STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

	)	
North Shore Gas Company	)	
The Peoples Gas Light and Coke Company	)	
	)	Docket No. 16-0033 and
Proposed Addition of a New Service Called	)	Docket No. 16-0034
Rider Purchase of Receivables	)	

INITIAL BRIEF OF
THE RETAIL ENERGY SUPPLY ASSOCIATION AND
THE ILLINOIS COMPETITIVE ENERGY ASSOCIATION

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Pursuant to Section 200.800 of the Commission's Rules of Practice and the Administrative Law Judge's Ruling, the Illinois Competitive Energy Association[1] ("ICEA") and the Retail Energy Supply Association[2] ("RESA") hereby submit their Initial Brief in this proceeding.

I. PROCEDURAL HISTORY

On December 18, 2015, North Shore Gas Company ("North Shore") and The Peoples Gas Light and Coke Company ("Peoples Gas"), (collectively referred to as "the Gas Utilities") each filed with the Illinois Commerce Commission ("Commission") to

[1] The comments expressed in this filing represent the position of the Illinois Competitive Energy Association (ICEA) as an organization but may not represent the views of any particular member of the Association. Founded in October 2008, ICEA represents some of the most active retail energy suppliers operating in the Illinois retail electric and natural gas markets and serving residential, small commercial, commercial and industrial customers. More information on ICEA can be found at www.illinoiscompetitiveenergy.com

[2] The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

add Rider POR, Purchased of Receivables, to its schedule of rates and to make other tariff changes necessary to add this rider.

On January 20, 2016, the Commission entered orders suspending the filings. The following parties filed Direct and Rebuttal Testimony: the Gas Utilities, the Commission Staff, RESA and ICEA, and the Citizens Utility Board ("CUB"). A hearing was held on August 16, 2016, and the record was marked "Heard and Taken".

II. PEOPLES GAS AND NORTH SHORE HAVE PROPOSED POR PROGRAMS THAT WILL BE EFFECTIVE WITHOUT PLACING ANY BURDEN ON NON-PARTICIPATING SUPPLIERS OR CUSTOMERS.

The Gas Utilities submitted the direct testimony of two witnesses, Ms. Debra Egelhoff, Manager of Gas Regulatory Policy, and Mr. Jerard Julian, Manager of Billing. Proposed Rider POR is a service that would be available to Alternative Gas Suppliers ("AGS") participating in the Gas Utilities' small volume transportation programs, Choices for You. Under the proposed riders, the Gas Utilities would purchase, at a discount, receivables associated with participating AGS' undisputed supply charges and assume responsibility for collecting those receivables. (NSG-PGL Ex. 1.0, p. 4)

The Gas Utilities' evidence showed that their cost recovery proposal is designed to recover costs from the cost causers, to protect customers and AGS which do not wish to take service under Rider POR from subsidizing it, and to prevent free riders. The Gas Utilities will recover from participating AGS the costs of developing system functionality; modifying existing systems, processes, and data management; and conducting necessary training to support service under Rider POR. (Id., pp. 6-8)

Once the POR programs are operational, the Gas Utilities will only include on their bills purchased receivables for undisputed charges for commodity service and they will apply a discount factor to remittances to participating AGS. Initially, the POR discount factors will be equal to the Uncollectible Factors defined in Rider UEA-GC, Uncollectible Expense Adjustment-Gas Costs, for each utility. However, effective the first May 1 following 36 months after the effective date of Rider POR, the Gas Utilities will calculate discount factors using data for the participating AGS' customers' net write-off amounts. (Id., pp. 9-11)

The Gas Utilities concluded that the proposed procedures under each company's Rider POR, including the discount factor, are appropriate ways to protect customers under proposed Rider POR. The Gas Utilities' witnesses also identified changes to other tariff sheets necessitated by the addition of Rider POR. (Id., pp. 11-12)

III. ICEA AND RESA HAVE DEMONSTRATED THAT THE PROPOSED POR PROGRAMS WILL BENEFIT THE COMPETITIVE RETAIL MARKETPLACE AND CUSTOMERS.

ICEA and RESA offered the Direct Testimony of Mr. Kevin Wright, President of ICEA, in support of the Gas Utilities POR Programs. Mr. Wright testified that Peoples Gas and North Shore have put together an effective POR program which incorporates cost recovery within the program. He noted that the Gas Utilities' Rider POR filings resulted from a Settlement Agreement in Ill. C. C. Docket 14-0496, in which the Commission approved the reorganization of North Shore and Peoples Gas. Subsequent to that Settlement Agreement, representatives of the Gas Utilities met with representatives of RESA and discussed their proposal for a POR Program and their proposed tariffs to implement such a program. (ICEA-RESA Ex. 1.0, pp. 4-5)

In his direct testimony, Mr. Wright explained why a POR program is necessary for the natural gas competitive market in Illinois to thrive and why a POR program offers benefits for AGS and customers, without a detriment to the Gas Utilities. Mr. Wright testified that a POR Program is designed to have the utility purchase the receivable of a retail supplier. The receivable then becomes a utility owned debt. The supplier is paid its bill amount to the customer less a percentage to recover potential uncollectible risk. This percentage is referred to as the discount rate or discount factor. (Id., p. 5)

Mr. Wright identified the advantages of having a POR Program. First, POR allows for a single collection point for a customer who receives a single bill. This provides efficiency in the billing and collection process. Second, a POR program helps level the playing field. Utilities have inherent advantages when it comes to collecting amounts from customers. Third, a POR program avoids confusion on the part of customers. Fourth, POR programs promote retail competition by enabling competitive suppliers to offer service to all residential and small commercial customers, regardless of their income level or the size of their load. This results in a broader segment of consumers enjoying the benefits of retail competition, including lower prices and the ability to select from multiple energy options. Thus, POR programs facilitate market entry by competitive suppliers, which, in turn, creates a greater choice of rate and service options for customers and, in particular, residential customers. (Id., pp. 5-6)

In addition, Mr. Wright demonstrated that POR Programs have been effective for gas utilities in other jurisdictions. He also demonstrated that POR Programs have been effective for electric utilities in Illinois, as well as other jurisdictions. (Id., pp. 15-19)

A. Benefits of POR Programs

1. Efficiency in Billing and Collection

AGS use utility consolidated billing to bill their products. This allows for a single bill for all gas charges to be sent to the customer. Because they are the owners of the bill, utilities are better suited for collections and can do so at a lower cost. Under the current system, the Gas Utilities bill AGS' customers and AGS' customers then make payments to the Gas Utilities which they later remit to the AGS. A POR is the next logical step to enable the Gas Utilities to take full control of the billing and collections process. (Id., p. 6)

Absent a POR Program, AGS have to separately collect non-payments from customers who are simultaneously in collection with the Gas Utilities for charges that appeared on a single bill. Each AGS would have to develop its own systems and employ its own labor to engage in these activities which comes at a higher cost because the AGS only knows the amount to be applied to its portion of the bill and must do further research to understand whether or not the non-payment was through utility error or true customer non-payment, prior to beginning the collection process. Once collection is in place, fees for the collection process are placed on the customer. In the case of a non-POR bill, the customer would face collection fees from two entities rather than one. By reducing the collection costs to AGS, AGS can pass that savings on to customers with lower price. (Id., pp. 6-7)

2. Help to Level Playing Field

A POR program will help level the playing field so that AGS can effectively compete against the Gas Utilities to supply gas to customers. Utilities have inherent advantages when it comes to collecting outstanding accounts from customers. Without a POR program, it is difficult for AGS to compete with the utility, and, as a result, fewer

AGS have entered into the market in Illinois because it is not cost effective to do so. (Id., p. 7)

Utilities are better suited for collections because they have greater recourse in the event a customer does not pay. The utility can shut off a customer's gas supply for non-payment whereas an AGS cannot shut off delivery of gas to the customer's home. The AGS' only recourse is to stop supplying gas to the customer and turn the account back to the utility. In this scenario, the customer still continues to have gas delivered to his or her home by the utility. (Id.)

A high bad debt expense increases the cost an AGS incurs in serving customers. The negative effect of this additional cost is compounded by the fact that a high bad debt expense compared to that of a utility makes it more difficult for an AGS to compete. An AGS factors its overall costs into the pricing it offers customers. Therefore, if an AGS' overall costs are increased, the AGS must increase prices in order to make it profitable to offer service to customers. In addition, a utility's price is based on its cost to serve customers. If a utility has a significantly lower cost (because of a lower bad debt expense) than an AGS' cost, then a utility will have a lower price to customers. Obviously, if a utility's price is lower than the AGS, more customers will stay with the utility, and the AGS will find it very hard to be competitive. (Id., p. 10)

3. A POR Program Helps to Eliminate Confusion

The current billing process can create confusion for customers who may end up in collection with their AGS but never have a disruption in service and, because they paid the utility, might assume the AGS was also paid. Today, if a Choice customer makes a partial payment, the utility is paid first. So if a customer only pays enough each month to cover his or her utility past due amount, a retail supplier will receive zero money. If a supplier drops the customer, the customer's debt to the supplier will only appear on the utility bill for 45 days from the final due date. After that, if the customer still has not paid the amount, it reverts to the supplier for collection. (Id., p. 8)

It is at that point where customer confusion can occur. The customer will say he or she paid Peoples Gas, for example, and the AGS should collect from it. The AGS' system will show that Peoples didn't send payment. However, the supplier does not receive a copy of the customer's bill, nor does the supplier know the actual amount paid each month. Therefore, it is the customer's responsibility to prove that he or she paid enough to cover the past due amount to Peoples Gas. It is also the customer's responsibility to prove to the supplier that Peoples Gas received the funds. Finally, many customers will not understand the fact that while the supplier's charges have been removed from the Peoples Gas' bill, that does not mean that it is no longer a debt owed to the supplier. (Id.)

POR resolves all of these issues. It ensures that the entity which has a copy of the bill and knows how payments were applied to the total bill is the single collection entity from start to finish. Also, when the utility purchases the receivables, they are amounts owed to the utility, just the same as the utility's other charges, such as for distribution service. (Id.)

4. A POR Program Will Help Create a Competitive Retail Market Place

A POR program reduces the redundancy of collections expenditures and enhances the success of collecting on unpaid accounts. This net cost reduction will be passed on to customers through lower prices and more diverse products offered by AGS. This will happen because in a competitive natural gas market AGS will have to reduce prices if they wish to remain competitive with other suppliers, as well as the utilities. (Id., p. 12)

Currently in the Gas Utilities' service territories, many AGS are not offering products because their costs are too high to be profitable. However, if the costs to AGS are reduced substantially by the implementation of a POR, AGS will be able to enter the market with the ability to offer a lower price to customers. As more AGS enter the market, the existing AGS will have to lower their prices if they wish to be competitive. In short, a POR program will enable AGS to offer customers lower prices, and ultimately make the natural gas market in the Gas Utilities' service territories more competitive. (Id., pp. 12-13)

B. Success of POR Programs in Other Jurisdictions

Mr. Wright testified that POR has been successful for gas utilities in other jurisdictions and for electric utilities in Illinois as well as in other jurisdictions.

Many natural gas utilities throughout the country have successfully implemented POR programs as part of their customer Choice programs. POR is part of Choice programs in at least 9 other states, including Indiana (Northern Indiana Public Service Company), Ohio (Dominion East Ohio, Columbia Gas, Vectren, Duke), Michigan (Consumers Energy, Michigan Consolidated (MichCon) a version of POR), Pennsylvania (Columbia Gas of Pennsylvania, PECO, NFG), Kentucky (Columbia Gas of Kentucky), New York (Orange and Rockland, Central Hudson, National Grid, National Fuel, ConEd, Keyspan, Rochester Gas and Electric), Maryland (Baltimore Gas & Electric, Washington Gas & Light), Wyoming (Source Gas) and Nebraska (Source Gas). Utility POR programs have increased competition in a number of states. (Id., p. 18)

States without POR programs have not seen significant migrations because AGS' bad debt expenses in those states greatly increases the cost for AGS to serve customers. Because it costs more to serve customers, it is more difficult for AGS to offer competitive pricing, and without competitive prices, customers do not switch to AGS. Further, without a POR program AGS must limit their customer offers only to the most credit-worthy customers, further limiting the customer pool to which AGS market. In contrast, in most states with POR programs there are many suppliers actively offering a multitude of products to residential natural gas consumers. A good example is Ohio where there is an over 50% migration rate and 72 suppliers are marketing to residential customers[3]. (Id., p. 19)

Electric utilities have also offered successful POR programs. In Illinois, both ComEd and Ameren have POR programs. Electric utilities in New York, New Jersey, Pennsylvania, Ohio and Maryland offer POR programs as well. (Id., p. 15)

Regarding the Illinois electric experience, Mr. Wright testified that it is well known that the Illinois residential competitive market has expanded greatly since the implementation of POR. POR is not the only factor that has contributed to the success of the competitive electric market. To be sure, the relatively high utility price-to-compare resulted in high levels of customer switching in 2011 and 2012. Governmental aggregation has also been a major factor. However, without POR, several suppliers offering products likely would not be in the market and governmental aggregation would likely not have been as effective or vibrant as it has been. As with the Gas Utilities' proposed POR tariff, electric POR solved a fundamental problem discouraging suppliers

[3] Natural Gas Customer Choice Programs in Ohio, Customer Enrollment Levels As of December 2015, Ohio Public Service Commission.

from participating in aggregation (in the case of electric aggregation, POR made it practical to offer universal access to eligible customers as required by Section 1-02 of the Illinois Power Agency Act. (See 20 ILCS 3955/1-92(b)(1).) POR is part of the fundamental foundation for competition, without which large-scale residential customer switching simply would not have occurred due to customer unfriendly limitations that suppliers faced before POR including separate collection and potential expensive deposits. The availability of POR for electric customers and the lack of POR for gas customers have resulted in very different rates of participation in the Choice Programs of electric and gas utilities. For electric utilities, the following are the percentages of residential customers participating in their choice programs as of May 2015[4]:

ComEd—61.5%
Ameren (Zone 1)—53.0%
Ameren (Zone 2)—68.5%
Ameren (Zone 3)—56.9%

In contrast, the following are the percentages, as of December 2014, of residential customers participating in the choice programs of Illinois gas utilities having choice programs[5]:

Peoples Gas—13.2%
North Shore—10.6%
Nicor Gas—11.7%

(Id., pp. 16-17)

Mr. Wright testified that lack of POR programs has been a major reason why there has been lower participation in gas Choice Programs in Illinois. Where POR does

[4] Illinois Commerce Commission's Office of Retail Market Development 2015 Annual Report, submitted pursuant to Section 20-110 of the Public Utilities Act (June 2015) (ORMD Electric Report), page 22.
[5] Illinois Commerce Commission's Office of Retail Market Development Annual Report on the Development of Natural Gas Markets in Illinois, submitted pursuant to Section 19-130 of the Public Utilities Act (October 2015) ("ORMD Gas Report"), page 10

not exist, fewer suppliers engage in the market and the products offered are less dynamic and less likely to guarantee a discount. For example, the Commission's Office of Retail Market Development's ("ORMD") annual report on retail electric markets in Illinois indicated that, as of April 2015, 10 ARES in Ameren's service territory posted 24 residential offers on the Commission's pluginillinois website and 30 ARES in ComEd's service territory posted 75 residential offers on that site. (ORMD Electric Report, p. 33) In contrast, ORMD's latest annual report on retail gas markets in Illinois indicated that, as of August 2015, 7 AGS in Peoples Gas' service territory posted 24 residential offers on the Commission's website, 6 AGS in North Shore's service territory posted 21 residential offers on the site, and 8 AGS in Nicor Gas' service territory posted 29 residential offers on the site. (ORMD Gas Report, p. 12) (Id., p. 17)

States without POR programs, where supplier consolidated bill options with disconnect are not available, have not seen significant migrations because AGS' collection and bad debt expenses in those states greatly increase the cost for AGS to serve customers. Because it costs more to serve customers, it is more difficult for AGS to offer dynamic pricing to all customers, and without offers being more widely available, customers do not switch to AGS. Without a POR program, AGS must limit their customer offers to only the most credit-worthy customers, further limiting the customer pool to which AGS market to high-credit-worthy customers and increasing the costs because those customers are not identifiable without credit reviews. This issue is acknowledged in the ORMD Gas Report which states, "the lack of an option to sell receivables to the gas utility for an AGS' residential and small commercial customers could be a reason why the number of suppliers in this market is substantially smaller than the number of suppliers in the residential and small commercial retail electric market".[6] (Id., pp. 17-18)

Mr. Wright concluded that the evidence is overwhelming that POR contributes to increased customer access to the benefits of participation in the competitive market and, therefore, increased customer migration. The implementation of POR would be a significant step towards achieving a competitive and robust natural gas market in the Gas Utilities' service territories. (Id., p. 19)

IV. THE COMMISSION STAFF DOES NOT OPPOSE THE POR PROGRAMS.

The Commission Staff does not oppose the POR Riders proposed by Peoples Gas and North Shore. First, Dr. Rearden testified Rider POR does not assess any charges on sales customers, *i.e.* customers who will take service under Rider POR from AGS. Second, it does not seem likely that Rider POR will raise prices in the retail market above what they would have been absent the rider. Third, the design of Rider POR is appropriate and the risk that the Gas Utilities could earn revenues above costs is small. (ICC Staff Ex. 1.0, pp. 3-4)

Dr. Rearden testified that if Rider POR lowers AGS' costs and the retail market is sufficiently competitive, then retail prices should fall relative to the price that would result if there were no Rider POR. Dr. Rearden testified that the belief of AGS that a tariff like Rider POR would provide service at lower cost than if the AGS collect their own bills from customers is a "reasonable belief". (Id., pp. 4-5)

[6] *Id*., p. 18.

Dr. Rearden testified that the retail gas market appears to be relatively competitive. He stated that it is reasonable to conclude that lower costs are likely to be passed on to customers. (Id., p. 5)

Dr. Rearden stated that under the terms of Rider POR, the Gas Utilities recover their implementation costs directly from participating AGS. The only other compensation the Gas Utilities appear to receive from AGS is the discount factor that compensates them for the risk of uncollectibles. He stated that this is a straightforward cost recovery method. He concluded that for all of the reasons provided in his direct testimony he does not oppose the Commissions' approval of Rider POR.[7] (Id., pp. 5-6)

V. CUB'S ARGUMENTS AGAINST THE COMMISSION'S ACCEPTANCE OF THE POR PROGRAMS ARE WITHOUT MERIT.

Mr. McDaniel, on behalf of CUB, recommends that the Commission reject the POR Programs or, in the alternative, approve them with a condition that makes the Programs unworkable and effectively kills them.[8] However, Mr. McDaniel's recommendations have no empirical support and are absolutely without merit, as demonstrated in the Rebuttal Testimony of Mr. Wright who testified that Mr. McDaniel's basic problem is that he fails to see the benefits of POR programs because, without empirical support or any real evidence, he assumes that AGS' prices will always be higher than the Gas Utilities' PGAs and that AGS' business model is to mislead customers. (ICEA-RESA Ex. 2.0, pp. 2-3)

Initially, Mr. McDaniel claims that the absence of a POR tariff has not proven to be a significant impediment to competition. (CUB Ex. 1.0, lines 97-102) Ironically, Mr.

[7] The Commission Staff also offered the Direct Testimony of Ms. Phipps (ICC Staff Ex. 2.0) regarding carrying charges and Ms. Jones (Staff Ex. 3.0) who proposed some language changes to the Gas Utilities' Rider POR and Rider UEA, which the Gas Utilities accepted.

[8] CUB's alternative proposal will be addressed in the next section of this Initial Brief.

McDaniel relies on one of the sources of information Mr. Wright used in his Direct Testimony to make the opposite point—that the absence of a POR tariff has proven to be a significant impediment to competition—the Commission's Office of Retail Market Development's ("ORMD") Annual Report on the Development of Natural Gas Markets in Illinois (October 2015) ("ORMD Gas Report"). A comparison of the ORMD Gas Report to the ORMD's 2015 Electric Report shows that there is no basis to Mr. McDaniel's claim:

- the percentages of residential customers participating in gas choice programs (13.2% for Peoples, 10.6% for North Shore, and 11.7% for Nicor Gas Company) lagged far behind the percentages of residential customers participating in electric choice programs (61.5% for ComEd, 53.0% for Ameren Zone 1, 68.5% for Ameren Zone 2, and 56.9% for Ameren Zone 3);
- the number of Alternative Retail Suppliers ("ARES") making offers to residential customers, especially in ComEd's service territory (which overlaps the services territories of Peoples and North Shore), far exceeds the number of AGS making offers to residential customers; and
- the number of offers posted on the Commission's website by ARES far exceeds the number of offers posted on the Commission's website by AGS.

(ICEA-RESA Ex. 2.0, pp. 4-5)

Contrary to Mr. McDaniel's claim, RESA believes that the lack of POR programs offered by gas companies is the major reason why there are not more AGS in Illinois and there are not more residential customers participating in gas choice programs. In fact, as demonstrated in Section IV, *supra*, the ORMD Gas Report, cited by Mr. McDaniel, suggests the same conclusion. (ORMD Gas Report, p. 18) (ICEA-RESA Ex. 2.0, pp. 5-6)

In further rebuttal to Mr. McDaniel, Mr. Wright pointed out that the states that have POR programs for gas utilities have more participating gas suppliers, more participating customers, and more products. As an example, in Ohio, over 50% of gas residential customers participate in choice programs and there are 72 gas suppliers marketing to residential customers. (*Id*., p. 6)

In addition to arguing that POR programs are not necessary, Mr. McDaniel opposes such programs based on his unfounded belief that AGS would act in a way that is detrimental to customers. For example, Mr. McDaniel suggests marketing activities that POR Suppliers could undertake that would have the effect of increasing uncollectibles. (CUB Ex. 1.0, lines 93-107) In response, Mr. Wright testified that he found Mr. McDaniel's suggestion testimony to be completely speculative, not even rising to the level of anecdotal. CUB admits as much in response to certain data requests, which were admitted into evidence as ICEA/RESA Exhibits 2.1 and 2.2. For example, instead of providing support for certain statements made by Mr. McDaniel in his direct testimony, CUB admits that those statements suggest what suppliers **could do** and are **not based on documented instances** of the activity referenced by Mr. McDaniel (see, for example, CUB's responses to ICEA-RESA DRS 2.02 through 2.06 in ICEA-RESA Ex. 2.2). (I)CEA-RESA Ex. 2.0, p. 7

Mr. McDaniel attempts to paint a scary picture of suppliers targeting poor customers and customers who don't speak English, sales people who are given incentives to sign up customers to lengthy contracts at high rates, and misrepresenting the benefits of suppliers' products. (CUB Ex. 1.0, lines 97-102) Mr. McDaniel ignores the fact that some of the behaviors that he alleges **could happen** would be violations of the Public Utilities Act, the Consumer Fraud and Deceptive Business Practices Act, or the Commission's Rules. For example, Section 19-115 of the Public Utilities Act contains requirements regarding marketing to customers who do not understand English. Failure to meet those requirements would result in the customer being able to terminate the account and expose the supplier to penalties. This would be the case whether or not the Commission approves a POR tariff in this docket, and would put supplier receivables at great risk. (ICEA-RESA Ex. 2.0, p. 7)

RESA notes that the Commission tracks AGS that have been found to have violated the Public Utilities Act in the last three years. Currently, the Commission identifies no such suppliers on its website. A copy of the Commission's webpage containing this information as of July 11, 2016 admitted into evidence as ICEA/RESA Exhibit 2.3. (*Id*., pp. 7-8)

Setting the legality of these speculated actions aside, Mr. McDaniel offers no evidence that these are real problems or the extent to which they occur or would increasingly occur if the POR tariff is approved. Moreover, Mr. McDaniel's allegations do not consider critical variables. For example, Mr. McDaniel fails to recognize that there are high acquisition costs associated with obtaining customers. There is no incentive to acquire customers that cannot afford their sales contracts. If a customer defaults early, utility payments to the AGS would cease and the AGS would have no guaranteed buyer for supply (or hedges) secured in advance to lock in a contract price. (*Id*., p. 8)

In his rebuttal testimony, Dr. Rearden also disagreed with Mr. McDaniel's reasoning that POR suppliers could target neighborhoods with high credit risk customers. He stated that participating AGS have an incentive to keep uncollectibles low in order to benefit from a lower discount rate in the future. (ICC Staff Ex. 4.0, p. 3)

In his direct testimony, Mr. McDaniel also claims that POR Programs would not benefit consumers because AGS' prices are higher than the Gas Utilities' PGAs. To support his claim, Mr. McDaniel displayed charts showing historical gas charge rates for the Gas Utilities. (CUB Ex. 1.0, lines 109-115) However, Mr. McDaniel misses the point of his own charts. The most important matter that the charts illustrate is the volatility of gas charges. For North Shore, gas charges for a period of 29 months ranged from a low of 32 cents per therm to a high of $1.22 per therm, almost four times higher. For Peoples, gas charges for the same period ranged from a low of 24 cents per therm to $1.19 per therm, almost five times higher. It is due to this extreme volatility that fixed rate products which can be offered by AGS, but not by gas utilities, can be advantageous to customers. (ICEA-RESA Ex. 2.0, pp. 8-9)

A second important point of Mr. McDaniel's charts is what they don't demonstrate. For obvious reasons, they don't show what Peoples' and North Shore's gas charges will be for the future. This is why Mr. McDaniel's observations about the product offered by Santanna Energy Services are short-sighted. Santanna Energy Services' product, referenced by Mr. McDaniel, is a fixed rate product with a 12-month term. Mr. McDaniel's "analysis" of a single month is without merit. Moreover, his analysis is not even useful for one month. While Santanna Energy Services' product does have a monthly administrative fee of $7.99, the effect of that fee on price comparisons is much greater in months of limited usage (like May the month chosen by Mr. McDaniel) than in months of greater usage. (*Id*., p. 9)

Mr. McDaniel sponsored CUB Exhibits 1.1 and 1.2 and claimed that they show that AGS' prices, as posted on the Commission's website, are consistently higher than Peoples' and North Shore' gas charges. (CUB Ex. 1.0, lines 126-133) However, Mr. Wright pointed out the flaws in Mr. McDaniel's claim.

First, Mr. McDaniel is offering an apples-to-oranges comparison. A large number of AGS' offers are for fixed rate products. It is not appropriate to compare the Gas Utilities' gas charges, which are variable in nature, to fixed rate products. This is especially true in a summer month, where the PGA is typically much lower. Also, a number of AGS' offers are for green energy, a product which is not offered by the Gas Utilities, and which does require a premium. In addition, a number of AGS' offers contain other features which provide benefits to customers that the Gas Utilities do not provide. For example, the first product listed on CUB Exhibit 1.1 is a guaranteed bill offered by Nicor Advanced Energy, LLC which provides the customer with the same bill each month, regardless of changes in the gas market and regardless of usage. This is a product not offered by the Gas Utilities. As another example, the product called "Comfort & Control 24" shown on pages 3-4 of CUB Ex. 1.1 includes a Nest Learning Thermostat which has a retail value of approximately $250. (ICEA-RESA Ex. 2.0, pp. 11-12)

Second, Mr. McDaniel does not account for a major point made by Mr. Wright in his Direct Testimony. If the Commission approves POR programs for Peoples and North Shore, both the number of AGS in their service territories will increase, as will the number and types of offers. To stay in business, AGS will have to make attractive offers to current and prospective customers. (Id., p. 12)

In his Rebuttal Testimony, Dr. Rearden disagreed with Mr. McDaniel's concerns. He testified that it does not appear likely tht Rider POR will force prices higher. In fact, if the rider reduces AGS' costs, it creates incentives for them to reduce price as well. (ICC Staff Ex. 4.0, p. 4)

Mr. McDaniel expressed particular concern about the impact of Rider POR on low-income customers. (CUB Ex. 1.0, lines 134-149) However, Mr. Wright testified that Mr. McDaniel's concern in this regard is misplaced. First, his concern is based on his belief that POR programs result in higher charges for customers. ICEA and RESA do not agree with this belief. The Commission's adoption of POR programs for Peoples and North Shore will result in more suppliers and more competitive offers for their residential customers, including low-income customers. (ICEA-RESA Ex. 2.0, p. 13)

Second, while there is (and should be) typically a premium for fixed priced products, low-income customers are particularly in need of fixed priced options because they have the least ability to handle swings in PGA rates. The Gas Utilities do not offer fixed price products. While they do offer Budget Payment Plans, those plans do not afford the level of price certainty offered by fixed price products; they simply equalize payments subject to future adjustment based on changes in gas prices and usage. (Id., pp. 12-13)

Finally, POR offers the greatest benefit to those customers who need help paying their bills. First, like on the electric side, it simplifies application of low income assistance for all charges to flow through the utility (alleviating any customer concern that their AGS has challenges with low income assistance program). Second, customers today who finds themselves in collection could pay the utility to remain in service. However, despite avoiding shutoff the customers would still remain in collection with their AGS. POR ensures that when customers catch up with the utility they are also caught up with their supplier. (Id., pp. 13-14)

In attempting to disparage the POR Programs, Mr. McDaniel claims the discount rate is "arbitrary". (CUB Ex. 1.0, lines 171-176) This claim is patently false as explained by Mr. Wright in his Rebuttal Testimony. Because there is currently no experience regarding the uncollectibles that would result from a POR program, Peoples and North Shore made an appropriate choice to use, initially, the uncollectible factors set forth in each Company's Rider UEA-GC. Once again, Mr. McDaniel, without any empirical evidence, assumes that uncollectibles rates for sales customers will be lower than uncollectibles rates for transportation customers in the POR Programs. However, even if Mr. McDaniel's concern were valid, it would be temporary. On the first May 1 that occurs 36 months after the riders begin, the POR discount rates will be based on the Gas Utilities' experience with POR customers' uncollectibles. Thus, delivery customers would not bear any additional costs, assuming that uncollectible rates were higher for transportation customers participating in the POR Programs. This is an appropriate method of determining the discount rate. (ICEA-RESA Ex. 2.0, pp. 15-16)

The Gas Utilities witness Ms. Egelhoff also demonstrated in her rebuttal testimony that the discount factor is not arbitrary as claimed by Mr. McDaniel. (NSG-PGL Ex. 3.0, pp. 5-8) Moreover, Dr. Rearden addressed the Gas Utilities' methodology for the discount factor in his direct testimony and stated that the discount rate insulates sales customers from any effects that the POR transportation cutomes might have on the uncollectibles rate. (ICC Staff Ex. 1.0, p. 4)

VI. CUB'S ALTERNATIVE PROPOSAL IS UNWORKABLE AND SHOULD BE REJECTED.

As an alternative to rejection of the POR Programs, Mr. McDaniel proposes to limit the price per therm that AGS can pass through Rider POR for each customer to Gas Utilities' PGA prices. To the extent that a Supplier's price exceeded the PGA for a month in question, the amount would be a separate item on the bill. Moreover, if the customer fails to pay the amount of the Supplier's gas supply charges on the Gas Utilities' consolidated bill, the Gas Utilities could not disconnect that customer for non-payment. (CUB Ex. 1.0, lines 177-195)

ICEA and RESA oppose Mr. McDaniel's alternative proposal, which would basically eliminate all of the benefits of having POR programs and effectively kill such programs. First, under CUB's alternative proposal, the customer is now potentially faced with receiving two bills in the event that the customer is unable to pay the full amount of both the utility and AGS charges. With POR, the utility leverages already-existing infrastructure to manage receivables, including: IT, Accounting, Call Center and telephone systems, Collections, and Field Systems to handle the receivable throughout the lifecycle. (ICEA-RESA Ex. 2.0, p. 16)

Second, requiring separate bills for collection further exacerbates the confusion for customers because now the amount collected by the AGS is potentially split between the utility and the AGS bills. POR allows one party (the utility) to provide a consolidated bill for supply and delivery charges, and follow through with the customer on all collection issues associated with the bill, thus reducing customer confusion. Further, POR avoids the potential complications of proration where misapplications of payments occur, problematic synchronization of receivable balances between the utility and supplier, and the potential of inconsistent information being provided to consumers. (Id., pp. 16-17)

Third, the POR Programs reduce the redundancy of collections expenditures and enhance the success on collecting on unpaid accounts. This net cost reduction will be passed on to customers through lower prices and more diverse products offered by AGS. (Id., pp 16-17)

The Gas Utilities also opposed CUB's alternative proposal, stating that it would add additional complexity and costs to implement and administer the rider. It could also cause customer confusion as there could be collection activity from both the Gas Utilities and AGS for their respective receivables. This confusion could drive additional customer calls to the Gas Utilities' call centers, further increasing costs. (NSG-PGL Ex. 3.0, p. 8)

Commission Staff witness Dr. Rearden also opposed CUB's alternative proposal. First, the restriction is asymmetric. Second, it would require AGS to send separate bills to customers in some, but all circumstances, reducing the single-bill benefits of POR. Third, the administrative complications might make the proposal unworkable by itself. Fourth, the proposal re-introduces uncertainty into how AGS formulate their prices, negating that benefit for customers and AGS. Dr. Rearden concluded that CUB's proposed alternative undermines the very advantages that POR is otherwise intended to provide. (ICC Staff Ex. 4.0, pp. 7-8)

VII. CONCLUSION

In conclusion, North Shore and Peoples Gas have proposed POR Riders that are efficient and that will not impose any costs on non-participating AGS and customers. The Commission Staff does not oppose the proposed POR Riders. ICEA and RESA support the Gas Utilities' Riders and have demonstrated the significant benefits that will be derived through implementation of the riders. Only CUB opposes the POR Riders. However, CUB's opposition is based on unfounded speculation that does not even rise to the level of anecdotal evidence. CUB's arguments in opposition to the POR Riders are without merit and have been refuted by ICEA and RESA, the Commission Staff, and the Gas Utilities. The Commission should approve the POR Riders filed by North Shore and Peoples Gas.