STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

The Peoples Gas Light and Coke Company	:	
	:	No. 14-____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of

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Manager, Gas Regulatory Policy
Integrys Business Support, LLC

On Behalf of
The Peoples Gas Light and Coke Company

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I. INTRODUCTION AND WITNESS QUALIFICATIONS

A. Identification of Witness

Q. Please state your name and business address.

A. My name is Debra E. Egelhoff. My business address is 130 E. Randolph Street, Chicago, Illinois 60601.

Q. By whom are you employed and in what capacity?

A. I am Manager, Gas Regulatory Policy, for Integrys Business Support, LLC ("IBS").

B. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and analyze the changes proposed for The Peoples Gas Light and Coke Company's ("Peoples Gas" or "PGL") Schedule of Rates for Gas Service, provide support for the proposed changes, and discuss the new rates that have been filed as a part of this proceeding. I will also address the rate design and tariff aspects of Peoples Gas' proposal to change the number and size of distribution charge blocks for Service Classification ("S.C.") No. 2, General Service, in response to the Illinois Commerce Commission's ("Commission" or "ICC") directive in its Order in Docket Nos. 12-0511/12-0512 (cons.) (the "2012 Rate Cases").

C. Summary of Conclusions

Q. Please summarize your conclusions.

A. I conclude that Peoples Gas' proposed rate design is just and reasonable, and while better aligning revenues with costs and recovering the revenue requirement, also continues to comport with the Commission's objectives of continuity and gradualism in changing rate

design. Peoples Gas' proposed changes to its tariffs, charges, and riders are also appropriate and reasonable and meet the objectives set forth in my testimony.

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

Q. Are you sponsoring any attachments to your direct testimony?

A. Yes. I sponsor the following exhibits:

1. PGL Exhibit ("Ex.") 15.1 sets forth the tariff sheets which include the proposed revisions to Peoples Gas' Schedule of Rates for Gas Service, ILL. C.C. No. 28 (the "tariff" or "Schedule of Rates").
2. PGL Ex. 15.2 is a Summary of Revenues under Present and Proposed Rates for each service classification.
3. PGL Ex. 15.3 reflects Peoples Gas' proposal for allocating its revenue requirement among the various service classifications. Page 1 shows embedded cost and revenue requirement allocation to each service classification assuming that transportation customers elect the total amount of storage available to them. Page 2 shows embedded cost and revenue requirement allocation that reflects test year reallocated storage costs based on transportation customers' forecasted storage capacity subscription levels, and is the revenue requirement allocation that is the basis of Peoples Gas' proposed rates.
4. PGL Ex. 15.4 reflects a summary comparison of present and proposed rates for affected Peoples Gas service classifications, riders, and miscellaneous charges.

5. PGL Ex. 15.5 provides the bill impacts for average S.C. No. 1 NH[1] sales and transportation customers under present and proposed rates, assuming normal weather.

6. PGL Ex. 15.6 provides the bill impacts for average S.C. No. 1 HTG sales and transportation customers under present and proposed rates, assuming normal weather.

7. PGL Ex. 15.7 provides Peoples Gas' Schedule E-9 of the Commission's standard filing requirements (83 Illinois Administrative Code Section 285.5135) in this proceeding. It shows bill impacts for S.C. No. 1 (NH and HTG) customers, S.C. No. 2 customers (for each meter class), S.C. No. 4, Large Volume Demand Service, customers and S.C. No. 8, Compressed Natural Gas Service, customers at various usage levels under present and proposed rates.

8. PGL Ex. 15.8 provides a summary of the cost analysis supporting the proposed rates for certain Service Activation and Reconnection charges in Peoples Gas' Terms and Conditions of Service.

9. PGL Ex. 15.9 provides the cost analysis supporting proposed transportation administrative charges applicable to Rider FST, Full Standby Transportation Service, Rider SST, Subscription Storage Transportation Service, and Rider P, Pooling Service.

[1] S.C. No. 1 NH is not a distinct service classification. S.C. No. 1, Small Residential Service, includes separate rates for "heating" and "non-heating" customers. "Heating" customers are those S.C. No. 1 customers who use gas as their principal source of space heating, and "non-heating" customers are those who do not use gas as their principal source of space heating. However, in my testimony and exhibits, I sometimes refer to the "heating" customers with the designation "HTG" or "H" and the "non-heating" customers with the designation "NH."

10. PGL Ex. 15.10 provides the cost analysis supporting the proposed change to the credit provided to Rider CFY, Choices For You[sm] Transportation Service, suppliers under Rider SBO, Supplier Bill Option Service.

11. PGL Ex. 15.11 reflects test year gas cost related Net Write-off amounts and the derivation of the Uncollectible Factors for Rider UEA-GC, Uncollectible Expense Adjustment – Gas Costs, to be set in this proceeding as well as the allocation, by service classification, for Uncollectible Accounts expenses to be recovered through base rates.

12. PGL Ex. 15.12 provides a summary of the cost analysis supporting the proposed rate for the Second Pulse Data Capability charge in Peoples Gas' Terms and Conditions of Service.

Q. Were PGL Exs. 15.1 through 15.12 prepared by you, or under your supervision and direction?

A. Yes, they were.

E. <u>Background and Experience</u>

Q. What are your duties in your position with IBS?

A. As Manager, Gas Regulatory Policy, I am responsible for performing and managing activities related to rate research, rate design, rate and tariff administration, and for developing recommendations regarding rate policies for Peoples Gas and North Shore Gas Company, affiliated companies of IBS. I also provide assistance as necessary with rate activities for Michigan Gas Utilities Corporation, Minnesota Energy Resources Corporation, and Wisconsin Public Service Corporation, other affiliated companies of IBS.

Q. Please summarize your educational background and experience.

A. In 1991, I graduated from the University of Illinois with a Bachelor of Arts degree in Liberal Arts and Sciences (Economics). In 1998, I received a Masters degree in Business Administration from DePaul University. From June 1991 until September 1999, I worked at Northern Indiana Public Service Company ("NIPSCO"). At NIPSCO, I held various positions in Gas Supply and Marketing where I coordinated the daily operations of NIPSCO's customer choice program and acted as a liaison with suppliers. From September 1999 to September 2004, I worked at Peoples Gas, initially in the Rates Department, where I participated in the initial development and support of its small volume customer choice program. I subsequently became Supervisor, Quality Control in the Customer Service Department. I held various positions outside of the energy industry from September 2004 through August 2010. In August 2010, I began my employment at IBS in the Gas Supply department. In July 2012, I was promoted to Manager, Gas Regulatory Policy.

II. SCHEDULE OF RATES FOR GAS SERVICE

Q. Will Peoples Gas give public notice of the proposed changes it filed?

A. Yes. Notice will be published twice in the Chicago Tribune, a secular newspaper of general circulation in the area which Peoples Gas serves, in accordance with the provisions of 83 Illinois Administrative Code Part 255. Peoples Gas will submit for the record copies of the Publisher's certification that public notice of the changes was published in the Chicago Tribune. Copies of the proposed changes are on file and open for public inspection at Peoples Gas' corporate office. Peoples Gas has also posted public notice of the proposed changes in its corporate office.

Q. Is Peoples Gas proposing changes to its Schedule of Rates for Gas Service, ILL. C.C. No. 28?

A. Yes, PGL Ex. 15.1 contains copies of the tariff sheets filed by Peoples Gas in this proceeding. In my testimony and exhibits, the term "proposed changes" will refer to the rate levels and other changes reflected in these tariff sheets.

III. RATE DESIGN OBJECTIVES

Q. What are the objectives that Peoples Gas seeks to achieve through the rate design modifications it is proposing?

A. Through the proposed rate design, Peoples Gas would accomplish six major objectives. They are to (1) recover Peoples Gas' revenue requirement, (2) better align rates and revenues with underlying costs, (3) send the proper price signals, (4) provide more equity between and within rate classes, (5) reflect gradualism considering test year revenue requirements, and (6) address the S.C. No. 2 distribution block structure and sizes.

IV. INCREASE AMOUNT AND ALLOCATION OF THE REVENUE REQUIREMENT

Q. Please describe PGL Ex. 15.2, Summary of Revenues under Present and Proposed Rates.

A. PGL Ex. 15.2 shows revenues arising from present and proposed rates from various revenue sources. Column M of the exhibit shows the change in base rate revenues arising from proposed charges for Peoples Gas' various service classifications ($127 million, line 24), and from other charges and items ($1.9 million, line 25), for a total increase of

$128.9 million (line 26) [2]. It excludes municipal and state taxes and other state charges. Present rates are those that the Commission approved in the 2012 Rate Cases[3].

Q. What is the basis of Peoples Gas' determination of rates to be proposed in this proceeding?

A. Peoples Gas uses an embedded cost of service study ("ECOSS") as the basis for the determination of the revenue requirement for each service classification and the resulting proposed rates in this proceeding. The ECOSS has been submitted as PGL Exs. 14.1 through 14.8 and is sponsored by Peoples Gas witness Ms. Joylyn Hoffman Malueg (PGL Ex. 14.0). As required by the *2011 Rate Cases Order*[4] and as approved in the *2012 Rate Cases Order*[5], the ECOSS distinguishes high use (heating) and low use (non-heating) S.C. No. 1 customers.

Q. How does Peoples Gas use the ECOSS to determine the proposed rates?

A. Peoples Gas uses the ECOSS to allocate the revenue requirement, to set cost based rates, and to better align charges and resulting revenues with like costs. The results of the ECOSS are used to increase rates for S.C. Nos. 1 NH, 1 HTG, 2, 4 and 8 customers, setting all at cost. PGL Ex. 15.3, page 1, shows the allocation of the revenue requirement and percentage rate change for all service classes. The revenues shown for each service classification in column H reflect the revenue requirement allocations, including storage

[2] There may be differences between amounts in PGL Ex. 15.2 and Schedule A-2, sponsored by Peoples Gas witness Ms. Sharon Moy (PGL Ex. 6.1), due to roundings in Peoples Gas' proposed rates.

[3] As approved in its Order on Rehearing, in ICC Docket Nos. 12-0511/12-0512 (cons.), dated December 18, 2013.

[4] ICC Docket Nos. 11-0280/11-0281 (cons.), Order dated January 10, 2012 ("*2011 Rate Cases Order*") at 188-189.

[5] ICC Docket Nos. 12-0511/12-0512 (cons.), Order dated June 18, 2013 ("*2012 Rate Cases Order*") at 216.

cost allocations, arising from the ECOSS with matching revenues assuming transportation customers elect the total amount of storage capacity that is available to them. PGL Ex. 15.3, page 2, shows the revenue requirement allocations arising from the ECOSS with reallocated storage costs and related revenues that arise from proposed rate increases for all service classes assuming storage capacity forecasted for transportation customers. Column D reflects embedded storage costs allocated to each service classification as determined in the ECOSS. As transportation customers do not typically elect the total amount of storage capacity that is available to them, column E reflects storage costs for each rate class arising from forecasted storage subscription levels for transportation customers and unsubscribed storage capacity amounts and costs being reallocated to sales customers as prescribed under Rider SSC, Storage Service Charge. Column F is the revenue requirement allocation that reflects test year subscribed storage capacity and the related storage reallocation. Revenues arising from Peoples Gas' proposed rates, including those which recover the cost of storage capacity at cost under Rider SSC, are shown in column G.

Q. Have any of Peoples Gas' service classifications been omitted from the cost of service analyses filed in this case, and from consideration for an increase in rates?

A. Yes, S.C. No. 5, Contract Service for Electric Generation, and S.C. No. 7, Contract Service to Prevent Bypass, were excluded from consideration because the revenues from customers served under these service classifications are based on negotiated rates rather than the cost of service analysis filed in this case. These contracts have been filed with the Commission. Under a method accepted by the Commission in prior Peoples Gas rate

case proceedings, revenues arising from S.C. Nos. 5 and 7 are credited back to other service classifications in the ECOSS, thereby lowering their costs.

V. CHANGES TO BASE RATES AND OTHER CHARGES

Q. How is Peoples Gas proposing to meet its objective to better align revenues with underlying costs?

A. To meet this objective and to be consistent with Commission policy, Peoples Gas is proposing to recover a greater portion of its fixed costs through fixed charges. All of Peoples Gas' costs recovered through base rates are fixed, *i.e.*, they do not vary with the volume of gas delivered to customers. However, in the interest of rate design continuity, Peoples Gas has historically recovered a large portion of such fixed costs through volumetric charges. Although Peoples Gas has increased its fixed cost recovery in recent rate case proceedings, under present rates, only about 55% of total base rate revenues would be recovered through fixed customer, demand, and transportation administrative charges in test year 2015. Peoples Gas is proposing rates that would recover about 62% of its fixed costs that are non-storage related through fixed charges and about 7% of its fixed costs that are storage-related through Rider SSC. About 31% of fixed costs would continue to be recovered through volumetric distribution charges. While not yet completely matching fixed costs and fixed charges, Peoples Gas' proposed rates will provide more balance than its present rates and will send more appropriate price signals to customers about the fixed costs underlying its delivery service.

Q. Consistent with the objectives you described above and the move towards placing more fixed cost recovery in fixed charges, what major changes to rates and charges is Peoples Gas proposing?

A. Peoples Gas is proposing seven major changes to its base rates and other charges. I will discuss these changes in detail later in my testimony.

First, S.C. No. 1 will reflect an increase in the monthly customer charge for both NH customers and HTG customers. The distribution charge for NH and HTG customers will decrease as a result of increasing fixed cost recovery through fixed charges. This service classification will continue to be set at cost for both types of customers.

Second, S.C. No. 2 will reflect increases in the monthly customer charge for all three meter classes. The distribution charge, which currently reflects a declining three-block rate structure, will be changed to a declining two-block rate structure. This service classification will continue to be set at cost.

Third, for S.C. No. 4 the monthly customer, distribution and demand charges will increase. This service classification will continue to be set at cost.

Fourth, the customer charge for S.C. No. 8 will increase. The distribution charge will decrease. This service classification will continue to be set at cost.

Fifth, the storage banking charge and the storage service charge will increase under Rider SSC.

Sixth, service reconnection charges and service activation charges will increase toward cost. The Second Pulse Data Capability charge will decrease.

Seventh, administrative charges related to Peoples Gas' large volume transportation programs will be adjusted to cost based on a current study and will continue to be recovered from the transportation customers or their alternative suppliers. Peoples Gas also proposes to update the Rider SBO credit for Rider CFY suppliers based on a current study.

Q. Are the present and proposed rates under each service classification summarized in an exhibit?

A. Yes. PGL Ex. 15.4, Comparison of Present and Proposed Rates, shows the proposed rates for each service classification. The exhibit also shows this information for Rider SSC, Rider UEA-GC, the transportation riders, and the charges included in the Terms and Conditions of Service of Peoples Gas' Schedule of Rates. Last, the exhibit shows the increase or decrease in proposed rates as compared to present rates.

A. <u>S.C. No. 1, Small Residential Service</u>

Q. Please describe Peoples Gas' proposal for S.C. No. 1 customer charge for NH customers.

A. For S.C. No. 1 NH customers, Peoples Gas is proposing to recover 90% of non-storage related fixed costs through the customer charge with all remaining costs being recovered through a flat distribution charge. Peoples Gas is proposing to increase the monthly customer charge from $13.60 to $16.70 for S.C. No. 1 NH sales and transportation customers. Storage-related costs will be recovered under Rider SSC.

Q. Please describe Peoples Gas' proposal for its distribution charge for S.C. No. 1 NH customers.

A. To recover the remaining non-storage related costs, Peoples Gas is proposing to maintain a flat distribution charge. The proposed distribution charge will be reduced to 24.087 cents per therm.

Q. Please describe Peoples Gas' proposal for S.C. No. 1 customer charge for HTG customers.

A. For S.C. No. 1 HTG customers, Peoples Gas is proposing to recover 75% of non-storage related fixed costs through the customer charge with all remaining non-storage related costs being recovered through a flat distribution charge. Peoples Gas is proposing to increase the monthly charge from $26.91 to $38.50 for S.C. No. 1 HTG sales and transportation customers. Storage-related costs will be recovered under Rider SSC.

Q. Please describe Peoples Gas' proposal for its distribution charge for S.C. No. 1 HTG customers.

A. To recover the remaining non-storage related costs, Peoples Gas is proposing to maintain a flat distribution charge. The proposed distribution charge will be reduced to 14.919 cents per therm.

Q. Will Peoples Gas' proposals for S.C. No. 1 have any effect on the calculation of adjustments under its decoupling mechanism, Rider VBA, Volume Balancing Adjustment?

A. Yes. Peoples Gas' proposed revenue increase and rate design will result in new distribution rates and related distribution revenues, or Rate Case Revenues ("RCR") for Rider VBA in this proceeding that would be in effect, as approved by the Commission, until new rates become effective in a subsequent proceeding.

Q. What Percentage of Fixed Costs is Peoples Gas proposing for Rider VBA?

A. As discussed earlier in my testimony, all of Peoples Gas' costs recovered through base rates are fixed; therefore, the Percentage of Fixed Costs factor in Rider VBA should be 100%. This is consistent with the orders in the 2011 and 2012 Rate Cases.

Q. Peoples Gas' decoupling mechanism, Rider VBA, is on review before the Illinois Supreme Court. How does decoupling affect your rate design proposals?

A. As discussed in the 2012 Rate Cases, increasing the percentage of fixed costs recovered in fixed customer charges would better align the charges with their underlying fixed costs and would also reduce the magnitude of adjustments that would be generated under Rider VBA. My rate design proposals assume that decoupling remains in effect, and the level of fixed cost recovery in fixed charges is reasonable because decoupling addresses the over- and under-recovery that inevitably results from including fixed cost recovery in variable charges. If the Court held that the Commission lacked authority to approve Rider VBA, then a straight fixed variable ("SFV") rate design is the appropriate way to address that over-/under-recovery situation. If the Court issued an adverse ruling while the record in this case is open, Peoples Gas would propose an SFV rate design. The same ECOSS that I used to develop my proposals would also provide the basis for an SFV rate design.

Q. Previously you stated that Peoples Gas is proposing to recover a greater portion of its fixed costs through fixed charges to be consistent with Commission policy. Please explain.

A. Peoples Gas' proposals to increase the percentage of fixed costs it recovers in its monthly customer charges for S.C. No. 1 NH and HTG customers continue to be consistent with policies endorsed by the Commission in several rate proceedings. In Docket No. 95-0032, the Commission urged Peoples Gas to increase the customer charge in future rate proceedings to move it closer to cost. In Docket Nos. 07-0241/07-0242 (cons.) and 09-0166/09-0167 (cons.), the Commission found it appropriate that Peoples Gas' rates

reflect a greater recovery of fixed costs in customer charges. In Peoples Gas' 2011 Rate Cases, the Commission again endorsed increased fixed cost recovery by stating the following in its final Order (Jan. 10, 2012 at p. 164):

> While the Commission supports increased recovery of fixed costs through fixed charges, it prefers, at this time, decoupling rather than a switch to an SFV rate design. For these reasons the Commission is convinced that there has been a compelling and sufficient showing that a permanent Rider VBA is reasonable and justified.

Last, in the *2012 Rate Cases Order* (at 237-238) the Commission reiterated its "policy of increasing fixed cost recovery through fixed charges on a gradual basis." In summary, Peoples Gas' proposals to increase fixed cost recovery through its customer charges would continue to be aligned with long-standing and recent Commission policy. As stated above, the Illinois Supreme Court granted a petition to review Peoples Gas' Rider VBA, and, in addition to the court review, it is also possible that the Commission or the General Assembly could take actions that could change or even eliminate decoupling. Absent full decoupling, adequate fixed cost recovery would need to be accomplished through rate design, leaving SFV rate design as the only viable alternative to fully decouple fixed cost recovery from the volume of gas consumed.

Q. What is an SFV rate design?

A. Under an SFV rate design, all fixed costs related to gas distribution service (those that do not vary with customer usage) are recovered through fixed charges, such as a monthly customer charge, and those costs that vary with customer usage are recovered through a volumetric charge, such as a distribution charge. As all of Peoples Gas' costs are fixed,

an SFV rate design would reflect a fixed monthly customer charge and no volumetric distribution charge.

Q. Is Peoples Gas proposing an SFV rate design for S.C. No. 1 NH and HTG customers?

A. Not at this time. Peoples Gas believes that SFV rates recovering 100% of non-storage related fixed costs in fixed charges is the most appropriate rate design. However, as Rider VBA remains in effect (albeit subject to court review) and to ensure that rates will continue to be properly aligned with underlying fixed costs and offer some measure of rate design stability to Peoples Gas and its customers, Peoples Gas is proposing 90% and 75%, respectively, of non-storage related fixed cost recovery through fixed monthly customer charges for S.C. No. 1 NH and HTG customers. Nevertheless, Peoples Gas is monitoring any challenges to Rider VBA and may propose an SFV rate design later in this proceeding or in subsequent proceedings if it appears that the permanence of Rider VBA may be in jeopardy.

Q. Please describe PGL Ex. 15.5.

A. PGL Ex. 15.5 illustrates the effect of the proposed customer, distribution and Rider SSC charges on an average S.C. No. 1 NH sales customer and an average S.C. No. 1 NH transportation customer, assuming normal weather. The exhibit also reflects the effect of the Rider UEA-GC Uncollectible Factor arising from the data in this proceeding on an average S.C. No. 1 NH sales customer. The exhibit also shows Rider QIP, Qualifying Infrastructure Plant, in present rates as, in 2014, Peoples Gas will recover certain infrastructure costs under Rider QIP. Proposed rates do not include separate Rider QIP amounts because the 2014 infrastructure costs are included in proposed base rates for test

year 2015. The average monthly bill for a S.C. No. 1 NH sales customer and a transportation customer will increase by about $0.63 and $0.61, respectively (lines 14 and 28, column O). The annual bill will increase by about 2.8% for sales customers and transportation customers (lines 13 and 27, column P).

Q. Please describe PGL Ex. 15.6.

A. PGL Ex. 15.6 illustrates the effect of the proposed customer, distribution and Rider SSC charges on an average S.C. No. 1 HTG sales customer and an average S.C. No. 1 HTG transportation customer, assuming normal weather. The exhibit also reflects the effect of the Rider UEA-GC Uncollectible Factor arising from the data in this proceeding on an average S.C. No. 1 HTG sales customer. It also shows Rider QIP, as described in PGL Ex. 15.5. The average monthly bill for a S.C. No. 1 HTG sales customer and a transportation customer will increase by about $5.16 and $5.47, respectively (lines 14 and 28, column O). The annual bill will increase by about 5.5% and 6.3% for sales customers and transportation customers, respectively (lines 13 and 27, column P).

B. <u>S.C. No. 2, General Service</u>

Q. Please describe Peoples Gas' proposal for changes in S.C. No. 2 charges.

A. Peoples Gas proposes to maintain the three meter classes for S.C. No. 2. Using the ECOSS, Peoples Gas proposes to increase the monthly customer charges for each meter class. Peoples Gas proposes to recover 100% of customer related costs through the customer charge for all meter classes. The customer charge will also recover 45% of non-storage demand related costs for Meter Class 1 and 50% for Meter Class 2. In the interest of gradualism, only 15% of non-storage related demand costs are recovered through the Meter Class 3 customer charge. This results in proposed customer charges of

$41.00, $152.85 and $435.70 for Meter Classes 1, 2 and 3 sales and transportation customers, respectively. In Peoples Gas' 2012 Rate Cases, the Commission ordered that Peoples Gas examine the number of blocks of its current declining three-block distribution charge for S.C. No. 2. As ordered, Peoples Gas has examined the number of blocks in its distribution charge and proposes that its current declining three-block distribution charge be replaced with a declining two-block distribution charge. Peoples Gas proposes to combine the front block (0-100 therms) and middle block (next 4,900 therms) of its current declining three-block rate structure so that the front block distribution charge will apply to the first 5,000 therms. The end block distribution charge will apply to all therms over 5,000 therms. Peoples Gas proposes to recover 80% and 20% of all remaining non-storage related fixed costs through the front block and end block, respectively. Accordingly, the front block distribution charge will be set at 16.662 cents per therm and the end block distribution charge will be set at 9.796 cents per therm.

Q. How did Peoples Gas determine the number and size of the blocks for its proposed distribution charge structure?

A. When determining the proposed number of blocks for the distribution charge for S.C. No. 2, Peoples Gas considered its objectives to better align rates and revenues with underlying costs, to provide more equity between and within rate classes and to reflect gradualism considering test year revenue requirements. Peoples Gas also considered the amount of fixed costs recovered through fixed charges for each meter class under present rates and analyzed the billing frequency data reflected in Schedule E-8 submitted as part of its standard filing requirements (83 Illinois Administrative Code Section 285.5130). As nearly all bills for Meter Classes 1 and 2 are for less than the 5,000 therms upper limit

in the middle block of the current three-block declining distribution charge rate structure, it is reasonable to reduce the number of rate blocks and set the front block for the first 5,000 therms. As indicated by Schedule E-8, most monthly bills exceeding 5,000 therms apply to Meter Class 3. The customer charges by meter class address some of the cost differences among the diverse customer types within S.C. No. 2. In the interest of gradualism and consideration of bill impacts, a two-block declining distribution charge rate structure is being proposed.

Q. Please summarize the level of fixed costs that will be recovered under Peoples Gas' proposal for S.C. No. 2.

A. Under Peoples Gas' proposals, 46% of the revenue requirement for S.C. No. 2 will be recovered through fixed customer charges. Storage-related costs will be recovered under Rider SSC.

Q. Will Peoples Gas' proposals for S.C. No. 2 have any effect on the calculation of adjustments under Rider VBA?

A. Yes. The S.C. No. 2 RCR would be set based on the distribution rates to be approved by the Commission in this proceeding.

Q. What Percentage of Fixed Costs is Peoples Gas proposing for Rider VBA?

A. As with S.C. No. 1, and for the same reasons as discussed above for S.C. No. 1, Peoples Gas proposes that the Percentage of Fixed Costs be set at 100%.

Q. Is Peoples Gas proposing an SFV rate design for S.C. No. 2?

A. Not at this time, for the same reasons explained for S.C. No 1. As with S.C. No. 1, Peoples Gas may propose an SFV rate design if circumstances change.

C. S.C. No. 4, Large Volume Demand Service

Q. Please describe the changes proposed for S.C. No. 4, Large Volume Demand Service.

A. The monthly customer charge for S.C. No. 4 will be set at cost and will increase to $982.00. The demand charge will continue to recover 55% of non-storage related demand costs and will increase to 99.482 cents per therm of billing demand. The distribution charge, which will recover remaining non-storage related demand costs, will increase to 6.836 cents per therm. Storage related costs will be recovered under Rider SSC.

D. S.C. No. 8, Compressed Natural Gas Service

Q. Please describe the proposed changes to S.C. No. 8, Compressed Natural Gas Service.

A. Peoples Gas proposes to set S.C. No. 8 at cost. The monthly customer charge for S.C. No. 8 will increase to $246.00 and the distribution charge will decrease to 14.466 cents per therm. Storage related costs will be recovered under Rider SSC.

E. Other Service Classifications

Q. Are there any proposed changes to S.C. No. 5, Contract Service for Electric Generation and S.C. No. 7, Contract Service to Prevent Bypass?

A. No, Peoples Gas is not proposing any changes to these service classifications.

F. Bill Impacts

Q. Please describe PGL Ex. 15.7.

A. PGL Ex. 15.7 shows Peoples Gas' Schedule E-9 of the Commission's standard filing requirements which provides bill impacts under present and proposed rates for S.C. Nos. 1, 2, 4, and 8. PGL Ex. 15.7 also includes S.C. Nos. 5 and 7, but because those customers receive service under negotiated rates that the rate proposals do not affect, the bill impact under present and proposed rates is zero.

G. <u>Terms and Conditions of Service - Charges</u>

Q. Please describe the charges included in Terms and Conditions of Service.

A. The Terms and Conditions of Service include certain charges. Peoples Gas is proposing changes only to the Service Activation Charges, Service Reconnection Charges and Second Pulse Data Capability charge. The effect of these changes, consistent with prior Commission orders, is to move the charges closer to cost recovery with consideration of percentage change. In the interest of gradualism, Peoples Gas is not proposing full cost recovery in all of these charges. A summary of the cost analysis supporting Peoples Gas' proposed Service Activation and Service Reconnection Charges is provided in PGL Ex. 15.8. PGL Ex. 15.12 is a cost analysis for the Second Pulse Data Capability charge.

Q. Please describe Peoples Gas' proposal with respect to the Service Activation Charges.

A. Peoples Gas is proposing to increase its Service Activation Charges, which recover a portion of the costs related to initiating gas service at a premises. There are two types of service activations. A succession turn-on occurs when the customer moving out calls to discontinue gas service at approximately the same time as the applicant moving in calls and requests gas service. In this instance, only a meter reading is taken. A straight turn-on occurs when there has never been gas service at a location, or when the prior customer

canceled service some time before the new applicant calls to request gas service and the gas has actually been turned off. In this instance, the gas has to be turned on and appliances have to be relit. An analysis was performed to measure the costs of these activities and is summarized in PGL Ex. 15.8. The analysis shows that the cost for a succession turn-on is $25.89 (column J, line 1), the cost of a straight turn-on is $63.42 (column J, line 2) and the cost to light an additional appliance over four is $17.23 (column J, line 3). Peoples Gas' proposed charges, which are increased to collect a greater percentage of costs from customers causing their incurrence, but would still recover only a portion of these costs, are $23.00 for a succession turn-on, $38.00 for a straight turn-on, and $13.00 for relighting each appliance over four.

Q. What is the proposal for changes in the Service Reconnection Charges?

A. A Service Reconnection Charge is a charge assessed to a customer whose gas has been turned off for any number of reasons. These include disconnections for non-payment of bills and at the customer's request. Each customer is granted a waiver of one reconnection charge each year for reconnection at the meter, except in the situation where the customer voluntarily disconnects and then requests reconnection within twelve months. An analysis was performed to determine the cost basis of the three types of service reconnections following an involuntary disconnection for which Peoples Gas currently charges customers: basic reconnections which only require a meter turn-on, reconnections which require setting a new meter, and reconnections that involve excavating at the main. The results of this analysis are summarized in PGL Ex. 15.8. The analysis shows that the cost for a reconnection at the meter is $112.33 (column J, line 8); the cost for a reconnection when the meter has to be reset is $439.80 (column J, line

21); and the cost for a reconnection at the main is $1,338.72 (column J, line 26). The cost to light each additional appliance over four is the same as under the Service Activation Charge. Peoples Gas proposes to increase each charge, but the charges will still recover only a portion of these costs. Peoples Gas proposes that the basic reconnection charge be $94.00, that the reconnection charge when the meter has to be reset be $188.00, and that the reconnection charge when service has to be reconnected at the main be $500.00. The charges are increasing to better align them with current costs. The Commission agreed with this approach in the 2011 Rate Cases. The charge for relighting each appliance over four will be increased from $10.00 to $13.00, as with the Service Activation Charge.

Q. Please describe the changes proposed for the Second Pulse Data Capability charge.

A. A customer that has an installed an operational meter, meter corrector, or daily demand measurement device capable of providing a second pulse for further data collection capability may choose to have Peoples Gas enable this capability on such meter or device for a monthly charge. Peoples Gas proposes to decrease this Second Pulse Data Capability charge from $14.00 to $10.60. PGL Ex. 15.12 summarizes the analysis for this charge.

H. <u>Rider SSC, Storage Service Charge</u>

Q. What are the Rider SSC charges arising from the revenue requirement proposed in this proceeding?

A. Under the revenue requirement proposed in this proceeding, the Rider SSC Storage Banking Charge, which applies to transportation customers, is 0.60 cents per therm of storage capacity and the Storage Service Charge, which applies to sales customers, is 4.173 cents per therm of consumption.

I. Transportation Riders

Q. Is Peoples Gas proposing changes to its transportation programs?

A. Peoples Gas is proposing no changes to the terms and conditions under which it offers small volume transportation service (Riders AGG, Aggregation Service, and CFY) and large volume transportation service (Riders FST, SST, and P). However, Peoples Gas is proposing some rate changes.

Q. Please describe the changes affecting transportation administrative charges.

A. PGL Ex. 15.9 is the updated cost study for the related Gas Transportation Services costs reflecting budgeted costs and forecasted customer and pool counts for the test year.

As a result of the updated cost study, Peoples Gas is proposing to update the administrative charges for the large volume transportation program. Peoples Gas proposes to decrease the Administrative Charge for Riders FST and SST from $7.78 to $5.82 per account and decrease the Pooling Charge for Rider P from $5.39 to $4.18 per account as shown on PGL Ex. 15.9, line 13, columns C and D (Riders FST and SST) and E (Rider P). The Rider P Pooling Charge per pool will remain at $200.

Q. Is Peoples Gas proposing to change any other charges specifically set in the transportation riders?

A. Yes. Rider SBO allows suppliers providing service to Rider CFY customers the option to render their own bills to such customers for their services as well as Peoples Gas' delivery service. In return, Peoples Gas provides a credit to suppliers to compensate them for the avoided cost of the utility rendering a bill. Peoples Gas is proposing to increase the credit from 46 to 47 cents per bill per month. The support for the proposed increase in this credit is provided in PGL Ex. 15.10.

Q. Ameren recently filed for approval of a small volume transportation program, and its proposal includes language to allow utility consolidated billing/purchase of receivables. Is Peoples Gas considering allowing this for its small volume transportation program?

A. Yes. Peoples Gas plans to review Ameren's filing and monitor the Commission proceeding. Based on what the Commission determines for Ameren, Peoples Gas plans to develop and file a utility consolidated billing/purchase of receivables tariff. It is not doing so in this proceeding, but it intends to do so in 2015 and, if approved by the Commission, implement it sometime in 2016. Peoples Gas expects that implementation of this program would require extensive and potentially costly changes to its systems such as billing and customer service. If, as we develop our proposal and monitor the Ameren filing, we anticipate significant costs occurring in the test year, we may propose cost recovery in our rebuttal testimony.

VI. <u>SUMMARY OF INCREASE</u>

Q. Please summarize the increase in the base rate revenues arising from Peoples Gas' proposals for S.C. Nos. 1, 2, 4 and 8.

A. Peoples Gas' proposals for S.C. Nos. 1, 2, 4 and 8 will result in an increase of approximately $126.9 million (PGL Ex. 15.2, line 24, column M).

Q. Please describe the revenues that will arise from Peoples Gas' increase in miscellaneous and other charges.

A. Peoples Gas will experience an increase in miscellaneous and other revenues of approximately $1.9 million (PGL Ex. 15.2, line 25, column M). This includes $305,000 from accounting charge revenues, which Peoples Gas receives from state and local

governments for billing and remitting state and local taxes, and about $763,000 in late payment charge revenues, both of which are directly correlated with the base rate increase amount in addition to the increases for the Service Activation and Service Reconnection charges as mentioned above. These increase amounts are reflected in Peoples Gas' Schedule A-2, Overall Financial Summary, of its standard filing requirements (also see PGL Ex. 6.1 included with Ms. Moy's direct testimony (PGL Ex. 6.0)).

Q. Please summarize the total increase in revenues proposed by Peoples Gas.

A. The base rate increase of $127 million combined with the increase in miscellaneous and other revenues of $1.9 million results in a proposed revenue increase of approximately $128.9 million (PGL Ex. 15.2, line 26, column M)[6].

VII. <u>OTHER TARIFF REVISIONS</u>

Q. Please describe any general revisions that were made to the Peoples Gas Schedule of Rates.

A. Peoples Gas is revising all the sheets affected by the rate changes discussed above and making conforming changes to the bill format. Peoples Gas is revising Rider UEA-GC, Uncollectible Expense Adjustment - Gas Costs, to reflect the proposed Uncollectible Factors arising from data in this proceeding. Those proposed Uncollectible Factors and their derivation are provided in PGL Ex. 15.11, with the proposed Uncollectible Factors being shown in column F. The allocation by rate class of the uncollectible amount that would be recovered through base rates based on the revenue requirement in this

[6] There may be differences between amounts in PGL Ex. 15.2 and Schedule A-2 due to roundings in Peoples Gas' proposed rates.

proceeding is shown in PGL Ex. 15.11, column H. Accordingly, Peoples Gas is updating Rider UEA to reflect this updated Uncollectible amount to be recovered in base rates. Finally, Peoples Gas is revising Rider SSC to reflect the proposed Storage Banking Charge and Storage Service Charge arising from the revenue requirement proposed in this proceeding.

Q. Please describe Peoples Gas' proposed change to the "Terms of Service" language in S.C. Nos. 1 and 2.

A. Peoples Gas is proposing editorial changes to the language to distinguish more clearly service discontinuance pursuant to the Commission's rules (*e.g.*, due to non-payment) from service discontinuance at the customer's request (*e.g.*, when a customer moves). In the former case, the Commission's rules specifically govern the process and the latter case is largely a matter of Peoples Gas implementing the customer's request.

Q. Please describe Peoples Gas' proposed change to Rider 5, Gas Service Pipe.

A. Peoples Gas is clarifying language concerning installation and cost responsibility for service pipe. In particular, the introductory paragraph establishes the basic principle that Peoples Gas will install service pipe in specified locations at its expense. The remainder of the rider explains circumstances when the customer benefitting from the installation pays the costs, such as when Peoples Gas installs the pipe at a different location to accommodate a customer's design preference. The introductory paragraph includes specific statements about the location of pipe (for example, "The service pipe shall not extend more than ten feet inside the building wall entrance."). Peoples Gas is proposing that the paragraph clarify that the pipe installation will meet these location requirements when practicable and, if it is not practicable and if the reason is not a customer's request

or other circumstance for which the customer bears cost responsibility, then the full installation is at the company's expense. For example, if it is not feasible for a pipe to extend ten or fewer feet inside the building wall entrance and it, in fact, is 11 feet, then Peoples Gas will complete that installation at its expense unless the reason the ten-foot standard cannot be met is attributable to conditions for which the customer will bear cost responsibility. Also, Peoples Gas proposes an editorial change ("will" changed to "shall" in one place for consistency with other wording in the rider).

Q. Does this conclude your direct testimony?

A. Yes, it does.