STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	)	
	)	
The Peoples Gas Light and Coke Company	)	Docket Nos. 16-0033 and 16-0034 (cons.)
	)	
Proposed addition of a new service called Rider Purchase of Receivables	)	

DIRECT TESTIMONY
OF
DEBRA E. EGELHOFF

Q. Please state your name and business address.

A. My name is Debra E. Egelhoff. My business address is 200 East Randolph Street, Chicago, Illinois 60601.

Q. By whom are you employed?

A. WEC Business Services LLC.

Q. What position do you hold with WEC Business Services LLC ("WBS")?

A. I am employed as Manager, Gas Regulatory Policy.

Q. What are your responsibilities in that position?

A. My present responsibilities include performing and managing activities related to rate research, rate design, rate and tariff administration, and for developing recommendations regarding rate policies for North Shore Gas Company ("North Shore") and The Peoples Gas Light and Coke Company ("Peoples Gas"), affiliated companies of WBS.

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 and North Shore's 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 WBS in the Gas Supply department. In July 2012, I was promoted to Manager, Gas Regulatory Policy.

Q. What is the purpose of your direct testimony?

A. I am testifying on behalf of North Shore and Peoples Gas (together, North Shore and Peoples Gas are the "Utilities") to support North Shore's and Peoples Gas' proposals to add a new service to their Schedules of Rates for Gas Service (the "tariff"), called Rider POR, Purchase of Receivables, and to make other tariff changes needed to implement this new service. Utilities witness Jerard Julian will also address the proposal.

Q. Are there any attachments to your testimony?

A. Yes. NSG-PGL Ex. 1.1 is the tariff sheets that North Shore filed and NSG-PGL Ex. 1.2 is the tariff sheets that Peoples Gas filed. Subsequent changes were put in effect on some of these tariff sheets, but none of those changes are relevant to this proceeding.

Q. Please give a brief description of the operations and status of North Shore and Peoples Gas.

A. North Shore is a corporation organized and existing under the laws of the State of Illinois, having its principal office at 200 East Randolph Street, Chicago, Illinois 60601. It is engaged in the business of purchasing, distributing and selling natural gas to approximately 159,000 customers in Cook and Lake Counties, Illinois. North Shore is a public utility within the meaning of the Public Utilities Act ("Act").

Peoples Gas is a corporation organized and existing under the laws of the State of Illinois, having its principal office at 200 East Randolph Street, Chicago, Illinois 60601. It is engaged in the business of purchasing, distributing and selling natural gas to approximately 830,000 customers in the City of Chicago. Peoples Gas is a public utility within the meaning of the Act.

Q. Please describe the subject matter of this proceeding.

A. On December 18, 2015, North Shore and Peoples Gas each filed under Section 9-201 of the Act to add Rider POR to its tariff and to make other tariff changes required by adding this service. On January 20, 2016, the Illinois Commerce Commission ("Commission") issued an order suspending the filings.

On February 9, 2016, the Administrative Law Judge granted a motion to consolidate the proceedings.

Q. Briefly, what is Rider POR?

A. Proposed Rider POR is a service that would be available to alternative gas suppliers participating in the Utilities' small volume transportation programs and who execute an LDC POR Billing Option contract. Customers in that program receive service under Rider CFY, Choices For You[sm] Transportation Service, and suppliers receive service under Rider AGG, Aggregation Service. Under the proposed riders, the Utilities would purchase, at a discount, receivables associated with participating suppliers' undisputed supply charges and assume full responsibility for collection of those receivables.

Q. Please provide some background about this proposal.

A. The concept of this service was before the Commission in two proceedings. First, in their most recent rate cases[1], the Utilities testified that they were monitoring a similar service that the Ameren gas utilities had filed, and were planning to develop and file a purchase of receivables service based on the outcome of the Ameren case. The Commission noted this testimony and stated that it took "no position on the proposal but will review the merits of any proposed tariff when it is filed." Rate Case Order at 206-207. Second, in the proceeding to approve a Reorganization under which Wisconsin Energy Corporation would acquire Integrys Energy Group, Inc., North Shore's and Peoples Gas' ultimate

[1] North Shore Gas Company et al., ICC Docket Nos. 14-0224/14-0225 (cons.) (Order Jan. 21, 2015) ("Rate Case Order"). Unrelated to the purchase of receivables matter, the Commission issued an Amendatory Order dated January 28, 2015, and a Second Amendatory Order, dated February 11, 2015.

parent corporation, Condition of Approval No. 44 identified several issues that North Shore and Peoples Gas would discuss with the Retail Energy Supply Association ("RESA"), including, with reference to the rate case, a purchase of receivables tariff.[2] The acquisition occurred on June 29, 2015, and, in satisfaction of Condition of Approval 44, the Utilities have had, and continue to have, discussions with RESA on several topics.

Q. Do any other Illinois utilities offer a purchase of receivables service?

A. No other Illinois gas utility currently offers a purchase of receivables service although two have proposed programs. State law requires certain electric utilities to offer purchase of receivables.

Q. When would the Utilities implement the program?

A. As Mr. Julian noted, building and testing the system functionality will be a time-consuming task. For this reason, the Utilities request that the Commission not require them to begin incurring costs to build the system functionality, and that service under the rider not commence, until the later of (a) 18 months after the Commission approves Peoples Gas' rider and North Shore's rider, and (b) 18 months after at least one supplier signs a service contract and provides Peoples Gas or North Shore or both with credit assurances in an amount equal to the estimated investment costs. (The commencement date of the program will be referred to as the "Effective Date" throughout this testimony.) It is reasonable for the Utilities not to incur any costs until at least one supplier commits to take service and provides credit assurances to support that commitment. This

[2] Wisconsin Energy Corporation et al., ICC Docket No. 14-0496 (Order June 24, 2015) at Appendix A, Condition of Approval 44.

approach avoids potential stranded costs and avoids diverting resources to a project until there is a firm commitment for the service.

Q. What is the nature of the credit assurance that the Utilities will require?

A. The Utilities will require each supplier to provide an irrevocable standby letter of credit in an amount equal to its pro rata share of the estimated investment costs when it signs an LDC POR Billing Option contract prior to the Effective Date. The Utilities may require credit assurances in the form of a corporate or parent guaranty or irrevocable standby letter of credit, or a cash deposit to assure payment of the POR Application Charge from any supplier that signs an LDC POR Billing Option contract during the recovery period.

Q. How will suppliers know the dollar amount of the required credit assurance?

A. The Utilities will file (or postmark) no later than 14 days following the effective date of Rider POR an Information Sheet with the estimated investment amount. (The “effective date” of the rider is different than the Effective Date of the program. The rider effective date is when the Utilities make their compliance filings. I describe the program Effective Date above.) The Utilities will file another Information Sheet no later than six months after the Effective Date of the program reflecting actual investment costs.

Q. How do the Utilities propose to recover costs for the investment required to support the service?

A. Over a five-year recovery period, participating suppliers would pay the full investment cost, including carrying costs, to build the system functionality; modify

existing systems, processes, data management and the like; and conduct necessary training to support the service. The system functionality would support the new service for Peoples Gas and North Shore, and, assuming that Peoples Gas and North Shore would each have at least one supplier participate in the program, the investment costs would be allocated between the Utilities. If only one utility had participating suppliers, then all costs would be allocated to that utility.

Each year, each of the Utilities will bill participating suppliers a POR Application Charge equal to one-fifth of that utility's share of investment costs divided by the number participating suppliers. If a supplier begins service under the rider during the recovery period, that supplier will owe an amount equal to what it would have owed had it started service in the first year of the recovery period. The amount recovered from the new supplier will be credited against the remaining balance due from all suppliers and will be reflected in the calculation of the next POR Application Charge.

Q. You said costs would be allocated between the Utilities. May a supplier serve only North Shore or only Peoples Gas customers and, if so, does this affect that supplier's POR Application Charge?

A. Yes, a supplier may elect service under only North Shore's or only Peoples Gas' Rider POR. If at least one supplier participates under each utility's Rider POR, the investment costs will be allocated between the Utilities. A supplier that participates under only North Shore's or Peoples Gas' program will

only be billed a POR Application Charge by that utility. If a supplier participates under both programs it will be charged an application charge by both utilities.

Q. Who are "participating suppliers" for cost recovery purposes?

A. A participating supplier is a CFY Supplier that has executed an LDC POR Billing Option contract and has provided credit assurances equal to its pro rata share of investment costs. A CFY Supplier becomes a participating supplier if it signs a contract any time during the recovery period. This is intended to eliminate a potential free rider problem, *i.e.*, to eliminate an incentive to wait to participate until other suppliers have committed to pay the investment costs. If a supplier leaves the program after becoming a "participating supplier," it remains responsible for its share of the investment costs.

Q. How will the Utilities ensure they recover only the actual costs of the investment?

A. Within three months of the end of the recovery period, the Utilities will reconcile the investment costs with the amounts billed to participating suppliers.

Q. Will the Utilities allocate any costs to customers for the system functionality that supports the new service?

A. No. The Utilities will bill participating suppliers for all investment costs related to the system functionality.

Q. If, for example, a participating supplier refuses to make payments or drops out of the Utilities' programs and refuses to make additional payments or files for bankruptcy protection, how will the Utilities recover costs for which that supplier was responsible?

A. If a suppler fails to pay any amount owed, its service under the rider will be terminated and the Utilities will seek payment and exercise their rights under the credit assurances. If payment cannot be recovered from the defaulting supplier, these unrecovered costs will be included in the calculation of the next POR Application Charge from the active suppliers. If, eventually, the Utilities recover these costs from the defaulting supplier, a credit will be included in the calculation of future POR Application Charges, which will be recovered from all participating suppliers.

Q. Is the POR Application Charge the only charge under the rider?

A. Yes, however, participating suppliers are also responsible for charges applicable under Rider AGG.

Q. Does the proposal define how the Utilities will determine that a supplier's charges are disputed?

A. Yes. A supplier's charges will be considered in dispute after the Utilities receive written notice from the supplier or notice from the Commission's Consumer Services Division. The Utilities will not remit payment to a supplier for any identified disputed amounts.

Q. What if a dispute about supplier charges arises only after the Utilities have purchased the associated receivable?

A. The Utilities may require the supplier to remit to them the disputed amount, less the discount factor. If requested, the supplier must make the remittance within one business day.

Q. You stated that the Utilities would purchase the receivables at a discount. What does that mean?

A. The Utilities will remit to each participating supplier payment of its supplier charges less disputed charges, adjusted by a POR discount factor. The Utilities will set a POR discount factor for each Service Classification eligible for Rider CFY service, *i.e.*, Service Classification Nos. 1, Small Residential Service (heating and non-heating) and 2, General Service. The amounts retained by the Utilities when the discount factors are applied to the supplier charges will be reserved to offset potential write-offs from customers who purchase gas from participating suppliers.

Q. What is the proposed discount factor?

A. The Utilities will initially set the POR discount factors for each Service Classification equal to the Uncollectible Factors defined in Rider UEA-GC. Effective the first May 1 occurring 36 months after the Effective Date, the Utilities will calculate discount factors for each Service Classification using data underlying the participating suppliers' customers' net write-off amounts.

Q. Why are these proposed ways of determining the discount factor reasonable?

A. Ideally, the discount factors should be calculated incorporating actual net write-off activity of participating suppliers' customers. This would be in alignment with how the Rider UEA-GC Uncollectible Factors are calculated for each Service Classification. Because this set of customers will not be identified before the Effective Date and this type of analysis requires multiple years' worth of data, the

Utilities propose to wait 36 months before calculating POR discount factors. The reason the Rider UEA-GC Uncollectible Factors are being used as an interim proxy for the POR discount factors is that the Utilities anticipate that the gas charge, to which the Rider UEA-GC factors are applied for sales customers, is a similar cost type as the suppliers' charges for Rider CFY customers.

Q. Are suppliers interested in this service?

A. It is clear from Docket No. 14-0496 that suppliers are interested in such a service. The Utilities have conferred with RESA about the proposed rider, including providing drafts of the proposed rider prior to filing, but Peoples Gas and North Shore have no assurances that any supplier will sign up for this optional service. This uncertainty drives the proposed Effective Date.

Q. What happens if no supplier contracts for the service?

A. The Utilities may discontinue the service and withdraw Rider POR if ,within 12 months after the Commission approves the rider, no supplier signs an LDC POR Billing Option contract and provides credit assurances equal to the amount of the investment costs.

Q. Are other tariff changes needed?

A. Yes. To accommodate the new service, North Shore and Peoples Gas are also proposing changes to the Table of Contents and changes to Rider UEA, Uncollectible Expense Adjustment. The Table of Contents would show the new rider and additional page added for Rider UEA changes. Proposed Rider UEA changes address how the Rider POR-related uncollectible amounts factor into calculations and reconciliations that occur under that rider.

Q. Please describe in more detail what changes are needed for Rider UEA.

A. Changes are necessary to address how the Rider POR-related uncollectible amounts factor into Rider UEA calculations and reconciliations. A new adjustment type, IPUA (Incremental POR Uncollectible Adjustment) will be established which will be determined by taking the difference between actual uncollectible amounts related to participating suppliers' charges under the LDC POR Billing Option and the uncollectible amounts reserved through the application of the POR discount factor. Participating suppliers' customers will be billed or refunded the net of the IPUA and the Incremental Delivery Service Uncollectible Amount. These changes are consistent with the allocation of other adjustment types within Rider UEA, which ensures that only those customers who purchase gas from a POR supplier will be responsible for this new adjustment type.

Q. Does the proposal create any risks for customers who do not participate in the Utilities' small volume transportation programs?

A. No. The program is available only to suppliers serving Rider CFY customers. The Utilities will recover investment costs only from participating Rider CFY Suppliers.

Q. Does this conclude your direct testimony?

A. Yes, it does.