**STATE OF ILLINOIS**
**ILLINOIS COMMERCE COMMISSION**

| | | |
|---|---|---|
| **North Shore Gas Company** | : | |
| | : | **Docket No. 14-0224** |
| **Proposed general increase in rates for gas distribution service** | : | |
| | : | **(cons.)** |
| **The Peoples Gas Light and Coke Company** | : | |
| | : | **Docket No. 14-0225** |
| **Proposed general increase in rates for gas distribution service** | : | |

# BRIEF ON EXCEPTIONS OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION


JESSICA L. CARDONI
JOHN C. FEELEY
MICHAEL LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL  60601
Phone:  (312) 793-2877
Fax:  (312) 793-1556
jcardoni@icc.illinois.gov
jfeeley@icc.illinois.gov
mlannon@icc.illinois.gov

*Counsel for the Staff of the Illinois Commerce Commission*


December 16, 2014

Table of Contents

Page

**STATE OF ILLINOIS**
**ILLINOIS COMMERCE COMMISSION**

| | | |
|---|---|---|
| **North Shore Gas Company** | : | |
| | : | **Docket No. 14-0224** |
| **Proposed general increase in rates for gas distribution service** | : | |
| | : | **(cons.)** |
| **The Peoples Gas Light and Coke Company** | : | |
| | : | **Docket No. 14-0225** |
| **Proposed general increase in rates for gas distribution service** | : | |

**BRIEF ON EXCEPTIONS OF THE**
**STAFF OF THE ILLINOIS COMMERCE COMMISSION**

Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to Section 200.830 of the Rules of Practice (83 Ill. Adm. Code 200.830) of the Illinois Commerce Commission's ("Commission"), respectfully submits this Brief on Exceptions to the Proposed Order issued by the Administrative Law Judges ("ALJs") on December 5, 2014 ("Proposed Order", "PO" or "ALJPO").[1]

# I. INTRODUCTION

## A. Overview/Summary

North Shore Gas Company ("North Shore" or the "Company") and The Peoples Gas Light And Coke Company ("Peoples Gas" or the "Company") (collectively referred to as the "Utilities" or "Companies") filed new tariff sheets on February 26, 2014 in which

[1] The outline used by Staff in this Brief on Exceptions follows the agreed outline which Staff also used for its Initial Brief and Reply Brief. That outline differs in some respects from the PO's outline. The outline for the Staff brief on exceptions also includes "Technical Correction" and "Conclusion" sections following Section X.

the Companies proposed general increases in their natural gas rates and other tariff changes. On March 19, 2014 the Companies' tariff sheets were suspended by the Commission and on July 9, 2014 the Commission entered a Re-suspension Order extending the suspension to and including January 25, 2015. An initial status hearing was held on April 14, 2014. The matters were consolidated pursuant to a Staff unopposed motion. (ALJ August 11, 2014 Ruling)

Evidentiary hearings were held on September 22 and 23, 2014. Initial Briefs were filed on October 21, 2014 by Staff, the Companies, The People of the State of Illinois *ex rel.* Lisa Madigan, Attorney General of the State of Illinois (the "AG"), the Citizens Utility Board ("CUB"), the City of Chicago ("City") and Illinois Industrial Energy Consumers ("IIEC") (jointly "CCI"), IIEC (individually), City and Cub (jointly), and Environmental Law and Policy Center ("ELPC"). Reply briefs were filed by the same parties and Staff on November 6, 2014. As indicated above, the ALJPO was issued on December 5, 2014. Although Staff supports many of the PO's conclusions, there are some to which Staff takes exception as set forth below. In addition, Staff has a few technical corrections to the ALJPO.

**II. TEST YEAR (Uncontested)**

**III. REVENUE REQUIREMENT**

**A. North Shore**

**B. Peoples Gas**

**C. Proposed Reorganization**

**IV. RATE BASE**

**A. Overview/Summary/Totals**

**1. North Shore**

**2. Peoples Gas**

**B. Potentially Uncontested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted**

**1. Gross Utility Plant**

***a.*** **2013 Plant Balances**[2]

***b.*** **2014 Plant Balances (other than PGL AMRP Additions and associated items addressed in Section IV.C.1.a)**

**c. 2015 Forecasted Capital Additions**

**i. In General**

**ii. Calumet System Upgrade (PGL)**

**iii. Casing Remediation (PGL)**

**iv. Gathering System Pipe Replacement Project (PGL)**

**v. LNG Control System Upgrade (PGL)**

**vi. LNG Truck Loading Facility (PGL)**

<u>Argument</u>

---

[2] The term plant balances as used in this outline includes Construction Work in Progress not accruing AFUDC.

The ALJPO erroneously finds that requiring Peoples Gas to seek approval pursuant to Section 7-102 of the Act prior to constructing an LNG Truck Loading Facility at its Manlove Underground Gas Storage Field is premature. (ALJPO, 26.) Staff disagrees that such a requirement is premature. Peoples initially included $400,000 in rate base because the Company plans to construct a Truck Loading Facility during its test year (2015). Staff raised significant concerns during testimony and briefs regarding whether Peoples Gas constructing and operating an LNG Truck Loading Facility is permissible under Section 7-102 of the Act. (Staff IB, 8; Staff RB, 7.)

Section 7-102(A)(g) requires that, among other things, utilities only use their property in a manner which is directly related to the business of providing utility services. The purpose of these provisions of the Act is to assure both that ratepayers are adequately served by the utility and that the utility receives reasonable return for its services. *Village of Hillside v. Ill. Commerce Comm'n*, 111 Ill.App.3d 25 (1st Dist. 1982). Staff continues to argue that despite Peoples Gas' willingness to withdraw its request for cost recovery, the issue Staff raised is ripe for decision, and therefore, the Commission should order Peoples Gas to seek approval pursuant to Section 7-102 of the PUA (220 ILCS 5/7-102) prior to initiating the construction of a LNG Truck Loading Facility or entering into contracts to sell LNG using this Facility. Staff proposes the following modifications to the ALJPO.

Proposed Modification
(ALJPO, 26.)

Commission Analysis and Conclusion

Staff witness Seagle recommended the Commission reduce Peoples Gas' rate base, regarding a LNG Truck Loading Facility, by $4,000,000. In rebuttal, Peoples Gas withdrew its proposal to develop an LNG Truck Loading Facility to be added to rate base in the 2015 test year. This issue is not contested. ~~Requiring Peoples Gas to seek approval pursuant to Section 7-102 of the Act prior to initiating the construction of a LNG Truck Loading Facility or entering into contracts to sell LNG by means of the LNG Truck Loading Facility is premature.~~ Peoples Gas shall file a petition seeking approval to construct the LNG Truck Loading Facility pursuant to Section 7-102 prior to using, appropriating or diverting any of its moneys, property or other resources to such a facility to determine whether such a facility is essentially and directly connected with or a proper and necessary department or division of the business of the utility.

* * *

vii. Reclassification of Costs to Plant in Service (PGL)

viii. Wildwood/Gages Lake (NS)

ix. Grayslake Gate Station (NS)

x. Casing Remediation (NS)

xi. Locker Room (NS)

d. Original Cost Determinations as to Plant Balances as of December 31, 2012

2. Accumulated Provisions for Depreciation and Amortization (including new depreciation rates and including derivative impacts other than in Section IV.C.1.a)

3. Cash Working Capital (other than Section IV.C.2)

4. Materials and Supplies, Net of Accounts Payable

5. Gas in Storage

6. Budget Plan Balances

7. Accumulated Deferred Income Taxes

a. Incentive Compensation

b. Net Operating Losses

c. Derivative Impacts (other than in Section IV.C.1.a)

8. Customer Deposits

9. Customer Advances for Construction

10. Reserve for Injuries and Damages

11. Other

C. Potentially Contested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)

1. Plant

a. 2014 AMRP Additions (including derivative impacts on Accumulated Depreciation and Accumulated Deferred Income Taxes) and Associated Cost of Removal (PGL)

Argument

The ALJPO properly recognizes that the ALJs granted Staff's motion for administrative notice of Peoples Gas' Qualifying Infrastructure Plant Surcharge Rider ("Rider QIP") information Sheet No. 9 and its supporting schedules and future Rider QIP informational Sheet Filing Nos. 10, 11, and 12 and their supporting schedules. (ALJPO, 2-3). Accordingly, Staff filed Staff Ex. 12.0 on November 21, 2014, after the filing of Staff's Initial and Reply Briefs. Staff Ex. 12.0 reflects the total actual level of Rider QIP additions, including AMRP, placed in service through October, 2014. While the updated QIP data represents not just AMRP additions of which AMRP is the largest part, it suggests that the Company is on a pace to exceed the level the level of AMRP Additions recommended by the AG. Below is a summary of the Company's, AG's, and actual data as of October 2014.

| | Peoples Gas[3] | Attorney General[4] | Actual Through 10/2014[5] |
|---|---|---|---|
| Gross Utility Plant | $173,237,532 | $115,986,348 | $112,589,637 |
| Accum. Depreciation, Retirements and Cost of Removal | 58,686,380 | 33,721,806 | 31,051,498 |
| Net Utility Plant | $231,923,912 | $149,708,154 | $143,641,135 |
| Accum. Deferred Income Taxes | (16,463,375) | (8,603,652) | (6,089,722) |
| Total Rate Base | $215,413,992 | $141,104,502 | $137,551,413 |

In accordance with the ALJ ruling, Staff will file Exhibits 13.0 and 14.0 approximately December 22, 2014 and January 21, 2015, reflecting the November and

[3] NS-PGL Ex. 22.14 P, p. 1

[4] NS-PGL Ex. 37.5 P, p. 3

[5] Staff Ex. 12.0, p. 28

December 2014 activity. Staff stated in its Reply Brief that the additions for the final quarter of 2014 should make clear whether or not the Company's forecast, or the AG's adjusted AMRP additions, is reasonable. (Staff RB, 10-11). Staff recommends the following language changes be adopted to reflect Staff's discussion of this evidence in its BOE.

<u>Proposed Modification</u>
(ALJPO, 35.)

> <u>Staff's Position</u>
>
> <u>In its Brief on Exceptions, Staff discussed the updated evidentiary record reflecting the October 2014 AMRP plant additions (Staff Ex. 12.0), and that since the ALJs granted administrative notice, the November and December 2014 data may be considered by the Commission in deciding this issue. (Staff BOE, x).</u>

While Staff does not take exception to the ALJPO's substantive position of accepting the AG's AMRP adjustment, if the Commission finds after consideration of the data in Staff Ex. 12.0, 13.0, and 14.0 that the Company's position rather than the AG's position is reasonable, Staff recommends the following language changes.

<u>Proposed Modification</u>
(ALJPO, 37-38.)

> <u>Commission Analysis and Conclusion</u>
>
> The Commission agrees with <u>Peoples Gas</u> ~~the AG and Staff~~ and <u>rejects</u> ~~adopts~~ the adjustments of AG witness Effron ~~and Staff's subsequent revision to Peoples Gas' 2014 AMRP expenditures shown at Staff's Initial Brief, Appendix B, to reflect the forecast amount of 2014 AMRP additions in rate base~~<u>. Staff Ex. 12.0, 13.0 and 14.0 reflect the total actual level of Rider QIP additions, including AMRP, placed in service through December, 2014. The updated data suggests that the Company will exceed the level of AMRP Additions recommended by the AG.</u> Peoples Gas will recover <u>no more than</u> its actual prudent costs of AMRP

additions by use of an adjustment through Rider QIP. The revenue cap restriction on Rider QIP that will be set in this case pursuant to Section 9-220.3(g) of the PUA does not prohibit Peoples Gas from filing for rate recovery under a traditional rate case should the cap restriction begin to influence Peoples Gas' AMRP progress.

Proposed Modification
(ALJPO, 226-227.)

**X. FINDINGS AND ORDERING PARAGRAPHS**

(24) Peoples Gas shall reflect in its Rider QIP Surcharge Percentage following the date of this Order the variance from the 2014 QIP amounts included in base rates to its actual 2014 QIP amounts, which may be an increase or decrease to the amount to be recovered through the Rider QIP Surcharge Percentage. The 2014 QIP amounts included in base rates are comprised of ~~$115,986,348~~$173,237,532, less a negative amount of ~~$33,721,806~~ $58,686,380 for accumulated depreciation and less a positive amount of ~~$8,603,652~~ $16,463,375 for accumulated deferred income taxes, and ~~$1,728,342~~ $2,620,588 for annualized depreciation expense less annualized depreciation expense applicable to the plant being retired, for a total rate base amount of $215,413,992;

* * *…

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company shall reflect in its Rider QIP Surcharge Percentage following the date of this Order the variance from the 2014 QIP amounts included in base rates to its actual 2014 QIP amounts, which may be an increase or decrease to the amount to be recovered through the Rider QIP Surcharge Percentage. The 2014 QIP amounts included in base rates are comprised of ~~$115,986,348~~$173,237,532, less a negative amount of ~~$33,721,806~~ $58,686,380for accumulated depreciation and less a positive amount of ~~$8,603,652~~ $16,463,375 for accumulated deferred income taxes, and ~~$1,728,342~~ $2,620,588 for annualized depreciation expense less annualized depreciation expense applicable to the plant being retired, for a total rate base amount of $215,413,992;

### 2. Cash Working Capital

#### a. OPEB lead

### 3. Retirement Benefits, Net

Argument

While Staff supports the decision in the ALJPO to properly exclude Peoples Gas' pension asset from rate base, Staff disagrees that prior Commission practice provides support for not reflecting North Shore's pension liability as a reduction to rate base (ALJPO, 51.)

Staff's evidence shows that the exclusion of a pension liability from rate base (i.e. not reducing rate base by the amount of the pension liability) allows the Companies to unjustly inflate rate base. (Staff IB, 25-26). Staff maintains that the evidence shows no relationship exists between the Companies' theories of pension asset and pension liabilities inclusion or exclusion from rate base. Staff's adjustment to North Shore's average rate base properly excludes North Shore's 2014 pension asset, while including its 2015 pension liability in the average adjustment as a rate base deduction because such amount is a cost-free source of capital. (Staff Ex. 6.0, Sch. 6.09 N; Staff IB, 23-26.)

Pension liabilities represent pension costs that have not been paid out to the pension trust by the end of the year but for which the utility has already received recovery through rates. Rate base is properly reduced by these pension liabilities to recognize that such costs are already recovered from ratepayers by their inclusion as an operating expense. It would not be reasonable to allow shareholders a return on this cost-free source of capital to the Companies. (Staff IB, 26.)

The ALJPO cites the 2007 and 2009 rate cases as precedent for its decision. (ALJPO, 51) Staff maintains that the Commission's conclusion on the treatment of post employment benefits other than pensions (“OPEB”) liabilities in the 2007rate case as a means of cost-free capital is the appropriate precedent for a decision on this issue. As discussed above, pension liabilities represent cost free capital in the same manner as OPEB liabilities. In Docket Nos. 07-0241/07-0242 (Cons.) both Peoples Gas and North Shore excluded their OPEB liabilities from rate base, i.e., neither utility reduced rate base for the OPEB liabilities. Peoples Gas also had a pension asset, which the Company did not include in rate base. Peoples Gas argued for symmetrical treatment; that is, excluding both its pension asset and OPEB liability from rate base. The Commission instead found that the pension asset should be excluded from rate base <u>and that the OPEB liabilities should be reflected as a reduction to rate base</u>:

> The Commission agrees with the positions asserted by GCI and Staff. Their arguments are persuasive and fully supported by the evidence. Further, they have each established that the treatment we are being urged to assign to this item today, is the same the treatment that we adopted in a number of previous decisions. On all these grounds, **the Commission accepts that a rate base deduction of $7,094,000 ($4,074,000 net of related deferred taxes) is required for the North Shore accrued OPEB liability and a rate base deduction of $55,653,000 ($31,570,000 net of related deferred taxes) is required for the Peoples Gas accrued OPEB liability in the determination of the Utilities’ rate bases.** *See* GCI Ex. 2.0 at 13.
>
> Further, we note that the underlying rationale for these adjustments is that such funds are supplied by ratepayers and not by shareholders such that shareholders are not entitled to earn a return on these funds. **Accordingly, the undisputed record showing that Peoples Gas and North Shore contributed $15,278,614 and $1,862,247, respectively, to the pension plans during the test year, does not change the treatment of the OPEB liability.** Nor are we convinced that such contributions should impact shareholders, given that these funds were provided by ratepayers through the collection of utility revenues. We observe no discussion of or opposition to this particular recalculation that the Utilities propose on basis of their contribution, however, it appears to the Commission that recognizing these contributions is inconsistent with, the theoretical basis that we are applying here, i.e., these contributions are ratepayer-funded.

> **The Commission finds that the Utilities' OPEB liabilities will be deducted, and, for the reasons provided by Staff, Peoples Gas' contributions of $15,278,614 and North Shore's contributions of $1,862,247 to the pension plan should not be incorporated into the calculation of the rate bases.** North Shore Gas Company and The Peoples Gas Light and Coke Company.

North Shore Gas Company and the Peoples Gas Light and Coke Company, ICC Order Docket Nos. 07-0241/07-0242 (Cons.), 36 (February 5, 2008) (emphasis added). The Commission ruled in the same manner in the last two North Shore/Peoples Gas cases, Docket Nos. 11-0280/11-0281 (Cons.) and Docket Nos. 12-0511/12-0512 (Cons.):

> The Commission agrees with both Staff and GCI concerning the adjustments to rate base made to account for net retirement benefits. Staff witness Ebrey agreed with GCI witness Effron's approach which removed the Utilities' respective net pension assets from rate base, but kept the OPEB liabilities in rate base. Staff and GCI's adjustments are supported by the evidence and remain consistent with the Commission's conclusions about the pension asset in the 2007 and 2009 PGL rate cases. **Those decisions both concluded that the accrued OPEB liability should be reflected in rate base but that the pension balances should not be recognized in the determination of rate base.** North Shore Gas Company and The Peoples Gas Light and Coke Company., ICC Order Docket Nos. 11-0280/11-0281 (Cons.), 33 (January 10, 2012) (emphasis added).
>
> The Commission finds that the Utilities' pension assets should not be included in rate base for the reasons stated in its past Orders. The Commission concludes, however, that the OPEB liabilities should be included in rate base, to be consistent with the prior rulings on the pension assets. North Shore Gas Company and The Peoples Gas Light and Coke Company., ICC Order Docket Nos. 12-0511/12-0512 (Cons.), 90 (June 18, 2013).

Staff's adjustment is necessary to reflect the Commission's practices to both exclude pension assets from rate base and to reduce rate base by any cost-free capital the utility employs; to do otherwise would result in unjust and unreasonable rates.

Proposed Modification
(ALJPO, 51.)

Commission Analysis and Conclusion

Consistent with past Commission decisions, the Commission maintains that accrued OPEB liability should be deducted from rate base but that pension balances should not be recognized in the determination of rate base. The Commission agrees with Staff and the AG and finds that Peoples Gas' pension asset should be excluded from rate base for the reasons stated in its past Orders. Further, the Commission agrees with ~~North Shore and the AG~~ Staff and finds that North Shore's 2015 pension liability should also be ~~excluded from~~ included in the average rate base as a rate base deduction as it is a cost-free source of capital, and consistent with the Commission practice of excluding Peoples Gas's pension asset from rate base, North Shore's 2014 pension asset should be excluded from the average rate base. ~~was in the 2007 and 2009 rate cases.~~

**V. OPERATING EXPENSES**

**A. Overview/Summary/Totals**

**1. North Shore**

**2. Peoples Gas**

**B. Potentially Uncontested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)**

**1. Other Revenues**

**2. Resolved Items**

**a. Incentive Compensation**

**b. Executive Perquisites**

**c. Interest**

**i. Budget Payment Plan**

**ii. Customer Deposits**

**iii. Synchronization (including derivative adjustments)**

**d. Lobbying**

**e. Fines and Penalties**

**f. Plastic Pipefitting Remediation Project (PGL)**

**3. Other Production (PGL)**

**4. Storage (PGL)**

**5. Transmission**

**6. Distribution**

**7. Customer Accounts – Uncollectibles**

**8. Customer Accounts – Other than Uncollectibles**

**9. Customer Services and Information**

**10. Administrative & General (other than items in Section V.C)**

11. **Depreciation Expense (including derivative impacts other than in Section IV.C.1.a)**

12. **Amortization Expense (including derivative impacts)**

13. **Rate Case Expense (other than amortization period in Section V.C.4)**

14. **Taxes Other Than Income Taxes (including derivative impacts)**

15. **Income Taxes (including derivative impacts)**

16. **Reclassification of Costs to Plant in Service (PGL)**

17. **Gross Revenue Conversion Factor**

18. **Other**

    a. **Invested Capital Tax**

**C. Potentially Contested Issues (All Subjects Relate to NS and PGL Unless Otherwise Noted)**

1. **Test Year Employee Levels**

    a. **Peoples Gas**

    b. **North Shore**

2. **Medical Benefits**

    a. **Peoples Gas**

    b. **North Shore**

    c. **IBS**

3. **Other Administrative & General**

    a. **Integrys Business Support Costs**

        i. **Labor**

        ii. **Benefits**

        iii. **Postage**

        iv. **Legal (NS)**

### v. ICE Project

#### (a) Return on Assets and Depreciation

Argument

While the ALJPO reflects Staff's position in the Commission Analysis and Conclusion section of this issue, Staff's position is not referenced in the section of the ALJPO which sets forth only the AG's and Companies' positions. (ALJPO, 81-86). Therefore, Staff recommends the following reference to its position as described in the next section of the ALJPO be adopted.

Proposed Modification
(ALJPO, 81-84.)

Companies' Position

* * *

Staff's Position

See Section (b) Non-Labor for the discussion of Staff's position on both the ICE Project ROA/Depreciation and Non-Labor adjustments.

AG's Position

*** * ***

#### (b) Non-Labor

### b. Advertising Expenses

Argument

Staff takes exception to the ALJPO's conclusion that allows cost recovery for non-recoverable advertising expenses as charitable contributions without first determining if the expenditures are recoverable charitable contributions.

The ALJPO, in detail, lays out the Companies' rationale for recovering charitable contributions. (ALJPO, 89 – 92.) The ALJPO, however, does not provide a rationale for allowing these advertising expenses to be recoverable as charitable contributions.

The expenses in question were included in the Companies' initial filing as advertising expenses and were subjected to discovery and review as advertising expenses. (Staff RB, 36.) Adoption of the ALJPO's conclusion on this issue would result in the Commission relieving the Companies of their burden of proof, which it should not, and assume that these advertising expenses are recoverable as charitable contributions.

Simply because an expense is a charitable contribution does not mean that it is recoverable. As the ALJPO demonstrates, the Commission does not allow recovery of all charitable contributions. (ALJPO, 101.) While the ALJPO assumes that the costs are recoverable, the Commission does not know if the advertising expenses that the Companies wish to recover as charitable contributions have met the Commission's standard for recoverability.

As the Companies admit, they knew full well that charitable contributions are not advertising expenses. The Companies did not take steps to either record the charitable contributions correctly or make appropriate adjustment to their initial filing. The Commission should not reward the Companies for the Companies' error and omission.

For these reasons, Staff respectively requests that the Commission substitute the following language under "Commission Analysis and Conclusion":

Proposed Modification
(ALJPO, p. 94.)

**Commission Analysis and Conclusion**

The Commission agrees with ~~the Utilities~~ Staff and ~~approves~~ rejects the Utilities' Advertising Expenses of $4,000 for North Shore and $51,000 for Peoples Gas for recovery. Staff and CCI seek to disallow the Utilities' "advertising expenditures" that go to charitable purpose: (1) in the case of North Shore Gas: the American Legion, Children of Purpose and the University Center of Lake County and (2) in the case of Peoples Gas: the Museum of Science and Industry, the Red Moon Theater, the Hispanic Heritage Organization and others. The Commission finds that the Utilities have not established that these expenditures ~~and the organizations are charitable in nature and therefore~~ would be recoverable under Section 9-227 in that since the expenditures were recorded as advertising expenses, the Commission was deprived of a review that would have determined if the charitable contributions were made to organizations outside the Utilities' service territory and to colleges and universities outside of the State of Illinois as cited in an adjustment to charitable contributions discussed later in this order. Further, the Commission finds that the Utilities have not adequately responded to the Commission's directions in Peoples Gas 2012 but have again recorded expenditures known to be charitable contributions as advertising expenses. ~~and that the Utilities have taken the necessary steps to better classify and distinguish these types of charitable expenditures from nonrecoverable "advertising expenses."~~ The Commission notes that the rulemaking on charitable expenditures in ICC Docket No. 12 0457 should provide further guidance in the classification and distinguishing of expenditures.

**c. Institutional Events**

Argument

Staff takes exception to the ALJPO's conclusion regarding the inclusion of non-recoverable institutional events expenses as recoverable charitable contributions without first determining if the expenditures are recoverable as charitable contributions.

The arguments against allowing recovery of charitable contributions that were errantly recorded as institutional events expenses are largely the same as the arguments against recovery of charitable contributions that were errantly recorded as advertising expenses in part "b" immediately preceding this part. The arguments are not repeated here.

The Companies knowingly included expenditures for charitable contributions as institutional events expenses in their initial filing. These expenditures were duly reviewed for recovery as institutional events expenses and not as charitable contributions. The Companies have not met their burden of proof, and the Commission does not know if these expenditures are recoverable as charitable contributions.

For these reasons, Staff respectively requests that the Commission substitute the following language under "Commission Analysis and Conclusion":

Proposed Modification
(ALJPO, pp. 97-98.)

**Commission Analysis and Conclusion**

The Commission agrees with Staff ~~the Utilities~~ and rejects ~~approves~~ the Utilities' Institutional Events expenditures of $203,000 for Peoples Gas and $10,000 for North Shore. ~~The Commission rejects Staff's proposed disallowance of $203,000 of Peoples Gas' institutional event spending and $10,000 of North Shore's institutional event spending and finds that those institutional event expenditures made by the Utilities are recoverable.~~ The Utilities have not presented ~~sufficient~~ evidence identifying those institutional events' spending as contributions made to support local charities since the expenditures were recorded as institutional events expenses, the Commission was deprived of a review that would have determined if the charitable contributions were made to organizations outside the Utilities' service territory and to colleges and universities outside of the State of Illinois as cited in an adjustment to charitable contributions discussed later in this order. ~~and community groups and not primarily to promote the Utilities and enhance its goodwill in the community.~~ The

Commission concludes these institutional event expenditures are not ~~barred under Section 9-225 and are~~ recoverable under Section ~~9-225 and~~ 9-227.

**d. Charitable Contributions**

**e. Social and Service Club Membership Dues**

**4. Amortization Period for Rate Case Expenses**

**5. Peer Group Analyses**

## VI. RATE OF RETURN

### A. Overview

Argument

The ALJPO has incorrect figures for Staff's proposed rates of return on rate base for both Peoples Gas and North Shore and ROE. Staff proposed a return on rate base for Peoples Gas and North Shore of 6.56% and 6.26%, respectively and a ROE of 9.05% for both. (Staff Reply Brief, 34.)

Proposed Modification
(ALJPO, 112)

Companies' Position

* * *

Only Staff and CCI have addressed directly the Companies' cost of capital arguments. The Companies' capital structures are not disputed. The Companies and Staff are in agreement on North Shore's long-term debt costs. The Companies and Staff disagree, however, on the Companies' short-term debt costs and Peoples Gas' long-term debt costs. Staff proposes substantially lower rates of return on rate base, 6.~~54~~56% for Peoples Gas and 6.~~23~~26% for North Shore, by virtue of its proposal to reduce the Companies' ROE from 9.28% to 9.~~00~~05%. CCI proposes a slightly smaller reduction in the Companies' ROE – from 9.28% to 9.15%. (CCI did not address short-term or long-term debt costs in its briefs.) NS-PGL IB at 105.

* * *

**B. Capital Structure**

**C. Cost of Short-Term Debt**

**D. Cost of Long-Term Debt**

**E. Cost of Common Equity**

Argument

While the ALJPO appropriately rejected the Companies' risk premium analysis, it mischaracterizes Staff's argument against the Companies' use of the S&P 500. In addition to a DCF analysis, Staff witness Freetly used a one-factor risk premium model, the Capital Asset Pricing model, to estimate the cost of common equity. The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. In the CAPM model, the risk factor is market risk, which cannot be eliminated through portfolio diversification. (Staff IB, 52) Staff did not argue against the use of the S&P 500 to develop the CAPM risk premium. In fact, Staff used the S&P 500 to estimate the expected return on the market in its CAPM. In the CAPM model, the risk-free rate is subtracted from the market return to determine the market risk premium. The market risk premium is then multiplied by beta, which is a measure of risk, to produce a risk premium specific to the utilities. This risk premium is then added to the risk free rate to determine the cost of equity. (Id., 53) The Company's risk premium model did not include a beta adjustment and instead inappropriately used the S&P 500 as a proxy for NS's and PGL's equity risk premium. (Id., 60)

Proposed Modification
(ALJPO, 143)

* * *

Risk Premium Analysis

* * *

Staff notes the S&P index is composed largely on non-rate regulated industrial concerns whose required rate of return exceeds the cost of equity for gas Companies. ~~Determining risk premium for a utility from a broad stock index is not an appropriate comparison.~~ Staff argues against the use of the S&P 500~~ to develop the CAPM risk premium~~ to estimate the expected return on equity for NS and PGL. The Companies are much lower risk companies than the overall market average. The risk premium for the overall market will be larger than that of an A-rated public utility, like NS and PGL. Therefore, adding that larger risk premium to the base bond return produces an overstated cost of equity estimate. The Companies' Mr. Moul effectively uses a cost of equity estimate for the overall market as an estimate for the lower risk NS and PGL.

* * *

### F. Weighted Average Cost of Capital

Argument

The ALJPO has the incorrect figures for Staff's proposed weighted average cost of capital for both Peoples Gas and North Shore. Staff proposed an overall return on rate base for Peoples Gas and North Shore of 6.56% and 6.26%, respectively. (Staff Reply Brief, 34.)

Proposed Modification
(ALJPO, 144.)

Commission Analysis and Conclusion

Based on the evidence in the record and the applicable legal principles, the Commission approves as just and reasonable an overall rate of return (weighted average cost of capital) for North Shore of incorporating Staff's recommended capital structure and costs of short-term debt, long-term debt, and common equity, equals 6.~~23~~26% for North Shore and 6.~~54~~56% for Peoples Gas. The record consistently demonstrates that Staff's recommendations are based on valid application of sound financial theory, while the higher recommendations of the Companies are not.

## VII. OPERATIONS

### A. AMRP Main Ranking Index and AG-Proposed Leak Metric(s)

### B. Pipeline Safety-Related Training (Uncontested)

## VIII. COST OF SERVICE

### A. Overview

### B. Embedded Cost of Service Study

#### 1. Allocation of Demand-Classified Transmission and Distribution Costs

#### 2. Allocation of Small Diameter Main Service Costs

## IX. RATE DESIGN

### A. Overview

### B. General Rate Design

#### 1. Allocation of Rate Increase

#### 2. Fixed Cost Recovery

Argument

The ALJPO adopts Staff's proposal to begin the movement away from straight fixed variable ("SFV")-based rates; however, Staff recommends the ALJPO be revised to better reflect Staff's position concerning SFV-based rates in the Commission's Analysis and Conclusion. The ALJPO, as currently drafted, does not correctly reflect some of Staff's proposed rate design. Staff recommends the following changes to the "Commission Analysis and Conclusions" Section. (ALJPO, 187, 190.)

Proposed Modification
(ALJPO, 187.)

* * *

> The Companies contend that SFV is merely a term describing a rate design under which all fixed costs are recovered in fixed charges. The

Companies' proposed rate designs in its recent cases have moved progressively closer to an SFV ~~based~~ rate design.

* * *

Proposed Modification
(ALJPO, 190.)

Although Staff and Intervenors agree on the shift away from SFV-based rates, they disagree on the percentage of fixed costs. Consistent with the more conservative rate design proposed by Staff, the Commission directs that Staff's proposed S.C. No. 1 Residential Non-Heating, S.C. No. 1 Residential Heating, and S.C. No. 2 General Service rate designs, as discussed in Sections IX.C.2.a, IX.C.2.b., and IX.C.2.c., respectively, be approved. ~~that a~~Any increase in non-storage demand-classified distribution costs beyond the revenue provided by Staff's proposed customer charges should be collected through volumetric charges. The Commission finds that the Companies' risk of not recovering their authorized revenue requirement are minimal in light of the guaranteed revenue recovery that the Companies enjoy through decoupling, uncollectibles and infrastructure riders.

## C. Service Classification Rate Design

### 1. Uncontested Issues

#### a. Service Classification No. 8, Compressed Natural Gas Service (PGL)

#### b. S.C. No. 5 Contract Service for Electric Generation and S. C. No. 7 Contract Service to Prevent Bypass

### 2. Contested Issues – North Shore and Peoples Gas

#### a. Service Classification No. 1, Small Residential Service, Non-Heating

Argument

Staff agrees with the overall "Analysis and Conclusion" Section of the ALJPO regarding the S.C. No. 1 Residential Non-Heating class. However, Staff recommends that some language be added to clarify the Commission's position that the approved rate design should more closely align with the embedded cost of service study. Staff recommends the following change to the "Analysis and Conclusion" Section of the ALJPO.

Proposed Modification
(ALJPO, 196.)

* * *

> The Commission accepts Staff's rate design proposal for this customer class, which reflects a more traditional rate design whereby customer charges recover embedded cost-of-service ("ECOS") study customer costs and distribution charges recover ECOS study demand costs. Therefore, customer's bills are more closely aligned with the ECOS study. If North Shore's total customer charge revenues derived from the proposed customer charge ($15.80) are greater than the customer costs found on the final Commission approved ECOS study in this proceeding, then the final customer charge should be lowered to recover ECOS study-based customer costs only. Likewise if Peoples Gas' total customer charge revenues derived from the proposed customer charge ($16.70) are greater than the customer costs found on the final Commission approved ECOS study in this proceeding, then the final customer charge should be lowered to recover ECOS study customer costs only. The Commission orders that increases in the revenue requirement for non-storage demand-classified distribution costs shall be collected through volumetric charges.

**b. Service Classification No. 1, Small Residential Service, Heating**

Argument

Staff agrees with the overall "Analysis and Conclusion" Section of the ALJPO regarding the S.C. No. 1 Residential Heating class. However, while the ALJPO states that a $25 monthly customer charge for North Shore and a $32.35 monthly customer charge for Peoples Gas are appropriate, it also states in a subsequent paragraph that those customer charges may change depending on the final Commission approved ECOS study. (ALJPO, 209.) Staff recommends that some language be deleted in order to more clearly state the Commission's intention that the customer charges reflect ECOS study-based customer costs only, based on the final Commission approved

ECOS study. Staff recommends the following change to the "Analysis and Conclusion" Section of the ALJPO.

Proposed Modification
(ALJPO, 209.)

* * *

> The Commission finds that the Companies proposed increases in the customer charges pursuant to its SFV-based rate design are inconsistent with public policy as discussed in Section IX, B 2 (Fixed Cost Recovery) of this order. The Commission finds that Staff's and Intervenor's arguments in favor of assigning demand based costs to volumetric charges are consistent with energy efficiency and the avoidance of cross subsidies. The Commission accepts Staff's rate design proposal for this customer class.~~ The Commission finds that a $25 monthly customer charge North Shore is appropriate. The Commission also finds that a $32.35 monthly customer charge for Peoples Gas customers is appropriate.~~

* * *

### c. Service Classification No. 2, General Service

Argument

The ALJPO inadvertently summarized Staff's position regarding S.C. No. 1 Residential Heating rate design language rather than Staff's position regarding S.C. No. 2, General Service rate design under the "Staff Position" section. (ALJPO, 210-211.) In addition, the language under the "Commission Analysis and Conclusion" discusses and evaluates the arguments and positions of the parties, but could more clearly articulate a conclusion. As written, it does not represent the ALJPO's Section IX, B 2 (Fixed Cost Recovery) section conclusion, which accepts Staff's S.C. No. 2 General Service rate design proposal. (ALJPO, 190.) Staff recommends the following changes to the "Staff's Position" section on pages 210-211 of the ALJPO.

Proposed Modification
(ALJPO, 210-211)

Staff's Position

~~The Commission should accept Staff's proposal S.C. No. 1 Heating classes' customer charges to recover ECOS study customer costs and set distribution charges to recover ECOS study demand costs.~~

~~North Shore is proposing to increase the recovery of fixed costs in its SFV-based rate design to recover 80% of non-storage related fixed costs through the customer charge, compared to the current 68% fixed cost recovery, with all remaining costs being recovered through a flat distribution charge. The monthly customer charge would increase from $23.75 to $29.55 and the distribution charge would decrease from 10.385 cents *per* therm to 7.133 cents *per* therm. This is applicable to both sales and transportation customers. (NS Ex. 15.4.) Peoples Gas is proposing to increase the recovery of fixed costs in its SFV-based rate design to recover 75% of non-storage related fixed costs through the customer charge, compared to the current 61% fixed cost recovery, with all remaining costs being recovered through a flat distribution charge. The monthly customer charge would increase from $26.91 to $38.50 and the distribution charge would decrease from 18.885 cents *per* therm to 14.919 cents *per* therm. This is applicable to both sales and transportation customers. (PGL Ex. 15.4.)~~

~~Staff witness Johnson's assessment of the Companies proposal found that North Shore's proposed customer charge would recover approximately $51,355,507 in total annual customer charge revenues while the ECOS study identifies only $43,452,183 in customer costs for the S.C. No.1 HTG class. He found Peoples Gas' proposed customer charge would recover approximately $303,291,027 in total annual customer charge revenues while the ECOS study identifies only $254,928,725 in customer costs for the S.C. No.1 HTG class. (Staff Ex. 4.0, 28:47.) Mr. Johnson opined that these proposals are inconsistent with the Commission's recent orders, which adopt rate designs that move away from an SFV-based rate design and instead align customers' bills with the cost of service (*i.e.*, customer charges based upon ECOS study customer costs and distribution\demand charges based upon ECOS study demand costs). (*Id.* , 29:47.) Staff's proposed rate design which sets customer charges based upon ECOS study customer costs and distribution charges based upon ECOS study demand costs would consist of a $25 monthly customer charge and 11.544 cents *per* them distribution charge for North Shore and a $32.35 monthly customer charge and 22.063 cents *per* therm distribution charge for Peoples Gas. (NS-PGL Ex. 29.0 REV, 17-18.) Staff's proposed rates are based upon the Companies' proposed direct testimony revenue requirement. (Staff Ex. 4.0, 24.)~~

~~Moreover, Staff found that since the Companies' proposed customer charges are based upon all ECOS study customer costs and part of the demand costs, the resulting lower distribution charge results in those customers that are incurring greater demands on the system to not paying their fair share. This occurs because under the Companies' proposal, demand costs are recovered~~

~~through the customer charge, thereby shifting cost recovery from a *per* therm basis to a *per* customer basis. The lower-use heating customers in effect would subsidize the larger-use heating customers. (*Id.* , 29:47-48.)~~

~~Finally, Staff stated that decreasing the distribution charge when the ECOS study indicates that all of the demand costs are not reflected in the distribution charge is inconsistent with the Commission's previously stated concerns regarding energy conservation. In order to reflect the pro*per* price signal and encourage energy conservation, the distribution charge should reflect all demand related costs so that those customers who place greater demands on the system pay for those demands. *Id.*~~

~~In the rebuttal stage of this proceeding the Companies responded the same as they did to Staff's proposal for the S.C. No. 1 non-heating class. That is, Ms. Egelhoff states that all of the Companies' costs recovered through base rates are fixed and that the cost of having infrastructure in place to handle that demand does not vary based on a customer's use. (NS-PGL Ex. 29.0 REV, 17.)~~

~~AG/ELPC witness Rubin is proposing that PGL and NS move toward collecting no more than 50% of its heating revenues, and no more than 75% of its non-heating revenues from the customer charges. (AG/ELPC Ex. 3.0, 22:470-471 and 29:579-580.) Mr. Rubin states that under PGL's proposed revenue requirement, the 50% and 75% results can be approximated by keeping PGL's heating and non-heating customer charges at their existing amount. Thus, the increase would be collected solely through increases in the volumetric charges. (*Id.* , 22.)~~

~~For NS, Mr. Rubin states that under North Shore's proposed revenue requirement the effects on larger-use heating customers might be severe if the change were made in one step, so Mr. Rubin recommends the residential customer charges should remain at their existing amounts. (*Id.* , 29.)~~

~~IIEC witness Brian Collins proposes an across the board increase for all classes. (IIEC Ex. 1.0, 3 and IIEC Ex. 3.0, 18-19.)~~

<u>Staff argues that the Commission should accept Staff's S.C. No. 2 General Service classes' rate design proposal for North Shore and Peoples Gas.</u>

<u>Staff reiterates that recent Commission orders have been moving towards aligning customers' bills with the cost of service (i.e., customer charges based upon ECOS study customer costs and distribution\demand charges based upon ECOS study demand costs). While the Companies' proposed S.C. No. 2 General Service class customer charge recovers 100% of ECOS customer costs, it also recovers demand related costs. This is a shift towards greater SFV-based rate design and is, thus, problematic. The Commission has recently been making adjustments that move away from SFV-based rate designs for those electric companies that have adopted formula rates through EIMA. Similar to the impact</u>

of electric companies' formula rates, the Company's implementation of Rider VBA provides revenue stability and eliminates the need to have an SFV-based rate design. Also, increasing the percentage of non-storage related demand costs through fixed charges lowers the percentage of non-storage related demand costs recovered through the per therm distribution charge. This, in turn, could discourage conservation. (Staff Ex. 4.0, 33-34.) Finally, Staff found that moving ECOS study-based demand costs that are allocated to customer classes based upon demand into a fixed customer charge shifts cost responsibility to customers with lower demands. This occurs because rather than collecting total demand related costs on a per therm basis, some of the demand related costs are collected on a per customer basis. The per therm charge is lower than it would have been if all demand related costs were recovered on a per therm basis and the customer charge is higher than it would have been if the demand costs were collected through a per therm charge (For example, a customer that uses zero therms would pay for some of the demands that a larger use customer places on the system). *Id*.

Staff's proposed S.C. No. 2 General Service class customer charge for all three meter classes (for each Company) will recover 100% of ECOS study-based customer costs. Consistent with the most recent Commission orders concerning movement away from SFV-based rate designs, Staff witness Johnson proposes a decrease in the percentage of non-storage related demand costs currently recovered through the customer charge for all three meter classes. His proposal provides a gradual shift away from SFV-based rate design while taking into consideration customer bill impacts and revenue stability for the Company. Specifically, Staff proposes the percentage of non-storage related demand costs recovered through the customer charge for North Shore for Meter Classes 1 and 2 be decreased by 10% from the current Commission approved 45%. The resulting percentage of non-storage related demand costs recovered through North Shore's customer charge for Meter Classes 1 and 2 would be 40%.[6] The same 10% decrease for North Shore's Meter Class 3 would result in a decrease in the percentage of non-storage related demand costs recovered through the customer charge from 35% to 31%.[7] The remaining non-storage related demand costs would be recovered through the Company's proposed declining two-block distribution charge on a per therm basis. (Staff Ex. 4.0, 35-36 and Schedule 4.01N.)

For Peoples Gas, Staff proposes the percentage of non-storage related demand costs recovered through the S.C. No. 2 General Service class customer charge for Meter Classes 1, 2, and 3 be decreased by 10% from the current Commission approved 40%, 45%, and 10%, respectively. The resulting percentage of non-storage related demand costs recovered through the customer charge for Peoples Gas would be 36% for Meter Class 1,[8] 40% for

[6] 40% ≈ 45% - (45% X 10%).

[7] 31% ≈ 35% - (35% X 10%).

[8] 36% ≈ 40% - (40% X 10%).

Meter Class 2,[9] and 9% for Meter Class 3.[10] The remaining non-storage related demand costs would be recovered through the Company's proposed declining two-block distribution charge on a per therm basis. (*Id.*, 54-55 and Schedule 4.01P.)

Staff also recommends that, going forward, the Commission make additional adjustments to the percentage of non-storage related demand costs recovered through the S.C. No. 2 General Service class customer charge until the customer charges per meter class recover only ECOS study customer costs for both Companies. Staff is not recommending that a set percentage in each case or time period be utilized to eliminate the non-storage related demand costs from the customer charge going forward. The amount of the adjustments should be decided in each case in order to consider bill impacts for customers. (Staff Ex. 4.0, 36:54-55.) Recent Commission Orders indicate a movement away from SFV-based rate designs, especially for those Companies with cost recovery mechanisms in place (like the Companies' Rider VBA) that provide revenue stability. Staff's rate design proposal makes a similar movement while taking rate impacts into consideration. (Staff Ex. 9.0, 14.)

Argument

Staff recommends that the "Commission Analysis and Conclusion" section of c. Service Classification No. 2, General Service also be changed to reflect the ALJPO's Section IX, B 2 (Fixed Cost Recovery) conclusion, which is an acceptance of Staff's S.C. No. 2 General Service rate design proposal. Staff recommends the following changes to the "Commission Analysis and Conclusion" on pages 211-212 of the ALJPO.

Proposed Modification
(ALJPO, 211-212.)

~~The Commission finds that the Companies proposed increases in the customer charges pursuant to its SFV based rate design are inconsistent with public policy as discussed in Section IX, B 2 (Fixed Cost Recovery) of this order. Customer charges for these classes be set at the levels discussed above, increases in the revenue requirement for non-storage demand-classified distribution costs shall be collected through volumetric charges.~~

[9] 40% ≈ 45% - (45% X 10%).

[10] 9% ≈ 10% - (10% X 10%).

~~The Commission agrees with Staff and Intervenors that the Companies' proposed customer charges are based upon all ECOS study customer costs and part of the demand costs. The resulting lower distribution charge results in those customers that are incurring greater demands on the system not paying their fair share.~~

~~Decreasing the distribution charge when the ECOS study indicates that all of the demand costs are not reflected in the distribution charge is inconsistent with the Commission's concerns regarding energy conservation and the avoidance of cross subsidization. In order to reflect the pro*per* price signal and encourage energy conservation, The Commission finds that the distribution charge should reflect all demand related costs so that those customers who place greater demands on the system pay for those demands.~~

~~The Commission looks with disfavor upon SFV-based rate designs for those Companies with adequate cost recovery mechanisms in place.~~

The Commission's recent Orders in ComEd (Docket No. 13-0387) and Ameren Illinois (Docket No. 13-0476) make it clear that SFV-based rate designs should be re-examined and rate design should reflect traditional rate design principles, which more closely align customers' bills with the ECOS study. The Commission is actively reevaluating how rate design can be utilized to ensure that customers are responsible for the demands they place on the system and that rate design maximizes conservation efforts.

With this in mind, the Commission finds that the Companies' proposed increases in the S.C. No. 2 General Service class customer charges pursuant to its SFV-based rate design are inconsistent with public policy as discussed in Section IX, B 2 (Fixed Cost Recovery) of this order. Customer charges for these classes should be set at the levels discussed above, and the remaining non-storage related demand costs should be recovered through the Companies' proposed declining two-block distribution charge on a per therm basis.

This proposal results in a gradual movement away from SFV-based rates for the S.C. No. 2 General Service classes while taking into consideration customer bill impacts and revenue stability for the Companies. Going forward, the Commission directs the Companies to make additional adjustments to the percentage of non-storage related demand costs recovered through the customer charge until the customer charges per meter class recover only ECOS study customer costs. However, this should be done while taking into consideration bill impacts for the customers in the various meter classes.

#### d. Service Classification No. 4, Large Volume Demand Service

### 3. Classification of SC No. 1 Residential Heating and Non-Heating Customers

Argument

The ALJPO directs the Companies to provide certain information related to the results of its inquiry into the classification of S.C. No. 1 Residential heating and non-heating customers to Staff. Staff has no objection to the ALJPO's proposal but recommends that the information be provided through the Companies' direct testimony in the next rate case. Since the Attorney General initially raised this issue, it would be prudent to have the information available for all parties through a transparent method. Staff recommends the following changes to the "Commission Analysis and Conclusion" section on page 216 of the ALJPO.

Proposed Modification
(ALJPO, 216.)

* * *

Commission Analysis and Conclusion

The Commission finds that the Companies suggestion that in the Companies communication with customers about the rate case, they include information emphasizing to S.C. No. 1 residential heating and non-heating customers the significance of the "heating" and "non-heating" designations and encourage customers to call with questions or concerns or to request an inspection. The Commission directs the Companies to submit the content and format of the proposed heating/ non-heating classification communication to Commission Staff for its input and approval prior to its distribution to customers. The Commission further directs the Companies in preparation for their next rate cases to provide in direct testimony ~~report to Commission Staff about~~ the number of customer contacts that are generated by this communication and the number of inspections and account reclassifications that occur as a result.

### D. Other Rate Design Issues

#### 1. Terms and Conditions of Service

##### a. Service Activation

##### b. Service Reconnection Charges

##### c. Second Pulse Data Capability Charge

#### 2. Riders

##### a. Rider 5, Gas Service Pipe

##### b. Rider SSC, Storage Service Charge

##### c. Rider QIP, Qualifying Infrastructure Plant [PGL]

##### d. Rider UEA, Uncollectible Expense Adjustment, and Rider UEA-GC, Uncollectible Expense Adjustment – Gas Costs

##### e. Rider VBA, Volume Balancing Adjustment, Percentage of Fixed Costs

##### f. Transportation Riders

###### i. Transportation Administrative Charges

###### ii. Rider SBO Credit

###### iii. Purchase of Receivables

#### 3. Service Classifications

##### a. S.C. Nos. 1 and 2 Terms of Service

#### 4. Other

## X. FINDINGS AND ORDERING PARAGRAPHS

## XI. TECHNICAL CORRECTIONS

#### 1. North Shore Revenue Requirement - ALJPO, 10

The revenue requirement for North Shore set forth in the ALJPO on page 10 does not match up with the revenue requirement for North Shore set forth in Appendix

A, Page 1 of 13, column (i), row 3. Staff assumes the revenue requirement set forth in Appendix A, is the figure the ALJPO is the correct one. Staff recommends the following language correction be adopted.

> Commission Analysis and Conclusion
>
> Upon a thorough review of the record, the Commission finds that the appropriate revenue requirement for North Shore is ~~$85,358,000.~~$86,955,000. The Commission is cognizant of the need to balance the interests of rate payers entitled to fair and reasonable rates with the financial requirements of the Companies. The Commission concludes that the adjustments to the revenue requirement reflected in this Order are supported by the evidence.
>
> * * *

### 2. Charitable Contributions, - ALJPO, 98

Staff noted a typographical error on page 98 of the ALJPO where an amount of $1,000 was incorrectly included in the ALJPO as $10,000. The Appendix to the ALJPO accurately reflects the amount as $1,000. The first full paragraph on page 98 of the ALJPO should begin as follows:

> Companies' Position
>
> The Companies note that Staff proposes to disallow $28,000 of Peoples Gas' charitable contributions and ~~$10,000~~ $1,000 of North Shore's charitable contributions. …
>
> * * *

## XII. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this consolidated docket.

Respectfully submitted,

____________________________

JESSICA L. CARDONI
JOHN C. FEELEY
MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle Street, Suite C-800
Chicago, IL 60601
Phone: (312) 793-2877
Fax: (312) 793-1556
jcardoni@icc.illinois.gov
jfeeley@icc.illinois.gov
mlannon@icc.illinois.gov

*Counsel for the Staff of the Illinois Commerce Commission*

December 16, 2014