

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Northern Illinois Gas Company d/b/a NICOR)	
Gas Company)	
)	Docket No. 12-0569
Proposed Establishment of Rider 17,)	
Purchase of Receivables with Consolidated Billing)	

**DIRECT TESTIMONY OF
TERESA RINGENBACH ON BEHALF OF
THE RETAIL ENERGY SUPPLY ASSOCIATION
AND INTERSTATE GAS SUPPLY OF ILLINOIS, INC.**

1 **I. BACKGROUND**

2 **Q. Please state your name and business address.**

3 A. My name is Teresa Ringenbach. My business address is 9605 El Camino Lane,
4 Plain City, Ohio 43064.

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

6 A. I am the Senior Manager of Government and Regulatory Affairs for the Midwest
7 for Direct Energy, LLC, which includes Illinois.

8 **Q. How long have you been employed in your current position?**

9 A. I have been employed in my current position with Direct since 2009.

10 **Q. Please explain the job responsibilities and duties in your current position.**

11 A. I am responsible for monitoring, advocating and defending regulatory and
12 legislative activities which affect Direct Energy's ability to serve customers in
13 Pennsylvania, Ohio, Illinois, and Michigan. My responsibilities cover electric,
14 gas, and home services issues for all levels of customers from residential to large
15 industrial.

16 **Q. Please describe your educational background and relevant work experience**
17 **prior to joining Direct Energy.**

18 A. I hold a Bachelor of Business Administration with a concentration in International
19 Business from the University of Toledo. I started in the energy industry in 2001
20 with Integrys Energy Services, Inc., formerly WPS Energy Services, Inc., as a
21 Customer Service and Marketing Specialist promoting and managing the recently
22 opened Ohio residential and small commercial electric offers. In 2002, I accepted
23 the position of Account Manager – Inside Sales where I sold and managed the
24 Government Aggregation Programs for both gas and electric. In 2005, I accepted
25 the position of Regulatory Specialist. In this position I was responsible for
26 regulatory compliance and state registrations throughout the United States and
27 Canada. In 2006, I accepted the position of Regulatory Affairs Analyst – East
28 covering New England, New York, New Jersey, Ohio and Pennsylvania gas and
29 electric issues. In the spring of 2008, I accepted the Regulatory Affairs Analyst
30 position for the Midwest region covering Ohio, Michigan, Illinois, Indiana,
31 Kentucky, and all of Canada. In this position I directed the regulatory and
32 legislative efforts affecting Integrys Energy’s gas and electric business. In August
33 2009, I joined Direct Energy as the Manager of Government and Regulatory
34 Affairs for the Midwest. As stated above, this position advocates, protects and
35 monitors regulatory and legislative activities affecting the gas, electric and home
36 services business interests of Direct.

37 **Q. Have you ever testified before a regulatory agency?**

38 A. Yes. I have testified before the Connecticut Department of Public Utility Control,
39 the Pennsylvania Public Utility Commission, the Illinois Commerce Commission,
40 the Kentucky Public Service Commission and the Public Utilities Commission of
41 Ohio.

42 **Q. On whose behalf are you testifying today?**

43 A. I am testifying on behalf of the Retail Energy Supply Association (“RESA”), for
44 which I am the Illinois Chairperson-Natural Gas, and Interstate Gas Supply of
45 Illinois (“IGS”). Their joint petition to intervene in this proceeding has been
46 granted by the Administrative Law Judge.

47 **Q. Please describe briefly the operations of RESA.**

48 A. RESA is a non-profit trade association of independent corporations that are
49 involved in the competitive supply of electricity and natural gas.¹ RESA and its
50 members are actively involved in the development of retail and wholesale
51 competition in electricity and natural gas markets throughout the United States.
52 Some of the members of RESA have certificates from the Illinois Commerce
53 Commission (the “Commission”) under Section 19-110 of the Public Utilities Act
54 to operate as Alternative Gas Suppliers (“AGS”) in the State of Illinois, including
55 the service territory of the Northern Illinois Gas Company d/b/a NICOR Gas
56 Company (“Nicor Gas”), the Respondent in this proceeding. Currently, these
57 Alternative Gas Suppliers provide gas supply service to tens of thousands of

¹ RESA’s members include Champion Energy Services, LLC; ConEdison *Solutions*; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; Energetix, Inc.; GDF SUEZ Energy Resources NA, Inc.; Hess Corporation; Integrys Energy Services, Inc.; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd.; and TriEagle Energy, L.P.. The comments expressed in this filing represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

58 customers of NICOR Gas, including participants in the Customer Select Program
59 offered by Nicor Gas.

60 **Q. Please describe briefly the operations of IGS.**

61 A. IGS is an Illinois corporation certified under Section 19-110 of the Public Utilities
62 Act to operate as an AGS in the service territories of Nicor Gas, The Peoples Gas
63 Light and Coke Company, and North Shore Gas Company. IGS provides gas
64 supply service to customers of Nicor Gas.

65 **Q. Please summarize your testimony.**

66 A. Nicor Gas has put together a good purchase of receivables (“POR”) program
67 which incorporates cost recovery within the program and ensures the ability of the
68 utility to terminate for the full amount of the receivable. In fact, as explained by
69 Mr. Robert Mudra, in his direct testimony on behalf of Nicor Gas, Nicor Gas’
70 filing in this proceeding resulted from a Settlement Agreement (dated May 19,
71 2011) between AGL Resources Inc., Nicor Inc., Nicor Gas, RESA and IGS in Ill.
72 C. C. Docket 11-0046, in which the Commission approved the reorganization of
73 Nicor Gas. (Nicor Gas Ex. 1.0, p. 3, lines 70-75) In my direct testimony, I
74 explain why a POR program is necessary for the natural gas competitive market
75 in Illinois to thrive and why a POR program offers benefits for AGS and
76 customers, without a detriment to Nicor Gas.

77 **Q. In his direct testimony, Mr. Mudra states that Nicor Gas shared its proposed**
78 **Rider PORCB with RESA and IGS before submitting it to the Commission**
79 **and that RESA and IGS have no objection to proposed Rider PORCB, as**
80 **filed. (*Id.*, p. 4, lines 76-83) Is that true?**

81 A. Yes. Nicor Gas' proposed Rider PORCB is consistent with the Settlement
82 Agreement and RESA and IGS support it.

83 **Q. In general, what are the advantages from a public policy perspective of**
84 **having a POR program?**

85 A. There are several crucial advantages to having a POR program from a public
86 policy perspective. First, POR allows for a single collection point for a customer
87 who receives a single bill. In addition, as a vehicle through which AGS'
88 receivables can be purchased, POR programs promote retail competition by
89 enabling competitive suppliers to offer service to all residential and small
90 commercial customers, regardless of their income level or the size of their load.
91 This results in a broader segment of consumers enjoying the benefits of retail
92 competition, including lower prices and the ability to select from multiple energy
93 options. Thus, POR programs facilitate market entry by competitive suppliers,
94 which, in turn, creates a greater choice of rate and service options for customers
95 and, in particular, residential customers. I will discuss these benefits in more
96 detail in the remainder of my testimony.

97 **II. IMPORTANCE OF A POR PROGRAM**

98 **Q. Why is it important for Nicor Gas to implement a POR program?**

99 A. AGS use utility consolidated billing to bill their products. This allows for a single
100 bill for all gas charges to be sent to the customer. Because they are the owners of
101 the bill, utilities are better suited for collections and can do so at a lower cost.
102 Under the current system, Nicor Gas bills AGS customers and AGS customers
103 then make payments to Nicor Gas which Nicor Gas later remits to the AGS. A

104 POR is the next logical step to enable Nicor Gas to take full control of the billing
105 and collections process. Absent a POR Program, AGS would have to separately
106 collect non-payments from customers who are simultaneously in collection with
107 the utility for charges that appeared on a single bill. Each AGS would have to
108 develop its own systems and employ its own labor to engage in these activities
109 which comes at a higher cost because the AGS only has the amount applied to its
110 portion of the bill and must do further research to understand whether or not the
111 non-payment was through utility error or true customer non-payment, prior to
112 beginning the collection process. Once collection is in place, fees for the
113 collection process are placed on the customer. In the case of a non-POR bill, the
114 customer would face collection fees from two entities rather than one. By
115 reducing the collection costs to AGSs, AGSs can pass that savings on to
116 customers with lower prices. Finally, a POR program will level the playing field
117 so that AGSs can effectively compete against Nicor Gas to supply gas to
118 customers. As I will further explain, utilities have inherent advantages when it
119 comes to collecting outstanding accounts from customers. Without the advantage
120 of a POR program, it is difficult for AGSs to compete with the utility, and, as a
121 result, fewer AGSs have entered into the market in Illinois because it is not cost
122 effective to do so.

123 **Q. You mentioned that utilities have an advantage when it comes to customer**
124 **collections. Can you explain this?**

125 A. Yes, utilities are better suited for collections because a utility has greater recourse
126 in the event a customer does not pay. The utility can shut off a customer's gas

127 supply for non-payment whereas an AGS cannot shut off delivery of gas to the
128 customer's home. The AGS' only recourse is to stop supplying gas to the
129 customer and turn the account back to the utility. In this scenario, the customer
130 still continues to have gas delivered to his or her home by the utility. This also
131 creates confusion for customers who may end up in collection with their AGS but
132 never have a disruption in service and, because they paid Nicor Gas, might
133 assume the AGS was also paid.

134 **Q. Why does having limited recourse disadvantage AGSs from collecting past**
135 **due amounts from customers?**

136 A. If a customer knows that there are consequences for not paying a bill, that
137 customer is much more likely to pay the bill. For example, if a customer thinks
138 that non-payment will result in the shut off of natural gas to his or her home, the
139 customer will be more likely to pay the bill. On the other hand, the customer is
140 much less likely to pay his or her bill when a customer knows there are limited
141 consequences for not paying a bill, such as the case with an AGS.

142 **Q. Is the rate of collection increased when the same party that bills customers**
143 **collects on the outstanding accounts?**

144 A. Yes. Utilities bill AGS customers, and the AGS customers pay the utility which
145 later remits the payment to the AGS. However, after a customer account becomes
146 past due, the utility relinquishes all collections responsibility and it becomes the
147 AGS' responsibility to collect on the past due accounts. It is more difficult for
148 AGSs to collect on these accounts because the customer is not accustomed to
149 receiving a bill from the AGS. The customer is less likely to view the AGS as

150 having a continuing business relationship and therefore the customer is less likely
151 to pay. Moreover, the customer may be confused as to why he or she is receiving
152 a bill from the AGS when the bill had previously come from the utility.

153 **Q. Ultimately, what is the effect of the utility's inherent advantage associated**
154 **with collections?**

155 A. The effect is that a utility has much more success at collecting from customers
156 and thus utilities receive a greater percentage of the accounts billed. This is so
157 even though a utility's cost of collection is typically less. Ultimately this means
158 an AGS' bad debt expense (amount on unpaid accounts plus cost of collections) is
159 much greater than a utility's bad debt expense.

160 **Q. How does a high bad debt expense harm AGSs?**

161 A. This is harmful for AGSs because a high bad debt expense increases the cost an
162 AGS incurs in serving customers. The negative effect of this additional cost is
163 compounded by the fact that a high bad debt expense compared to that of a utility
164 makes it more difficult for an AGS to compete. An AGS factors its overall costs
165 into the pricing it offers customers. Therefore, if an AGS' overall costs are
166 increased, the AGS must increase prices in order to make it profitable to offer
167 service to customers. In addition, a utility's price is based on its cost to serve
168 customers. If a utility has a significantly lower cost (because of a lower bad debt
169 expense) than an AGS' cost, then a utility will be able to offer a lower price to
170 customers. Obviously, if a utility's price is lower than the AGS, more customers
171 will stay with the utility, and the AGS will find it very hard to be competitive.

172 **Q. How does a POR program help AGSs?**

173 A. Because the utility purchases these receivables without recourse, the AGS will
174 receive payment for the customer's account regardless of whether a customer
175 pays. This means that an AGS no longer has to assume the risk of a customer not
176 paying or expend resources on collecting past due accounts. While the AGS may
177 receive less than the total amount due on the accounts, this reduced revenue is
178 more than made up for by the AGS' elimination of bad debt expense. As I
179 explained previously, because of an AGS' inherent limitations when it comes to
180 collections, an AGS' bad debt expense can be quite high.

181 **III. POR PROGRAM'S EFFECT ON RATE PAYERS**

182 **Q. Will the POR program benefit customers?**

183 A. Yes, the POR program will benefit customers. Beyond reducing a customer's
184 confusion and negative experience from dealing with two separate collection
185 entities over a single bill, a POR program leverages the utility's inherent
186 advantage in collections to reduce the net bad debt expense for all customers.
187 Rather than every supplier expending resources to collect on accounts with
188 limited success, a POR program reduces the redundancy of collections
189 expenditures and enhances the success of collecting on unpaid accounts. This net
190 cost reduction will be passed on to customers through lower prices and more
191 diverse products offered by AGSs.

192 **Q. You say that AGS will pass on their cost reduction by lowering customer
193 prices. How can you be sure of this?**

194 A. In a competitive natural gas market AGS will have to reduce prices if they wish to
195 remain competitive with other suppliers. Currently in Nicor Gas' service

196 territory, many AGS are not offering products because their costs are too high to
197 be profitable. However, if the costs to AGS are reduced substantially by the
198 implementation of a POR, AGS will be able to enter the market offering a lower
199 price to customers. As more AGS enter the market, the existing AGS will have to
200 lower their prices if they wish to be competitive.

201 **Q. In sum, are you saying that a POR program will ultimately result in lower**
202 **prices and a wider array of competitive products customers?**

203 A. Yes. A POR program will enable AGS to offer customers lower prices, and
204 ultimately make the natural gas market in Nicor Gas' service territory more
205 competitive.

206 **IV. BENEFITS OF A POR PROGRAM**

207 **Q. So far you have described a POR program and its effect on parties. Can you**
208 **go into more detail about the specific benefits of a POR program?**

209 A. Yes the specific benefits to POR are many, as I detail below:

- 210 • Reduced customer confusion regarding collections. POR allows one party (the
211 utility) to provide a consolidated bill for supply and delivery charges, and follow
212 through with the customer on all collection issues associated with the bill, thus
213 reducing customer confusion. Further, POR avoids the potential complications of
214 proration where misapplications of payments occur, problematic synchronization
215 of receivable balances between the utility and supplier, and the potential of
216 inconsistent information being provided to consumers.
- 217 • Leverage existing systems, reducing overall costs. With POR, the utility
218 leverages already-existing infrastructure to manage receivables, including: IT,

219 Accounting, Call Center and telephone systems, Collections, and Field Systems to
220 handle the receivable throughout the lifecycle. For a customer who is delinquent
221 on the distribution charge, he or she is also delinquent on the commodity charge
222 (given the priority of payment utilized by Nicor Gas) which means the utility in
223 all instances would already be contacting the customer regarding the non-
224 payment, so simply including the entire bill that is delinquent in the recovery
225 mechanisms adds little additional effort to the collections call. Without POR,
226 AGSs must duplicate these systems, increasing overall costs.

227 • Continuity of message and consistency in treatment of receivables. When the
228 utility owns the receivable, each customer is subject to the same rules, efforts and
229 processes. This allows for the same protections for all customers, and a
230 continuity of efforts without duplicating efforts or presenting conflicting
231 messages.

232 • Expanded access to the competitive market for higher risk customers. Without a
233 POR, AGS have to focus on enrolling only the most credit-worthy individuals,
234 which concentrates the best paying customers with AGS, leaving the more credit-
235 challenged customers with the utility. This disadvantages the credit-challenged
236 customers by eliminating or greatly reducing their access to the competitive
237 market and the products only offered on the competitive market (such as fixed bill
238 or guaranteed savings products). With POR, these concerns are greatly mitigated
239 and credit-challenged customers gain much greater access to the competitive
240 market. Further, without POR, suppliers are less likely or even able to offer
241 guaranteed discounts off of the utility's default rate, since the risk or unknown

242 regarding the ability to recover the charges without POR is too significant to
243 allow for the guaranteed discounted rates on any consistent basis.

244 • Efficient utilization of effective recovery tools. Utilities possess tools to ensure
245 most consumers who can pay for their natural gas do pay for their natural gas; the
246 most effective of which is the ability to threaten to disconnect service for non-
247 payment and require payment of past due amounts and/or security deposits to
248 allow reconnection to occur. AGS do not have this tool available to them.

249 • Diminished counterparty risk. One of the risks that AGS currently must factor
250 into their pricing is the risk that their counterparties will not be in a position to
251 pay their bills. Counterparty risk is greatly diminished through a POR program.
252 The regulated nature of a utility generally ensures that it will recover its costs of
253 doing business, and will also experience a relatively consistent rate of return
254 through economic cycles of growth and contraction. With POR, where the
255 counterparty is a regulated utility, with an approved rate of return, an AGS'
256 counterparty risk is virtually zero. Again, this is not just a benefit to AGS—it
257 creates the conditions for a more vibrant competitive market that will provide
258 benefits to customers.

259 **POR IN OTHER STATES**

260 **Q. Are there any natural gas utilities in other states that have POR programs?**

261 A. Yes. Many natural gas utilities throughout the country have successfully
262 implemented POR programs as part of their customer Choice programs.

263 **Q. Do electric utilities offer POR programs as well?**

264 A. Yes. In Illinois, both ComEd and Ameren have POR programs. Electric utilities
265 in New York, New Jersey, Pennsylvania, Ohio and Maryland offer POR programs
266 as well.

267 **Q. What has the experience been with POR in Illinois?**

268 A. It is well known that the Illinois residential competitive market has expanded
269 greatly since the implementation of POR. POR is not the only factor that has
270 contributed to the success of the competitive electric market. To be sure, the
271 relatively high utility price-to-compare has resulted in high levels of customer
272 switching in 2011 and 2012; however, without POR, several suppliers offering
273 products likely would not be in the market and governmental aggregation would
274 not likely be as effective or vibrant as it has been. POR is part of the fundamental
275 foundation for competition, without which large-scale residential customer
276 switching simply would not have occurred.

277 **Q. Why hasn't Illinois seen higher levels of participation in natural gas
278 customer Choice programs?**

279 A. Where POR does not exist, fewer suppliers engage in the market and the products
280 offered are less dynamic and less likely to guarantee a discount. States without
281 POR programs, where supplier consolidated bill options with disconnect are not
282 available, have not seen significant migrations because AGS' collection and bad
283 debt expenses in those states greatly increase the cost for AGS to serve customers.
284 Because it costs more to serve customers, it is more difficult for AGS to offer
285 dynamic pricing to all customers, and without offers being more widely available,
286 customers do not switch to AGS. Without a POR program, AGS must limit their

287 customer offers to only the most credit-worthy customers, further limiting the
288 customer pool AGS market to high-credit customers and increasing the costs
289 because those customers are not identifiable without credit reviews.

290 **Q. Can you expand on your discussion of natural gas POR programs in other**
291 **states?**

292 A. Yes. Many gas utilities in many states have successfully implemented POR
293 programs. POR is part of Choice programs in at least 9 other states, including
294 Indiana (Northern Indiana Public Service Company), Ohio (Dominion East Ohio,
295 Columbia Gas, Vectren, Duke), Michigan (Consumers Energy, Michigan
296 Consolidated (MichCon) a version of POR), Pennsylvania (Columbia Gas of
297 Pennsylvania, PECO, NFG), Kentucky (Columbia Gas of Kentucky), New York
298 (Orange and Rockland, Central Hudson, National Grid, National Fuel, ConEd,
299 Keyspan, Rochester Gas and Electric), Maryland (Baltimore Gas & Electric,
300 Washington Gas & Light), Wyoming (Source Gas) and Nebraska (Source Gas).

301 **Q. What has been the effect of POR programs on competitive markets in other**
302 **states?**

303 A. Utility POR programs have increased competition in a number of states.
304 According to the United State Energy Information Agency statistics, all the states
305 that have a greater than 10% customer participation in Choice programs have
306 utilities that offer some form of POR program. These states are Michigan, New

307 York, Ohio, Maryland, Wyoming and Nebraska.² There is no state without a
308 utility POR program that has greater than 10% Choice participation.³

309 **Q. Why have states without POR programs been unable to achieve a significant**
310 **level of participation in their Choice programs?**

311 A. States without POR programs have not seen significant migrations because AGS'
312 bad debt expenses in those states greatly increases the cost for AGS to serve
313 customers. Because it costs more to serve customers, it is more difficult for AGS
314 to offer competitive pricing, and without competitive prices, customers do not
315 switch to AGS. Further, without a POR program AGS must limit their customer
316 offers only to the most credit-worthy customers, further limiting the customer
317 pool to which AGS market.

318 **Q. Can you explain in more detail the success of POR programs in other states?**

319 A. Yes, in most states with POR programs there are many suppliers actively offering
320 a multitude of products to residential natural gas consumers. A good example is
321 Ohio where there is an over 50% migration rate and dozens of suppliers are
322 marketing to customers.

323 **Q. Do you think the implementation of a POR program in Nicor Gas' service**
324 **territory will have the same effect it has had in other states?**

325 A. Yes, the evidence is overwhelming that POR contributes to increased customer
326 access to the benefits of participation in the competitive market and, therefore,
327 increased customer migration. The implementation of POR would be a

² While Georgia does not have a POR program, in Georgia the natural gas utilities have completely exited the natural gas supply function and, therefore, the AGSs purchase the distribution receivables from the utility. Because of the unique nature of Georgia's Choice program I do not include it in my analysis.

³ Information on state by state participation in Choice programs can be found on the EIA website at: http://www.eia.doe.gov/oil_gas/natural_gas/restructure/restructure.html

328 significant step towards achieving a competitive and robust natural gas market in
329 Nicor Gas' service territory.

330 **V. CONCLUSION**

331 **Q. Does this conclude your direct testimony?**

332 **A.** Yes, it does.

NOTICE OF FILING

Please take note that on March 1, 2013, I caused to be filed via e-docket with the Chief Clerk of the Illinois Commerce Commission, the attached Direct Testimony of Teresa Ringenbach on behalf of Interstate Gas Supply of Illinois, Inc. and the Retail Energy Supply Association in this proceeding.

Dated: March 1, 2013

/s/GERARD T. FOX

Gerard T. Fox

CERTIFICATE OF SERVICE

I, Gerard T. Fox, certify that I caused to be served copies of the foregoing Direct Testimony of Teresa Ringenbach on behalf of Interstate Gas Supply of Illinois, Inc. and the Retail Energy Supply Association upon the parties on the service list maintained on the Illinois Commerce Commission's eDocket system for Ill. C. C. Docket 12-0569 via electronic delivery on March 1, 2013.

/s/ GERARD T. FOX

Gerard T. Fox