

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company)	
d/b/a Nicor Gas Company)	
)	Docket No. 18-1775
Proposed General Increase in Gas Rates and)	
Revisions of Other Terms and Conditions of)	
Service)	

REPLY BRIEF OF
THE RETAIL ENERGY SUPPLY ASSOCIATION

The Retail Energy Supply Association (“RESA”)¹, by and through its attorney, Gerard T. Fox, pursuant to 83 Illinois Admin. Code Section 200.800 of the Rules of Practice of the Illinois Commerce Commission (“Commission”), hereby submits its Reply Brief in the above-captioned proceeding, Northern Illinois Gas Company d/b/a Nicor Gas Company’s (“Nicor Gas”) proposed general increase in gas rates and revisions of other terms and conditions of service. RESA’s Reply Brief is limited to two issues. First, the proposal of the Illinois Attorney General (“AG”) to increase Nicor Gas’ third-party billing services charges should be rejected. Second, contrary to the assertion made in Nicor Gas’ Initial Brief, the parties in this proceeding have not agreed to the conclusions of the Storage Study sponsored by Nicor Gas in this proceeding and the Commission should not address the merits of that Study in its Order.

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.

VI. C. 4—Third-Party Billing Service Charge

The AG proposes to increase Nicor Gas' current charge for third-party billing service from 25 cents per bill to 36 cents per bill, an increase of 45%. (AG In. Br., pp. 113-117) The 25 cents charge is imposed on third parties including Alternative Gas Suppliers participating in Nicor Gas' Customer Select Program. The AG's proposal was completely rebutted in the Initial Brief of Nicor Gas. (Nicor Gas In. Br., pp. 83-84) RESA agrees with Nicor Gas that the AG's proposal should be rejected and Nicor's alternative proposal of conducting an analysis of the costs of third-party billing services in its next rate case should be accepted.

The AG's proposal is based on the recommendation of one of its witnesses, Mr. Scott Rubin, whose recommendation was fully refuted by the rebuttal testimony of Nicor Gas' witnesses in this proceeding, Mr. Jason R. Matthews (Nicor Gas Ex. 22) and Ms. Vida Hotchkiss (Nicor Gas Ex. 26)

In rebuttal, Mr. Matthews pointed out that Mr. Rubin proposes to increase the charge for third-party billing service without arguing that the current 25 cent per bill charge under-recovers Nicor's actual cost to provide the third-party billing service. (Nicor Gas. Ex. 22, p. 9) Indeed, Mr. Rubin could not possibly make that argument because no cost study has been performed to determine whether the current 25 cent per bill charge is too low, too high, or still cost-justified. Accordingly, Mr. Matthews testified that Nicor Gas commits to providing an updated analysis of the cost of third-party billing service with its next rate case. (*Id.*) RESA agrees that only with a cost study analyzing the cost of third-party billing services can an appropriate charge be established.

Ms. Hotchkiss, in her rebuttal testimony, also rejected Mr. Rubin's recommendation, calling it "overly simplistic and contrary to cost-causation principles used in determining charges to

customers”. (Nicor Gas Ex. 26, p. 10) She also points out that Mr. Rubin did not argue that the current 25 cent per bill charge fails to recover Nicor Gas’ cost of providing third-party billing service and confirmed Nicor Gas’ commitment to providing an updated cost analysis of third-party billing services with its next rate case. (*Id.*)

The AG’s Initial Brief completely ignores the sur-rebuttal testimony of Mr. Matthews, Nicor Gas Exhibit 36. In his sur-rebuttal testimony, Mr. Matthews re-iterates that the AG’s witness did not provide any evidence showing that Nicor Gas’ overall billing costs are directly related to the bill charge for third-party billing. Thus, there is no cost causation justification for the AG’s proposal. (Nicor Gas Ex. 36, p. 6) Mr. Matthews also pointed out the risks associated with revising a customer charge without any evidence of cost causation—namely that speculative change would increase the risk of subsidization. As an example, he stated that if the specific third-party billing cost study reflected a cost of 21 cents per bill, less than the 25 cents currently charge, then the AG’s proposal creates more subsidization by customers. He concludes that a detailed cost study, which Nicor Gas has already agreed to provide in its rate case, eliminates this risk of cross-subsidization. Mr. Morley accurately characterizes the AG’s recommendation as “premature, speculative and unsupported by evidence”. (*Id.*, pp. 6-7)

There are a number of arguments that the AG raises in support of its position that are without support. First, the AG argues that no Nicor witness “proposed an alternative approach”. (AG In. Br., p. 114) This is false. As already stated, both Nicor Gas witnesses proposed the appropriate regulatory approach—perform a cost study in Nicor Gas’ next rate case to determine whether Nicor Gas’ current charge for third-party billing services recovers the cost of such services.

Second, the AG disingenuously claims that both Nicor Gas witnesses “conceded” that the current 25 cent charge is “outdated”. (*Id.*) Neither witness conceded that the current charge is

“outdated”. A review of the cited basis for this claim shows that Mr. Matthews stated that the current charge is based on “dated information”. (Nicor Gas Ex. 22, p. 9) This simply means that the charge is based on a cost study performed at an earlier date, but does not mean that the charge is not appropriate. “Outdated” implies that the charge is no longer appropriate because it is based on out of date information. However, absent the cost study proposed by Nicor Gas, this is nothing more than conjecture. Ms. Hotchkiss simply stated that “some time has passed since this charge was reviewed” and because of this she stated that Nicor Gas is committed to providing an updated analysis of the cost of providing third-party billing services in its next rate case. (Nicor Gas Ex. 26, p. 10)

Third, the AG argues that there is no reason to wait because its witness has “already demonstrated that the associated costs have increased 45% and that according to Ms. Hotchkiss’ cost causation principles, the charge should be increased by 45%”. (AG In. Br., p. 114) This is another false statement. Mr. Rubin did not demonstrate that the costs of third-party billing services have gone up by 45%, because there is no updated analysis of the cost of providing such services. Ms. Hotchkiss’ proposal that Nicor Gas perform an updated cost analysis is consistent with cost causation principles. Again, without such a study, it is not possible to know whether the current 25 cent charge is too low, too high, or just right.

Fourth, the AG disingenuously claims that the “modernization” of the third-party billing charge will increase revenues to Nicor Gas. (*Id.*) While RESA is not exactly sure what “modernization” means in this context, slapping an arbitrary 45% increase on a charge does not make it “modern”. Moreover, increasing the third-party billing charge will not result in an increase in revenues to Nicor Gas; the increase in revenues from third-party billing services would be offset by reductions in revenues from other customers in this case according to the

proposal of the AG's witness. (AG Ex. 4.0, p. 33) Presumably, this is the motive for the AG's arbitrary proposal.

Fifth, the AG requests that the Commission adopt its witness' recommendation and order Nicor Gas to increase its third-party billing charge by 45% to "reflect current costs, pending Nicor's review of the cost of this service". (AG In. Br., p. 115) Initially, RESA reiterates that a 36 cent charge per bill does not reflect "current costs" because it is not possible to know what current costs are without a cost study. However, more importantly, the AG is recommending that the Commission order an increase in charges and determine later, based on a cost study, whether the increase was appropriate - basically shoot now, aim later. This recommendation flies in the face of cost of service principles and begs the question of what can be done if the cost study determines that the charge should be less than 36 cents, possibly that it should remain at 25 cents or lower. Under the filed rate doctrine, there can be no refund for parties utilizing third-party billing services who were required to pay a charge that has no basis in fact.

XI. B. 1 Storage Study

In its Initial Brief, Nicor Gas correctly notes that, as required in its last rate case, it prepared and filed a Storage Study addressing the manner in which large-volume transportation customers and Customer Select suppliers utilize Nicor Gas' on-system storage. Nicor also correctly notes that "given the short period of time in which the study was completed", the Company continues to analyze methods for resolving the issues it sees in the Storage Study. Therefore, Nicor Gas committed to initiate a future proceeding to consider the Storage Study and to initiate that proceeding by June 30, 2020. However, Nicor incorrectly claims that no party disputes the "conclusions" of the Storage Study. (Nicor Gas In. Br., p. 125)

In fact, the Initial Brief of the Illinois Industrial Energy Consumers (“IIEC”) demonstrates that this is not the case. IIEC states that it does not agree with Nicor Gas’ assessment regarding the use of its storage system by large-volume transportation customers and Customer Select suppliers. However, IIEC agrees with Nicor Gas that those issues should be addressed in a separate proceeding before the Commission “where interested parties can address the merits and conclusions of the study”. IIEC concludes with the recommendation that the Commission not reach any conclusions on the Storage Study in this proceeding and require Nicor Gas to institute its proposed revenue-neutral tariff filing by June 30, 2020 (IIEC In. Br., pp. 1-3).

RESA agrees with IIEC. RESA’s understanding was that the merits of the Storage Study would be addressed in the future proceeding proposed by the Company, not in this rate case. The Commission should not prejudge the merits of the Storage Study in its Order in this proceeding.

WHEREFORE, for the foregoing reasons, the Retail Energy Supply Association requests that the Commission reject the proposal of the Illinois Attorney General to increase the charge for third-party billing services in this proceeding. RESA also requests that the Commission refrain from making any conclusions regarding the merits of Nicor Gas’ Storage Study in its Order in this proceeding.

Respectfully submitted,

Retail Energy Supply Association

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NOTICE OF FILING

Please take note that on June 26, 2019, I caused to be filed via e-docket with the Chief Clerk of the Illinois Commerce Commission, the attached Reply Brief 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 Reply Brief of the Retail Energy Supply Association upon the parties on the service list maintained on the Illinois Commerce Commission's eDocket system for the instant docket via electronic delivery on June 26, 2019.

/s/GERARD T. FOX
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