STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMMISSION Proposed General Increase In Rates For Gas Service THE PEOPLES GAS LIGHT AND COKE COMPANY Proposed General Increase In Rates For Gas Service	))))))))))	Docket No. 14-0224 Docket No. 14-0225 (Consolidated)

BRIEF ON EXCEPTIONS OF THE ENVIRONMENTAL LAW & POLICY CENTER

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Submitted By:

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IX. RATE DESIGN

A. Overview

Environmental Law and Policy Center ("ELPC") has weighed in on only one issue in this proceeding; the amount of revenue that the Commission should allow Peoples/NorthShore (hereinafter "Peoples") to recover through the fixed monthly customer charge. The Proposed Order has good language that indicates the Commission's intent to continue to move away from straight fixed variable rates, and it denies Peoples's attempt to further increase the percentage of its fixed costs recovered through the monthly customer charge. However, as set forth below, the Proposed Order does not go far enough and we urge the Commission to adopt AG/ELPC Witness Rubin's proposal to set the customer charge at 50% of delivery costs and freeze the customer charge at $26.91. This is more than sufficient to protect the Company's interests in light of its QIP rider and decoupling.

B. General Rate Design

2. Fixed Cost Recovery

Peoples Current Fixed Customer Charge is Already Extremely High

Peoples requests to increase the revenue it collects from residential heating customers in the fixed monthly customer charge from 62% of its non-storage revenues to 85%, going from $26.91 to $38.50 per month. The Proposed Order keeps the fixed charge at 62%, which under the new revenue requirement in the Proposed Order results in an increase fixed monthly customer charge of $32.35. PO at 209. While ELPC prefers the Commission decision not to increase the monthly customer charge in terms of percentage of fixed costs recovery to Peoples's proposal, it still leaves the fixed monthly charge at $32.35. To put this in real terms, this means before customers use one therm of gas, they owe Peoples $32.35 each month. This high amount sends customers the wrong price signals, and takes away their ability to control their bill through efficiency.

In analyzing this case the Commission must bear in mind that Peoples's customers currently pay a fixed customer charge of $26.91 per month. To give the case some perspective, this charge has increased dramatically several times over recent years, going up 199% from $9.00 per month in 2007. PO at 186. That magnitude of increase is hard to fathom. Hence, while keeping the same level as the last case sounds reasonable in the context of this proceeding, the result is anything but reasonable. We urge the Commission to consider AG/ELPC Witness Rubin's proposal to limit the recovery of fixed costs through monthly customer charge to 50% which would entail keeping Peoples monthly customer charge at the existing amount of $26.91.

Raising the Customer Charge Results in Rates that are not Just and Reasonable

Peoples' proposal violates fundamental fairness principles. As the U.S. Supreme Court has explained, "[u]nder the statutory standard of 'just and reasonable' it is the *result reached* not the method employed which is controlling." *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 602 (1944) (*emphasis added*). The Court added, "[i]t is not theory but the impact of the rate order which counts." *Id.* at 602. As Mr. Rubin asserts, "Giving PGL's customers more control over their natural gas bills by reducing the customer charge gives customers an important incentive to reduce their energy usage." AG/ELPC Ex. 3.0 at 21. Given the legislature's desire to promote energy efficiency, the Commission should ensure that Peoples's rate design does not reduce the value of efficiency. The current customer charge of $26.91 per month already reduces customer benefits from efficiency and an increase to $38.50 speaks for itself.

The Illinois Commerce Commission recently ordered ComEd to *reduce* its fixed charges and increase its variable rates to better protect low-usage customers. Stating specifically, "It rebalances fixed and variable costs and more closely aligns customer's bills with the cost of service, especially for many low use customers." ICC Docket No. 13-0387, Final Order at 75, Dec. 18, 2013. The Commission should take similar action in this proceeding as well.

Such action would be consistent with the Commission's own findings in its recent report to the General Assembly in August, 2013. ICC Report to the General Assembly Concerning Coordination Between Gas and Electric Utility Programs and Spending Limits for Gas Energy Efficiency Programs, August 30, 2013 ("Joint Gas and Electric Report"). In terms of the proper rate design moving forward, the Commission argued that revenue should be shifted back from fixed charges to volumetric charges going forward:

> The importance of these findings is that increasing the volumetric distribution charge by even 10% (the distribution charge is approximately 40%-50% of the bill) could lead to a 0.4%-0.5% short term reduction and 0.88%-1.1% long-term reduction in gas use over what it would be with the lower volumetric price. Since altering the volumetric charge does not affect the average cost of delivery service to retail customers (it does affect the costs to individual customers but on average a customer pays the same amount), these additional savings can be achieved without increasing the budget limitations. If prices and weather are similar to what was experienced in 2009, one should expect that increasing the volumetric distribution charge by 10% would achieve a usage reduction that is about half of the May 31, 2015 goal of 0.8%.

Id. at 24. Thus, ELPC's request is consistent with the Commission's recent policy statement.

Cost Causers Should Pay Their Fair Share

Peoples argumes that fixed costs should all be recovered through fixed charges because, "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." PGL Ex. 15.0 at 9. Both AG/ELPC Witness Rubin and Staff Witness Johnson dispute this assertion. Mr. Rubin notes:

> A gas distribution system is designed to serve the anticipated peak demands and energy requirements of all customers. Very little if any of that investment is actually "caused" by a single customer. When we talk about the principle of cost causation, we're actually talking about a fair way to allocate shared costs among customer classes and customers.

AG/ELPC Ex. 9.0 at 2. He further notes that there is a question of fairness between customer classes, because if residential customers increase their usage more of the cost of a gas main should then be transferred to that customer class. *Id.* at 3-5. Thus, you want to send the correct price signal to members of that class.

Staff Witness Johnson makes a similar point to Mr. Rubin's:

> The relevant question here is not the cost of the infrastructure built to meet demand but rather who should pay for it. If demand costs are recovered through

> the customer charge, all customers are assumed to cost the same for the Companies to serve them. If demand costs are recovered through the distribution charge, the recovery method assumes the costs are not the same for all customers to serve them. If demand costs are recovered through the distribution charge, that assumes that customers with higher usage will have higher peak demands and be more costly to serve than small use customers. While this latter assumption may not be true in each and every case, it is more reasonable than the Companies' proposed rate design's implied assumption that all customers within a class cause the utility to incur the same amount of demand costs. Back to my previous example, a customer with a 4,000 square foot home could be expected to place greater demands on the system at the peak compared to the 1,000 square foot home. Recovering demand costs through the customer charge does not recognize this difference.

ICC Staff Ex. 9.0 at 7. The point that Mr. Johnson emphasizes is that long-term, fixed costs increase when customers use more gas. Holding down usage ultimately translates to a less costly system. In essence, Peoples defines fixed costs in a very narrow and inaccurate way that the facts do not support.

The Commission Should Adjust the Fixed Customer Charge Consistent with its Narrative Language

ELPC supports the Proposed Order's finding in terms of the language:

> 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.

Proposed Order at 209. However, it continues in that paragraph to adopt Staff's recommendation of a $32.35 customer charge. Under normal circumstances, keeping the recovery of non-variable costs at 62% might be reasonable, but given that Peoples already collects an extremely high charge of $26.91, the Commission should take further steps and adopt Mr. Rubin's proposal to lower the percentage of cost recovery in the customer charge to 50%. Depending on the exact finding regarding revenue requirement, this would leave the customer charge at or near the current $26.91. This would still leave customers paying a very high charge, but moves in the direction the Commission outlines in its Joint Gas and Electric Report of reducing customer charges by 10 percent from the current $26.91 charge.

X. CONCLUSION

In this case, Peoples starts with a $26.91 monthly customer charge that is already too high. ELPC urges the Commission to take a hard look at the current structure and consider the ramifications of raising the customer charge beyond the current level. Increasing Peoples's revenue while keeping the same monthly customer charge will start to send customers the right price signals in terms of their usage and the value of efficiency.

EXCEPTIONS at 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 that any increase in non-storage demand-classified distribution costs beyond the revenue provided by Staff's proposed customer charges be collected through volumetric charges.~~ The Commission notes that Peoples already has a customer charge of $26.91 and North Shore has a charge of $23.75. These current charges recover too much of the companies' non-variable costs through the fixed customer charge. AG/ELPS Witness Rubin suggests allowing the utilities to recover approximately 50% of their non-storage revenues through the customer charge. This is consistent with the findings in our report to the legislature that we need to send customers appropriate price signals to encourage efficiency. Hence, the Commission orders the Companies to maintain their fixed monthly customer charges of $26.91for Peoples and $23.75 for North Shore. 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.

EXCEPTIONS at 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~~ finds that the current customer charge allows Peoples to recover more than an adequate percentage of its costs through the fixed customer charge. The Commission further finds that AG/ELPC Witness Rubin's testimony that allowing the Companies to recover 50% of their variable charges through the fixed monthly customer charge is reasonable, and consistent with the Commission's policy directive in the recent Joint Gas and Electricity Report to the legislature. Hence, ~~t~~the Commission finds that a $~~25.00~~23.75 monthly customer charge North Shore is appropriate. The Commission also finds that a $~~32.35~~26.91 monthly customer charge for Peoples Gas customers is appropriate.

If North Shore's total customer charge revenues derived from the proposed customer charge ($~~25~~23.75) are greater than the customer costs found on the final Commission approved ECOS study in this proceeding, then the final customer charge should be lowered to recover ECOS study-based customer costs only. Likewise if Peoples Gas' total customer charge revenues derived from the proposed customer charge ($~~32.35~~26.91) 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.

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