Q. Do the companies believe in the rate-making
19 principle that costs should be recovered from the
20 cost causers?

21 A. Yes.

22 Q. So you agree that the sales customers of

1 the companies should pay for the costs that they
2 cause and in which they benefit from, correct?

3 A. Is this a cost-causation or cost-benefit
4 question? You're combining them.

5 Q. Do the companies as a rate-making principle
6 draw a distinction between the cost causation and
7 cost benefits?

8 A. Well, they're two different things. Who's
9 causing the cost doesn't necessarily mean that
10 someone is benefitting from the cost.

11 Q. So if there is a cost that a customer is
12 benefitting from but the company does not believe it
13 caused, the company's view is that that customer
14 shouldn't be charged anything?

15 A. Is this a cost-causation question?

16 Q. I'm actually trying to get to the
17 distinction that you're suggesting in your response.

18 If there is a cost that the companies
19 believe a particular class of customers did not cause
20 but the company believes that that class of customers
21 benefits from the companies incurring that cost,
22 should that class of customers be charged to recover

1 that cost?

2 A. A benefit is a subjective term; cost
3 causation is not. It's difficult for me to --

4 Q. You believe that cost causation is a
5 black-and-white question?

6 A. I think that it's easier to determine cost
7 causation than benefits.

8 Q. Again, could you go back to the
9 hypothetical that I gave you where we have a class of
10 customers that the company does not believe caused
11 the cost but it's clear that that class benefits from
12 the cost. Should that class of customers pay
13 anything?

14 A. They didn't cause the cost, but they're
15 benefitting from the cost? If they're not causing
16 the cost, I think it's questionable whether they
17 should pay for those costs.

18 Q. But there we're now into a
19 nonblack-and-white question.

20 A. It can get gray on occasion.

21 Q. Would you agree that Choices For You
22 customers should not be charged for costs that

1 Choices For You customers do not cause?

2 A. Yes.

3 Q. And would you agree that there should not
4 unfair costs subsidization amongst the classes of
5 customers?

6 A. There are some occasions where there may be
7 some. It depends on the particular situation. So
8 subsidization could occur. Sometimes it's
9 unavoidable.

10 Q. Just to be clear, I suggested that there
11 was unfair cross-subsidization, not just
12 cross-subsidization. You believe that it might be
13 appropriate for there to be unfair
14 cross-subsidization?

15 A. I think any subsidization should be fair.
16 Again, that's a subjective term, fair and unfair.

17 Q. Would you agree that the company should
18 work to minimize any unfair cross-subsidization?

19 A. Yes.

20 Q. Would you agree that the company's tariffs
21 and riders should be based upon cost-causation
22 principles?

1 A. Yes.

2 Q. Would you agree that cost-causation
3 principles should apply to all of the company's
4 tariffs and riders, not just some of the tariffs and
5 riders?

6 A. It depends on the tariff and the rider and
7 the circumstance.

8 Q. So there may be circumstances under which
9 tariffs and riders should not --

10 A. You're speaking a very blanket terms, but
11 there could be situations where -- there are
12 situations where there could be some
13 cross-subsidization that maybe seem unfair
14 subjectively speaking by some.

15 Q. Specifically regarding the tariffs and
16 riders that apply to the company's competitive Choice
17 Programs, would you agree that cost-causation
18 principle should apply?

19 A. Yes.

20 Q. Let's pause here for a moment to make sure
21 that we're on the same page when I talk about the
22 company's choice programs, okay?

1 A. Okay.

2 Q. Would you say degree that under traditional
3 utility sales service, customers buy the commodity of
4 natural gas from the utilities under a regulated rate
5 that is reflected in the utilities' purchase gas
6 adjustment or PGA mechanism?

7 A. Yes.

8 Q. The companies also have competitive choice
9 programs that are called Choices For You, correct?

10 A. For certain classes of customers, yes.

11 Q. And under the Choices For You Program,
12 residential and small commercial customers have the
13 option to leave the PGA rate and instead purchase the
14 commodity of natural gas from an alternative retail
15 gas supplier?

16 A. That's correct.

17 Q. And I'll refer to those alternative gas
18 suppliers, okay?

19 A. That's fine with me.

20 Q. Under the Choices For You Program,
21 Commission-approved alternative gas suppliers can
22 offer to be the gas supplier for a given customer,

1 right?

2 A. Yes.

3 Q. And residential and small commercial
4 customers can shop amongst various different
5 Commission-approved alternative gas suppliers to see
6 if they want to use one of those alternative
7 suppliers, or if customers elect to, they can remain
8 with Peoples and North Shore and take the traditional
9 utility sales service, right?

10 A. That's correct.

11 Q. Just to be clear, if a customer decides to
12 sign up for gas supply with an alternative gas
13 supplier that customer continues to still receive its
14 natural gas through the physical facilities that are
15 owned by the companies, right?

16 A. That's correct.

17 Q. What the customer is buying from an
18 alternative gas supplier is the commodity of natural
19 gas itself but it continues to also pay Peoples and
20 North Shore each month for noncommodity assets and
21 delivery services that the companies provide, right?

22 A. That's correct.

1 Q. And a traditional sales customer of the
2 utility receives both the commodity of natural gas
3 and delivery services from utilities, right?

4 A. Correct.

5 Q. And you agree that the traditional sales
6 customers of the utilities shall pay for the assets
7 and services associated with the utilities, both
8 providing the commodity of natural gas and in
9 delivering that gas, right?

10 A. Yes.

11 Q. And customers of alternative gas suppliers
12 should pay only for the delivery-related assets and
13 services that the utilities brought, correct?

14 A. When you speak -- are you speaking in terms
15 of the end-use customer or of the supplier who takes
16 aggregation service?

17 Q. From the customer's perspective. The
18 customer should only pay for the delivery portion of
19 the rates that the utilities have, right?

20 A. The end-use customer, yes.

21 Q. The end-use customer that is a customer of
22 an alternative gas supplier should pay only for the

1 delivery-related assets and services that the
2 utilities provide, right?

3 A. Yes.

4 Q. And Choices For You customers should not be
5 cross-subsidizing customers who take traditional
6 sales services under the PGA, right?

7 A. That's a complicated question because
8 suppliers aggregate for those customers. Because
9 suppliers aggregate for those customers, even though
10 we don't provide gas directly to Choices For You
11 customer, we do provide company-owned gas to the
12 supplier who provides the aggregation service. So
13 it's not a direct provision of natural gas, but it's
14 a bill providing a natural gas to the supplier.

15 Q. So you'd agree that there are circumstances
16 where Choices For You customers are cross-subsidizing
17 customers who take traditional utility sales/service
18 under the PGA?

19 A. That's not what I'm saying, no. I disagree
20 with that.

21 Q. Perhaps you didn't hear my question. The
22 question was you would agree that Choices For You

1 customers should not be cross-subsidizing customers
2 who take traditional utility sales/service under the
3 PGA, right?

4 A. Right. They should not subsidize.

5 MR. TOWNSEND: I move to strike the earlier
6 answer as being nonresponsive. I don't believe she
7 understood what the question was based on that last
8 exchange.

9 MS. KLYASHEFF: We don't oppose striking the
10 answer.

11 JUDGE DOLAN: We'll sustain it.

12 BY MR. TOWNSEND:

13 Q. Now, I'd like to drill down a little bit
14 and discuss some of the specific cost allocation
15 issues. The first issue relates to the charges that
16 the companies collect associated with administrative
17 costs, okay?

18 A. Yes.

19 Q. There are several different tariffs
20 underneath which the companies assess administrative
21 charges, right?

22 A. That's correct.

1 Q. For example, both utility sales customers
2 and Choices For You customers are subject to a
3 customer charge, correct?

4 A. Yes.

5 Q. I'll hand you what's being marked as IGS
6 Energy Cross Exhibits 12 and 13.

7 And IGS Energy Cross Exhibit 12 are
8 the tariffs for Service Classifications No. 1 and
9 No. 2 for North Shore, correct?

10 A. That's correct.

11 Q. And IGS Cross Exhibit 13 are the tariffs
12 relating to Rider CF-1, the Choices For You
13 Transportation Service, correct?

14 A. Yes.

15 Q. Can you tell me what the monthly customer
16 charges are in the Service Classifications 1 and 2
17 for both North Shore and for Peoples based on this?

18 A. For North Shore Gas, the monthly customer
19 charge is \$22.

20 Q. That's for --

21 A. For North Shore Service Classification
22 No. 1. For North Shore Gas Service Classification

1 No. 2, there's three meter classes. Meter Class 1 is
2 \$23.10. For Meter Class 2, it's \$69, and for Meter
3 Class 3, it's \$192.30.

4 For Peoples Gas Service Classification
5 No. 1, the customer charge is 22.25. For Service
6 Classification No. 2, the customer charges are 25.20
7 for Meter Class 1; \$92.40 for Meter Class 2, and
8 \$235.60 for Meter Class 3.

9 Q. Would you agree at the bottom of the first
10 page of IGS Cross Exhibit 13, the Rider CFY, those
11 customer charges are applicable to all customers who
12 take service under Rider CF-1?

13 A. Can you repeat that?

14 Q. If you're looking at IGS Cross Exhibit 13
15 at the bottom, there's a section entitled Section:
16 See Rates. Do you see that?

17 A. Um-hmm, um-hmm.

18 Q. Underneath that, the terms of that, it
19 indicates that the customer charges that we just ran
20 through are applicable to all customers who take
21 service underneath the Rider CFY, correct?

22 A. Can you point to me? I'm not following

1 where you're reading. Under CFY, under Section C?

2 Q. It states that the rates for service
3 hereunder shall consist of an aggregation balancing
4 charge and a storage gas charge, as well as those
5 charges defined in the customer's companion
6 classification, excluding gas charge?

7 A. Yes. It doesn't explicitly state the
8 customer charge.

9 Q. You're exactly right. I apologize. I
10 should have walked through. That language means that
11 the customer charge is applicable to all Choices For
12 You customers, right?

13 A. Yes. It's applicable to all customers.
14 The rates for CFY consists of the charges that's also
15 in their companion classification, so Companion
16 Classification 1 and 2.

17 Q. Let me just go ahead and ask this question.
18 Are you familiar with Rider EEP?

19 A. Yes, I am.

20 Q. Would you agree that both the traditional
21 utility sales customers, as well as the Choices For
22 You customers are subject to a monthly charge which

1 enables the companies to collect their administrative
2 costs associated with administering the Energy
3 Efficiency Programs?

4 A. Not under Rider EEP. Rider EEP is no
5 longer in effect.

6 Q. What is the replacement for Rider EEP?

7 A. It's Rider EOA, an Energy Efficiency
8 Program mandated by the State of Illinois.

9 Q. And would you agree that under Rider EOA
10 both the traditional utility sales customers, as well
11 as Choices For You customers are subject to a monthly
12 charge, which enables the companies to collect their
13 costs associated with administering the Energy
14 Efficiency Programs?

15 A. I believe Rider EOA just applies to a
16 service classification. It does not specifically
17 apply to CFY. So if you're taking delivery service
18 under rate one or rate two, it would apply to you.
19 So it does not specifically cite CFY.

20 Q. Similar to the CFY rate, which doesn't
21 specifically state the customer charge is applicable?

22 A. Because of the way you phrased the

1 question, I just wanted to clarify.

2 Q. But in any event, both classes of
3 customers, both the traditional utility sales
4 customers and the Choices For You customers pay the
5 customer charge for administrative costs under the
6 Rider EOA, correct?

7 A. Rider EOA does a customer charge under EOA?
8 There's no customer charge under EOA.

9 Q. There's not a separate customer charge
10 under Rider EOA, correct? That's what you're saying?

11 A. EOA is a different -- you cited Rider EEP,
12 and I said that Rider EEP is no longer in effect, and
13 you went to Rider EOA, and there's nothing that I'm
14 aware of that's listed in Rider EOA as a customer
15 charge.

16 Q. Are administrative costs -- how are
17 administrative costs recovered? Strike that.

18 The company incurs administrative
19 costs associated with administering Rider EOA,
20 correct?

21 A. How are you defining administrative costs?

22 Q. Can you tell me what programs are available

1 underneath Rider EOA?

2 A. I'm not an expert of the programs under
3 that Energy Efficiency Rider. I know there's an
4 Energy Efficiency Program that offers Energy
5 Efficiency Programs to our customers, but I can't
6 tell you what programs are made available under the
7 rider.

8 Q. You have no idea if the company incurs any
9 administrative costs?

10 A. There's administrative costs.

11 Q. How are the administrative costs recovered?

12 A. There's charges under the rider. There are
13 certain costs that are rolled into the charges under
14 the rider that's related to the programs that are
15 funded by the rider, and it could include some
16 administrative costs as related to those funded
17 programs.

18 Q. Is there a distinction underneath those
19 programs -- strike that.

20 Is there a distinction underneath that
21 rider in terms of the charges that customers receive
22 due to the administrative costs? That is, how are

1 the administrative costs that the companies do incur
2 recover, the administrative costs associated with
3 that rider?

4 A. Again, all costs that's associated with the
5 funded programs, and I expect any administration of
6 those programs is included in the charges for the
7 particular rate classes.

8 Q. Let's switch gears. Are you familiar with
9 Rider AG?

10 A. Yes, I am.

11 Q. And Rider AGG is only applicable to
12 competitive suppliers, correct?

13 A. To alternative retail gas suppliers.

14 Q. I'll hand you what's being marked as IGS
15 Cross Exhibit 14. Would you agree that that is
16 Rider AGG for both Peoples and North Shore?

17 A. Yes.

18 Q. And suppliers are subject to an aggregation
19 charge, among others, under the Rider AGG, correct?

20 A. Yes.

21 Q. Can you tell me what that aggregation
22 charge is for Peoples and North Shore?

1 A. Are you looking for the amount that's cited
2 in the tariff?

3 Q. That's right.

4 A. The aggregation charge per pool, and what
5 that is is it's a pool of accounts that's aggregated
6 by suppliers. It's \$200 per pool, and they charge
7 \$40 per customer in such pool -- did I say \$40?
8 40 cents per customer in such pool. That's for
9 Peoples Gas.

10 Q. And that's on Page 5 of 13?

11 A. Yes.

12 Q. And likewise, on Page 5 of 13 for North
13 Shore Gas Company, it indicates that the monthly
14 aggregation charge for North Shore gas is \$200 per
15 pool and a charge of five cents per customer,
16 correct?

17 A. Yes.

18 Q. And to develop the Rider AGG, aggregation
19 charge, the companies have taken action to identify
20 specific administrative costs that the companies have
21 attributed only to the Choices For You Programs, and
22 the companies recover those costs only through this

1 charge for the Choices for You suppliers, right?

2 A. Yes.

3 Q. But the companies do not have a similar
4 administrative charge applicable only to traditional
5 utility sales customers to recover those
6 administrative costs that only traditional sales
7 customers cost, correct?

8 A. Can you repeat that question?

9 Q. The companies do not have a similar
10 administrative charge that's applicable only to
11 traditional utility sales customers to recover those
12 administrative costs that only traditional utility
13 sales customers cost, do they?

14 A. The suppliers under Rider AGG don't serve
15 utility sales customers; so there wouldn't be a
16 charge.

17 Q. There are administrative costs associated
18 with providing service to traditional utility sales
19 customers, aren't there?

20 A. Are you referring to administrative charges
21 under AGG?

22 Q. I'm not referring to administrative

1 charges --

2 A. Okay.

3 Q. You just testified that the company has
4 gone through an analysis to identify administrative
5 costs associated with administering the Choices For
6 You Program, correct?

7 A. Um-hmm, um-hmm.

8 Q. Has the company gone through a similar
9 analysis to identify the administrative costs
10 associated with providing traditional utility sales
11 service?

12 A. Administrative and general expenses are
13 included in the company's rate for delivery service.
14 So those costs are included in the company's cost
15 study and recovered through rates.

16 Q. Are those costs the costs that are
17 attributed only to providing administrative services
18 for the utility sales customers?

19 A. It's costs to provide administrative
20 services for all of our delivery services customers,
21 so customers who we deliver gas to.

22 Q. But there's not a similar breakout just for

1 only traditional utility sales customers'
2 administrative costs, correct?

3 A. Right.

4 Q. Now, do the companies incur administrative
5 costs associated with uncollectibles?

6 A. I would expect so, yes, some costs. I
7 wouldn't necessarily call them administrative costs
8 but some costs related to those activities.

9 Q. And the companies haven't broken out
10 separate charges for Choices For You customers and
11 Nonchoices For You customers with regards to those
12 costs, have they?

13 A. I don't believe we separately track those
14 costs, no.

15 Q. So the companies don't actually know
16 whether sales and Choices For You customers cause
17 noncommodity uncollectible expenses at the same rate
18 as sales customers, right?

19 A. We can't distinguish any difference between
20 the two customers. We don't track in that manner.

21 Q. IGS Witness Mr. Parisi testified that the
22 Choices For You customers have a lower noncommodity

1 uncollectible rate than sales customers, right?

2 A. He may have. I can't tell you each line of
3 Mr. Parisi's testimony.

4 Q. Well, IGS asked the companies if the
5 Choices for You customers caused noncommodity
6 uncollectible expenses at a different rate than
7 Choices for You eligible customers, right?

8 A. He may have. That may not have been one of
9 my --

10 Q. I'll hand you what's being marked as IGS
11 Cross Exhibit 15, which is the response to IGS Data
12 Request, 1.16. Do you recognize that as a Data
13 Request Response?

14 A. Yes, I do.

15 Q. In that response for both North Shore and
16 Peoples -- in that response, it's indicated that
17 North Shore does not maintain the data for an
18 uncollectible rate for regulated charges for those
19 customers, correct?

20 A. That's correct.

21 Q. And neither Peoples nor North Shore retain
22 that type of information, correct?

1 A. This Data Request Response just for North
2 Shore, but either company maintains that information.

3 Q. Let's set aside for a moment what the
4 actual noncommodity uncollectible rate is for the
5 sales customers and Choices For You customers.

6 If one customer group contributed less
7 to the noncommodity uncollectibles than the other,
8 then it would be consistent with cost-causation
9 principles to adjust that customers' group
10 administrative fees, correct?

11 A. If you could track it, but it would be
12 difficult to track.

13 MR. TOWNSEND: I move to strike the second half
14 of that answer?

15 MS. KLYASHEFF: From what point on?

16 MR. TOWNSEND: It would be difficult to track.

17 MS. KLYASHEFF: The portion of the response
18 yes, if you could track it, that portion will be
19 retained?

20 MR. TOWNSEND: Yes.

21 JUDGE DOLAN: Sustained. Strike the last
22 portion.

1 BY MR. TOWNSEND:

2 Q. Would you agree that under the current
3 payment priority system used by the companies,
4 Choices For You customers -- strike that.

5 Would you agree that under the current
6 payment priority system used by the company Choices
7 for You customers first pay the company's arrears,
8 then would pay the Choices for You suppliers arrears,
9 then would pay the current company charges, and then
10 would pay the Choices For You supplier charges?

11 A. I'm not familiar with the payment posting.
12 I don't work in that area.

13 Q. Do you agree that the companies have a
14 statutory guarantee that they'll recover all
15 uncollectible expenses from the company's rate
16 payers?

17 A. Are you referring to a specific rider and
18 in what sense in?

19 Q. I'm referring to Public Utilities Act
20 Section 19-145. Are you familiar with that?

21 A. I can't detail the language, but --

22 Q. Are you familiar with the concept that the

1 utilities have a statutory guarantee to be able to
2 recover all uncollectible expenses?

3 MS. KLYASHEFF: Objection, calls for a legal
4 conclusion.

5 MR. TOWNSEND: Just asking her if she's familiar
6 with that.

7 MS. KLYASHEFF: I object. It calls for a legal
8 conclusion.

9 MR. TOWNSEND: I don't think it's a legal
10 conclusion. I'm just asking if she knows it.

11 MS. KLYASHEFF: Statutory guarantee is a legal
12 conclusion.

13 BY MR. TOWNSEND:

14 Q. Is it your understanding that the companies
15 have a statutory guarantee that they can recover
16 uncollectible expenses?

17 MS. KLYASHEFF: Was the objection ruled on?

18 JUDGE DOLAN: No, it was not because I thought
19 he was rephrasing.

20 MR. TOWNSEND: I thought I did rephrase the
21 question.

22 MS. KLYASHEFF: Well, the expression statutory

1 guarantee is calling for a legal conclusion.

2 MR. TOWNSEND: I'm asking from her
3 understanding.

4 JUDGE DOLAN: I'll overrule, if she
5 understands.

6 THE WITNESS: I honestly don't know what you're
7 describing as far as a guarantee.

8 BY MR. TOWNSEND:

9 Q. The companies didn't present any testimony
10 suggesting that sales customers have a higher
11 uncollectible rate than Choices For You customers,
12 did they?

13 A. Can you repeat that.

14 Q. The companies didn't present any testimony
15 in this proceeding suggesting that sales customers
16 would have a higher uncollectible rate than Choices
17 For You customers, did they?

18 A. No.

19 Q. They didn't present any testimony at all
20 comparing sales customers' uncollectible rates to
21 Choices For You customers' uncollectible rates,
22 correct?

1 A. No.

2 Q. Are you saying I'm incorrect or you agree
3 with me?

4 A. We did not present any testimony.

5 Q. I want to talk now about the inclusion of
6 commodity-procurement-related costs that are
7 recovered in the administrative fees that are
8 applicable --

9 A. Excuse me.

10 Q. Do you need a break?

11 A. No, I'm fine.

12 Q. Right now, hedging costs are built into
13 base rates that are charged to all customers, right?

14 A. Can you explain what you mean by hedging
15 costs?

16 Q. You use that term in your surrebuttal
17 testimony, don't you?

18 A. But are you using that in a general sense?
19 I was responding to Mr. Parisi's testimony on hedging
20 costs, but in this sense, are you referring to --

21 Q. Again, we're talking about
22 commodity-procurement-related costs.

1 A. Okay.

2 Q. And the hedging costs that the companies
3 incur associated with commodity procurement, and
4 those hedging costs are built into base rates that
5 are charged to all customers, right?

6 A. Again, I don't know if you're referring to
7 the hedging costs that's attached to the commodity or
8 any hedging cost that's related to the hedging
9 activities itself. I'm not sure which one you're
10 responding to. One could be attached to the
11 commodity itself, and the other could be a base rate.

12 Q. Well, let's take a step back.

13 Do you have Mr. Parisi's rebuttal
14 testimony there? It's IGS Energy Exhibit 2.9. Can
15 you turn to Line 375 through Line 383?

16 A. 375?

17 Q. Page 16. Mr. Parisi testified that
18 applying cost-causation principles, the utilities'
19 costs associated with hedging should not be covered
20 recovered from Choices For You customers, right?

21 A. Yes.

22 Q. And in your surrebuttal testimony, you're

1 disagreeing with Mr. Parisi on that issue?

2 A. Yes.

3 Q. However, you do agree that the utilities
4 incur hedging costs, right?

5 A. Yes.

6 Q. I'll hand you what is being marked at IGS
7 Energy Cross Exhibit 16, the company's response to
8 IGS Energy Data Request 3.03.

9 In that Data Request Response, do the
10 companies indicate what their costs are that they
11 have incurred for calendar year 2012 in developing
12 and implementing hedging strategies, correct?

13 A. Yes.

14 Q. And for both utilities, it indicates that
15 the utilities incur both internal and external costs
16 in developing the implementing of hedging, correct?

17 A. That's what it says, yes.

18 Q. And for both utilities, there's no attempt
19 to break out the internal costs and assign those
20 internal costs only to the sales customers, correct?

21 A. I won't say that there's no attempt. What
22 it says is that these costs are not separately

1 tracked.

2 Q. You do not track the costs, the internal
3 costs, associated with the developing and
4 implementing hedging strategies, correct?

5 A. That's what it says.

6 Q. You only track the external costs
7 associated, correct?

8 A. There are some external costs that are
9 provided in this responses, which I did not prepare.

10 Q. I'll hand you what's being marked as IGS
11 Cross Exhibit 17, which is the company's response to
12 IGS Data Request 3.04. In there, the companies were
13 asked to explain fully and in detail and from whom
14 the companies recovered the costs associated with
15 developing and implementing hedging strategies,
16 correct?

17 A. Yes.

18 Q. And does the answer indicate that the
19 utilities charge all customers the internal costs and
20 charge only the sales and transportation customers
21 the external costs associated with developing and
22 implementing hedging strategies?

1 A. Yes.

2 Q. Do you believe that it's appropriate to
3 assign the external costs associated with hedging
4 only to the sales and transportation customers?

5 A. That's all we have are sales and
6 transportation customers.

7 Q. Do you agree that it's appropriate to break
8 out those charges between sales and transportation
9 customers? Should the companies break out the costs
10 associated with hedging between the sales customers
11 and transportation customers?

12 A. No.

13 Q. Would you agree that hedging is making an
14 investment to reduce the risk of an adverse price
15 movement in an asset?

16 A. I can't just describe the precise
17 definition for hedging, but if that's your
18 definition, it sounds reasonable.

19 Q. Is there something within that testimony
20 that you would disagree with?

21 A. I'm just not -- I don't do hedges.

22 Q. Would you agree that the utilities actively

1 take steps to reduce the volatility of the PGA rate
2 charged to the utility sales customers?

3 A. I don't work in gas supply.

4 Q. Do you not know that?

5 A. I expect that they might, but I don't know
6 to what degree, but I expect that they do.

7 Q. If you were to try to find out what the
8 utilities were doing with regards to hedging, would
9 it be reasonable to look at the expert testimony from
10 the utilities PGA ratings? If you wanted to find out
11 what the utilities were doing with regards to
12 hedging, would it be reasonable to look at the
13 testimony that the utilities submitted in the PGA
14 ratings?

15 A. PGA rate case?

16 Q. In the PGA reconciliation proceeding?

17 A. When you say PGA rate case, to me those are
18 two different proceedings, a PGA case and a rate
19 case. That's why I was looking at you oddly.

20 Q. So a PGA reconciliation case, that would be
21 appropriate place to look in order to be able to find
22 out what that --

1 A. I would expect.

2 Q. Do you know whether Peoples Gas has a
3 Regulated Risk Oversight Committee?

4 A. No, I don't know.

5 Q. I'll hand you what is being marked as IGS
6 Cross Exhibit 18, and I'll ask you to turn to
7 Page 19. Is this the direct testimony of Daniel
8 Marsh presented in ICC Docket 10-693, which is the
9 most recent Peoples Gas Light and Coke Company case
10 which has been decided by the Commission?

11 A. No. Mr. Marsh's testimony only goes up to
12 Page 11.

13 Q. Can you please turn to the -- I'm sorry --
14 the direct testimony of Mr. Dobson, which begins
15 after Page 11? Is that Mr. Dobson's direct testimony
16 that runs from that next page through to the end of
17 the cross-examination exhibit?

18 A. I see it, yes.

19 Q. On Page 19, he does indicate that there is
20 a Regulated Risk Oversight Committee that is designed
21 to mitigate the effects of gas price volatility,
22 correct?

1 MS. KLYASHEFF: Objection. First, the
2 testimony is heard in another case; second, it's a
3 different witness. I don't believe it's appropriate
4 to have this witness, Miss Grace, to talk about
5 testimony presented in another case by another
6 witness that's not at issue in this rate case.

7 MR. TOWNSEND: Your Honor, it's appropriate for
8 the Commission to receive into evidence the type of
9 documents that someone would reasonably rely upon in
10 order to find relevant evidence.

11 Miss Grace has indicated that if the
12 Commission would want to find out what was undertaken
13 with regard to hedging strategies, the appropriate
14 place to look would be the testimony that was
15 submitted in the PGA gas case, and that's
16 precisely --

17 JUDGE DOLAN: She said she would think that it
18 would be in that document.

19 MR. TOWNSEND: We did actually ask her about
20 the testimony. Would it be appropriate --

21 JUDGE DOLAN: She's already testified that she
22 doesn't know what -- she never heard of the Regulated

1 Risk Oversight Committee.

2 MR. TOWNSEND: Right, but if she were to go
3 about trying to find the answer, this is where she
4 would go to find the answer.

5 MS. KLYASHEFF: And she's here to be
6 cross-examined on her testimony in this rate case,
7 not to go exploring for answers on some other
8 questions.

9 MR. TOWNSEND: But she testified about the
10 hedging costs. If you want to find out more about
11 how it is that the companies incur hedging costs,
12 this is where this witness has said that the
13 Commission should look in order to be able to find
14 out what costs the companies incur associated with
15 hedging.

16 MS. KLYASHEFF: She just testified about
17 hedging costs in the context of administrative
18 charges that are the subject of Mr. Parisi's
19 testimony.

20 She has, I agree, indicated that the
21 Commission could look to testimony in gas charge
22 cases, a possible place where we discuss hedging.

1 She has not, though, indicated that she is capable of
2 testifying about in this case, nor is it within the
3 scope of her testimony in this proceeding.

4 MR. TOWNSEND: It actually is. She again
5 testifies about the hedging costs and where the
6 hedging costs should be allocated, and in order to be
7 able to understand where those costs can be
8 allocated, you have to understand what the costs are.
9 We're entitled to drill down to find out what those
10 hedging costs are.

11 JUDGE DOLAN: We're going to sustain the
12 objections.

13 BY MR. TOWNSEND:

14 Q. Do you know what tools the company use in
15 hedging?

16 A. I'm not familiar with it, no.

17 Q. Do you know whether or not the companies
18 have a price protection program for their PGA rate?

19 A. No, I don't know.

20 Q. Do the company's hedging strategies --
21 strike that.

22 Are the company's hedging strategies

1 designed to guarantee the lowest possible price for
2 gas or mitigate volatility in the PGA price?

3 A. I'm not an expert on hedging.

4 Q. So you have no idea what the purpose of the
5 hedging activities are?

6 A. My role with Peoples Gas was not related to
7 placing hedges or working with hedges.

8 Q. But nonetheless, you are suggesting that
9 it's consistent with cost-causation principles to
10 charge Choices For You customers the costs that the
11 companies incur associated with hedging even though
12 you don't know what the activity is?

13 A. I understand that the utilities' entire gas
14 supply portfolio is used to support the
15 Transportation Program. That includes all of the gas
16 supply activities, and part of those activities
17 includes work related to hedging.

18 Q. And the hedging is used to mitigate price
19 volatility, correct? That's what hedging is, right?

20 A. If that's what it does, yes.

21 Q. You agree that's what it does, right? That
22 is what hedging is, is mitigating price volatility,

1 correct?

2 A. Again, I'm not testifying as to what
3 hedging does.

4 Q. So when you use the word hedging, did you
5 have any idea what that meant?

6 A. I know that hedging is part of the
7 activities that's undertaken by our supply department
8 and that there's a department, an area within gas
9 supply, that's responsible for performing hedging
10 activities, and that's the Gas Supply Department's
11 activities in terms of securing the entire supply
12 portfolio which undergirds the Transportation
13 Program, all supply is used to support those
14 programs.

15 Q. You would agree that the utilities could
16 have a supply portfolio that didn't include any
17 hedging, correct?

18 A. Are we talking about could or --

19 Q. Could.

20 A. Yeah, they could.

21 Q. Would you agree that the cash-out rates
22 that suppliers pay are governed by Rider AGG?

1 A. Yes.

2 Q. And we previously marked Rider AGG as an
3 exhibit, correct?

4 A. Yes.

5 Q. It's Exhibit IGS Cross Exhibit 14, right?

6 A. Yes.

7 Q. Do you still have that in front of you?

8 A. Yes, I do.

9 Q. Let's look at surrebuttal testimony at
10 Line 386, please. This is surrebuttal testimony.

11 In there, you indicate that suppliers
12 have no obligation to deliver the precise amount of
13 gas that their customers use every day?

14 A. Yes.

15 Q. And then under certain circumstances,
16 Choices For You suppliers buy commodity supplied gas
17 through cash-outs, correct?

18 A. It says company supplied.

19 Q. And then to provide balancing services in
20 company supplied gas, utilities use their total
21 supply portfolio, including supplies related to
22 hedging, right?

1 A. Yes.

2 Q. So that seems to suggest that the PGA
3 prices have something to do with the cash-out rates
4 that the Choices For You suppliers pay. That's not
5 the case, is it?

6 A. That's not what I'm suggesting.

7 Q. You would agree -- let's walk through
8 Rider AGG?

9 A. Okay.

10 Q. You would agree -- first of all, with
11 regards to the daily delivery nonperformance, Page 6
12 of 13. Let me know when you're there.

13 A. Which company?

14 Q. Whichever you'd like?

15 A. Peoples.

16 Q. Peoples Rider AGG, daily delivery
17 nonperformance charge. Are you there?

18 A. Yes.

19 Q. Would you agree that for each therm of
20 under-delivery the suppliers have to buy back the
21 amount at 110 percent of the daily index common high?

22 A. Yes.

1 Q. Hold on to that page, but can you go back
2 to Page 5 of 13, again, talking on a daily basis.

3 On a critical day, would you agree
4 that for each therm of under-delivery the supplier
5 has to buy the equivalent number of therms at \$6 per
6 therm, plus the higher of the gas charge or the daily
7 index midpoint?

8 A. Yes.

9 Q. Where does that \$6 penalty flow? Where
10 does that go?

11 A. If there's a penalty, it flows through the
12 gas charge.

13 Q. So it doesn't flow back to Choices For You
14 customers?

15 A. To the extent that they buy subsequent gas
16 charge supplies, they would see the benefit of that
17 charge.

18 Q. You mean to extent they return and become a
19 sales customer, they would see the benefit of that
20 charge?

21 A. No. If they're assessed a gas charge
22 sometimes later down the road and if that charge is

1 flowing through the reconciliation, they would get
2 the benefit of that charge.

3 Q. But the supplier is charged the higher of
4 the gas charge or the daily index midpoint, right?

5 A. Yes. So if they're charged a gas charge at
6 some subsequent time and that amount is still
7 flowing, they would receive the benefit of that
8 charge.

9 Q. Only if that charge is higher than the
10 daily index, right?

11 A. Yes, but --

12 Q. So in that circumstance, the company will
13 have a charge that's out there that's higher than the
14 marketplace charge, right?

15 A. Well, it's for nonperformance. It's meant
16 to be a deterrent for the suppliers to perform in the
17 manner they're expected to perform.

18 Q. As it flows through the gas charge, the
19 sales customers get the benefit of that \$6 every day?

20 A. On a critical day, typically, the price of
21 gas is higher. So if the supplier didn't deliver,
22 it's possible that the cost of gas could be higher.

1 Q. The penalty doesn't immediately flow back
2 through, does it?

3 A. It will flow back through in subsequent
4 months.

5 Q. In subsequent months, it's unlikely you
6 might have a critical day, right?

7 A. Again, the gas charge -- the reconciliation
8 is a continuous rolling reconciliation.

9 Q. But the gas charge is a charge that every
10 single day of the year is charged to sales customers,
11 correct?

12 A. Yes.

13 Q. The only time the gas charge becomes at all
14 relevant to a transportation customer is on a
15 critical day, right?

16 A. That's the only time that they pay a gas
17 charge. It doesn't mean that they don't consume
18 charge gas molecules. You can't separate the
19 molecules that's in the ground.

20 Q. You can separate the dollars, though?

21 A. You can't paint those molecules.

22 Q. But you do separate the dollars, and the

1 only time in terms of the dollars that it has an
2 impact on those customers is on that critical day,
3 right?

4 A. That's when they're assessed a gas charge,
5 yes.

6 Q. That's the only time they're assessed a gas
7 charge and only when the gas charge is higher than
8 the market price, right?

9 A. That's what the tariff says.

10 Q. And on a daily basis, if there's
11 operational flow order, supply shortage, again
12 turning back to Page 6, would you agree that the
13 suppliers have to buy the equivalent amount of terms
14 delivered at 200 percent of the daily index common
15 high?

16 A. Yes.

17 Q. And at the end of month, for a month and
18 nonperformance charge for the injection period of
19 April through October, for each calendar month where
20 the total deliveries of the choice pool vary by more
21 than plus or minus five percent from the pool's total
22 estimated daily usage for the month, the supplier is

1 charged a nonperformance charge of a dollar for each
2 therm of deficient delivery?

3 A. Yes, for nonperformance.

4 Q. And with regards to the monthly cash-out,
5 you would agree that all volumes will be cashed out
6 at the average monthly index price for the month
7 defined as the arithmetic average of the daily prices
8 published for that month at Gas Daily under the
9 heading "Chicago city-gate Midpoint" or any successor
10 to that index, correct?

11 A. Yes, that's what it says.

12 Q. So helping to reduce the volatility in the
13 PGA rate compared to the market price has no
14 beneficial impact on the prices that the supplier
15 pays, correct?

16 A. Hedging is not included in the prices. I
17 can't offer an opinion as opposed to beneficial
18 impact, again, because the gas that's flowing through
19 the company's system, you can't determine whether
20 that's PGA gas or nonPGA gas, and although a supplier
21 might be paying 200 percent of AMRP, whatever the
22 charge is, that's in the tariff. The price that the

1 company might be paying may be something that's
2 comfortable higher or different. So I can't say
3 that, that a hedge has its use, volatility or
4 whatever it's intended to do, wouldn't have a
5 beneficial impact on suppliers. I couldn't say that
6 with certainty.

7 Q. The only time the PGA rate has any impact
8 on the rate, the dollars that suppliers pay is when
9 the gas charge is higher than the market price,
10 correct?

11 A. That's the only time that the supplier is
12 assessed the PGA rate.

13 Q. But compared to sales customers, Choices
14 for You customers pay the same portion of
15 administrative costs associated with hedging,
16 correct?

17 A. If it's included in base rates as far as
18 the noncommodity costs related to hedging, yes.

19 Q. Are there commodity-related costs
20 associated with hedging?

21 A. There may be. I read the Data Request that
22 said there's internal and external costs, and one is

1 related to the gas charge, what you just said.

2 Q. I'd like to now discuss the administrative
3 fees that are charged just in Choices for You
4 suppliers, okay?

5 A. Um-hmm.

6 Q. Just to be clear, you would agree that
7 those charges to Choices For You suppliers are passed
8 through to the customers, right?

9 A. I can't agree. The charges that we assess
10 to the suppliers are passed through to the customers?
11 That's the suppliers' decision how to pass along
12 those costs.

13 Q. IGS Energy Witness, Mr. Parisi, testified
14 in his rebuttal that quote, "The supplier charge
15 described by the companies both ultimately are paid
16 by the customer." This is rebuttal testimony at 543
17 to 545. Did you refute that claim in your
18 surrebuttal testimony?

19 A. What I said was that's a business decision
20 how suppliers pass along their costs.

21 Q. But you don't know of any other source of
22 funds that the suppliers would have, do you? You did

1 not identify any other source of funds in your
2 testimony, did you?

3 A. Mr. Parisi indicated that suppliers incur
4 different fees, and I don't see how the fee assessed
5 by the company to allow the supplier to aggregate
6 customers on our system. So that's a business
7 decision whether those fees are passed along or not.

8 MR. TOWNSEND: I move to strike the answer as
9 nonresponsive.

10 MS. KLYASHEFF: Counsel was asking the witness
11 to explain how an alternative gas supplier deals with
12 the administrative charges it pays Peoples Gas.
13 Miss Grace is not alternative gas supplier.
14 Mr. Parisi is one representative of one alternative
15 gas supplier. The witness has explained this is a
16 charge a supplier incurs. It's business decision how
17 they deal with it. I think that's responsive.

18 MR. TOWNSEND: I didn't ask her to explain. I
19 asked her if in her rebuttal testimony she refuted
20 that claim, I believe.

21 MS. KLYASHEFF: And she explained how she
22 responded to it, that it a business decision of the

1 supplier.

2 MR. TOWNSEND: The explanation again is
3 something that can come in on redirect. I asked if
4 there was a response.

5 MS. KLYASHEFF: And she said what her response
6 was.

7 JUDGE DOLAN: I'm going to overrule. She can
8 answer the question.

9 BY MR. TOWNSEND:

10 Q. You testified in both your rebuttal
11 testimony and your surrebuttal testimony about the
12 ways in which Choices for You administrative fees
13 should be recovered, right?

14 A. Yes.

15 Q. And you participated in the company's 2009
16 rate case, correct?

17 A. Yes.

18 Q. And one of the issues in that case was
19 whether the company should recover Choices For You
20 administrative fees from all eligible customers,
21 correct?

22 A. Correct.

1 Q. And the final order in the company's 2009
2 rate case addressed that issue, right?

3 A. Yes.

4 Q. And the final order directed the utilities
5 to participate in workshops addressing the Nicor
6 Customer Choice Program and the ways in which Peoples
7 and North Shore programs could be revised and become
8 more like Nicor's Customer Choice Program, right?

9 A. Yes. There were specific elements that
10 were identified by the Commission, yes.

11 Q. And this was one of the elements that the
12 Commission addressed and discussed in workshops,
13 right?

14 A. They said it could be discussed, but the
15 companies were not ordered to discuss administrative
16 charges.

17 Q. Companies were directed to come to the
18 workshops to prepare to discuss the Nicor program and
19 were required to explain parts which were appropriate
20 for their program, which weren't, and why or why they
21 were not?

22 A. That's correct.

1 Q. Were those workshops held?

2 A. Yes, they were.

3 Q. Did you participate in those workshops?

4 A. Yes, I did.

5 Q. And were the Nicor's Customer Select
6 administrative fees discussed in those workshops?

7 A. Yes, they were.

8 Q. Are you aware of how Nicor's Customer
9 Select administrative fees are charged?

10 A. I'm aware from reading aspects of
11 Mr. Parisi testimony how they're charged.

12 Q. As well as participating in those
13 workshops?

14 A. As well as participating in those
15 workshops, yes.

16 Q. You agree that Nicor's Customer Select
17 Program charges the administrative fees to all
18 eligible customers, right?

19 A. Yes, that's what I understand.

20 Q. As a result of those workshops, did the
21 companies adopt Nicor's approach to charging all
22 eligible customers administrative fees?

1 A. No, we did not.

2 Q. In fact, the companies have been recovering
3 Choices for You administrative fees through fees
4 directed to Choices For You suppliers, is that
5 correct?

6 A. That's correct.

7 Q. And your testimony acknowledges that
8 Mr. Parisi, the witness for IGS, proposes that the
9 administrative costs associated with Choices For You
10 Programs should be recovered from all customers who
11 have been given the option to choose a supplier under
12 Choices For You, right?

13 A. That's correct.

14 Q. And you agree that Choices For You Program
15 is available to all customers in Service Classes 1
16 and 2, correct?

17 A. 1 and 2, and for Peoples Gas, it would be
18 No. 8.

19 Q. You would agree that as a general matter
20 the Commission has embraced and fostered competition
21 in the retail energy markets in Illinois for many
22 years, right?

1 A. That's a subjective characterization.

2 Q. Are you generally familiar with the
3 Commission's order in the last Ameren rate case?

4 A. No, I'm not.

5 Q. You don't track what happens with other
6 companies' gas rate cases?

7 A. I have not read the Commission's order in
8 the Ameren case with respect to customer choice.

9 Q. Did you read Mr. Parisi's testimony with
10 regards to that order?

11 A. I read his testimony, yes.

12 Q. And that did not cause you to look at the
13 order?

14 A. No, it did not.

15 Q. Do the companies believe that their Choices
16 For You Programs currently are operating as well as
17 they possibly could?

18 A. Can you repeat that?

19 Q. Do the companies believe that their Choices
20 For You Programs currently are operating as well as
21 they possibly could?

22 A. I don't administer those programs, so I

1 can't offer an opinion on whether they're operating
2 as well as they should.

3 Q. Do the companies believe that their Choices
4 For You Programs are designed as well as they
5 possibly could be designed?

6 A. Again, the design of those programs, I
7 can't speak for the company on that question.

8 Q. You didn't ask the company whether or not
9 they thought that the programs were properly
10 designed? In preparing for your testimony, did you
11 ask the companies whether or not they thought the
12 programs are designed as well as they could be
13 designed?

14 A. Well, we didn't propose any changes to
15 Choices For You. My testimony is limited to
16 responding to Mr. Parisi's recommendation that costs
17 that are currently recovered under the program be
18 recovered in a different manner.

19 Q. So you weren't consulted prior to the
20 companies filing their rate case as to whether or not
21 there should be any changes to the design of the
22 Choices For You Program?

1 A. The current change is in place for the
2 Choices For You Program that went into effect in the
3 summer of 2011. Because those changes, those overall
4 changes to the program are fairly recent, there
5 wasn't any plan in this proceeding to make any
6 changes to those programs, and we did not propose any
7 changes.

8 Q. Did you have any discussions about the
9 possibility of making any changes to those programs?

10 A. The question may have come up, but again,
11 the general opinion is that the changes that were
12 recently made per the workshops that were held in
13 response to the Commission's order those changes just
14 recently went into effect; so there was really no
15 need to propose any changes in this proceeding.

16 Q. You're aware that the percentage of
17 customers enrolled in the Nicor Customer Program --
18 strike that.

19 You're aware that the percentage of
20 customers enrolled in the Nicor Customer Select
21 Program is higher than the percentage in the Peoples
22 and North Shore Choices For You Program, right?

1 A. I don't track Nicor's Choices For You
2 participation rate or their Choice Program
3 participation rate.

4 Q. Would it reasonable to look at the Peoples
5 and -- sorry, strike that -- to look at the Nicor
6 website to see what their participation rate is?

7 A. I guess if that's what you desire to do.

8 Q. Peoples and North Shore have provided a
9 Data Request Response showing the percentage of
10 participation in the Choices For You Program,
11 correct?

12 A. I believe we have.

13 Q. I'll hand you what is being marked as Cross
14 Exhibit 19, and that's the company's response to
15 IGS's Data Request 2.08, correct.

16 A. Yes.

17 Q. And it indicates currently Peoples'
18 participation rate is at 5.1 percent, and North
19 Shore's participation rate is at 6 percent, correct?

20 A. That's what it shows, yes.

21 Q. It also shows that the Peoples has had a
22 steady decline since 2009, and North Shore's

1 participation has decreased steadily since 2010,
2 correct?

3 A. That's what it shows.

4 Q. I'll hand you what's been marked as IGS
5 Cross Exhibit 20. Web page for Nicor Gas regarding
6 Customer Select Program. Does that indicate that the
7 residential participation is at 11 percent?

8 A. That's what it shows.

9 Q. And the commercial industrial participation
10 is at 19 percent, correct?

11 A. That's what it show.

12 Q. For a total percentage participation of
13 12 percent, correct?

14 A. That's what it shows, yes.

15 Q. Would you agree, subject to check, that
16 there are only eight alternative suppliers providing
17 service under the Peoples Gas Customer Program?

18 A. I don't know how many suppliers are
19 providing.

20 Q. Would you agree subject to check?

21 A. I honestly don't know.

22 Q. If you were to look to find how many

1 alternative suppliers are participating in the
2 Peoples Gas Choices For You Program, would you look
3 to their website?

4 A. That's something that you may choose to do.

5 Q. I'll hand you what's being marked as IGS
6 Energy Cross Exhibit 21, which a printout from the
7 Peoples Gas website with regards to the number of --
8 I'm sorry, the names of the alternative natural gas
9 suppliers that have been registered with Peoples, and
10 I'll hand you what's being marked as IGS Cross
11 Exhibit 22, which is a similar web page printout for
12 North Shore Gas.

13 Would you agree that those web pages
14 indicate that there are only eight alternative
15 suppliers providing service under the Peoples Gas
16 Customer Choice Program and only six alternative
17 suppliers providing service under the North Shore
18 Customer Gas Program?

19 MS. KLYASHEFF: Objection. Aside from not
20 being clear how this relates to the testimony,
21 nothing on these sheets really shows the context,
22 where these things came from. It appears to be a

1 printout of the website. I'm unclear how this
2 pertains to the testimony.

3 MR. TOWNSEND: The question is -- again, one of
4 the issues that we have with this case that
5 apparently the companies believe that no changes are
6 necessary to their programs for Choices For You.

7 When you look at the empirical
8 evidence, you have very low customer participation,
9 very low supplier participation. It's directly
10 relevant as to whether or not it's appropriate to
11 have a change in the design of those programs.

12 MS. KLYASHEFF: Miss Grace's testimony goes to
13 the design as it pertains to the administrative
14 charges, not to the overall design of the program.
15 She just testified that the company decided not to
16 propose changes to the design of this program. She
17 indicated why the company made that decision. I do
18 not believe her testimony is about the overall design
19 of the program, how it compares to another utility or
20 utilities and whether or not the participation levels
21 have anything to do with the design of the program.

22 MR. TOWNSEND: Mr. Parisi explained that the

1 administrative fees have a direct impact on whether
2 or not the suppliers participate in the program.

3 MS. KLYASHEFF: And Mr. Parisi's testimony is
4 in the record.

5 MR. TOWNSEND: This demonstrate that the
6 programs currently are not working. This is directly
7 relevant information to show that the programs aren't
8 working.

9 MS. KLYASHEFF: This is directly relevant for
10 Mr. Parisi to support his testimony that he gave in
11 this proceeding. Miss Grace responded to very
12 specific aspects of Mr. Parisi's testimony; namely,
13 the administrative charges.

14 MR. TOWNSEND: To show that the program is
15 broken, we have to be able to show that the
16 suppliers -- that there aren't suppliers that are
17 registered.

18 MS. KLYASHEFF: And Mr. Parisi was free to
19 introduce all of this as part of his testimony, and I
20 don't recall. He may have. I don't have his
21 testimony in front of me.

22 JUDGE DOLAN: As far as these documents go,

1 we're going to overrule the objection, but if she
2 doesn't know, she doesn't know.

3 BY MR. TOWNSEND:

4 Q. Would you be willing to accept, subject to
5 check, that there are only eight alternative
6 suppliers that are supplying service underneath the
7 Peoples Gas Customer Choice program?

8 A. That's what the document show.

9 Q. Would you be willing to accept, subject to
10 check, that only six alternative suppliers are
11 providing service under the North Shore Gas Customer
12 Choice Program?

13 A. That's what the documents show.

14 Q. In both cases, you're willing to accept
15 that subject to check?

16 A. Yes.

17 Q. And would you be willing to agree, subject
18 to check, that there are 22 alternative suppliers
19 providing service underneath Nicor's Customer Choice
20 Program?

21 A. I have no idea how many suppliers are
22 participating in Nicor's Choice Program.

1 Q. If you were to want to investigate or if
2 the Commission were want to investigate the number of
3 suppliers in the Nicor Gas Customer Select Program,
4 would it be appropriate to go to their website and
5 find that out?

6 A. If that's what one chooses to do.

7 Q. I'll hand you what's being marked as Cross
8 Exhibit 23, a printout from Nicor Gas's web page with
9 the participating suppliers in their Customer Select
10 Program. Would you agree that there are 22 suppliers
11 listed for Nicor Gas?

12 MS. KLYASHEFF: Objection. It may be plausible
13 for Miss Grace to look at Peoples Gas/North Shore
14 website printouts. She's at least testifying on
15 behalf of those companies, and now she's being asked
16 to look at Nicor Gas printouts, a company she's not
17 testifying on behalf of, she has no connection with,
18 and to add up the number of suppliers listed on this
19 page, again, I do not see the pertinence of her
20 testimony.

21 MR. TOWNSEND: Your Honors, the Commission
22 ordered Peoples and North Shore to change their

1 program to look more like Nicor's because Nicor's was
2 working, and Peoples wasn't.

3 The evidence now is showing that on a
4 number of different levels the Peoples and North
5 Shore Programs still are not working.

6 One of the ways it shows that they're
7 not working is the low participation rate, and
8 another way is through the low suppliers. The
9 Commission has determined that Nicor's Program is
10 relevant to the Peoples North Shore Program in the
11 priority of saying you need to look at that program
12 in order to be able to improve. This is just showing
13 that what they've done so far has not or has not
14 improved the numbers.

15 MS. KLYASHEFF: In response to counsel's
16 questions, whether or not the program is quote
17 "broken or not," was for Mr. Parisi to make in his
18 testimony, not for Miss Grace to try and address
19 here, not for counsel to testify about his opinion
20 about the program. I do not see the relevance of
21 this to Miss Grace's testimony about administrative
22 charges.

1 JUDGE DOLAN: I think we're going to have agree
2 with her on that one. I'm not sure just because of
3 Nicor has more companies that are offering -- she did
4 not testify as to the number of companies. So she's
5 not going to be able to elaborate on your document at
6 all.

7 BY MR. TOWNSEND:

8 Q. Let's talk about additional examples of
9 costs that the companies incur and how costs are
10 recovered. You'd agree that not every single
11 customer calls the company's call center, right?

12 A. I'm not sure how many customers call the
13 call center.

14 Q. But you'd agree that not every single
15 customer calls the call center, right?

16 A. They may call at least once to initiate
17 service. I can't agree. I don't know how when
18 customers call the call center. The call center is
19 set up to serve all delivery service of customers.

20 Q. The companies have the ability to identify
21 the incoming customers to the call center, correct?

22 A. Yes.

1 Q. So the companies could just charge the
2 customers who call the call center on the basis that
3 those are the customers that cause those calls,
4 right?

5 A. The company's call center is set up to take
6 calls from our delivery service customers.

7 MR. TOWNSEND: Move to strike the answer as
8 nonresponsive.

9 JUDGE DOLAN: Sustained.

10 THE WITNESS: That would be one method.

11 BY MR. TOWNSEND:

12 Q. But to be clear, the companies do not do
13 that, right?

14 A. No.

15 Q. The companies charge all customers for the
16 call center through a general applicable
17 administrative fee on the theory that all of the
18 customers could call the call center, right?

19 A. We don't have an administrative fee that's
20 charged to all customers. We have customer charges
21 that apply to all customers.

22 Q. The companies charge customer charge to all

1 customers for the call center through a generally
2 applicable customer charge on the theory that all
3 customers could call the call center, right?

4 A. A portion of those costs are recovered
5 through customer charge.

6 Q. So is the answer yes?

7 A. Yes.

8 Q. And the companies have previously sought --
9 strike that.

10 Let me ask you a hypothetical
11 question. If the companies wanted to further
12 discourage customers from taking service under the
13 Choices For You and wanted to discourage customers
14 from switching away from traditional sales service, (
15 as a rate design expert, can you envision ways in
16 which the utilities could modify their rates to
17 further discourage customer choice?

18 A. I can't think of anything specific.

19 Q. Would it be possible that one way that they
20 could discourage customer choice, all else being
21 equal, would be to charge a customer who switched a
22 fee?

1 A. If the company chooses to do that, yeah,
2 they could do that, if that's what they choose to do.

3 Q. And that would have the impact of
4 discouraging customer choice, right?

5 A. I wouldn't say would. I think they have
6 the more appropriate word.

7 Q. Would you agree that another way the
8 companies could discourage company choice, all else
9 being equal, would be to charge any supplier who
10 wanted to serve a customer under Choices For You a
11 fee?

12 A. I think that would depend on the supplier.
13 The supplier should make the business decision.

14 Q. You don't think that would discourage
15 customer choice by charging each supplier \$100,000
16 fee?

17 A. That's a hypothetical question. Suppliers
18 are different. I don't know how a particular
19 supplier would respond.

20 Q. Okay. Would you agree that another way
21 that the companies could discourage customer choice
22 -- strike that.

1 Could you turn to Mr. Parisi's direct
2 testimony at Page 3 and 4, Lines 803 through 808.

3 He testifies that quote, "All
4 customers with the option to participate in the
5 Choices For You Program obtain value as a result of
6 the utilities implementing a Customer Choice Program.
7 There given an option to change suppliers and take
8 advantage of price and product offers from a the
9 competitive market. Competition benefits all rate
10 payers regardless of whether the individual rate
11 payer chooses a competitive supplier or remains on
12 the utility option," right?

13 A. That's what it says.

14 Q. Did the companies present any testimony
15 asserting that only the customers who take service
16 under the Choices For You Program receive the
17 benefits of customer choice?

18 A. We didn't present any testimony on customer
19 choice, other than the administrative charges that's
20 related to the program by indicating that the company
21 was not proposing a change. So we didn't propose any
22 changes to customer choice in the Choices For You

1 Program.

2 Q. And the companies also did not present any
3 testimony asserting that only the customers who take
4 service under the Choices For You Program receive the
5 benefits of customer choice, did they?

6 A. Well, we didn't propose to change the
7 program. There was no testimony addressing customer
8 benefits. We didn't propose to make a revision to
9 the program.

10 MR. TOWNSEND: Move to strike the answer as
11 nonresponsive.

12 JUDGE DOLAN: Sustained.

13 BY MR. TOWNSEND:

14 Q. The question is, did the companies present
15 any testimony asserting that only the customers who
16 take service under the Choices For You Program
17 receive the benefits of customer choice?

18 A. We didn't provide any testimony, no.

19 MR. TOWNSEND: Thank you. No other questions.

20 JUDGE DOLAN: Go off the record.

21 (Discussion off the record.)

22 JUDGE DOLAN: Let's go back on the record right

1 now.

2 Is there redirect?

3 MR. TOWNSEND: Before we do, if we could move
4 for the admission of IGS Energy Cross Exhibit 15,
5 which is the company's response to IGS Energy Data
6 Request 1.16; IGS Energy Cross Exhibit 16, which is
7 the company's response to IGS Energy Data Request
8 3.03; IGS Cross Exhibit 17, which is the company's
9 response to IGS Energy Data Request 3.04; IGS Energy
10 Cross Exhibit 19, which is the Data Request Response
11 to the company's IGS Energy Data Request 2.08.

12 Let's just start with those, move
13 those into the record, please.

14 JUDGE DOLAN: Any objections?

15 MS. KLYASHEFF: No objections to those.

16 MR. TOWNSEND: With regards to IGS Energy Cross
17 Exhibit 20, which is the Nicor Customer Select,
18 Numbers IGS Cross Exhibit 21, the Peoples Gas
19 suppliers, and IGS Cross Exhibit 22. We'd move those
20 into evidence. I believe that those are all Data
21 Requests that we did ask questions about. Those are
22 Cross Examination exhibits that we did ask questions

1 about.

2 JUDGE DOLAN: Any objection to 20, 21, and 22?

3 MS. KLYASHEFF: Yes. For the reasons stated
4 during the cross-examination relevant to this
5 witness's testimony.

6 JUDGE DOLAN: Subject to that, we'll allow
7 those into the record.

8 So IGS Cross Exhibit 16 and 17 -- I'm
9 sorry. 15, 16, 17, 19 will be admitted into the
10 record, and then 20, 21, and 22 will be admitted into
11 the record subject to the objections.

12 MR. TOWNSEND: Could we also move for admission
13 into the record Cross Exhibit No. 23, which is a list
14 of Nicor Gas suppliers?

15 MS. KLYASHEFF: We object for the reasons
16 stated during the cross.

17 JUDGE DOLAN: I believe it was sustained.

18 MS. KLYASHEFF: That's my recollection.

19 MR. TOWNSEND: Again, for completeness of the
20 record, we would request that that be included in the
21 record.

22 JUDGE DOLAN: We're going to allow it to come

1 in subject to the objections.

2 (The aforesaid exhibits were
3 admitted into evidence.)

4 MR. TOWNSEND: Thank you, your Honor.

5 MS. KLYASHEFF: Given the admission of Cross
6 Exhibit 17, I'll actually only have one question on
7 redirect.

8 REDIRECT-EXAMINATION

9 BY MS. KLYASHEFF:

10 Q. Miss Grace, do you recall you answered some
11 questions from city counsel, Mr. Reddick, relative to
12 a company's rebuttal rate design proposals and
13 rebuttal straight fixed variable rate proposals?

14 A. Yes.

15 Q. Under the company's rebuttal rate design
16 proposal relative to the company's rebuttal
17 100-percent straight fixed variable rate design
18 proposal, is it correct that moving to the
19 100 percent caused the customer charge to increase?

20 A. Yes.

21 Q. What would happen to the distribution
22 charge?

