

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company)
d/b/a Nicor Gas Company)
Proposed general increase in gas rates) Docket 17-0124

REBUTTAL TESTIMONY OF
JOSEPH OLIKER ON BEHALF OF
THE RETAIL ENERGY SUPPLY ASSOCIATION

1 I. BACKGROUND

2 Q. Please state your name and business address.

3 A. My name is Joseph Olikier. My business address is 6100 Emerald Parkway,
4 Dublin, Ohio 43016.

5 Q. Are you the same Joseph Olikier who submitted Direct Testimony on behalf
6 of the Retail Energy Supply Association (“RESA”)¹ in this proceeding?

7 A. Yes, I am.

8 Q. What is the purpose of your rebuttal testimony in this proceeding?

9 A. In this proceeding, Nicor Gas Company (“Nicor” or “Nicor Gas”) is seeking
10 approval to increase its rates. Nicor’s proposed rate increase includes the recovery

¹ 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.

11 of default service costs—such as customer care costs—through base distribution
12 rates. Nicor’s proposed method of cost recovery would provide an
13 anticompetitive subsidy to default service rates and send a distorted price signal.
14 Therefore, in my Direct Testimony, I recommended that the Commission direct
15 that Nicor unbundle customer care costs similar to the manner it has done with
16 Commonwealth Edison Company (“ComEd”) on the electric side. In response to
17 my Direct Testimony, Nicor filed the Rebuttal Testimony of the following
18 witnesses: Melvin D. Williams, Michael J. Morley, Stephen Wassell, Mary Lou
19 Grzenia, and Daniel P. Yardley. These witnesses oppose RESA’s
20 recommendation. In this Rebuttal Testimony, I will explain why the Commission
21 should reject the testimony of Nicor’s witnesses and accept RESA’s
22 recommendation.

23 **II. COST ALLOCATION**

24 **Q. In his Rebuttal Testimony, Mr. Morley notes that Nicor Gas objected to**
25 **RESA data requests which sought allocation of costs between delivery service**
26 **and supply service, then recommends that the Commission reject RESA’s**
27 **recommendation because its witness “failed to justify the specific costs he**
28 **proposes to reallocate to Nicor Gas’ supply customers”. (NICOR Ex. 16.0, p.**
29 **34) Please comment.**

30 A. As Mr. Morley concedes in his testimony, Nicor has been less than forthcoming
31 in the discovery process. Because Nicor is the entity that has the information
32 necessary for fleshing out RESA’s proposal, it would not be just and reasonable to

33 allow Nicor to refuse to respond to discovery and then complain that RESA’s
34 proposal is not based upon sufficient information.

35 **Q. Has Nicor provided any additional discovery responses to lend further**
36 **credibility to your recommendation?**

37 A. Yes, since I filed my direct testimony, Nicor has produced additional discovery
38 identifying a portion of the customer care-related costs that it incurs. Specifically,
39 within ICC Accounts 903 and 920, Nicor has identified that it forecasts to incur
40 \$21,897,489 in payroll expense related to the provision of customer care in these
41 two accounts alone. Utilizing the allocation factor (58%) that I developed in my
42 Direct Testimony, focusing on these costs alone would allocate approximately
43 \$12,700,544 to default service. This amount is the minimum amount that the
44 Commission should allocate to default service in this proceeding, and the
45 Commission should direct Nicor to provide a further study regarding the cost of
46 providing default service for consideration in a future rate case or revenue neutral
47 proceeding. Applying the allocation methodology I proposed in my Direct
48 testimony to the \$21,897,489 would allocate \$0.00605 per therm for residential
49 customers and \$0.001752 per therm to commercial and industrial default service
50 customers.

51 **Q. In his Rebuttal Testimony, Mr. Yardley takes issue with your allocation of**
52 **customer care costs claiming that the “implication of Mr. Oliker’s**
53 **recommendation is that Nicor Gas no longer provides call center type**
54 **services to Customer Select customers, which is incorrect...” Nicor Ex. 24 at**
55 **20. Likewise, Mr. Williams states that he “does not support shifting costs**

56 **away from certain customers when such customers continue to contribute to**
57 **those costs being incurred, and continued [sic] to be receive service from**
58 **Nicor Gas”. (NICOR Ex. 14.0, p. 6) Do you agree with Mr. Yardley and Mr**
59 **Williams?**

60 A. No, Mr. Yardley’s Rebuttal Testimony and Mr. Williams’ Rebuttal Testimony are
61 misleading and mischaracterize my testimony. I have not claimed that Nicor does
62 not provide any call center services to Customer Select and transportation
63 customers. Had that been my position, I would have recommended that all of
64 Nicor’s call center cost be allocated to default service. I did not. Instead, as
65 discussed above, I have developed an allocation factor for the purpose of
66 allocating a portion of Nicor’s call center and customer care costs to default
67 service consistent with principles of cost causation.

68 **Q. Is your proposal to allocate call center and other customer care costs to**
69 **default service customers consistent with Mr. Yardley’s principles for**
70 **ratemaking?**

71 A. Yes, as Mr. Yardley has stated in prior testimony and in discovery in this case,
72 among other things, fairness, non-discrimination, and simplicity² are key
73 principles to guide utility ratemaking.³ Specifically, “Fairness is accomplished
74 through pricing services based on the underlying cost. Fairness is important in many
75 respects including, between the utility and its customers, across rate classes served by
76 the utility, and among customers taking service under a common rate schedule.”⁴ In

² I will discuss Mr. Yardley’s principle of simplicity later in my testimony.

³ Nicor Response to RESA 5.03.

⁴ *Id.*

77 line with this principle, it is undeniable that Nicor must incur customer care costs to
78 provide default service. But Nicor proposes to require customer select and
79 transportation customer to pay for those costs through delivery rates. That proposal
80 is patently unfair and unreasonable. Moreover, Mr. Yardley stated the following
81 principle:

82 “Avoiding undue discrimination requires rates that do not grant an unreasonable
83 preference or subject an unreasonable disadvantage to any customer or group of
84 customers.”⁵ Nicor’s proposal to recover customer care costs through delivery rates
85 provides default service an undue preference and discriminates against customer
86 select and transportation customers by requiring them to subsidize default service
87 customer rates. Accordingly, the Commission should allocate a portion of Nicor’s
88 customer care costs to default service rates.

89 **Q. Mr. Yardley disagrees with your use of a revenue allocation factor, alleging**
90 **that does not reflect an allocation of costs consistent with principles of cost**
91 **causation, do you agree?**

92 A. No, if anything, I believe that my proposal underestimates the amount of costs
93 incurred to support default service. While a revenue allocation factor is
94 conservative, I utilized it for purposes of simplicity in the ratemaking process. As
95 Mr. Yardley has stated in prior testimony, simplicity is a critical element in
96 ratemaking, and “[s]implicity means a rate structure that is easy for customers to
97 understand and straightforward to administer.”⁶ Applying a revenue-based
98 allocation factor would achieve this goal.

⁵ *Id.*

⁶ *Id.*

99 Q. **Does Mr. Yardley recommend any allocation factor in place of a revenue**
100 **allocation factor?**

101 A. No, he does not. While he criticizes my proposed allocation factor, he doesn't
102 offer any substantive recommendation that would satisfy his concerns. Given that
103 Nicor's discovery responses indicate that there are at least \$21,000,000 in
104 customer care costs in distribution rates, Mr. Yardley's testimony is
105 counterproductive to addressing the problem at hand.

106 Q. **Why is a revenue allocation factor conservative?**

107 A. My revenue allocation factor is based upon revenue that Nicor collects for all
108 customer classes, including commercial and industrial customers. Customer care
109 costs such as call centers, however, are largely driven by customer volumes.
110 Thus, one could credibly make the argument that the relationship of default
111 service customer count to customer select and transportation customers is a more
112 appropriate allocation factor under principles of cost causation. Of course, since
113 87.6% of Nicor's customers remain on default service, that could result in
114 allocating more costs to default service than would result under my revenue
115 allocation factor.

116 Q. **In his Rebuttal Testimony, Mr. Yardley criticizes your analysis regarding the**
117 **allocation of customer care costs between Nicor Gas' delivery function and**
118 **its supply function, stating that "avoided costs should be the basis for**
119 **evaluating any shift in cost responsibility". (Nicor Ex. 24.0, p. 19) Do you**
120 **agree?**

121 A. No, I do not. First, under principles of cost causation that Mr. Yardley alleges to
122 support, it is important to ensure that the entire cost of providing default service is
123 indeed allocated to that service. Therefore, use of embedded costs is the more
124 appropriate methodology, as it does not disregard and eliminate actual costs.
125 Second, his recommendation confuses the notion of short-term avoided costs and
126 long-term avoided costs. For example, gas suppliers operate and staff call centers
127 based upon the size of their customer base. If customers migrate away from
128 suppliers, they would not necessarily need to operate the same size call centers.
129 But that change in business operation will not occur over night, so there is an
130 appearance that suppliers have not avoided costs in the short-term. But, over the
131 long-term, suppliers would more appropriately staff the size of its call center
132 consistent with their business needs. This principle is equally applicable to Nicor.
133 As customers migrate away from Nicor, over time, Nicor's cost of operating its
134 call center would decrease assuming that Nicor prudently incurred costs to
135 operate the call center. Moreover, it is important to note that the Commission
136 previously rejected Commonwealth Edison's avoided customer care cost
137 unbundling proposal in Ill. C. C. Docket 14-0312.

138 **Q. Mr. Yardley states that the “development of an improper rate adjustment**
139 **would result in the subsidization of service for Customer Select customers by**
140 **all other customers”. (Nicor Ex. 24.0, p. 23) Please comment.**

141 A. Mr. Yardley effectively claims unless there is a perfect identification of costs
142 related to default service no allocation should occur whatsoever. The practical
143 consequence of his recommendation would be to continue to discriminate against

144 Customer Select and Transportation Customers by requiring these customers to
145 continue to subsidize default service.

146 **Q. On pages 24-25 of his Rebuttal Testimony, Mr. Yardley opposes RESA’s**
147 **alternative recommendation that the Commission direct Nicor Gas to**
148 **perform a study regarding the embedded distribution costs that relate to**
149 **providing default service and to file an application in a revenue neutral rate**
150 **design proceeding to appropriately allocate costs to default service. Please**
151 **respond to his position.**

152 A. Mr. Yardley claims that “I do not believe that the results of the study would be
153 meaningful enough to justify the expense whether the study were performed for a
154 revenue neutral rate redesign or as part of a subsequent rate case.” His statement
155 is completely unsubstantiated speculation, given that Mr. Yardley has done no
156 analysis of what actual customer care costs relate to the provision of default
157 service. Moreover, Nicor has already conceded that it forecasts to incur over \$21
158 million in customer care costs in payroll expense alone. The portion of this
159 amount that relates solely to the provision of default service is clearly
160 “meaningful” to the Customer Select and Transportation customers that must fund
161 this subsidy.

162 **III. RESPONSE TO MARY LOU GRZENIA**

163 **Q. Ms. Grezenia states that you propose that Nicor Gas “allocate the total cost**
164 **of providing customer care costs to only that portion of its customers that**
165 **take supply service from Nicor Gas, rather than across all customers”.**

166 (NICOR Ex. 22.0, p. 3) Is that a correct characterization of your proposal in
167 this proceeding?

168 A. No, it is not. As discussed above, RESA proposes to allocate to default service
169 only the portion of customer care costs associated with providing that service. I
170 have not claimed that Nicor does not incur any customer care costs for Customer
171 Select and transportation customers. Had that been my position, I would have
172 recommended that all of Nicor's customer care costs be allocated to default
173 service. As I will discuss below in response to Ms. Grzenia's other claims, this
174 allocation would ensure that default service rates are unbundled and composed of
175 comparable rate structures offered by alternative gas suppliers.

176 **Q. Ms. Grzenia claims that RESA's cost allocation proposal is inconsistent with**
177 **the treatment of "similar costs" proposed by alternative gas suppliers in**
178 **Nicor Gas' last rate case. (Id., pp. 3-4) Are the customer care costs that you**
179 **propose to allocate in this case the same as to the costs referred to by Ms.**
180 **Grzenia, the costs of implementing and administering the Customer Select**
181 **program?**

182 A. No, they are not. Ms. Grzenia refers to costs that were initially incurred to
183 commence the Customer Select program. Similar to Nicor's default supply
184 program, these costs were collected from all customers. Recovering the costs
185 from all customers eligible for Customer Select was the right decision then and
186 remains the right decision today. My recommendation is directed at identifying
187 customer care costs that relate to default service and ensuring those costs are
188 appropriately allocated to that service. Performing this exercise would promote a

189 level playing field by requiring that default service customers rate structures
190 contain the same cost elements as customers that select an alternative gas
191 supplier.

192 **Q. Ms. Grzenia claims that Nicor Gas' current treatment of customer care costs**
193 **is the result of an agreement with alternative gas suppliers (*Id.*, p. 5). Is her**
194 **claim correct?**

195 A. No, it is not. The agreement entered into between Nicor and alternative gas
196 suppliers nearly ten years ago related to a customer account charge. That charge
197 was discriminatory and unfair, therefore its elimination was a positive outcome
198 for purposes of moving the market forward. It was an incremental step in the
199 competitive market. As that case shows, gas suppliers have had success working
200 collaboratively with Nicor to improve the landscape of the competitive market.
201 There is an additional opportunity in this proceeding, to continue to develop the
202 competitive market by appropriately allocating costs to default service to promote
203 principles of unbundling and comparability. Of course, this process would be
204 revenue neutral to Nicor and merely ensure that components of Nicor's default
205 service rate structures are similar to alternative gas suppliers.

206

207 **Q. Ms. Grzenia states that RESA is "arguing that the costs associated with**
208 **providing the Customer Select program should be disaggregated from all**
209 **other costs and charged only to Customer Select customers". (*Id.*, p. 4) Is**
210 **that a correct characterization of RESA's position?**

211 A. No, RESA proposes that default service customers pay for the customer care costs
212 associated with the provision of that service. These costs are currently being paid
213 disproportionately by Customer Select and Transportation customers through
214 delivery rates.

215

216 **Q. On pages 7-8 of her Direct Testimony, Ms. Grzenia explains Nicor Gas' role**
217 **when a customer elects to participate in the Customer Select program. Is**
218 **RESA arguing that Customer Select customers should not pay for Nicor Gas'**
219 **costs of providing delivery service to them?**

220 A. No, RESA is not making that argument. RESA's position is that costs that relate
221 to delivery rates should be recovered through non-bypassable rates.

222 **Q. On page 9 of her Direct Testimony, Ms. Grzenia states that your "approach**
223 **does not consider separating the salaries related to customer care from those**
224 **unrelated to customer care". Is that an accurate characterization of your**
225 **approach?**

226 A. No, it is not. As I discussed in my Direct Testimony, Nicor was less than
227 forthcoming in identifying costs that specifically relate to customer care or default
228 service. Therefore, I developed a methodology utilizing an allocation factor to
229 separate these costs. I also recommended that the Commission order Nicor to
230 provide an analysis of the customer care costs that relate to default service.

231 **Q. On p. 10, Ms. Grzenia states "Nicor Gas regularly incurs costs for customer**
232 **care efforts associated with addressing inquiries from alternative suppliers'**
233 **customers. It is not always clear to customers whether a problem or concern**

234 **is related to a service provided Nicor Gas or a third-party supplier service, or**
235 **would be best resolved by contacting Nicor Gas as opposed to their**
236 **alternative supplier”. How do you respond?**

237 A. The converse of Mr. Grzenia’s claim is also true. Alternative Gas Suppliers
238 receive calls that relate to delivery issues. Although these calls do not relate to
239 services alternative gas suppliers provide, we must take the time to determine the
240 source of the customer’s question and refer them to Nicor if appropriate. The key
241 difference is that Nicor recovers all of its customer care costs through delivery
242 rates, whereas alternative gas suppliers must recover their customer care costs
243 through competitive rates.

244
245 **IV. CUSTOMER SELECT MIGRATION WOULD HAVE NO IMPACT ON**
246 **RELIABILITY**

247 **Q. Without offering an opinion on whether Mr. Oliker’s cost allocation proposal**
248 **is reasonable, Mr. Wassell states that the “Commission should direct Nicor**
249 **Gas to conduct a study examining the allocation of storage volumes to**
250 **Transportation customers and Customer Select suppliers to determine**
251 **whether an adjustment to such allocations is allocated. Further, this study**
252 **also would analyze whether, and to what extent, the current tariffed terms**
253 **and conditions for these customers’ use of such allocations require**
254 **modification.” (Nicor Gas Ex. 21.0, p. 3) Is there any relationship between**
255 **Mr. Wassell’s proposal for a study of Nicor’s storage operations and your**
256 **proposal to allocate customer care costs?**

257 A. No, my proposal relates to customer care costs associated with procuring and
258 providing default service. Storage costs are already allocated between default
259 service and Customer Select customers on a non-discriminatory and fair basis.
260 My proposal is completely unrelated to the allocation of storage quantities or
261 costs to default service or Customer Select customers.

262 **Q. Mr. Wassell also states that the apparent goal of your proposal is to “increase**
263 **the number of customers choosing to participate in the Customer Select**
264 **program”. (Id.) Is that the goal of your proposal?**

265 A. No.. The goal of my proposal is to improve the functioning of the competitive
266 retail natural gas market in the Nicor service territory through a more fair and
267 equitable allocation of costs to the default service. Such an allocation would
268 reduce the costs that existing and future “shopping” customers pay. While this
269 may increase the amount of customers that participate in Customer Select, it is not
270 the goal of my proposal. For example, there are many customers that are already
271 participating in the Customer Select program that are paying Nicor for services
272 that are more appropriately assigned to default service customers. Even if no
273 additional customers were to participate in the Customer Select program, it would
274 be appropriate to allocate these costs to default service to remedy this inequity.
275 Moreover, considering the amount of customer care costs that I proposed be
276 allocated in this proceeding and the per therm impact, Mr. Wassell’s stated
277 concern that there would be a large migration to Customer Select appears
278 unrealistic.

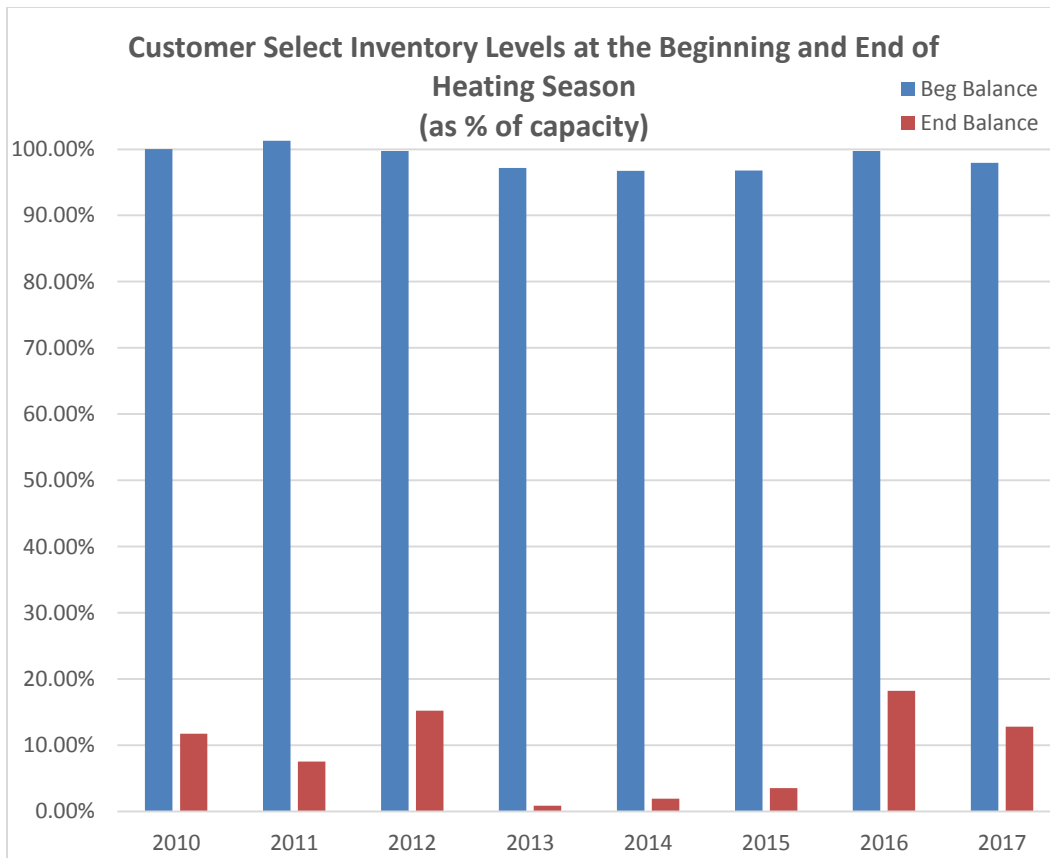
279 **Q. Mr. Wassell also states that if the number of Customer Select customers**
280 **grows, Nicor will be faced with “growing operational challenges in managing**
281 **its on-system storage, especially under the existing terms and conditions of**
282 **Nicor Gas’ provision of those services”. (Id.) Please comment.**

283 **A.** Mr. Wassell’s statement is inaccurate and based upon misleading information.
284 Initially, there is no cap on Nicor’s Customer Select program now, so Mr.
285 Wassell’s statement comes as a surprise. That issue aside, even a large amount of
286 Customer Select migration away from default service would have no impact on
287 Nicor’s ability to manage storage and balance its system.

288 **Q. Can you explain further the basis for your opinion?**

289 **A.** Certainly. Mr. Wassell alleges that “transportation” customers do not fully
290 utilize/cycle their storage assets at the end of season (April). Mr. Wassell further
291 claims that if there is additional migration of Customer Select—coupled with
292 assignment of storage capacity for these customers to gas suppliers—this will
293 diminish Nicor’s ability to manage the system through under cycling of storage.
294 This claim is contradicted by Mr. Wassell’s own workpapers, which conflated the
295 use of the term “transportation” very broadly and provided an apples to oranges
296 comparison of Customer Select and Transportation storage cycling. Below is a
297 graph that demonstrates that Customer Select storage has historically been fully
298 injected at the beginning of winter and fully cycled at the end of winter.

299 ***Figure 1.***



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308 **Q.**

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These statistics are not surprising given that Nicor requires suppliers to inject Customer Select storage balances to at least 95% at the beginning of the winter season and to withdraw their storage balances related to the Customer Select program below 35% by the end of winter.⁷ In reality, suppliers have withdrawn storage down below 19% in every winter since 2010. Consequently, Nicor’s claim that Customer Select migrations present a potential reliability issue is completely unsubstantiated.

Mr. Wassell states that due to a settlement agreement between RESA and Nicor Gas in Docket 15-0558, Nicor Gas is unable to alter the allocation of storage volumes for Customer Select suppliers, as well as Transportation

⁷ Nicor Response to RESA 4.05 and RESA 4.06.

311 **customers, or the terms and conditions of those customers' use of Nicor Gas'**
312 **storage facilities until June 30, 2019. (*Id.*, p. 10) Does the settlement**
313 **agreement in Docket 15-0558 justify rejection of RESA's recommendation**
314 **that there be an appropriate allocation of customer costs in this proceeding?**

315 A. No, as I discussed above, there is no need or reason to modify Nicor's storage
316 terms and conditions, so mentioning Nicor's settlement obligations is a red
317 herring.

318 **Q. Does this conclude your testimony?**

319 A. Yes, it does but I reserve the right to make further recommendations based
320 upon additional information that become available.

NOTICE OF FILING

Please take note that on August 21, 2017, I caused to be filed via e-docket with the Chief Clerk of the Illinois Commerce Commission, the attached Rebuttal Testimony of Joseph Olikier on behalf of the Retail Energy Supply Association in this proceeding.

/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 Rebuttal Testimony of Joseph Olikier on behalf of 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 17-0124 via electronic delivery on August 21, 2017.

/s/ GERARD T. FOX
Gerard T. Fox