

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

THE PEOPLES GAS LIGHT	:	
AND COKE COMPANY	:	
	:	No. 09-____
Proposed General Increase	:	
In Rates For Gas Service	:	

Direct Testimony of
VALERIE H. GRACE
Manager, Gas Regulatory Services
Integrys Business Support, LLC

February 13, 2009

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1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. Identification of Witness**

3 Q. Please state your name and business address.

4 A. My name is Valerie H. Grace. My business address is 130 E. Randolph Drive, Chicago,
5 Illinois 60601.

6 Q. By whom are you employed and in what capacity?

7 A. I am employed by Integrys Business Support, LLC (“IBS”), a wholly-owned subsidiary
8 of Integrys Energy Group, Inc. (“Integrys”) as Manager of the Gas Regulatory Services
9 Department.

10 **B. Purpose of Testimony**

11 Q. What is the purpose of your testimony?

12 A. The purpose of my testimony is to explain and analyze the changes proposed to The
13 Peoples Gas Light and Coke Company’s (“Peoples Gas”) Schedule of Rates for Gas
14 Service, provide support for the proposed changes, and to discuss the new rates and riders
15 that have been filed as a part of this proceeding. I will also address adjustments made to
16 test year billing units.

17 **C. Summary of Conclusions**

18 Q. Please summarize your conclusions.

19 A. I conclude that Peoples Gas’ proposed rate design is just and reasonable, and while better
20 aligning revenues with costs and recovering the revenue requirement, also comports with
21 the Illinois Commerce Commission’s (the “Commission” or “ICC”) objectives of

22 continuity and gradualism in changing rate design. Peoples Gas' proposed changes to its
23 tariffs, charges, and riders are also appropriate and reasonable.

24 **D. Itemized Attachments to Direct Testimony**

25 Q. Are you sponsoring any attachments to your direct testimony?

26 A. Yes. I sponsor the following exhibits:

- 27 1. Peoples Gas Exhibit ("Ex.") VG-1.1 sets forth the tariff sheets which include the
28 proposed revisions to Peoples Gas' Schedule of Rates for Gas Service, ILL. C.C.
29 No. 28 (the "tariff" or "Schedule of Rates").
- 30 2. Peoples Gas Ex. VG-1.2 is a Summary of Revenues under Present and Proposed
31 Rates for each service classification.
- 32 3. Peoples Gas Ex. VG-1.3 reflects Peoples Gas' proposed Equal Percentage of
33 Embedded Cost Method ("EPECM") for allocating its revenue requirement
34 among the various service classifications.
- 35 4. Peoples Gas Ex. VG-1.4 reflects a comparison of present and proposed rates for
36 affected Peoples Gas service classifications and miscellaneous charges.
- 37 5. Peoples Gas Ex. VG-1.5 provides a summary of the unit costs for Service
38 Classification ("S.C.") No. 1, Small Residential Service.
- 39 6. Peoples Gas Ex. VG-1.6 provides the bill impacts for the average S.C. No. 1 sales
40 customer and transportation customer under present and proposed rates, assuming
41 normal weather.
- 42 7. Peoples Gas Ex. VG-1.7 provides a summary of embedded and allocated fixed
43 unit costs for S.C. No. 2, General Service.

- 44 8. Peoples Gas Ex. VG-1.8 provides Peoples Gas' Schedule E-9 of its standard filing
45 requirements in this proceeding. It shows bill impacts for S.C. Nos. 1 and 2, as
46 well as S.C. No. 4, Large Volume Demand Service; S.C. No. 6, Standby Service;
47 and S.C. No. 8, Compressed Natural Gas Service, at various usage levels under
48 present and proposed rates.
- 49 9. Peoples Gas Ex. VG-1.9 provides a summary of the cost analysis supporting the
50 proposed rates for miscellaneous charges in Peoples Gas' Terms and Conditions
51 of Service.
- 52 10. Peoples Gas Ex. VG-1.10 reflects the cost analysis that supports rate proposals for
53 Rider FST, Full Standby Transportation; Rider SST, Selected Standby
54 Transportation; Rider P, Pooling Service; and Rider AGG, Aggregation Service.
- 55 11. Peoples Gas Ex. VG-1.11 reflects the cost analysis which supports the storage
56 credit for Rider AGG.
- 57 12. Peoples Gas Ex. VG-1.12 reflects the cost analysis which supports the number of
58 proposed Allowable Bank Base Rate Days for Riders FST, SST and AGG.
- 59 13. Peoples Gas Ex. VG-1.13 reflects the derivation of the Uncollectible Factors for
60 Rider UEA, Uncollectible Expense Adjustment.
- 61 14. Peoples Gas Ex. VG-1.14 reflects the sheets that would be filed with the
62 Commission to implement charges under Rider ICR, Infrastructure Cost Recovery
63 as well as estimated bill impacts for S.C. No. 1 customers.
- 64 Q. Were Peoples Gas Exs. VG-1.1 through VG-1.14 prepared by you, or under your
65 supervision and direction?
- 66 A. Yes, they were.

67 **E. Background and Experience**

68 Q. How long have you been employed by IBS?

69 A. I have been employed by IBS since January 2008 and previously was employed by
70 Peoples Energy Corporation (“Peoples Energy”) and its subsidiaries, affiliates of IBS, for
71 over 28 years.

72 Q. What are your responsibilities in your current position?

73 A. As the Manager of the Gas Regulatory Services Department, I am responsible for
74 performing and managing activities related to rate research, rate design, rate and tariff
75 administration and for developing recommendations regarding rate policies for Peoples
76 Gas and North Shore Gas Company (“North Shore”).

77 Q. Please summarize your educational background and experience.

78 A. In 1980, I graduated from Illinois State University with a Bachelor of Science degree in
79 Business Administration. In 1988, I received a Master of Management Degree from
80 Northwestern University. I have been employed by IBS and two affiliated companies
81 from September 1980 to the present. I began my employment at Peoples Gas in the Gas
82 Supply Planning Department. Since then, I have been employed in various positions and
83 levels of responsibility at Peoples Gas including the Rates Department, the Office of the
84 Chairman, the Executive Office of the Customer Relations Division and the Gas
85 Transportation Services Department. I have also been employed by Peoples Energy, the
86 parent company of Peoples Gas and North Shore and a wholly-owned subsidiary of
87 Integrys, as Director of Strategic Development. I have been in my present position since
88 the merger between Peoples Energy and Integrys (formerly, WPS Resources
89 Corporation) in February, 2007.

90 Q. Have you testified before the Commission previously?

91 A. Yes, I have testified in several gas charge reconciliation proceedings, proceedings related
92 to customer choice, the Section 7-204 merger proceeding (ICC Docket No. 06-0540)
93 involving Peoples Energy and Integrys and the recent general rate increase proceedings
94 for Peoples Gas and North Shore(ICC Docket Nos. 07-0241/07-0242 (Cons.)).

95 **II. SCHEDULE OF RATES FOR GAS SERVICE**

96 Q. Will Peoples Gas give public notice of the proposed changes it filed?

97 A. Yes. Notice will be published twice in the Chicago Tribune, a newspaper of general
98 circulation in the area which Peoples Gas serves, in accordance with the provisions of 83
99 Illinois Administrative Code Part 255. Peoples Gas will submit for the record copies of
100 the Publisher's certification that public notice of the changes was published in the
101 Chicago Tribune. Copies of the proposed changes are on file and open for public
102 inspection at Peoples Gas' corporate office. Peoples Gas has also posted public notice of
103 the proposed changes in its corporate office.

104 Q. Is Peoples Gas proposing changes to its Schedule of Rates for Gas Service, ILL. C.C.
105 No. 28?

106 A. Yes, Peoples Gas Ex. VG-1.1 contains copies of the tariff sheets filed by Peoples Gas in
107 this proceeding. In my testimony and exhibits, the term "proposed changes" will refer to
108 the rate levels and other changes reflected in these tariff sheets.

109 **III. RATE DESIGN OBJECTIVES**

110 Q. What are the objectives that Peoples Gas seeks to achieve through the rate design
111 modifications it is proposing?

112 A. Through the proposed rate design, Peoples Gas would accomplish seven major
113 objectives. They are to (1) recover Peoples Gas' revenue requirement, (2) better align
114 revenues with underlying costs, (3) send the proper price signals, (4) provide more equity
115 between and within rate classes, (5) maintain rate design continuity, (6) reflect
116 gradualism and (7) retain customers on Peoples Gas' system.

117 **IV. INCREASE AMOUNT AND ALLOCATION**
118 **OF THE REVENUE REQUIREMENT**

119 Q. Please describe Peoples Gas Ex. VG-1.2, Summary of Revenues under Present and
120 Proposed Rates.

121 A. Peoples Gas Ex. VG-1.2, shows revenues arising from present and proposed rates from
122 various revenue sources. Column K of the exhibit shows the increase in base rate
123 revenues arising from proposed charges for Peoples' Gas' various service classifications
124 (\$158.9 million, line 30), and from other base rate charges and items (\$3.1 million, line
125 34), for a total base rate increase of \$161.9 million (line 35). The exhibit also shows
126 pass-through revenues arising from Peoples Gas' (1) Rider 2, Gas Charge as well as gas
127 charge related charges in Peoples Gas' transportation riders; (2) Rider 11, Adjustment for
128 Incremental Costs of Environmental Activities; and (3) Rider EEP, Enhanced Efficiency
129 Program. It does not reflect any revenues that would arise from Peoples Gas' proposed
130 Rider UEA, Uncollectible Expense Adjustment, and Rider ICR, Infrastructure Cost
131 Recovery. It also excludes municipal and state taxes and other state charges.

132 Q. Would the revenues shown in Peoples Gas Ex. VG-1.2 change if the Commission
133 approved Rider UEA?

134 A. Yes, if the Commission were to approve Rider UEA, the revenue requirement and any
135 resulting revenues would be reduced by the gas cost related Account No. 904
136 Uncollectible Accounts expenses as such costs would be recoverable through the rider.
137 The affected amount is discussed later in my testimony.

138 Q. What is the basis of Peoples Gas' determination of rates to be proposed in this
139 proceeding?

140 A. Peoples Gas uses an Embedded Cost of Service Study ("ECOSS") as the basis for the
141 determination of the revenue requirement and resulting proposed rates in this proceeding.
142 The ECOSS has been submitted as Peoples Gas Exs. JCHM-1.1 through JCHM-1.9 and
143 is sponsored by Ms. Joylyn Hoffman Malueg (Peoples Gas Ex. JCHM-1.0).

144 Q. Please discuss any tariff proposals that are incorporated in the ECOSS under proposed
145 rates.

146 A. The ECOSS under proposed rates reflects a proposal to eliminate S.C. No. 6, Standby
147 Service as well as a proposal to place eligibility requirements, based on usage, for
148 customers taking service under S.C. No. 2, General Service. These proposals resulted in
149 the transfer of all customers and their related costs from S.C. No. 6 to S.C. No. 2, and the
150 transfer of certain customers from S.C. No. 2 to S.C. No. 4, Large Volume Demand
151 Service. These proposals are discussed later in my Direct Testimony.

152 Q. How does Peoples Gas use the ECOSS to determine the proposed rates?

153 A. Peoples Gas uses the ECOSS to move toward cost based rates and to better align charges
154 and resulting revenues with like costs. The results of the ECOSS are used to increase
155 rates for S.C. No. 4 and S.C. No. 8, Compressed Natural Gas Service, setting both at cost.

156 The ECOSS also provides the cost basis for determining the revenue requirement for S.C.
157 No.1, Small Residential Service and S.C. No. 2, using the Equal Percentage of Embedded
158 Cost Method (“EPECM”) discussed below. The ECOSS indicates that the rates for S.C.
159 Nos. 1, 2, 4 and 8 are set below cost. Moving S.C. Nos. 4 and 8 to cost leaves \$145.4
160 million in revenues to be recovered from other service classifications, as shown on
161 Peoples Gas Ex. VG-1.3, Allocation of Rate Increase (line 3, column E), to be
162 apportioned among S.C. Nos. 1 and 2 using the EPECM. Under the EPECM, the
163 increase is allocated in proportion to the embedded cost of service for these two service
164 classifications. These increases are added to the revenue generated under current rates to
165 determine the revenue to be provided under proposed rates.

166 Q. Has the EPECM been employed by Peoples Gas previously?

167 A. Yes, Peoples Gas proposed the EPECM in its last three rate cases (ICC Docket Nos. 91-
168 0586, 95-0032 and 07-0242). The Commission accepted this method in all three
169 proceedings.

170 Q. Does the proposed rate design purport to equalize rates of return and ratios of revenue to
171 cost among the service classifications?

172 A. No. The EPECM provides a gradual movement toward equalizing rates of return by
173 allocating the increase portion of the total revenue requirement on a cost of service basis.

174 Q. Why has Peoples Gas chosen the EPECM to allocate the additional revenue requirement
175 between S.C. Nos. 1 and 2?

176 A. As in prior cases, this method moves the small residential service rates closer to cost in a
177 gradual manner. As shown in Peoples Gas Ex. VG-1.3, the revenues generated from S.C.

178 No. 1 are currently \$122.6 million (line 1, column E) below its embedded cost of service,
179 while S.C. No. 2 revenues are below the embedded cost requirement by \$22.7 million
180 (line 2, column E). Under Peoples Gas' proposal, S.C. No. 1 would be below its
181 embedded cost of service by \$17.6 million (line 1, column L) while S.C. No. 2 would be
182 above its embedded cost of service by \$17.6 million (line 2, column L). S.C. No. 1
183 would be at 95.7% of cost (line 1, column K) while S.C. No. 2 would be at 111.2% of
184 cost (line 2, column K). In Peoples Gas' 1995 rate case (ICC Docket No. 95-0032), S.C.
185 No. 1 was at 89.9% of cost under final rates. In Peoples Gas' next rate case (ICC Docket
186 No. 07-0242), S.C. No. 1 was at 92.3% of cost under final rates. The movement to
187 95.7% of cost under Peoples Gas' proposal demonstrates that the EPECM moves S.C.
188 No. 1 toward its embedded cost on a gradual basis. While a larger shift of revenue
189 responsibility to S.C. No. 1 is justified from a pure cost of service standpoint, the
190 proposed allocation provides reasonable movement toward cost at this time and mitigates
191 bill impacts.

192 Q. Have any of Peoples Gas' service classifications been omitted from the cost of service
193 analyses filed in this case, and from consideration for an increase in rates?

194 A. Yes, S.C. No. 7, Contract Service to Prevent Bypass, was excluded from consideration,
195 because the revenues from customers served under this service classification are based on
196 a negotiated rate rather than the cost of service analysis filed in this case. These contracts
197 have been filed with the Commission. Revenues arising from S.C. No. 7 are credited
198 back to other service classifications in the ECOSS, thereby lowering their costs. S.C. No.
199 5, Contract Service For Electric Generation, was also excluded as there are currently no

200 customers being served under this service classification, and in any event, this is also a
201 negotiated rate service.

202 **V. CHANGES TO BASE RATES AND OTHER CHARGES**

203 Q. How is Peoples Gas proposing to meet its objective to better align revenues with
204 underlying costs?

205 A. To meet this objective, Peoples Gas is proposing to recover a greater portion of its fixed
206 costs through fixed charges. Almost all of Peoples Gas' costs, about 98%, are fixed, *i.e.*,
207 they do not vary with the volume of gas delivered to customers. However, in the interest
208 of rate design continuity, Peoples Gas has historically recovered a large portion of such
209 fixed costs through non-fixed volumetric charges. For instance, in Peoples Gas' rate case
210 filed fourteen years ago in ICC Docket No. 95-0032, about 98% of Peoples Gas' costs
211 were also fixed. However, only 27% of costs were recovered through fixed charges.
212 Peoples Gas reduced this mismatch in ICC Docket No. 07-0242, whereby its fixed cost
213 recovery under present rates would increase to 43% in test year 2010. However, a
214 continued mismatch of fixed costs and non-fixed charges would practically assure that
215 Peoples Gas will either recover more or less than its Commission approved revenue
216 requirement from customers. To remedy this, at least partially, and to meet its objective
217 to earn its revenue requirement, Peoples Gas is proposing rates that would recover about
218 48% of its fixed costs through fixed charges. This modest, but necessary, increase in
219 fixed cost recovery is well below the fixed cost recovery of 80% approved by the
220 Commission in recent proceedings for the Ameren Illinois gas utilities (ICC Docket Nos.
221 07-0585 - 07-0590, (Cons.)). While not yet completely matching fixed costs and fixed
222 charges, Peoples Gas' proposed rates will provide more balance than its present rates and

223 will send more appropriate price signals to customers about the largely fixed costs
224 underlying its delivery service.

225 Q. Consistent with the objectives you described above and the move towards placing more
226 fixed cost recovery in fixed charges, what major changes to rates and charges is Peoples
227 Gas proposing?

228 A. Peoples Gas is proposing seven major changes to its base rates and other charges. I will
229 discuss these changes in detail later in my testimony.

230 First, S.C. No. 1 will reflect different monthly customer charges for sales and
231 transportation customers. The customer charges will increase for both types of
232 customers. The distribution charge will be the same for sales and transportation
233 customers and will reflect increases in both blocks of the two-block rate structure.

234 Second, a third meter class will be added for S.C. No. 2, and different customer
235 charges will be set for sales and transportation customers. The customer charge will be
236 increased for all three meter classes and both types of customers. The distribution
237 charge, which will be the same for sales and transportation customers, will reflect
238 increases in all three blocks of the three-block rate structure. S.C. No. 2 will only be
239 available to customers who consume an average of 41,000 monthly therms or less,
240 determined annually based on the most recent two calendar year period. Higher usage
241 customers would take service under S.C. No. 4.

242 Third, the monthly customer charge, demand charge, standby service charge and
243 the distribution charge for S.C. No. 4 will be increased. The demand charge will be
244 changed from a declining block to a flat rate. The distribution charge and standby service
245 charge will be increased. This service classification is set at cost. Setting this service

246 classification at cost will help Peoples Gas to meet its objective of maintaining customers
247 on the system.

248 Fourth, S.C. No. 6, Standby Service, will be eliminated with all customers being
249 transferred to S.C. No. 2. S.C. No. 2 will be revised to remove a prohibition on standby
250 service under that service classification.

251 Fifth, the customer charge for S.C. No. 8 will be decreased. The distribution
252 charge will be increased. This service classification is set at cost.

253 Sixth, certain service reconnection charges and service activation charges will be
254 increased toward cost.

255 Seventh, certain administrative charges related to Peoples Gas' transportation
256 programs will be reduced and a credit related to storage will be increased.

257 Q. Are the present and proposed charges under each service classification summarized in an
258 exhibit?

259 A. Yes. Peoples Gas Ex. VG-1.4, Comparison of Present and Proposed Rates shows the
260 proposed charges for each service classification. The exhibit also shows this information
261 for the transportation riders and the miscellaneous charges included in the Terms and
262 Conditions of Service. Lastly, the exhibit shows the increase or decrease in proposed
263 rates as compared to present rates.

264 **A. S.C. No. 1, Small Residential Service**

265 Q. Please describe Peoples Gas' proposal to differentiate customer charges for S.C. No. 1.

266 A. Peoples Gas is proposing to set different customer charges for sales and transportation
267 customers rather than different distribution charges for such customers as the rates are
268 presently set. In ICC Docket No. 07-0242, Peoples Gas and Staff agreed to, and the

269 Commission approved, different distribution rates for sales and transportation customers.
270 This differentiation was made so that rates for transportation customers, who buy their
271 gas from gas suppliers other than Peoples Gas, would not include gas cost related
272 Account No. 904 Uncollectible Accounts expenses. While it still agrees with this
273 differentiation, Peoples Gas believes that such differentiation should be reflected in the
274 customer charge.

275 Q. Why should it be reflected in the customer charges?

276 A. There are two reasons for this. First, Peoples Gas' ECOSS classifies Account No. 904
277 costs as customer costs, so they are included in the customer charge. Therefore, it is
278 appropriate that the customer charge rather than the distribution charge reflect the
279 differentiation. Second, S.C. No. 1 customers have migrated in large numbers from sales
280 to transportation service. The present distribution charge differentiation, which is based
281 on sales and transportation volumes in a fiscal 2006 test year, is skewed based on the
282 large migration since the test year in the last rate case. Reflecting the differentiation in
283 the customer charge would assure that gas cost related Account No. 904 Uncollectible
284 Accounts expenses would properly migrate with the customer.

285 Q. Please describe Peoples Gas' proposals for S.C. No. 1 customer and distribution charges.

286 A. Peoples Gas is proposing to increase the monthly customer charge for S.C. No. 1 from
287 \$15.50 to \$23.30 for sales customers and from \$15.50 to \$20.50 for transportation
288 customers. This difference of \$2.80 (\$23.30 - \$20.50) arises from gas cost related
289 Account No. 904 Uncollectible Accounts expenses (about \$2.90 for sales customers and
290 \$.10 for transportation customers). Peoples Gas is also proposing Rider UEA,
291 Uncollectible Expense Adjustment, which would recover gas cost related Account No.

292 904 Uncollectible Accounts expenses through the rider rather than base rates. If the
293 Commission were to approve this proposal, the customer charge for sales and
294 transportation customers would be the same at \$20.40 per month. This charge reflects the
295 removal of all gas cost related Account No. 904 Uncollectible Accounts expenses.
296 Peoples Gas Ex. VG-1.5 compares proposed monthly customer charges under S.C. No. 1
297 with the embedded monthly customer and demand costs per customer and the allocated
298 monthly customer and demand costs per customer. Embedded costs are those arising out
299 of the ECOSS while allocated costs are those arising from the application of the EPECM
300 to embedded costs. As shown in the exhibit, the monthly embedded customer cost for
301 S.C. No. 1 is \$30.73 and the demand cost per customer is \$12.93 for a total embedded
302 fixed cost per customer of \$43.66 (lines 1-3). The monthly allocated customer cost for
303 S.C. No. 1 is \$29.41 and the demand cost per customer is \$12.38 for a total allocated
304 fixed cost per customer of \$41.79 (lines 6-8). In the interest of gradualism, Peoples Gas
305 is proposing to set the customer charges for S.C. No. 1 below its embedded and allocated
306 customer costs. In the interest of rate design continuity, Peoples Gas is proposing to
307 recover all demand costs through volumetric distribution rates rather than a fixed charge
308 such as the customer charge. This results in only 54% of fixed costs for S.C. No. 1 being
309 recovered through fixed charges.

310 Q. Why should the demand costs be included in a fixed monthly charge such as the customer
311 charge?

312 A. Both demand and customer costs are fixed, meaning they do not vary with the amount of
313 gas that Peoples Gas delivers to its customers. Demand costs are typically recovered
314 from large volume customers through demand charges. This is feasible because such

315 customers normally have demand meters that allow for accurate measurement of daily
316 demand volumes. However, demand meters and demand charges are uncommon for
317 smaller volume customers, and the costs for demand meters would add additional costs to
318 the customer charge. As a result, it would be more practical to recover demand costs
319 through a fixed monthly charge such as the customer charge.

320 Q. Has Peoples Gas proposed any changes to its S.C. No. 1 distribution charge blocking?

321 A. No. Peoples Gas is proposing to maintain its two declining rate block structure for S.C.
322 No. 1. The front block (0-50 therms) proposed distribution charge is 39.871 cents per
323 therm and was computed by allocating about 65% of remaining customer, demand and
324 commodity costs to this block. The remainder of the S.C. No. 1 revenue will be collected
325 through an end block (over 50 therms) distribution charge of 14.766 cents per therm.

326 Q. Will Peoples Gas' proposals for S.C. No. 1 have any effect on the calculation of
327 adjustments under Rider VBA, Volume Balancing Adjustment?

328 A. Yes. Peoples Gas' proposed revenue increase and rate designs will result in new
329 distribution rates and Rate Case Margins ("RCM") for Rider VBA. Under present rates,
330 RCM differs for sales and transportation customers since their distribution rates differ.
331 As Peoples Gas is proposing the same distribution rates for sales and transportation
332 customers, the RCM and adjustments determined under Rider VBA will be the same for
333 S.C. No. 1 sales and transportation customers.

334 Q. Please describe how Peoples Gas S.C. No. 1 customers have been impacted by
335 Rider VBA to date.

336 A. Peoples Gas' Rider VBA became effective May 1, 2008. From May, 2008 through
337 February, 2009, about \$1.7 million will have been refunded to Peoples Gas S.C. No. 1
338 customers.

339 Q. Why is Peoples Gas proposing to increase its monthly customer charges, given that its
340 decoupling mechanism, Rider VBA, was approved in its last rate case?

341 A. Increasing the customer charge would better align the charge with its underlying costs
342 and would also reduce the magnitude of adjustments that would need to be generated
343 under Rider VBA. In addition, Rider VBA was approved on a pilot basis, with the pilot
344 set to expire in March, 2012, unless the Commission grants permission for it to be
345 permanent in a general rate proceeding. If the Commission does not permanently
346 approve Rider VBA before its sunset date, the S.C. No. 1 customer charge would be well
347 below its embedded fixed cost in 2012.

348 Peoples Gas' proposal to increase its customer charge is also consistent with
349 policies endorsed by the Commission in several rate proceedings. In ICC Docket
350 No. 95-0032 the Commission urged Peoples Gas to increase the customer charge in
351 future rate proceedings to move it closer to cost. In ICC Docket Nos. 07-0241/07-0242
352 (Cons.), the Commission found it appropriate that rates reflect a greater recovery of fixed
353 costs in customer charges. In a case involving Union Electric (ICC Docket No. 03-0009),
354 the Commission endorsed the utility's efforts to recover all of a utility's fixed customer
355 related costs of serving residential customers through the customer charge component of
356 rates as well as a gradualism approach to doing so. Lastly, as mentioned previously, the
357 Commission allowed the Ameren gas utilities (ICC Docket Nos. 07-0585 - 07-0590,
358 (cons.)) to recover, for its residential (GDS-1) and small commercial (GDS-2) rate

359 classes, 80% of their fixed costs through the customer charge on a permanent, rather than
360 a pilot, basis.

361 Q. Why doesn't Peoples Gas simply propose Straight Fixed Variable ("SFV") rates that
362 would recover all, or nearly all fixed costs through fixed charges?

363 A. Peoples Gas does consider SFV rates the most appropriate rate design to best align
364 revenue recovery with its mostly fixed costs. However, while SFV rates would offer
365 stability to Peoples Gas and its customers as well as eliminate the need for a decoupling
366 rider such as Rider VBA, some may view SFV rates as too significant a departure from
367 Peoples Gas' current rate structure. Peoples Gas Ex. VG-1.5, lines 10 and 11, reflect the
368 monthly SFV rate of \$41.79 that would arise from Peoples Gas' ECOSS and the
369 application of the EPECM. I note that the SFV rate structure is widely used in other
370 industries. For example, many customers are accustomed to paying flat cable, telephone
371 (local, long distance and wireless), internet services, and sewer and waste disposal bills,
372 among others. Many of these service providers, who had traditionally charged on a
373 volumetric basis, are now charging a flat fee.

374 Q. What benefits would a flat fee such as a SFV rate offer?

375 A. A SFV rate would be equivalent to putting customers on a budget plan for the delivery
376 service portion of their bill but without any need for a true-up when conditions change.
377 Customers would pay a fixed monthly fee and a small distribution charge and the
378 delivery portion of their bill would be largely unaffected by variations in weather or other
379 conditions. As a result, they would not over or under pay for the services that they
380 receive. A SFV rate would also lower the delivery charge portion of a customer's bills
381 during the winter period when gas usage and market commodity prices are typically at

382 their highest. A SFV rate would be especially beneficial to high usage customers who
383 live in energy inefficient housing, particularly those who are low income, as with SFV,
384 the delivery charge portion of the bill would be almost entirely fixed, with usage being
385 affected by a very small volumetric charge.

386 Q. Would Peoples Gas consider a SFV rate design if it is accepted or proposed by other
387 parties in this proceeding?

388 A. Yes.

389 Q. Please describe Peoples Gas Ex. VG-1.6.

390 A. Peoples Gas Ex. VG-1.6 illustrates the effect of the proposed charges on an average S.C.
391 No. 1 sales customer and an average S.C. No. 1 transportation customer, assuming
392 normal weather. The average monthly bill for a S.C. No. 1 sales customer and a
393 transportation customer will increase by about \$11.86 and \$10.78, respectively (lines 14
394 and 28, col. M). The annual bill will increase by about 9.6% for sales customers and
395 about 8.9% for transportation customers (lines 13 and 27, col. N).

396 **B. S.C. No. 2, General Service**

397 Q. Please describe Peoples Gas' proposal to add a new meter class for S.C. No. 2, General
398 Service.

399 A. To reduce intra-class subsidies, Peoples Gas is proposing to expand the meter classes for
400 S.C. No. 2, General Service, from two to three. Currently Peoples Gas has two meter
401 classes, Meter Class 1, for customers with meters up to 700 cubic feet per hour and Meter
402 Class 2, for customers with meters over 700 cubic feet per hour. Under Peoples Gas'
403 current two meter class rate structure, the smaller meter customers subsidize those

404 customers with large meters over 3,000 cubic feet per hour. To reduce this subsidy,
405 Peoples Gas is proposing a third meter class rate, which will be set closer to cost, for
406 those customers with large meters over 3,000 cubic feet per hour.

407 Q. Please describe Peoples Gas' proposal for changes in S.C. No. 2 charges.

408 A. Peoples Gas proposes to increase the monthly customer charges for S.C. No. 2, while
409 moving the charges for all three meter classes closer to cost. Peoples Gas also proposes
410 to differentiate customer charges for sales and transportation customers for the same
411 reasons explained for S.C. No. 1. Peoples Gas Ex. VG-1.7 reflects a summary of
412 embedded and allocated fixed costs per customer for the three meter classes. Fixed costs
413 include customer and demand costs. Embedded costs arise from the ECOSS, while
414 allocated costs arise from application of the EPECM. Customer related costs are
415 allocated to each meter class based on the investment in meters. Demand related costs
416 are allocated to each meter class based on peak day demand. Based on these allocations,
417 total embedded fixed costs per customer for Meter Classes 1, 2 and 3 are \$49.71, \$187.46
418 and \$817.17, respectively (line 3). Total allocated fixed costs per customer for Meter
419 Classes 1, 2 and 3 are \$55.25, \$208.37 and \$908.33, respectively (line 7). For Meter
420 Classes 1 and 2, Peoples Gas proposes to recover all customer costs and a portion of
421 demand costs through the customer charge to minimize intra-class subsidies. This results
422 in proposed customer charges of \$28.30, \$88.20 and \$209.20, for Meter Classes 1, 2 and
423 3 sales customers, respectively (line 9) and proposed customer charges of \$23.80, \$83.70
424 and \$204.70 for Meter Classes 1, 2 and 3 transportation customers, respectively (line 10).
425 While the proposed customer charges for Meter Classes 1 and 2 recover 20% of their
426 respective demand costs, in the interest of gradualism, no demand costs are recovered

427 through the proposed Meter Class 3 customer charge. The difference of \$4.50 between
428 sales and transportation customer charges arise from gas cost related Account No. 904
429 Uncollectible Accounts expenses (\$5.35 for sales customers and \$.85 for transportation
430 customers). If the Commission were to approve Peoples Gas' proposed Rider UEA, the
431 customer charge would be the same for sales and transportation customers and would be
432 \$22.95, \$82.85 and \$203.85 for Meter Classes 1, 2 and 3 customers, respectively. These
433 charges reflect the removal of all gas cost related Account No. 904 Uncollectible
434 Accounts expenses. Peoples Gas is proposing to maintain the three declining block
435 distribution charge for S.C. No. 2 and allocate the remaining customer, demand costs and
436 commodity costs to the front, middle, and end blocks. The front block (0-100 therms)
437 has been increased to 35.942 cents per therm, the middle block (over 100-5,000 therms)
438 has been increased to 15.361 cents per therm and the end block (over 5,000 therms) has
439 been increased to 12.389 cents per therm. As no demand costs have been allocated to the
440 Meter Class 3 customer charge, the end block reflects a larger increase so that such costs
441 are recovered from Meter Class 3 customers whose usage would typically exceed the first
442 two blocks. Under Peoples Gas' proposals, only 35% of the revenue requirement for S.C.
443 No. 2 will be recovered through fixed charges.

444 Q. Why is a portion of the demand charge recovered through the customer charge for Meter
445 Classes 1 and 2?

446 A. As explained for S.C. No. 1, both demand and customer costs are fixed, meaning they do
447 not vary with the amount of gas that Peoples Gas delivers to its customers. Demand costs
448 are typically recovered from large volume customers through demand charges. This is
449 feasible because such customers normally have demand meters that allow for accurate

450 measurement of daily demand volumes. However, the costs for demand meters would
451 add additional costs to the customer charge. S.C. No. 2 does not require demand
452 metering. As a result, it would be more practical to recover demand costs through a fixed
453 monthly charge such as the customer charge. Peoples Gas is proposing that certain larger
454 S.C. No. 2 customers be transferred to S.C. No. 4, where their demand will be measured
455 by a demand meter and they will be assessed a demand charge. This will be discussed
456 later in my testimony.

457 Q. Will Peoples Gas' proposals for S.C. No. 2 have any effect on the calculation of
458 adjustments under Rider VBA, Volume Balancing Adjustment?

459 A. Yes. Peoples Gas' proposed revenue increase and rate designs will result in new
460 distribution rates and Rate Case Margins ("RCM") for Rider VBA. Under present rates,
461 RCM differs for sales and transportation customers since their distribution rates differ.
462 As Peoples Gas is proposing the same distribution rates for sales and transportation
463 customers, the RCM and adjustments determined under Rider VBA will be the same for
464 S.C. No. 2 sales and transportation customers.

465 Q. Please describe how Peoples Gas S.C. No. 2 customers have been impacted by Rider
466 VBA to date.

467 A. Peoples Gas' Rider VBA became effective May 1, 2008. From May, 2008 through
468 February, 2009, about \$2.3 million will have been refunded to Peoples Gas S.C. No. 2
469 customers.

470 Q. Why is Peoples Gas proposing to increase its monthly customer charges for S.C. No. 2,
471 given that a decoupling mechanism, Rider VBA, was approved in its last rate case?

472 A. Peoples Gas is proposing to increase its customer charges for S.C. No. 2 for the same
473 reasons described for S.C. No. 1.

474 Q. Are there any other proposals for S.C. No. 2?

475 A. Yes. Peoples Gas proposes to limit S.C. No. 2 to those customers who consume an
476 average of 41,000 monthly therms or less as measured by data for the most recent
477 twenty-four month period or two calendar years. Peoples Gas will make this
478 determination every two years, although it will also review eligibility if there is evidence
479 of changed usage.

480 Q. Why is Peoples Gas proposing this eligibility requirement for S.C. No. 2?

481 A. Peoples Gas' tariff includes S.C. No. 4, Large Volume Demand Service, which is
482 designed for customers with high demands whose average monthly usage exceeds 41,000
483 therms. As a result of the rates resulting from the final order in ICC Docket No. 07-0242,
484 many S.C. No. 4 customers switched to S.C. No. 2, at rates which were below their cost
485 of service and a service classification that does not require demand meters or impose a
486 demand charge. A limitation for S.C. No. 2 eligibility would assure that customers take
487 service under their appropriate cost based service classification and that other customers
488 are not unfairly impacted by customers switching to service classifications below their
489 cost of service.

490 **C. S.C. No. 4, Large Volume Demand Service**

491 Q. Please describe the changes proposed for S.C. No. 4, Large Volume Demand Service.

492 A. All charges for S.C. No. 4 will be increased. The monthly customer charge will be set at
493 cost and will be \$750.00 for sales and transportation customers. If the Commission were

494 to approve Rider UEA, the customer charge, which would reflect the removal of all gas
495 costs related Account 904 Customer Accounts expenses, would be \$745.00. The demand
496 charge will be set at 55% of cost. The demand charge, which under present rates is a
497 declining block rate structure of 7,500 therms and over 7,500 therms, will be set at a flat
498 charge of 66.707 cents per therm. The monthly standby service charge, which recovers
499 storage and production costs will be set at 33 cents per therm of standby demand. The
500 distribution charge, which will recover remaining demand costs and commodity costs,
501 will be set at 4.861 cents per therm.

502 Q. Why is Peoples Gas proposing to change its demand charge from a declining block rate
503 to a flat rate?

504 A. A flat demand charge mitigates the bill impacts for the S.C. No. 2 customers who will be
505 transferred to S.C. No. 4, and it results in reasonable bill impacts for all S.C. No. 4
506 customers under proposed rates.

507 Q. Is Peoples Gas proposing any different charges for sales and transportation customers?

508 A. No. Peoples Gas is proposing the same charges for sales and transportation customers.
509 Although there are 7 S.C. No. 4 sales customers forecasted for test year 2010, typically,
510 S.C. No. 4 customers purchase their gas supply from a supplier other than Peoples Gas.
511 As a matter of procedure, such customers apply for sales delivery service and move to
512 transportation service within a few months or they move to sales service before the
513 account becomes final. To this point, although the 2010 test year reflects 7 S.C. No. 4
514 sales customers, only one of those customers is currently taking sales service (S. C. No. 4
515 customer demand was based on a 12-month ending December, 2007 period. See the

516 direct testimony of David W. Clabots, Peoples Gas Ex. DWC-1.0). For these reasons,
517 Peoples Gas is proposing the same rate for sales and transportation customers.

518 Q. Please discuss other proposals that Peoples Gas is making for S.C. No. 4.

519 A. Peoples Gas is proposing to eliminate the requirement that S.C. No. 4 customers sign a
520 contract. This would no longer be necessary if the Commission accepts Peoples Gas'
521 proposal to include usage eligibility requirements for S.C. No. 2. Peoples Gas is
522 proposing other editorial revisions that are related to the proposed elimination of the
523 contract requirement. However, if the Commission does not accept Peoples Gas'
524 proposal to impose usage eligibility requirements for S.C. No. 2, Peoples Gas will need to
525 revise S.C. No. 4 to address switches to S.C. No. 2. The contract requirement included a
526 twelve-month term, and, if a customer terminated the contract early, it remained
527 responsible for payment of fixed charges for the unexpired portion of the term. This was
528 intended to, but did not successfully, limit movement to rates below the cost of serving
529 these large volume customers. The proposed changes to S.C. Nos. 2 and 4 for eligibility
530 is a more effective and simpler mechanism. Peoples Gas is proposing to retain a term
531 requirement, but is excluding switches to S.C. No. 2 associated with the usage criterion. .

532 **D. S.C. No. 6, Standby Service**

533 Q. Please describe the proposed changes to S.C. No. 6, Standby Service.

534 A. Peoples Gas proposes to eliminate S.C. No. 6 and transfer all customers served under this
535 service classification to S.C. No. 2. Other than using gas for standby purposes, customers
536 served under this service classification share no similar usage or cost characteristics.
537 Accordingly, such customers would be more appropriately served under a general service
538 rate.

539 **E. S.C. No. 8, Compressed Natural Gas Service**

540 Q. Please describe the proposed changes to S.C. No. 8, Compressed Natural Gas Service.

541 A. Peoples Gas proposes to set S.C. No. 8 at cost. The monthly customer charge for S.C.
542 No. 8 will be decreased to \$73.00 and the distribution charge will be increased to
543 10.389 cents per therm.

544 **F. Other Service Classifications**

545 Q. Are there any proposed changes to S.C. No. 5, Contract Service for Electric Generation
546 and S.C. No. 7, Contract Service to Prevent Bypass?

547 A. No, Peoples Gas is not proposing any changes to these service classifications.

548 **G. Bill Impacts**

549 Q. Please describe Peoples Gas Ex. VG-1.8.

550 A. Peoples Gas Ex. VG-1.8 shows Peoples Gas' Schedule E-9 of its standard filing
551 requirements which provides bill impacts under present and proposed rates for S.C.
552 Nos. 1, 2, 4, 6, 7, and 8. The exhibit reflects the bill impacts of Peoples Gas' rate
553 proposals as well as the bill impacts arising from Peoples Gas' proposals which would
554 transfer certain customers from S.C. Nos. 2 to 4 and all customers from S.C. Nos. 6 to 2.

555 **H. Miscellaneous Charges**

556 Q. Please describe the items included in Miscellaneous Charges.

557 A. Miscellaneous Charges include the Service Activation Charges and Service Reconnection
558 Charges as well as other charges. Peoples Gas is proposing changes only to the Service
559 Activation Charges and Service Reconnection Charges.

560 **1. Service Activation Charges**

561 Q. Please describe Peoples Gas’ proposal with respect to the Service Activation Charges.

562 A. Peoples Gas is proposing to increase its Service Activation Charges, which recover a
563 portion of the costs related to initiating gas service at a premises. The Service Activation
564 Charges apply to those customers moving into or within Peoples Gas’ service territory.
565 There are two types of service activations. A succession turn-on occurs when the
566 customer moving out calls and discontinues gas service at approximately the same time
567 as the applicant moving in calls and requests gas service. In this instance, only a meter
568 reading is taken. A straight turn-on occurs when there has never been gas service at a
569 location, or when the prior customer canceled service some time before the new applicant
570 calls to request gas service and the gas has actually been turned off. In this instance, the
571 gas has to be turned on and appliances have to be relit. A study was performed to
572 measure the costs of these activities and is summarized in Peoples Gas Ex. VG-1.9. The
573 study shows that the cost for a succession turn-on is \$15.52 (column J, line 1), the cost of
574 a straight turn-on is \$47.78 (column J, line 2) and the cost to light an additional appliance
575 over four is \$10.67 (column J, line 3). Peoples Gas’ proposed charges, which are
576 increased to collect a greater percentage of costs from customers causing their incurrence
577 but would still recover only a portion of these costs, are \$15.00 for a succession turn-on
578 and \$25.00 for a straight turn-on. There will be no change in the current \$5.00 charge for
579 relighting each appliance over four.

580 **2. Service Reconnection Charges**

581 Q. What is the proposal for changes in the Service Reconnection Charges?

582 A. A Service Reconnection Charge is a charge assessed to a customer whose gas has been
583 turned off for any number of reasons. These include disconnections for non-payment of
584 bills and at the customer's request. Each customer is granted a waiver of one
585 reconnection charge each year, except in the situation where the customer voluntarily
586 disconnects and then requests reconnection within twelve months or in the situation in
587 which service is disconnected at the main. An analysis was performed to determine the
588 cost basis of the three types of service reconnections following an involuntary
589 disconnection for which Peoples Gas currently charges customers: basic reconnections
590 which only require a meter turn-on, reconnections which require setting a new meter, and
591 reconnections that involve excavating at the main. The results of this analysis are
592 summarized in Peoples Gas Ex. VG-1.9. The study shows that the cost for a
593 reconnection at the meter is \$78.59 (column J, line 8; the cost for a reconnection when
594 the meter has to be reset is \$228.91 (column J, line 21); and the cost for a reconnection at
595 the main is \$2,189.49 (column J, line 26). The cost to light each additional appliance
596 over four is the same as under the Service Activation Charge. Peoples Gas proposes to
597 recover only a portion of these costs. Peoples Gas proposes that the basic reconnection
598 charge be increased from \$50.00 to \$60.00, that the reconnection charge when the meter
599 has to be reset be increased from \$100.00 to \$125.00, and that the reconnection charge
600 when service has to be reconnected at the main be increased from \$275 to \$350. While
601 these charges are still less than cost based, they have been increased to collect a higher
602 percentage of the costs from the customers creating the costs. There will be no change in
603 the current \$5.00 charge for relighting each appliance over four.

604 **I. Transportation Rider Charges**

605 Q. Please discuss Peoples Gas' proposals for charges in its transportation riders.

606 A. Peoples Gas proposes to reduce certain charges in its transportation Riders FST, Full
607 Standby Transportation, Rider SST, Selected Standby Transportation, Rider P, Pooling
608 Service and Rider AGG, Aggregation Service. Specifically, Peoples Gas proposes to
609 reduce the Administrative Charge for Riders FST and SST from \$11.24 to \$9.87 per
610 account and the Pooling Charge for Rider P from \$8.36 to \$6.97 per account. Peoples
611 Gas also proposes to increase the Aggregation Charge credit for Rider AGG from
612 83 cents per account to \$1.14 per account. The Aggregation Charge credit arises from an
613 Aggregation Charge of \$1.02 and a storage credit offset of \$2.16. The cost studies
614 supporting the charges for the Administrative and Aggregation charges are shown in
615 Peoples Gas Ex. VG-1.10. The analysis supporting the storage credit is shown in Peoples
616 Gas Ex. VG-1.11.

617 **VI. SUMMARY OF INCREASE**

618 Q. Please summarize the increase in the base rate revenues arising from Peoples Gas'
619 proposals for S.C. Nos. 1, 2, 4, 6 and 8.

620 A. Peoples Gas's proposals for S.C. Nos. 1, 2, 4, 6 and 8 will result in an increase of \$158.9
621 million (Peoples Gas Ex. VG-1.2, line 30, column K).

622 Q. Please describe the revenues that will arise from Peoples Gas' increase in miscellaneous
623 charges.

624 A. Peoples Gas will experience an increase in miscellaneous charges of about \$2.0 million
625 (Peoples Gas Ex. VG-1.2, line 32, column K). This includes \$1.6 million in
626 miscellaneous revenue, including that arising from service activation and service

627 reconnection charges, and \$373,000 from accounting charge revenues, which Peoples
628 Gas receives from state and local governments for billing and remitting state and local
629 taxes. These increase amounts are reflected in Peoples Gas' Schedule A-2, Overall
630 Financial Summary, of its standard filing requirements.

631 Q. Please describe any other revenues that will arise from Peoples Gas' increase in base rate
632 delivery charges.

633 A. Peoples Gas will experience an increase in forfeited discount revenues that are estimated
634 to be \$1.0 million (Peoples Gas Ex. VG-1.2, line 33, column K). Combined with a base
635 rate increase of \$158.9 million and the miscellaneous charges increase of \$2.0 million,
636 the total proposed revenue increase is \$161.9 million (Peoples Gas Ex. VG-1.2, line 35,
637 column K).

638 Q. Would base rates and the revenue increase amount change if the Commission were to
639 approve Rider UEA?

640 A. Yes. If the Commission were to approve Rider UEA, the revenue requirement would be
641 reduced by gas cost related Account No. 904, Uncollectible Accounts expenses. Base
642 rates would be reduced and there would be a lesser revenue increase. As stated above,
643 this would reduce the proposed customer charges for S.C. Nos. 1 and 2.

644 **VII. OTHER TARIFF REVISIONS**

645 **A. General Revisions**

646 Q. Please describe any general revisions that were made to the Peoples Gas tariff.

647 A. As discussed previously in my testimony, Peoples Gas is proposing to eliminate S.C
648 No. 6, Standby Service. Accordingly, any references to S.C. No. 6 have been removed

649 from the tariff. Peoples Gas is also proposing to eliminate Rider FST-T, Full Standby
650 Transportation Transition Service, Rider SST-T, Selected Standby Transportation
651 Transition Service, Rider LST-T, Large Volume Selected Standby Transportation
652 Transition Service, Rider TB-T, Transportation Balancing Transition Service, and
653 Rider P-T, Pooling Transition Service. Accordingly, any references to these riders have
654 also been removed from the tariff. The reasons for the proposed elimination of these
655 riders will be discussed later in my testimony.

656 **B. Terms and Conditions of Service**

657 Q. What changes were made to Peoples Gas' Terms and Conditions of Service?

658 A. Peoples Gas is proposing to revise its Service Activation Charges and Service
659 Reconnection Charges as previously discussed in my Direct Testimony. The new
660 charges are reflected in their respective sections. Additional minor editorial changes are
661 being made to language describing these charges. For the Second Pulse Capability,
662 Peoples Gas is proposing to insert a February 14, 2008 grandfathering date so that the
663 language remains accurate after the effective date for the tariff sheet changes. Peoples
664 Gas is proposing to revise language for Correction for Pressure, Temperature and/or
665 Supercompressibility so that it is consistent with Peoples Gas' practices concerning the
666 pressure at which customers are served. Peoples Gas is proposing to add a definition of
667 "person" related to changes it is proposing to Riders 4 and 5, which I discuss below.
668 Lastly, Peoples Gas is proposing to eliminate its Facilities Charge for reasons discussed
669 below.

670 **C. Facilities Charge**

671 Q. Please discuss Peoples Gas' proposal for the Facilities Charge.

672 A. Peoples Gas proposes to eliminate the Facilities Charge. In ICC Docket No. 07-0242, the
673 Commission ordered Peoples Gas to directly bill a Facilities Charge to customers who are
674 served by large industrial meters that are classified under Account No. 385 on the basis
675 that (1) there were few customers who would be affected by the charge, (2) such
676 customers are traceable, and (3) such customers may move from one rate to another
677 taking the costs with them. Since the Commission's order, Integrys has revised many of
678 its accounting policies to establish uniformity across its companies. As a result, the
679 meters for about 781 customer accounts have been reclassified under Account No. 385,
680 resulting in more than a few customers that would require direct billing. Also, Peoples
681 Gas is making proposals in this proceeding to add a third meter class to S.C. No. 2 and to
682 impose an eligibility requirement for customers whose average monthly consumption
683 exceeds 41,000 therms. Peoples Gas' rate design proposals for S.C. No. 2 would better
684 assign any Account No. 385 costs to customers under its proposed third meter class.
685 Peoples Gas' S.C. No. 2 eligibility proposal would require certain larger usage customers
686 to take service under S.C. No. 4, where any Account No. 385 costs would be
687 appropriately reflected in the customer charge. As the reasons underlying the rationale
688 for the Facilities Charge would no longer exist if the Commission approves its proposals,
689 Peoples Gas proposes to eliminate the charge.

690 **D. Rider 2, Gas Charge**

691 Q. Please discuss Peoples Gas' proposed changes to Rider 2, Gas Charge.

692 A. Rider 2 has been revised to remove references to the S.C. No. 6, the transportation
693 transition tariffs and Rider TB. The date reference for the Hub Credit Gas Charge has
694 also been removed as it is no longer necessary.

695 **E. Rider 4, Extension of Mains and Rider 5, Service Pipe**

696 Q. Please discuss Peoples Gas' proposed changes to Rider 4, Extension of Mains and
697 Rider 5, Service Pipe.

698 A. The current language in Rider 4 assumes that the requestor for a main would be a
699 customer. However, there are often situations where the requestor is a person or a group
700 of persons who are developing the property for eventual gas service. The language
701 proposed by Peoples Gas is needed to address those types of situations. Peoples Gas
702 proposes to expand the definition of customer under Rider 5 for the same reasons.

703 **F. Transportation Riders**

704 Q. Please discuss Peoples Gas' proposed changes for its transitional transportation riders.

705 A. In ICC Docket No.07-0242, Peoples Gas had proposed extensive revisions to its
706 transportation programs. Such revisions required a transitional period that would allow
707 Peoples Gas to continue to provide transportation service to its customers until the new
708 programs were implemented. Riders FST-T, SST-T, LST-T, TB-T, and P-T, Pooling
709 were in place to continue transportation service during the transition period. The new
710 programs were implemented on August 1, 2008. Accordingly, Peoples Gas proposes to
711 eliminate the transition riders, which are no longer necessary.

712 Q. Does Peoples Gas propose to eliminate any other transportation riders?

713 A. Yes. Peoples Gas proposes to eliminate Rider TB, Transportation Balancing Service, as
714 few customers have taken service under this rider since it has been offered and currently
715 there are no customers taking service under this rider. In ICC Docket No. 07-0241, the
716 Commission allowed North Shore to eliminate its Rider TB for the same reasons.

717 Q. Please describe any other revisions that were made to the transportation riders.
718 A. Riders FST, SST and P reflect an August 1, 2008 effective date. As these tariffs are now
719 in effect, this date has been removed as it is no longer necessary. All of the riders have
720 also been revised to eliminate any references to S.C. No. 6 and Rider TB (both are being
721 eliminated). Section E of Rider FST and Section J of Rider P have been revised to
722 reference Rider SST instead of Rider TB for a definition of average monthly index price
723 (“AMIP”). Section L of Rider SST has been revised to define AMIP, consistent with the
724 existing definition in Rider TB. Lastly, Riders FST and SST reflect clarifying revisions
725 related to the Hub Credit Gas Charge. Riders FST, SST and AGG are also revised to
726 show that certain therm calculations are rounded to the nearest 10 (*i.e.*, to the nearest
727 dekatherm).

728 Q. What is the number of Allowable Bank Base Rate Days for Riders FST, SST and AGG
729 that would arise from Peoples Gas’ proposed revenue requirement?

730 A. Twelve (12) Allowable Bank Base Rate Days (days of bank for Rider AGG) would arise
731 from Peoples Gas’ proposed revenue requirement. Peoples Gas Ex. VG-1.12 shows how
732 the number of Allowable Bank Base Rate Days was derived. The number of Allowable
733 Bank Base Rate Days that transportation customers receive as part of the storage part of
734 the service is to be based on Peoples Gas’ most recent rate case.

735 Q. Does Peoples Gas propose to make any operational changes to its transportation riders?

736 A. No. Peoples Gas’ transportation riders were implemented on August 1, 2008 with new
737 operational provisions that were approved by the Commission in ICC Docket
738 No. 07-0242. Peoples Gas believes that it would be more beneficial to gain experience
739 under the new riders rather than to propose any new modifications at this time.

740 **VIII. NEW RIDERS**

741 Q. Does Peoples Gas propose to add any new riders?

742 A. Yes, Peoples Gas proposes two new riders. They are Rider UEA, Uncollectible Expense
743 Adjustment and Rider ICR, Infrastructure Cost Recovery. Rider UEA proposes factors
744 that are to be applied to a portion of the customer's bill while Rider ICR sets forth, in the
745 form of formulas, the proposed billing mechanism and associated definitions. Rider ICR
746 also describes reports that Peoples Gas will file with the Commission.

747 **A. Rider UEA, Uncollectible Expense Adjustment**

748 Q. What is the purpose of Rider UEA?

749 A. The purpose of Rider UEA is to recover Account No. 904 gas cost related Uncollectible
750 Accounts expenses through a factor that will be applied to customer bills rather than
751 through base rates. Rider UEA will apply a service class specific factor to the gas charge
752 portion of sales customers' bills. Those factors will be set in this rate case. Rider UEA
753 will be applicable to S.C. Nos. 1, 2, and 4.

754 Q. Please explain how Peoples Gas' proposed Rider UEA will operate.

755 A. Rider UEA shows the factors that will be applied to the gas charge portion of sales
756 customers' bills. Each factor is rate class specific and is based on the bad debt
757 allocations for each rate class in Peoples Gas' ECOSS. The derivation of the
758 Uncollectible Factor for each service classification is shown on Peoples Gas Ex. VG-1.13
759 (column C).

760 Q. Are the revenues that would be recovered through Rider UEA reflected in Peoples Gas'
761 revenue requirement?

762 A. Yes. If the Commission were to approve Rider UEA, expenses that would be recovered
763 under the rider would need to be removed from Peoples Gas' revenue requirement. This
764 would amount to about \$29.5 million based on gas costs forecasted for the test year
765 (Peoples Gas Ex. VG-1.13, column E).

766 Q. Has the Commission approved any riders similar to Rider UEA?

767 A. Yes. The Commission approved Rider UF, Uncollectible Factors, for Commonwealth
768 Edison on September 10, 2008 (ICC Docket No. 07-0566).

769 **B. Rider ICR, Infrastructure Cost Recovery**

770 Q. What is the purpose of Rider ICR?

771 A. Peoples Gas's proposed Rider ICR will recover costs associated with the replacement of
772 cast iron and ductile iron main and connecting facilities including services, meters and
773 regulators. It will also recover the costs of other mains, citygate stations, regulator
774 stations and incremental operation and maintenance expenses related to the replacement
775 program. Costs recoverable under Rider ICR will be offset by savings that are estimated
776 to be generated by the replacement program. Peoples Gas witness Salavatore Marano
777 (Peoples Gas Ex. SDM-1.0) will address the costs and benefits associated with Peoples
778 Gas' proposed main replacement program.

779 Q. Please describe how Peoples Gas' proposed Rider ICR would operate.

780 A. Rider ICR would apply to S.C. Nos. 1, 2, 4 and 8, with the first charge under the rider
781 being effective April 1, 2011. The rider is modeled after, but not identical to, 83 Illinois
782 Administrative Code Part 656, Qualifying Infrastructure Plant Surcharge, of the
783 Commission's rules for water and sewer companies. Rider ICR is modeled after the

784 prospective basis operation of the rules, but with a few notable differences. First, the ICR
785 Charge will be billed over a nine-month period from April through December. Second,
786 there will be a cap on ICR revenues that will be based on 5% of annual ICR base rate
787 revenues as defined in the rider. Third, Qualifying Infrastructure Plant additions (“QIP”)
788 will include Account Nos. 376, 378, 379, 380, 381, and 383 of the Uniform System of
789 Accounts for Gas Utilities operating in Illinois. Fourth, QIP to be reflected in the
790 determination of the ICR Charge Percentage will be based on forecasted calendar year
791 end average balances rather than 13-month average balances. Fifth, the QIP to be
792 reflected in the determination of the ICR Charge Percentage for Account Nos. 381 and
793 383 will be based on forecasted investments that will be determined by applying specific
794 percentages to the estimated total costs of purchased meters and regulators. The initial
795 percentages will be set in this proceeding and reset in each reconciliation proceeding.
796 Sixth, the calculation on the ICR Charge Percentage will include an offset for estimated
797 savings.

798 Q. Please describe Peoples Gas’ proposed reporting requirements for Rider ICR.

799 A. Peoples Gas will file an information sheet with supporting data with the Commission
800 annually, and no later than March 20, which will show the determination of the Rider
801 ICR Charge Percentage calculated under the rider. The second Rider ICR filing and each
802 filing thereafter will include a reconciliation adjustment which reconciles actual costs and
803 revenues for the prior operation year. At that time, Peoples Gas will also file a petition
804 seeking initiation of an annual reconciliation hearing.

805 Q. Please describe the report which will be submitted to the Commission by March 20 of
806 each year that will determine the ICR Charge Percentage.

807 A. Peoples Gas Ex. VG-1.14 shows the reports which will be submitted to the Commission
808 that will determine the ICR Charge Percentage. Included are reports that would be
809 submitted in years 2011, 2012 and 2013 and which reflect data from the cost-benefit
810 analysis completed by Mr. Marano (Peoples Gas Ex. SDM-1.0) under the year 2030
811 completion recommendation.

812 Q. Based on the cost data provided by Mr. Marano, please discuss how Rider ICR is
813 expected to impact S.C. No. 1 customers' bills.

814 A. The bottom of Peoples Gas Exhibit VG-1.14, pages 1, 2 and 3, shows estimated bill
815 impacts for an average S.C. No. 1 sales customer and an average S.C. No. 1
816 transportation customer for years 2011, 2012 and 2013, respectively, based on the data in
817 Mr. Marano's analysis. Included are yearly impacts for the April through December
818 billing period, as well as average monthly impacts for the same period.

819 Q. Will Peoples Gas conduct an annual internal audit of Rider ICR?

820 A. Yes. Peoples Gas will file an internal audit report with the Commission no later than
821 September 1 of each year that determines whether the ICR Charge Percentage and annual
822 reconciliation determination for the prior reconciliation year have been calculated in
823 accordance with the rider.

824 **IX. TEST YEAR BILLING UNITS**

825 Q. What billing units did Peoples Gas use to derive its proposed rates?

826 A. Peoples Gas used weather normalized sales volumes and forecasted customers (billing
827 periods), billing demand volumes and transportation program units to derive rates for all

828 service classifications. Collectively, these items can be referred to as billing units. The
829 derivation of test year billing units is discussed in the direct testimony of Mr. Clabots.

830 Q. Please discuss any changes to test year billing units that were made for rate design
831 purposes.

832 A. As discussed previously in my direct testimony, Peoples Gas is proposing eligibility
833 limits for S.C. No. 2 and it is proposing to eliminate S.C. No. 6. Both of these proposals
834 have resulted in a transfer of costs and billing units from S.C. No. 2 to 4 and S.C. No. 6 to
835 2. As a result of Peoples Gas' proposals, 120 customers are being transferred from S.C.
836 No. 2 to S.C. No. 4 and 35 customers are being transferred from S.C. No. 6 to S.C. No. 2.
837 The cost transfers are reflected in the ECOSS completed by Ms. Hoffman Malueg
838 (Peoples Gas Exs. JCHM-1.6 to JCHM-1.9). The present and proposed revenues arising
839 from these transfers are shown in Peoples Gas Ex. VG-1.2, lines 4, 7, 14, 17, 24, and 27.

840 Q. Does this conclude your direct testimony?

841 A. Yes, it does.