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	)	

REPLY 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 Reply 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).

The Utilities reply to the initial briefs ("Init. Br.") of the Illinois Attorney General's Office ("AG"), the Citizens Utility Board ("CUB"), and the Commission Staff. The Retail Energy Supply Association and the Illinois Competitive Energy Association ("ICEA/RESA") also filed an initial brief, but that brief raised no issues to which the Utilities are replying. Commission Staff does not oppose the proposals; ICEA/RESA supports the proposals; and CUB and AG each opposes the proposals.

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, notably to Rider UEA, Uncollectible Expense Adjustment. In their initial brief, the Utilities described these proposals in detail and showed how they met the statutory "just and reasonable" standard. In particular, they showed how the proposals included several provisions to protect customers.

The Utilities continue to support their proposed purchase of receivables services for the reasons set forth in their testimony and initial brief, and nothing in the Staff and intervenor initial briefs causes them to change their positions. The Utilities respectfully request that the Commission approve their December 18, 2015 filings, with the two proposed changes that Commission Staff recommended and the Utilities' proposed additional clarification, as shown in NSG-PGL Exs. 3.1 and 3.2.

I. CUB and AG[1]

A. The Utilities' Proposals Are Just and Reasonable

CUB and the AG each contend that North Shore and Peoples Gas failed to meet their burdens of proof. CUB Init. Br. at 4, 5; AG Init. Br. at 2, 3, 5-6. In their Initial Brief (pages 5-6), the Utilities showed how they met their burden and that the proposals were just and reasonable, as required by Section 9-201 of the Public Utilities Act. 220 ILCS 5/9-201. Notably, the proposals include several mechanisms to protect customers who do not participate in the Rider CFY, Choices For You[sm] Transportation Service, program from subsidizing the new service in any way. Also, the proposed service is an addition to this existing small volume transportation program. The Commission has repeatedly expressed its support for customer choice.

The AG claims that the Utilities focused their testimony "on the advantages [the proposal] will give alternative retail gas suppliers." AG Init. Br. at 5. That claim is

[1] The AG briefly discussed a Staff proposal related to cost recovery. The Utilities address that proposal in Section II, *infra*.

incorrect. Indeed, the AG's statement on page 5 is inconsistent with its statement on page 2 that the Utilities limited their testimony "to a mere technical description of its mechanics." AG Init. Br. at 2. Whichever statement reflects the AG's position, the facts are that the Utilities described in detail how the proposal protects customers. For example, investment costs will be recovered from participating suppliers. Egelhoff Direct Testimony ("Dir. Test."), NSG-PGL Ex. 1.0, 5:99-9:177. The proposed discount factors and related changes to Rider UEA protect customers. *Id*., 10:192-11:219, 12:239-250; Egehoff Rebuttal ("Reb.) Test., NSG-PGL Ex. 3.0, 6:127-7:150. Other proposals address avoiding stranded costs (NSG-PGL Ex. 1.0, 5:101-6:103); limits on the types of charges that a supplier may include on the utility bill (Julian Dir. Test., NSG-PGL Ex. 2.0, 7:125-131); avoiding duplicate payments by customers (*Id*., 7:141-144); avoiding duplicate credit reporting (*Id*., 8:147-151); and proper handling of disputed charges (*Id*., 8:160-163).

The Utilities demonstrated that their proposals are just and reasonable. The record includes sufficient evidence for the Commission to approve the proposals, as modified by two Staff proposals and a clarification that the Utilities included in their rebuttal testimony.

B. The Proposed Discount Factors Are Appropriate

CUB claims that the proposed discount factors shift risk away from alternative gas suppliers. CUB Init. Br. at 17-18. This misapprehends how the Utilities' proposals and Rider UEA function.

Under the proposed riders, the Utilities would purchase, at a discount, receivables associated with participating suppliers' undisputed supply charges.

Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 4:66-68. This means 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 reserve the resulting, retained amounts to offset potential write-offs from customers who purchase gas from participating suppliers. *Id*., 10:194-201. As described below, the amounts retained through the discount factor will be reconciled annually under Rider UEA. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 6:118-126, 7:144-150.

Initially, the POR discount factors for each Service Classification will equal the Uncollectible Factors defined in Rider UEA-GC. When, after 36 months, the Utilities have sufficient data to calculate factors that represent experience with customers who purchase gas from POR Suppliers ("POR Customers"), they will each determine discount factors using data underlying the POR Customer net write-off amounts, using the same methodology as Rider UEA-GC. Egelhoff Dir. Test., NSG-PGL Ex. 1.0, 10:203-207; Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 7:132-140.

Rider UEA-GC is designed to recover the Utilities' uncollectible gas cost expense from sales customers. The factors are derived by taking sales customer net write-off amounts divided by sales customer gas cost revenues for each Service Classification. The Utilities reconcile Rider UEA adjustments by each Service Classification and adjustment type. Currently, the adjustment types are: Incremental Delivery Service Uncollectible Adjustment ("IDUA") and Incremental Gas Supply Service Uncollectible Adjustment ("ISUA"). The ISUA reconciliation is where Rider UEA-GC is taken into account. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 6:111-126.

Proposed changes to Rider UEA add a new adjustment type, IPUA (Incremental POR Uncollectible Adjustment). The adjustment applicable to POR Customers will be the sum of the IPUA and the IDUA. The IPUA reconciliation is where Rider POR will be taken into account. The IPUA adjustment type will reconcile amounts reserved through the application of the POR discount factor with the actual uncollectible amounts and will only apply to POR Customers. Actual uncollectible amounts caused by POR Customers will not impact other customers. *Id*., 7:144-8:159.

The proposed discount factors are reasonable, and those factors together with the Rider UEA reconciliation process appropriately protect customers from uncollectible expense associated with the new service.

C. CUB's Alternative Should Be Rejected

If the Commission approves a purchase of receivables tariff, then CUB recommends that the Commission "limit the price per therm suppliers can pass through Rider POR for each customer to the utility PGA price." CUB Init. Br. at 18.

Limiting the price per therm that can pass through Rider POR would add additional complexity and costs to implement and administer the rider. Also, it could cause customer confusion as this could cause collection activity from both the Utilities and the suppliers for their respective receivables. That confusion, in turn, could drive customer calls to the Utilities' call centers, further increasing costs. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 8:170-175. The Utilities emphasize that no customer must purchase supply from an alternative supplier. It is a customer's choice to take Rider CFY service. Julian Dir. Test., NSG-PGL Ex. 2.0, 3:50-51. Rider POR will have no effect on the Gas

Charge that the Utilities charge their sales customers, *i.e*., the customers who purchase their gas from the Utilities. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 3:46-48.

If CUB is concerned about uncollectible expense, Rider UEA addresses those concerns. *See* Sec. I.B, *supra*. If CUB is concerned that customers may purchase gas at a price that exceeds the Utilities' Gas Charge, no customer is required to purchase gas from an alternative supplier.

Staff witness Dr. Rearden opposed CUB's alternative proposal. Rearden Cross Reb. Test., ICC Staff Ex. 4.0, 7:145-8:157. ICEA/RESA witness Mr. Wright also opposed the proposal. ICEA/RESA Ex. 2.0, Wright Cross Reb. Test., 16:321-17:347.

For these reasons, the Commission should reject CUB's alternative proposal.

II. Commission Staff

Staff did not oppose the Utilities' proposal to recover the program investment costs from participating suppliers. Staff witness Ms. Phipps stated that, if Rider POR was changed in a manner that would permit the Utilities to recover any portion of POR assets from retail customers through a rider with a reconciliation mechanism, then she would recommend the Commission reflect a lower rate of return in the calculation of the POR assets than the overall rate of return last authorized by the Commission for the Utilities' rate base assets. Staff proposed that the Commission order include language setting forth Staff's position. Staff Init. Br. at 5-6.

The Utilities do not oppose including in the order a description of Staff's position. As Staff recognizes, it is not the Utilities' proposal to recover the program investment costs in rate base or to recover costs from customers through a rider. *Id*. at 6. As Staff further states, it is, therefore, not necessary for the Commission to make findings concerning Ms. Phipps' proposal. *Id*. The Utilities took no position on Ms. Phipps' proposal in the context of recovery from customers through a rider.[2] It is, however, the Utilities' position that if, hypothetically, they were to request inclusion in rate base of assets associated with Rider POR system functionality, those assets should not be differentiated from other rate base assets. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 3:61-4:64.

The AG cites the Utilities' position as a reason to reject Rider POR. AG Init. Br. at 18-19. The Utilities' response to Ms. Phipps merely explained that, under the Utilities' proposals, cost recovery risk is designed to be low because it would be supported by credit assurances from participating suppliers, and the Utilities do not plan to request rate base treatment. However, if this proposal is rejected or unsuccessful, *i.e*., if the low risk design is not in place, the Utilities may seek rate base treatment. Egelhoff Reb. Test., NSG-PGL Ex. 3.0, 4:70-76. Any such proposal would be subject to review in a rate case and is irrelevant to the merits of the proposal in the instant proceeding.

The Utilities do not oppose Staff's proposed language for the order, with the understanding that the Commission would make no findings on the merits of the proposal.

[22] Cost recovery is from participating suppliers through a rider, *i.e*., Rider POR, but that recovery is not the "rider" that is the subject of Ms. Phipps' 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 the Utilities' additional clarification, as shown in NSG-PGL Exs. 3.1 and 3.2.

Respectfully submitted,
North Shore Gas Company
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