**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

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

# INITIAL BRIEF OF
# THE RETAIL ENERGY SUPPLY ASSOCIATION

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# INITIAL BRIEF OF THE RETAIL ENERGY SUPPLY ASSOCIATION

Pursuant to Section 200.800 of the Rules of Practice of the Illinois Commerce Commission (the "Commission"), the Retail Energy Supply Association ("RESA")[1] submits its Initial Brief in this proceeding, the rate case of Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor" or the "Company").

## I. INTRODUCTION

On March 10, 2017, Nicor filed rate sheets constituting a general rate increase in this proceeding. RESA has addressed only one issue in this proceeding—the proper allocation of customer care costs.[2] Nicor's proposed rate increase includes the recovery of default service costs—such as customer care costs—through base distribution rates. Nicor's proposed method of cost recovery would provide an anticompetitive subsidy to

[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.

[2] Because RESA has only a single issue, it is not following the common outline for this initial brief, under which RESA's issue would fall under Section VII (C) (2), Allocation of Certain Customer Care Costs. RESA will follow the common outline for its Statement of Position in this proceeding.

default service rates and send a distorted price signal. Therefore, RESA recommends that the Commission direct that Nicor unbundle customer care costs similar to the manner it has done with Commonwealth Edison Company ("ComEd") on the electric side. In the alternative, RESA recommends that the Commission order Nicor to conduct a study to determine an appropriate allocation of customer care costs between the distribution and supply functions. In support of its position, RESA offered the Direct and Rebuttal Testimony of Mr. Joseph Oliker, Senior Regulatory Attorney for IGS Energy, a member of RESA. To be clear, RESA is not recommending that Nicor be prohibited from collecting these costs—rather, RESA is proposing that they be appropriately allocated to default service customers, customers who buy their supply from Nicor, consistent with principles of cost causation.

## II. RESA'S PROPOSAL FOR AN APPROPRIATE ALLOCATION OF CUSTOMER CARE COSTS WOULD BENEFIT THE COMPETITIVE MARKET IN ILLINOIS.

### A. RESA's Proposed Allocation of Customer Care Costs Will Ensure that Markets Remain Competitive and Innovative.

Mr. Oliker described the competitive market in Nicor's service territory. All of Nicor's customers take distribution service from Nicor. In Nicor's service territory, customers have the right to select commodity service from an alternative gas supplier ("Supplier") or to remain on default service and receive commodity service from Nicor. Nicor's "competitive choice" options are known as the Large Volume Transportation ("LVT") and Customer Select. Customers participating in these programs continue to pay Nicor for the cost of distribution investment through base distribution rates. (RESA Ex. 1.0R, pp. 3-4)

Mr. Oliker also explained that all customers benefit from having a competitive natural gas market. First, competitive markets offer choices and control to customers beyond the standard variable default rate product. Those choices include bundled products and services, interruptible rates, hedged products, fixed price options and flat billed products, to name a few. This diversity of offerings allows customers to enroll in products that are better able to suit their specific needs. Second, having a diverse range of suppliers serving customers in Nicor's service territory creates liquidity in the market which puts price pressure on wholesale natural gas prices, ultimately leading to lower retail natural gas prices for all customers including default service and transportation customers. Third, having multiple entities transacting business in Illinois creates jobs in the state and improves the state economy. Fourth, competition drives innovation and efficiencies that leak out into the market, not only to other Suppliers in the market, but also to the utility as well. In short, competition greatly benefits all customers (including default customers) and that is why competitive markets are generally the favored means to deliver goods and services to customers in our society. (*Id*., p. 4)

The record shows that it is important that both regulated and non-regulated products are treated equally. Competitive parity is vital in any competitive market for products and services. Without competitive parity, innovation that is created by competitive forces in the market is severely restricted. All else being equal, if one product is granted favorable legal or regulatory treatment, or otherwise has an anti-competitive advantage in the market, customers will be more likely to purchase or enroll in that product. In that circumstance, the favored product has less incentive or pressure to

innovate. Moreover, products that do not receive the same level of favoritism may be pushed out of the market. (*Id*., pp. 4-5)

The current regulatory construct does not create competitive parity for all products and services in Nicor's service territory. The default service product (Nicor's bundled rate which recovers both supply and distribution costs) is granted favored regulatory treatment at the expense of the customers who choose competitive retail natural gas service products in the market. These customers will be paying Nicor for a service they are not taking.

First, there are a number of actual costs, recovered through distribution rates that are utilized to support the default rate product—such as customer care costs—but Suppliers' products do not receive that same support and must recover their costs through competitive rates. Nicor's default service bypassable charges, its gas charges, do not include substantial regulatory, supply, and customer care charges; rather, those costs are recovered from all ratepayers through distribution rates. Suppliers must adhere to costly regulatory and compliance requirements, such as contacts requirements, verification requirements, notice requirements and a number of other consumer protection rules that default service providers do not. Compliance with these rules and requirements comes at a substantial cost, yet only Suppliers must recover those expenses through competitive rates and charges under the current regulatory construct. Nicor's similarly incurred costs are recovered through distribution charges which a customer cannot avoid.

Second, Nicor's default supply also obtains an advantage because all customers are automatically assigned to that product when they enroll. Assignment of customers

by default to Nicor's default service ensures that the default rate maintains a significant portion of the market share, even when there are a multitude of other products and providers available in the market. Consequently, the current paradigm leads to a non-comparable and discriminatory default rate product. The current rate structure discriminates against customers electing to take competitive service from a Supplier, requiring such customers to pay for costs twice, once through distribution rates for service they are not receiving and again through rates charged by a Supplier. (*Id*., pp. 5-6)

Allowing a utility to recover default service-related costs through distribution rates has two consequences. First, it tilts the playing field against competition by artificially deflating the utility default service price. Second, it discourages customers from selecting a Supplier because it requires them to pay twice for those same services—once through its utility distribution charges and a second time through its competitive charges from a Supplier. RESA's recommendation is simply a matter of assuring that costs are recovered through the correct "buckets". Failure to distinguish certain default service-related costs from distribution rates creates a favored, anti-competitive product that would have the long term effect of harming all Nicor customers. (*Id*., p. 6)

Mr. Oliker provided an example of costs that Nicor proposes to recover through distribution rates that Suppliers must also incur, yet recover through their competitive rates. For example, each Supplier is required by Section 19-115 of the Public Utilities Act (220 ILCS 5/19-115) to maintain a call center. While this is a legal requirement, it is also a critical element of customer service that any Supplier or utility must maintain to be successful. Maintaining a successful call center is costly and includes labor,

software, IT, and other overhead costs. While Suppliers must include the cost of operating the call center in their competitive rates, Nicor proposes to recover all costs associated with its call center operations exclusively through non-bypassable distribution rates. Nicor's proposal does not allocate any portion of its call center costs to the default service rate, which makes its proposal unique in its assertion that its call center is never utilized to address default service-related issues. (*Id.*, pp. 6-7)

Mr. Oliker provided other examples of costs that Nicor incorrectly recovers only through distribution rates. Nicor also recovers the cost of billing and collections and associated IT/software through its distribution rates. Suppliers must also incur the same or similar costs in order to make a product available in the market, but recovery of Supplier billing systems and collection costs is achieved only through competitive rates and charges. This is true even in instances where a Supplier utilizes utility consolidated billing because the Suppliers still incur billing and collection costs. Unlike Suppliers, however, default service providers like Nicor recover the cost of providing billing and collections to a default service customer through its distribution rates. For those reasons, Mr. Oliker argues that approval of Nicor's proposal would result in an unjust and unreasonable subsidy and continue to perpetuate favored regulatory treatment at the expense of all other competitive retail natural gas service products in the market. (*Id.*, p. 7)

### B. The Commission Should Allocate a Minimum of $12.7 Million to Nicor's Supply Function.

Initially, RESA notes that it has not been easy to determine the appropriate amount that should be allocated to Nicor's supply function. In discovery, RESA submitted numerous data requests to Nicor to attempt to separate customer care costs

that are attributable to supply service to those attributable to default, or distribution service. Nicor generally denied that it provides service on an unbundled basis: "Please note that Nicor Gas does not have a supply service and a gas delivery service." (*Id*., p. 10) RESA sought further information regarding costs incurred in various accounts with the goal of matching these costs to the appropriate functions (distribution or default service). For example, RESA 1.03 stated "Please state the amount of expenses recorded in Account 903, Customer Records and Collection Expense, for the test year. Please allocate these expenses between Nicor supply service and gas delivery service. Provide all workpapers and/or studies which support these allocations." In response to this question and several other similar questions, Nicor stated:

> Nicor Gas objects to this data request on the grounds that it is vague and ambiguous. Nicor Gas further objects to this data request because it requests information not maintained in Nicor Gas' ordinary course of business nor do the Commission's rules require Nicor Gas to maintain records in such a fashion.
>
> Subject to and without waiving these objections, Nicor Gas states: please refer to Schedule C-4 for a summary of Nicor Gas' operating expenses included in the test year.

(RESA-Nicor Gas Group CX Ex. 1.0, pp. 1-14; Nicor Gas responses to RESA DRs 1.01-1.14)

Nicor's reference to Schedule C-4, which contains a summary of Nicor's proposed operating expenses included in the test year, did not provide any useful information because those costs are not broken down on that schedule between supply service and distribution service, even though Nicor clearly has customers who only received distribution service.. (RESA Ex. 1.0R, pp. 10-11)

Notwithstanding Nicor's lack of responsiveness to RESA's efforts to determine an appropriate allocation of customer care costs, Mr. Oliker, in his Direct Testimony, after an examination of Schedule C-4, determined a conservative allocation of those costs. Schedule C-4 identifies over $300 million in proposed operations and maintenance expenses (it does not include rate base items), which Nicor proposes to recover through distribution rates. This amount, of course, excludes any capitalized costs recovered through rate base. From that schedule, Mr. Oliker identified at least two categories of costs that relate to customer care activities: specifically, Customer Records and Collection Expense, in the amount of $33,482,000, and Administrative and General Expense, in the amount of $65,625,000. These costs total to $99,107,000. However, Mr. Oliker did not propose to allocate all of these customer costs to Nicor's supply or default service. Rather, he proposed to allocate a subset of these customer care costs to default service to not only recognize the fact that a portion of Nicor's distribution costs relate to services that are provided to all distribution customers, but also to limit the allocation of costs to those costs that relate to default service. (*Id.*, pp. 11-12)

In order to allocate between common and default service costs, Mr. Oliker devised an allocation factor, which is a common ratemaking practice for purposes of identifying jurisdictional costs to include in rate base as well as allowances for operations and maintenance expense. To determine an allocation factor, he utilized the relationship between Nicor's default service revenue and total utility revenue. Stated differently, he divided default service

revenue by total utility revenue. He referred to this allocation factor as the Revenue Allocation Factor. Based upon Nicor's forecasted test year revenue provided in response to RESA DR 1.19, he determined that an appropriate Revenue Allocation Factor is approximately 58%. (RESA Ex. 1.0R, pp. 12-13)

In his Direct Testimony, Mr. Oliker, using the Revenue Allocation Factor, and in the absence of better information from Nicor, recommended that the Commission allocate a portion of $33,482,000 in Customer Records and Collections Expense and a portion of $65,625,000 in Administrative and General Salaries. Applying the Revenue Allocation Factor of 58%, Mr. Oliker identified $57,218,472 that should be allocated to the default service. Recognizing that customer records and contacts with the call center are largely driven by customer volumes of default service customers, Mr. Oliker recommended a rate design that would allocate between residential and commercial/industrial class based upon default service customer counts.

Based on Nicor's statistics, Mr. Oliker determined that 92.4% of Nicor's default service customers are residential customers. Therefore, Mr. Oliker proposed to allocate 92.4% of the portion of customer care costs previously identified to the residential class, and 7.6% to the commercial and industrial class. From a revenue requirement perspective, this would result in an allocation of $52,864,000 and $4,354,000 to default service residential and commercial/industrial classes respectively.

Based upon Nicor's default service customer therm usage in the test year, Mr. Oliker's proposed allocation would result in an allocation of $0.02724

per therm. Of course, Mr. Oliker's proposal would allow Nicor to remain revenue neutral in that Nicor would recover the same amount of costs, but the costs recovered would shift amongst different customer types to more appropriately align with utility ratemaking cost causation principals. Mr. Oliker concluded that his proposed allocation would provide a good starting point that the Commission could further visit and refine in future proceedings upon receipt of additional information from Nicor. (*Id*., pp. 13-16)

However, subsequent to the filing of RESA's direct testimony, Nicor produced additional discovery identifying a portion of the customer care-related costs that it incurs. Specifically, within ICC Accounts 903 and 920, Nicor has identified that it forecasts to incur $21,897,489 in payroll expense related to the provision of customer care in these two accounts alone. Utilizing the allocation factor (58%) developed in Mr. Oliker's Direct Testimony, these costs alone would allocate approximately $12,700,544 to default service. This amount is the minimum amount that the Commission should allocate to default service in this proceeding, and the Commission should direct Nicor to provide a further study regarding the cost of providing default service for consideration in a future rate case or revenue neutral proceeding. Applying the allocation methodology proposed in Mr. Oliker's Direct testimony to the $21,897,489 customer care expense Nicor forecasted would allocate $0.00605 per therm for residential customers and $0.001752 per therm to commercial and industrial default service customers. (RESA Ex. 2.0R, p. 3)

### C. Acceptance of RESA's Proposed Allocation of Customer Care Costs Would Be Consistent with the Commission's Treatment of Similar Costs for Commonwealth Edison Company.

RESA's proposal for Nicor in this proceeding is similar to its proposal that was accepted by the Commission in Ill. C. C. Docket 14-0312, a

Commonwealth Edison Company ("ComEd") general rate increase proceeding. In the Commission's final order, dated December 10, 2014, the Commission directed ComEd to unbundle customer care costs that were historically collected through distribution rates: "Having reviewed the evidence presented by all parties, the Commission determines that ComEd's Updated Alternative Study provides a good starting point for allocating customer care costs to the default supply function. . . . Allowing ComEd to recover these costs through distribution rates provides a subsidy to ComEd's supply rate." (Docket No. 14-312, Order at 104)

Moreover, the concept of unbundling is not new. For example, the Commission already requires Nicor to allocate default service-related uncollectible expense costs to that service. That is one form of unbundling and allocating consistent with cost causation. (RESA Ex. 1.0R, p. 9)

In his Surrebuttal Testimony, Nicor witness. Yardley unsuccessfully attempted to distinguish the Commission's treatment of customer care costs in the ComEd proceeding from RESA's proposed treatment in the instant proceeding.

First, Mr. Yardley claimed that the Nicor Customer Select Program is offered on a voluntary basis, whereas ComEd is required by statute to allow customers to purchase supply from Retail Electric Suppliers ("RES"). This is a distinction without a difference. The Commission's Order in the ComEd case did not rely on the fact that ComEd is mandated to allow its customers to shop.

Instead, the Order eliminates a subsidy that supply customers provided to default customers. The same type of subsidy exists in Nicor's rates.

Second, Mr. Yardley states that pursuant to an agreement between Nicor and certain suppliers in its last rate case, some costs of the Customer Select Program are recovered from all customers, rather than just Customer Select customers. However, as demonstrated in the next section of this Initial Brief, there is no relationship between the costs that were the subject of that settlement agreement and the costs at issue here. Moreover, ComEd does not charge RESs an administrative charge, so once again, Mr. Yardley's attempt to distinguish the Commission's treatment of ComEd's customer care costs from Nicor's customer care costs is without merit.

Third, Mr. Yardley claims that, in Docket 14-0312, the Commission did not reject the use of an avoided cost study. However, his own exhibit, Nicor Gas Ex. 36.1, shows that the Commission rejected ComEd's Switching Study, which was the avoided cost study prepared by ComEd in that proceeding.

### D. Nicor's Arguments Against RESA's Proposed Allocation of Customer Care Costs Are Without Merit.

In response to RESA's proposed allocation of customer care costs, Nicor offered the testimony of the following witnesses: Melvin D. Williams, Michael J. Morley, Stephen Wassell, Mary Lou Grzenia, and Daniel P. Yardley.[3] However, none of these witnesses offered any valid criticisms of RESA's proposal that would justify the Commission's rejection of that proposal.

1. Response to Mr. Morley

[3] Mr. Williams offered only general statements in his Rebuttal Testimony which RESA does not find the need to address in this Initial Brief.

In his Rebuttal Testimony, Mr. Morley recommends that the Commission reject RESA's recommendation because its witness "failed to justify the specific costs he proposes to reallocate to Nicor Gas' supply customers". (NICOR Ex. 16.0, p. 34) Mr. Morley's recommendation is both hypocritical and outrageous. As Mr. Morley concedes in his testimony, Nicor has been less than forthcoming in the discovery process. Because Nicor is the entity that has the information necessary for fleshing out RESA's proposal, it would not be just and reasonable to allow Nicor to refuse to respond to discovery and then complain that RESA's proposal is not based upon sufficient information. (RESA Ex. 2.0R, pp. 2-3)

2. Response to Mr. Yardley[4]

In his Rebuttal Testimony, Mr. Yardley takes issue with RESA's allocation of customer care costs claiming that the "implication of Mr. Oliker's recommendation is that Nicor Gas no longer provides call center type services to Customer Select customers, which is incorrect…" Nicor Ex. 24 at 20. Mr. Yardley's Rebuttal Testimony is misleading and mischaracterizes RESA's proposal. Mr. Oliker never claimed that Nicor does not provide any call center services to Customer Select and transportation customers. Had that been his position, he would have recommended that all of Nicor's call center cost be allocated to default service. He did not. Instead, he developed an allocation factor for the purpose of allocating a portion of Nicor's customer care costs to default service consistent with principles of cost causation. (RESA Ex. 2.0R, p. 4)

[4] Dr. Rearden, a witness for the Commission Staff, does not support RESA's proposal. However, his opinion is based solely on acceptance of Mr. Yardley's opinions, not his own analysis. Because Mr. Yardley's opinions are without merit, as shown in this section of RESA's Initial Brief, Dr. Rearden's acceptance of those opinions does not add merit to them.

Moreover, Mr. Oliker's proposal is consistent with Mr. Yardley's professed principles for ratemaking. As Mr. Yardley has stated in prior testimony and in discovery in this case, among other things, fairness, non-discrimination, and simplicity are key principles to guide utility ratemaking.[5] Specifically, "Fairness is accomplished through pricing services based on the underlying cost. Fairness is important in many respects including, between the utility and its customers, across rate classes served by the utility, and among customers taking service under a common rate schedule."[6] In line with this principle, it is undeniable that Nicor must incur customer care costs to provide default service. But Nicor proposes to require customer select and transportation customer to pay for those costs through delivery rates. That proposal is patently unfair and unreasonable.

RESA's proposal is also consistent with the following principle espoused by Mr. Yardley: "Avoiding undue discrimination requires rates that do not grant an unreasonable preference or subject an unreasonable disadvantage to any customer or group of customers."[7] Nicor's proposal to recover customer care costs through delivery rates provides default service an undue preference and discriminates against customer select and transportation customers by requiring them to subsidize default service customer rates. Accordingly, the Commission should allocate a portion of Nicor's customer care costs to default service rates. (RESA Ex. 2.0R, p. 5)

Mr. Yardley disagrees with Mr. Oliker's use of a revenue allocation factor, alleging that allocation factor does not reflect an allocation of costs consistent with principles of cost causation. (Nicor Ex. 24, p. 22) However, if anything, RESA's

[5] RESA-Nicor Gas Group CX Ex. 1.0, Nicor Response to RESA 5.03.

[6] *Id.*
[7] *Id.*

proposal underestimates the amount of costs incurred to support default service. Mr. Oliker's revenue allocation factor is conservative. His revenue allocation factor is based upon revenue that Nicor collects for all customer classes, including commercial and industrial customers. Customer care costs such as call centers, however, are largely driven by customer volumes. Thus, one could credibly make the argument that the relationship of default service customer count to customer select and transportation customers is a more appropriate allocation factor under principles of cost causation. Of course, since 87.6% of Nicor's customers remain on default service, that could result in allocating more costs to default service than would result under Mr. Oliker's revenue allocation factor.

While a revenue allocation factor is conservative, Mr. Oliker utilized it for purposes of simplicity in the ratemaking process. As Mr. Yardley has stated in prior testimony, simplicity is a critical element in ratemaking, and "[s]implicity means a rate structure that is easy for customers to understand and straightforward to administer."[8] Applying a revenue-based allocation factor would achieve this goal. (RESA Ex. 2.0R, p. 5)

Notably, while Mr. Yardley criticizes RESA's proposed allocation factor, he does not recommend any allocation factor in place of a revenue allocation factor, nor does he offer any substantive recommendation that would satisfy his concerns. Given that Nicor's discovery responses indicate that there are at least $21,000,000 in customer care costs in distribution rates, Mr. Yardley's testimony is counterproductive to addressing the problem at hand. (RESA Ex. 2.0R, p. 6)

[8] *Id.*

Mr. Yardley's claim that "avoided costs should be the basis for evaluating any shift in cost responsibility" (Nicor Ex. 24.0, p. 19) is incorrect. First, under principles of cost causation that Mr. Yardley alleges to support, it is important to ensure that the entire cost of providing default service is indeed allocated to that service. Therefore, use of embedded costs is the more appropriate methodology, as it does not disregard and eliminate actual costs. Second, his recommendation confuses the notion of short-term avoided costs and long-term avoided costs. For example, gas suppliers operate and staff call centers based upon the size of their customer base. If customers migrate away from suppliers, they would not necessarily need to operate the same size call centers. But that change in business operation will not occur overnight, so there is an appearance that suppliers have not avoided costs in the short-term. However, over the long-term, suppliers would more appropriately staff the size of its call center consistent with their business needs. This principle is equally applicable to Nicor. As customers migrate away from Nicor over time, Nicor's cost of operating its call center would decrease assuming that Nicor prudently incurred costs to operate the call center. Moreover, as described previously, it is important to note that the Commission previously rejected Commonwealth Edison's avoided customer care cost unbundling proposal in Ill. C. C. Docket 14-0312.

3. Response to Ms. Grzenia

Ms. Grezenia's criticism of RESA's proposal is based on a number of misunderstandings or misrepresentations of that proposal. First, she claims that RESA is proposing to "allocate the total cost of providing customer care costs to only that portion of its customers that take supply service from Nicor Gas, rather than across all

customers". (NICOR Ex. 22.0, p. 3) In fact, as discussed above, RESA proposes to allocate to default service only the portion of customer care costs associated with providing that service. These costs are currently being paid disproportionately by Customer Select and Large Volume Transportation customers through delivery rates. This allocation would ensure that default service rates are unbundled and composed of comparable rate structures offered by alternative gas suppliers. (RESA Ex. 2.0R, pp. 9, 11)

Second, Ms. Grzenia is also mistaken when she claims that RESA's cost allocation proposal is inconsistent with the treatment of "similar costs" proposed by alternative gas suppliers in Nicor Gas' last rate case. (Nicor Ex. 22.0, pp. 3-4) Ms. Grzenia is referring to costs associated with implementing the Customer Select program. Similar to Nicor's default supply program, these costs are collected from all customers. Recovering the costs from all customers eligible for Customer Select was the right decision then and remains the right decision today. All customers who are eligible for the Customer Select Program benefit from its availability and, therefore, its costs should be socialized among all eligible customers. RESA's recommendation in this proceeding is directed at identifying customer care costs that relate to default service and ensuring those costs are appropriately allocated to that service. Performing this exercise would promote a level playing field by requiring that default service customers rate structures contain the same cost elements as customers that select an alternative gas supplier. (RESA Ex. 2.0R, pp. 9-10)

Third, Ms. Grzenia is incorrect in claiming that Nicor Gas' current treatment of customer care costs is the result of an agreement with alternative gas suppliers (Nicor Ex.

22.0, p. 5). Again, that agreement, which was not with RESA, was entered into between Nicor and a group of alternative gas suppliers nearly ten years ago related to a customer account charge. That charge was discriminatory and unfair; therefore, its elimination was a positive outcome for purposes of moving the market forward. It was an incremental step in the competitive market. As that case shows, gas suppliers have had success working collaboratively with Nicor to improve the landscape of the competitive market. There is an additional opportunity in this proceeding, to continue to develop the competitive market by appropriately allocating costs to default service to promote principles of unbundling and comparability. Of course, this process would be revenue neutral to Nicor and merely ensure that components of Nicor's default service rate structures are similar to alternative gas suppliers. (RESA Ex. 2.0R, p. 10)

4. Response to Mr. Wassell

Mr. Wassell takes the position that before the Commission accepts RESA's recommendation, the "Commission should direct Nicor Gas to conduct a study examining the allocation of storage volumes to Transportation customers and Customer Select suppliers to determine whether an adjustment to such allocations is appropriate. Further, this study also would analyze whether, and to what extent, the current tariffed terms and conditions for these customers' use of such allocations require modification." (Nicor Ex. 21.0, p. 3) However, there is no relationship between Mr. Wassell's proposal for a study of Nicor's storage operations and RESA's proposal to allocate customer care costs associated with procuring and providing default service. Storage costs are already allocated between default service and Customer Select customers on a non-discriminatory and fair basis. RESA's proposal is completely unrelated to the allocation of storage

quantities or costs to default service or Customer Select customers. (RESA Ex. 2.0, p. 13)

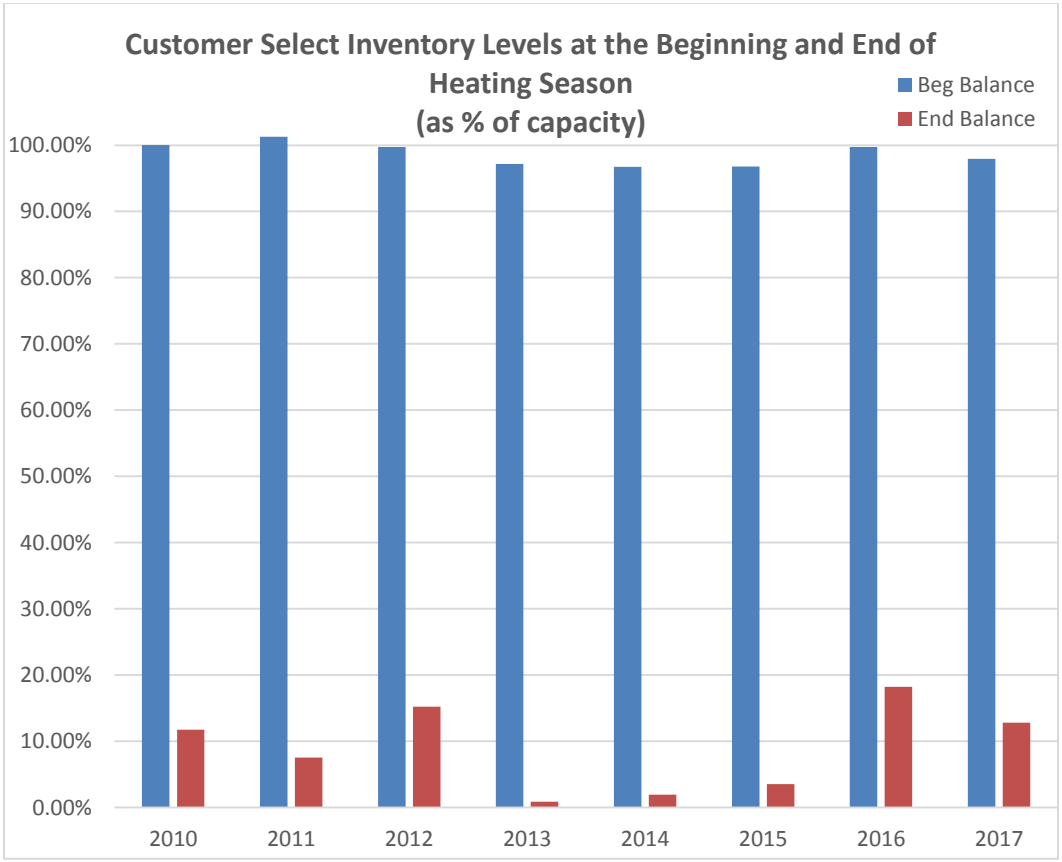
Mr. Wassell attempts to create a nexus where none exists by claiming that the apparent goal of RESA's proposal is to "increase the number of customers choosing to participate in the Customer Select program" (Nicor Ex. 21.0, p. 3) and that an increase in the number of customers in Customer Select would create problems for Nicor's operation of its storage fields. (Nicor Ex. 21.0, p. 3) Mr. Wassell in wrong on both counts.

First, the goal of RESA's proposal is to improve the functioning of the competitive retail natural gas market in the Nicor service territory through a more fair and equitable allocation of costs to the default service. Such an allocation would reduce the costs that existing and future "shopping" customers pay. For example, there are many customers that are already participating in the Customer Select program that are paying Nicor for services that are more appropriately assigned to default service customers. Even if no additional customers were to participate in the Customer Select program, it would be appropriate to allocate these costs to default service to remedy this inequity. Moreover, considering the amount of customer care costs that RESA proposes to be allocated in this proceeding and the per therm impact, Mr. Wassell's stated concern that there would be a large migration to Customer Select appears unrealistic. (RESA Ex. 2.0R, p. 13)

Second, Mr. Wassell's claim that if the number of Customer Select customers grows, Nicor will be faced with "growing operational challenges in managing its on-system storage, especially under the existing terms and conditions of Nicor Gas' provision of those services" (Nicor Gas Ex. 21, p. 3), is inaccurate. Initially, there is no

cap on Nicor's Customer Select program now and RESA has not seen a justification for a cap. That issue aside, even a large amount of Customer Select migration away from default service would have minimal impact on Nicor's ability to manage storage and balance its system. (RESA Ex. 2.0, p. 14) Mr. Wassell alleges that "transportation" customers do not fully utilize/cycle their storage assets at the end of withdrawal season. This claim is contradicted by Mr. Wassell's own work papers, which conflated the use of the term "transportation" very broadly in comparing Customer Select and Transportation storage cycling. Below is a graph that illustrates Customer Select storage has historically been fully injected at the beginning of winter and fully cycled at the end of winter.

***Figure 1.***



Nicor requires suppliers to withdraw their storage balances related to the Customer Select program below 35% by the end of winter.[9] Suppliers have withdrawn storage down below 19% at the end of every winter since 2010, meaning they have utilized storage well within the end of winter target requirements. (RESA Ex. 2.0R, pp. 14-15)

## III. IF THE COMMISSION DOES NOT ORDER AN ALLOCATION OF CUSTOMER CARE COSTS IN THIS PROCEEDING, IT SHOULD ADOPT RESA'S ALTERNATIVE PROPOSAL AND ORDER NICOR TO PERFORM A STUDY REGARDING THE PROPER ALLOCATION OF SUCH COSTS.

If the Commission does not adopt RESA's recommended cost allocation, RESA recommends that the Commission order Nicor to perform a study regarding the embedded distribution costs that relate to providing default service and to file an application in a revenue neutral rate design proceeding to appropriately allocate costs to default service. (RESA Ex. 1.0R, pp. 16-17) This study should relate to the embedded cost of providing such service (including rate base items).

Mr. Yardley opposes RESA's alternative recommendation that the Commission direct Nicor Gas to perform a study regarding the embedded distribution costs that relate to providing default service and to file an application in a revenue neutral rate design proceeding to appropriately allocate costs to default service, based on his belief that the "results of the study would not be meaningful enough to justify the expense whether the study were performed for a revenue neutral rate redesign or as part of a subsequent rate case."(Nicor Ex. 24, pp. 24-25) However, his claim is completely unsubstantiated speculation, given that Mr. Yardley has yet to analyze the relationship between actual customer care costs and the provision of default service. Moreover, Nicor has already

[9] RESA-Nicor Gas Group CX Ex. 1.0, Nicor Responses to RESA 4.05 and RESA 4.06.

conceded that it forecasts to incur over $21 million in customer care costs in payroll expense alone. The portion of this amount that relates solely to the provision of default service is clearly "meaningful" to the Customer Select and Transportation customers that must fund this subsidy. (RESA Ex. 2.0R, p. 8)

Curiously, after stating that if Nicor "did take the time" to track costs between sales and transportation customers, it "might be possible to fine-tune cost allocations", Staff witness Dr. Rearden opposes RESA's alternative proposal of a study of customer care costs. He states that it appears unlikely that that study "will lead to a substantially more equitable set of rates". (Staff Ex. 10.0, p. 9) However, that is the sum and substance of Dr. Rearden's position, which is absent of any analytical or factual support for his statement. Moreover, his position is inconsistent with his statement that Nicor might be able to fine-tune its cost allocations if it tracked costs incurred for sales and for transportation customers. Based on the foregoing, Dr. Reardon's position should be rejected.

## IV. CONCLUSION

In conclusion, the Commission should accept RESA's recommendation and allocate $12.7 million of customer care costs to Nicor's default function. The Commission should also order Nicor to conduct a study of its customer care costs for presentation in a revenue neutral rate proceeding. However, if the Commission decides not to allocate customer care costs to Nicor's default function in this proceeding, it should, at a minimum, still order the customer care cost study for use in a subsequent revenue neutral rate proceeding.

Respectfully submitted,

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## NOTICE OF FILING

Please take note that on September 29, 2017, I caused to be filed via e-docket with the Chief Clerk of the Illinois Commerce Commission, the Initial 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 Initial Brief 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 September 29, 2017.

*/s/ GERARD T. FOX*
Gerard T. Fox