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	)	

INITIAL BRIEF OF
NORTH SHORE GAS COMPANY AND
THE PEOPLES GAS LIGHT AND COKE COMPANY

North Shore Gas Company ("North Shore") and The Peoples Gas Light and Coke Company ("Peoples Gas") (together, the "Utilities") file their Initial Brief in this consolidated proceeding pursuant to Section 200.800 of the Illinois Commerce Commission's ("Commission") Rules of Practice (83 Illinois Administrative Code §200.800) and the schedule that the Administrative Law Judge established (Tr at 18).

I. INTRODUCTION AND BACKGROUND

On December 18, 2015, North Shore and Peoples Gas each filed under Section 9-201 of the Public Utilities Act to add Rider POR, Purchase of Receivables, to its tariff and to make related tariff changes. The substantive terms and conditions of each company's proposals are identical. NSG-PGL Exs. 3.1, 3.2. The Commission suspended (January 20, 2016) and re-suspended (May 10, 2016) the filings. The Utilities supported their proposals with the direct and rebuttal testimony of Debra E. Egelhoff, Manager, Gas Regulatory Policy (NSG-PGL Ex. 1.0 and NSG-PGL Ex. 3.0) and the direct testimony of Jerard Julian, Manager of Billing in Customer Relations (NSG-PGL Ex. 2.0).

Proposed Rider POR is a service that would be available to alternative gas suppliers participating in the Utilities' small volume transportation programs and the billing option service. Customers in those programs receive utility service under Rider CFY, Choices For You^{sm} Transportation Service, and suppliers ("CFY Suppliers") receive utility service under Rider AGG, Aggregation Service. Under the proposal, the Utilities will purchase, at a discount, receivables associated with suppliers' undisputed supply charges as billed under the Utilities' LDC POR Billing Option and assume full responsibility for collecting those receivables. Egelhoff Direct Testimony ("Dir. Test."), NSG-PGL Ex. 1.0, 4:62-69; Julian Dir. Test., NSG-PGL Ex. 2.0, 3:43-53.

Prior to their tariff filings, the Utilities addressed the concept of this service in two Commission 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 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 a

[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.

purchase of receivables tariff.[2] The acquisition occurred on June 29, 2015; to satisfy Condition of Approval 44, the Utilities had discussions with RESA on several topics, including purchase of receivables. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 4:71-5:85.

II. SUMMARY

It is clear from Docket No. 14-0496 (*Id*., 11:221-222) and testimony in this case (Wright Dir. Test., ICEA/RESA Ex. 1.0, *passim*) that suppliers want a purchase of receivables service. The Utilities designed the service to protect customers from program costs by including several mechanisms to ensure, to the greatest extent practicable, that suppliers that wish to purchase the service pay the Utilities' costs to design the system functionality to offer the service. This Initial Brief describes these mechanisms in detail.

The Commission Staff does not oppose the proposal. Rearden Dir. Test., ICC Staff Ex. 1.0 REV, 3:54, 6:115; Rearden Cross Rebuttal ("Reb.") Test., ICC Staff Ex. 4.0, 2:23-28. Two alternative supplier groups, RESA and the Illinois Competitive Energy Association ("ICEA"), support the proposal. Wright Dir. Test., ICEA/RESA Ex. 1.0, 4:67-5:87. The Citizens Utility Board ("CUB") opposes the proposal, but CUB's opposition is largely derived from its belief that alternative suppliers charge more for gas than the Utilities' Gas Charges that the customers would otherwise pay. *See, e.g.,* McDaniel Dir. Test., CUB Ex. 1.0, 2:22-23, 5:85-88, 7:128-8:133. The Utilities take no position on CUB's assertions about gas costs. However, they emphasize that their small volume transportation programs are optional, *i.e*., no customer is required to purchase gas supply from an alternative supplier. Likewise, proposed Rider POR is

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

optional, *i.e.*, no supplier is required to use this service to participate in the small volume transportation program. Also, as discussed in Section III, *infra*, the Commission supports customer choice programs.

Notwithstanding the suppliers' support, the Utilities have no assurances that any supplier will sign up for this optional service. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 11:223-225. Consequently, the Utilities proposed that they not begin incurring costs to implement the program until at least one supplier has committed to participate by signing a contract and providing credit assurances to cover estimated investment costs. *Id*., 5:92-6:103. Also, the Utilities proposed that they may withdraw Rider POR if, within 12 months after the Commission approves the rider, no supplier has committed to take the service. *Id*., 11:227-230.

The Utilities demonstrated the reasonableness of the proposals, particularly the several provisions that insulate customers as much as practicable from adverse cost impacts, and the Commission Staff did not oppose the proposals. Staff proposed two tariff language changes, to which the Utilities agreed. The Utilities, in their rebuttal testimony, proposed to clarify Rider POR concerning the discount factor. Specifically, when the Utilities calculate specific program discount factors, those factors will apply to all POR suppliers, *i.e.*, there will not be discrete factors for each supplier. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 4:76-86. Alternative suppliers supported the proposals and proposed no tariff changes. CUB's opposition is rooted largely in its concerns about small volume transportation programs, but, as stated above, participation in those programs is optional. The Utilities respectfully request the Commission to approve the proposals, as shown in NSG-PGL Exs. 3.1 and 3.2, which include the Staff's proposed changes and the Utilities' additional clarification.

III. LEGAL STANDARD

The standard of review under Section 9-201 of the Act is that the proposal be "just and reasonable." The utility bears the burden of showing the justness and reasonableness of its proposal. 220 ILCS 5/9-201(c). The Utilities' proposals are just and reasonable for two principal reasons.

First, the proposals include several mechanisms to protect customers who do not participate in the Rider CFY transportation program from subsidizing the new service in any way. The two primary means to accomplish this are (1) to allocate to participating suppliers the full costs of creating the system functionality to support the service; and (2) to determine, when data are available, a new factor in Rider UEA, Uncollectible Expense Adjustment, that will reconcile the uncollectible expense associated with the new program.

Second, the proposal is an addition to existing transportation programs. The Commission has repeatedly expressed support for customer choice. For example, in one of the Utilities' recent rate cases, the Commission stated that it

> reiterates its view that that (*sic*) all customers benefit from being given the opportunity to participate in a well-designed competitive market. The benefits of customer choice extend beyond just those customers who actually switch suppliers. All eligible customers benefit from a well-designed competitive program, whether they choose to participate in the competitive market or remain customers of [North Shore and Peoples Gas].[3]

[3] North Shore Gas Company et al., ICC Docket Nos. 12-0511/12-0512 (cons.) (Order June 18, 2013) at p. 277.

More generally, the Commission's "Statement of Mission" in its 2015 Annual Report on Electricity, Gas, Water and Sewer Utilities, as in prior years, states, in part, that "[t]hrough its actions, the ICC shall generally promote effective competition in utility and transportation industries, enhanced consumer choice, efficient and effective dispute resolution, and the sharing of impartial and comprehensive information within its jurisdiction as provided by law." Proposed Rider POR and the related changes to Rider UEA are consistent with Commission policy.

IV. PROPOSED EFFECTIVE DATE OF SERVICE

The Utilities proposed a service implementation date as one of the rider's features intended to ensure cost recovery from the suppliers causing the incurrence of costs and prevent subsidies from customers. Specifically, they proposed that service 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 one or both utilities with credit assurances in an amount equal to the estimated investment costs (the "Effective Date"). This approach avoids potential stranded costs and avoids diverting company resources to a project until a firm commitment exists for the service. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 5:91-6:103. The 18-month period recognizes that building and testing the system functionality will be time-consuming. Julian Dir. Test., NSG-PGL Ex. 2.0, 3:40-42. For these reasons, the proposed Effective Date is reasonable. Neither Staff nor ICEA/RESA opposed the proposal.

V. COST RECOVERY

The cost recovery proposal has several elements designed to recover costs from the cost causers, to protect customers and suppliers that do not wish to take the service from subsidizing it, and to prevent free riders. The Utilities will recover from participating suppliers, through a "POR Application Charge," the costs of developing system functionality; modifying existing systems, processes, data management; and conducting necessary training to support the service. If each utility has at least one participating supplier, the investment costs will be allocated between the Utilities. If only one utility has participating suppliers, then all costs will be allocated to that utility. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 6:123-7:131. A supplier may elect service under only North Shore's or only Peoples Gas' Rider POR; in that case, the supplier will pay only the applicable utility's POR Application Charge.[4] *Id*., 7:143-8:147.

For cost recovery purposes, a "participating supplier" is a CFY Supplier that has executed a service contract and provided credit assurances equal to its *pro rata* share of investment costs any time during the five-year recovery period. The intent is 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. Also, if a supplier leaves the program after becoming a participating supplier, it remains responsible for its full share of the investment costs. *Id*., 8:150-157.

Prior to the Effective Date, the Utilities will require each participating 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 a service contract. After the Effective

[4] The POR Application Charge is the only charge under the rider. However, participating suppliers are also responsible for applicable Rider AGG charges. *Id*., 9:178-180.

Date, the Utilities may require credit assurances in the form of a corporate or parent guaranty, irrevocable standby letter of credit, or a cash deposit to assure payment of the POR Application Charge from any participating supplier. *Id*., 6:103-111. The Utilities will inform the Commission and suppliers of the estimated investment amount by filing an Information Sheet shortly after approval of the rider. Within three months of the recovery period's end, the Utilities will reconcile the actual investment costs with the amounts billed to participating suppliers and charge or credit suppliers, as appropriate, for any difference. *Id*., 8:160-161; Jones Dir. Test., ICC Staff Ex. 3.0, Attachment A.

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 of 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 Utilities will credit the amount recovered from the new supplier against the balance due from all suppliers. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 7:132-139.

If a suppler fails to pay any amount owed, the Utilities will terminate that supplier's Rider POR service and pursue payment, including exercising their rights under the credit assurances. If they cannot recover payment from the defaulting supplier, they will include the unrecovered costs in the next POR Application Charge calculation, *i.e*., participating suppliers, not customers, will be responsible for these costs. If, eventually, the Utilities recover any amounts from the defaulting supplier, they will include a credit in future POR Application Charge calculations. *Id*., 9:170-177.

All these elements serve to protect customers and non-participating suppliers from bearing program costs. Additionally, these proposals are fair to participating suppliers by reducing, if not eliminating, a potential free rider problem and spreading cost recovery over a reasonable time period. Neither Staff nor ICEA/RESA proposed any changes to these proposals.

VI. OPERATION OF THE PROGRAM

A. Billing

Key program billing elements are that the Utilities will include on their bills, and purchase receivables associated with, "CFY Supplier Charges"; they will include only undisputed charges; and they will apply a discount factor to remittances to suppliers.

The supplier will transmit to the Utilities the CFY Supplier Charges it wants to include on the Utilities' bill to the customer. The supplier's charges appear on the utility bill, and, one business day after the bill due date, the utility remits to the supplier payment of the supplier's charges, less any disputed amount, adjusted by the POR discount factor. By this action, the utility purchases the receivables from the supplier, and they become receivables due the utility. Julian Dir. Test., NSG-PGL Ex. 2.0, 6:108-122.

The "CFY Supplier Charges" includes only undisputed charges directly related to the purchase of gas and charges related to enrolling and maintaining customers. For example, it may include charges for gas supply and interstate transportation and storage service and a supplier's customer service costs associated with its Rider CFY customers. It may not include, as examples, charges for other products and services a supplier may offer such as electricity or telephone. *Id*., 6:125-131.

The Utilities will consider a supplier's charges disputed if the Utilities receive written notice from the supplier or notice from the Commission's Consumer Services Division. They will not remit payment to a supplier for any identified disputed amounts. *Id*., 8:154-159; Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 9:183-186.

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, and, for Peoples Gas, 8, Compressed Natural Gas Service. The Utilities will reserve the amounts resulting from applying the discount factors to the supplier charges to offset potential write-offs from customers who purchase gas from participating suppliers. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 10:195-201.

Initially, the POR discount factors for each Service Classification will equal the Uncollectible Factors defined in Rider UEA-GC, Uncollectible Expense Adjustment – Gas Costs. 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. *Id*., 10:203-207. The 36-month period allows the Utilities to acquire data needed to calculate discount factors incorporating actual net write-off activity of participating suppliers' customers. *Id*., 6:127-7:140. These discount factors will apply to all participating suppliers, *i.e*., the Utilities will not calculate different factors for each supplier. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 4:76-86. The Rider UEA-GC Uncollectible Factors are an appropriate interim proxy. The Rider UEA-GC factors apply on sales customers' bills to the Gas Charges, which are a similar cost type as the suppliers' charges for Rider CFY customers. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 10:210-11:219.

These procedures, particularly the discount factors, are reasonable ways to protect customers under the proposed service. Neither Staff nor ICEA/RESA proposed any changes to these proposals.

B. Other Terms

If a customer fails to pay the utility bill in full, including the supplier's charges, the Utilities may discontinue service, subject to the applicable Commission rules. This is no different than if a sales service customer failed to pay his bill in full. Julian Dir. Test., NSG-PGL Ex. 2.0, 7:132-135. Likewise, if a customer does not pay undisputed supplier charges, the Utilities may report this fact to credit bureaus. However, the proposed rider prohibits a supplier from reporting to credit bureaus for receivables that the Utilities have purchased. This protects the customer from duplicate reporting. *Id*., 7:145-8:147-151.

If a customer in an LDC POR Billing Option Pool pays the supplier directly, then the supplier must pay the Utilities within one business day of receiving that payment. This protects the customer from paying twice for the same service and protects the Utilities' other POR customers from possible related uncollectible accounts expenses. *Id*., 7:139-144.

These procedures are appropriate ways to protect participating suppliers' customers and have no adverse effects on other customers. Neither Staff nor ICEA/RESA proposed any changes to these proposals.

VII. OTHER TARIFF CHANGES

To accommodate the new service, North Shore and Peoples Gas proposed changes to the Table of Contents and to Rider UEA. The Table of Contents will show the new rider and an additional page 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. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 11:234-237.

Rider UEA determines adjustments arising from incremental differences between the amount of uncollectible accounts expense in each of the Utilities' base rates and the net write-offs reported in the annual report (Form 21 ILCC) to the Commission. The adjustments are reconciled by Service Classification and adjustment types. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 6:119-123. Proposed changes to Rider UEA address how the Rider POR-related uncollectible amounts factor into Rider UEA calculations and reconciliations. The proposal establishes a new adjustment type, IPUA (Incremental POR Uncollectible Adjustment), that the Utilities will calculate 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. POR 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. *Id*., 12:239-250.

The Rider UEA changes are an integral part of implementing the discount factor under Rider POR. The reconciliation process under Rider UEA and the introduction of the IPUA are reasonable ways to protect customers and avoid subsidies.

VIII. CONCLUSIONS

Proposed Rider POR and related changes to Rider UEA are just and reasonable. The proposed new service is an addition to an existing customer choice service, alternative retail gas suppliers have requested the service, and the Utilities have carefully crafted the program to include multiple provisions that insulate, as much as practicable, customers who choose not to purchase gas supply from alternative suppliers from any adverse effects of the new service. These protections include the effective date, cost allocation and recovery, credit assurances, discount factors, and Rider UEA reconciliations. The proposals also protect Rider CFY customers and are fair to suppliers who choose to participate. CUB's concerns center on its contention that alternative suppliers charge more than the Utilities' Gas Charges. The Utilities take no position on that contention but emphasize that this case is not about the merits of customer choice. The Commission supports customer choice, and the Utilities are proposing a service that suppliers may choose to use in conjunction with their participation in the Utilities' choice programs. Staff and ICEA/RESA support the proposal.

WHEREFORE, North Shore Gas Company and The Peoples Gas Light and Coke Company respectfully submit this Initial Brief and request the Commission to approve their December 18, 2015 filings, with the two proposed changes that Commission Staff recommended and an additional clarification, as shown in NSG-PGL Exs. 3.1 and 3.2.

Respectfully submitted,
North Shore Gas Company
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