

ILLINOIS COMMERCE COMMISSION DOCKET NO. 23-0069

DIRECT TESTIMONY OF MARK PRUITT

I. Witness Introduction

Q. Please state your name, business address, and present position.

A. My name is Mark J. Pruitt. My business address is 291 Riverside Drive, Burns Harbor, Indiana 46304. I am the Principal of The Power Bureau, a specialty energy consulting practice.

Q. Please state your educational background and employment and business experience.

A. I hold a B.A. in Political Science from Bradley University and a Master's in Business Administration from the University of Illinois. I have over 20 years of experience in the Illinois energy markets. My energy sector business experience ranges from identifying and developing energy efficiency and cogeneration projects for federal facilities served by Nicor Gas and securing statewide natural gas and electricity supplies for state agencies as the Senior Program Manager at the University of Illinois at Chicago.

In 2008, I was appointed by the governor to be the first director of the Illinois Power Agency ("IPA"). In that role, I built a new state agency tasked with reversing substantial consumer price increases resulting from the end of the transition period that was part of the restructuring of the electricity market in Illinois. Under my leadership, the IPA was responsible for development and oversight of statewide portfolio planning, hedging, securing statewide wholesale electricity supply, and renewable portfolio standard compliance. During my tenure, consumers realized \$1.6 billion in cost savings through statewide electric procurement plans valued at over \$5.3 billion.

23 Since 2011, I have been an energy consultant focused on advising multiple public and
24 private sector clients on energy supply planning and procurement issues as Principal at the
25 Power Bureau. I am also an Adjunct Associate Professor in the Master of Science in Energy
26 and Sustainability Program at Northwestern University where I teach courses on energy
27 markets, policy and regulation. My CV is attached as BOMA Ex. 2.1.

28 **Q. What are your duties and responsibilities as Principal at The Power Bureau?**

29 A. I provide U.S.-based clients with services in support of their energy policy, planning, and
30 procurement activities. This entails provision of a range of analyses related to federal and
31 state energy policy; wholesale and retail energy market operations; risk assessment and
32 management, procurement processes; and utility rate analysis. Through a sister company
33 named the Illinois Community Choice Aggregation Network I advise municipalities on the
34 development and management of municipal aggregation programs as well as represent
35 energy consumers in retail electricity and natural gas transactions.

36 **Q. Have you previously testified before the Illinois Commerce Commission?**

37 A. No. However, while at the Illinois Power Agency I participated in the preparation of a
38 number of materials and submissions related to the procurement dockets for
39 Commonwealth Edison and Ameren Illinois in Dockets Nos. 08-0519, 09-0373, and 10-
40 0563.

41 **II. Summary**

42 **Q. On whose behalf are you testifying in this proceeding?**

43 A. I am testifying on behalf of BOMA/Chicago.

44 **Q. What are your duties and responsibilities for BOMA/Chicago?**

45 A. BOMA/Chicago has engaged me to advise them on the impacts of the rate increases
46 proposed by the Peoples Gas Light and Coke Company (“Peoples Gas”) in ICC Docket
47 No. 23-0068 and 23-0069 (cons.). In prior engagements with BOMA/Chicago, The Power
48 Bureau has provided modeling and analysis of proposed energy policies in Illinois.

49 **Q. What topics will you be covering in your direct testimony?**

50 A. I will describe the potential impacts of the tariff changes proposed by Peoples Gas on
51 BOMA/Chicago members. My comments will focus on aspects of the Embedded Cost of
52 Service Study (“ECOSS”) presented by Peoples Gas as well as the proposed rate structures.
53 Additionally, I will provide recommendations regarding how the Illinois Commerce
54 Commission may consider changes to the proposed tariff that would yield a more
55 proportionate allocation of cost recovery obligations under the tariff for BOMA/Chicago
56 members and other commercial natural gas consumers.

57 **Q. In addition to your prepared direct testimony, which is identified as BOMA Exhibit
58 2.0, are you presenting any other exhibits?**

59 A. Yes, I am also presenting BOMA Exhibits 2.1 – 2.4, which were prepared by me.

60 **III. Embedded Cost of Service Study**

61 **Q. Have you reviewed Peoples Gas’s ECOSS?**

62 A. Yes, I have reviewed the ECOSS that is presented in the Direct Testimony of Aaron L.
63 Nelson, PGL Ex. 6.0, and the attachments to that testimony (PGL Ex. 6.1 – 6.9).
64 Additionally, I reviewed the working papers related to that testimony. PGL Schedule E-6.

65 **Q. What conclusions have you drawn regarding the ECOSS relative to members of
66 BOMA/Chicago?**

67 A. The ECOSS uses certain metrics to determine cost responsibility for the natural gas
68 delivery system for each Peoples Gas service class. According to the Direct Testimony of
69 Aaron L. Nelson, PGL Ex. 6.0, and the attachments to that testimony (PGL Ex. 6.1), the
70 cost responsibility determinations presented in the ECOSS were made by applying a three-
71 stage process that included cost functionalization, classification, and allocation. PGL Ex.
72 6.0, 6. The cost functionalization stage identified each cost in the context of the operating
73 function that the cost supported within the natural gas delivery system (e.g., production,
74 storage, transmission, and distribution). *Id.* The cost classification stage identified the key
75 determinant or drivers of the functionalized cost (i.e., peak system demand, number of
76 customers, etc.). *Id.* at 7. The allocation stage apportioned each functionalized cost to the
77 individual service classes according to the relevant classification metric assigned to that
78 service class. *Id.* Ultimately, the revenue allocations established in the ECOSS serve as
79 the basis for the rates, which are proposed separately in the filing.

80 BOMA/Chicago members consume natural gas to support space heating and/or domestic
81 water heating. Given the large size of their facilities, natural gas service for most
82 BOMA/Chicago members is provided under Service Classification 2 – General Service
83 (“S.C. 2”) by Peoples Gas. The ECOSS assigns the S.C. 2 customer class roughly \$336
84 million of the total \$1.1 billion revenue requirement presented by Peoples Gas. *See* PGL
85 Ex. 6.1, PGL Ex. 6.2.

86 BOMA Ex. 2.2 compares ECOSS metrics of the current case with that of Peoples Gas’s
87 most recent rate case, ICC Docket Nos. 14-0224 and 14-0225 (cons.). As presented in that
88 exhibit, the ECOSS in this docket allocates approximately 30.4% of the revenue
89 requirement to S.C. 2 customers (i.e., \$336.8 million / \$1.1 billion). The ECOSS in Peoples

90 Gas's last rate case allocated 31.1% of revenue requirements to S.C. 2 customers (i.e., \$219
91 million / \$705 million).

92 As shown in BOMA Ex. 2.2, there have been material changes for S.C. 2 in key metrics
93 since the Company's last rate case. Specifically, I note the following changes between the
94 ECOSS projections in ICC Docket Nos. 14-0225 and 23-0069:

95 a. Overall consumption for the S.C. 2 customer class is projected to increase far
96 less than that of the Total Jurisdiction (3.9% vs. 6.7%).

97 b. The number of customers for the S.C. 2 customer class is expected to shrink by
98 4.0% vs. a 5.1% projected growth rate for the Total Jurisdiction.

99 c. Coincident Peak Demand (i.e., the maximum flow of natural gas to customers
100 when the Peoples Gas distribution system is delivering at maximum capacity)
101 for the S.C. 2 customer class is expected to shrink by 2.4% vs. a 0.7% projected
102 growth rate for the Total Jurisdiction.

103 d. Average Daily Deliveries for the S.C. 2 customer class shows the least amount
104 of growth among all the primary customer classes: 3.9% for the S.C. 2 customer
105 class vs. 8.4% growth for the S.C. 1 customer class and 10.9% growth for the
106 S.C. 4 customer class.

107 e. The System Load Factor for the S.C. 2 customer class has improved to become
108 roughly equal to the overall system load factor for the entire Peoples Gas
109 delivery system (24.0%).

110 As noted above, the ECOSS is intended to allocate costs (and thereby the applicable
111 revenue requirement) to the various customer classes based on the proportion of total
112 system cost that is required to provide service to each class. As the above citations indicate,

113 the S.C. 2 customer class is projected to either match the average overall change in system
114 utilization (i.e., Load Factor), or have the lowest level of growth among the primary rate
115 classes (i.e., annual consumption, average daily deliveries) or have actual reductions (i.e.,
116 number of customers). These would indicate that the S.C. 2 customer class is using
117 generally less of the overall distribution system (as reflected with less than average
118 increases in annual consumption, average daily deliveries) and less of the services provided
119 by Peoples Gas (as reflected by actual reductions in the number of customers served).

120 Based on the above, the ECOSS in the present case should reflect a moderate decrease in
121 cost allocation to the S.C. 2 customer class. Instead, the ECOSS filed by Peoples Gas in
122 this docket reduces the Revenue Requirements to the S.C. 2 customer class by only 0.71%
123 from the ECOSS in ICC Docket Nos. 14-0224 and 14-0225 (cons.) (from 31.13% to
124 30.43%) while providing a lower rate of increase to the S.C. 4 customer class (from 5.13%
125 to 4.59% for a net increase of 0.54%) and an actual reduction in allocation for the S.C. 1
126 customer class (from 63.97% to 64.96% for a net reduction of 0.99%).

127 My conclusion is that the current ECOSS over-allocates costs to the S.C. 2 customer class,
128 in general, by under-allocating costs from other rate classes. In other words, the current
129 ECOSS appears to allow unwarranted cost shifting to the S.C. 2 customer class.

130 **Q. Are there other issues in the ECOSS that inappropriately shift costs to**
131 **BOMA/Chicago members?**

132 A. Yes. Peoples Gas is a for-profit entity and is therefore subject to state and federal income
133 tax which represents an outflow of eligible revenues. At the same time, Peoples Gas is
134 allowed a return of and return on its ratebase (i.e., the revenue requirement) through
135 collections from consumers through its approved tariff. To ensure that Peoples Gas collects

136 sufficient revenue to meet its return of and return on ratebase along with its tax liabilities,
137 the proposed tariff includes a Tax Gross Up Factor (Exhibit 6.2). The Tax Gross Up Factor
138 adjusts the revenue requirement upward to ensure that Peoples Gas can meet its approved
139 return on and return of ratebase *after* income taxes. Peoples Gas has performed this
140 calculation by dividing its calculated Income Insufficiency (Exhibit 6.2, line 43) by a Tax
141 Gross Up Factor of 40.5% (Exhibit 6.2, line 44) to yield an Additional Taxes on Income
142 Deficiency (Exhibit 6.2, Line 45) which is then included in the Revenue Requirement from
143 Base Sales value (Exhibit 6.2, Line 55). In short, the Tax Gross Up Factor is an escalator
144 applied to base revenue requirements.

145 While the value of the Tax Gross Up Factor for the Total Jurisdiction (the entire Peoples
146 Gas utility) is set at 45.01%, a higher average Tax Gross Up Factor of 46.67% has been
147 applied to the S.C. 2 customer classes. For reference, the average Tax Gross Up Factors
148 for other rate classes are lower than the 45.01% average for the Total Jurisdiction with the
149 S.C. 1 customer class receiving an upcharge of only 44.34%, the S.C. 4 customer class
150 receiving an upcharge of only 41.99%. An explanation for this variance is not provided in
151 the Peoples Gas exhibits or its direct testimony. The increased cost represented by
152 increasing the Tax Gross Up Factor to the S.C. 2 customer class is approximately \$1.5
153 million per year for the entire customer class.

154 Additionally, I note that the metrics used to allocate costs for the Transmission,
155 Distribution, and Customer cost categories across customer classes appear inconsistent and
156 unfavorable to S.C. 2 customers. Ex. 6.4. For instance, the ECOSS presents that the S.C.
157 2 customer class represents 8.71% of all Customers. Based on this then the S.C. 2 customer
158 class should be allocated 8.71% of all charges that are driven by the number of customers.

159 However, I observe in Exhibit 6.4 that the S.C. 2 customer class has been allocated an
160 average of 20.35% of all “Customer” charges in the “Customer” subsection of Distribution
161 costs. That same category allocates just 78.83% of costs to the S.C. 1 customer class even
162 though the S.C. 1 customer class represents 91.27% of all customers. Also, the S.C. 2
163 customer class is allocated an average of 9.46% of the “Customer” charges in the
164 “Customer” costs section (despite the S.C. 2 customer class representing only 8.71% of all
165 customers). That same category allocates 90.53% of costs to the S.C. 1 customer class
166 even though the S.C. 1 customer class represents 91.27% of all customers. In this case,
167 applying a higher percentage of cost allocations for “Customer” related costs artificially
168 inflates revenue requirements to the S.C. 2 customer class.

169 **Q. What conclusions have you drawn regarding the ECOSS relative to members of**
170 **BOMA/Chicago?**

171 A. The net effect of these variations is that non-residential customers in S.C. 2 will be
172 responsible for a larger share of the revenue requirement than is justified considering the
173 reductions in cost that should result from lower growth in S.C. 2’s overall consumption,
174 average daily deliveries, and system load factor, and S.C. 2’s decline in number of
175 customers and peak demand. In short, the ECOSS causes the S.C. 2 customer class – which
176 includes BOMA/Chicago members – to subsidize other rate classes that present
177 proportionately higher costs to the Peoples Gas delivery system.

178 **Q. How should the ECOSS be amended to correct the deficiencies you have identified?**

179 A. I recommend that the ECOSS be amended in a manner that fully recognizes the value of
180 the lower growth in overall consumption, number of customers, peak demand, average
181 daily deliveries, and system load factor attributable to the S.C. 2 customer class. The result

182 of these adjustments should result in a reduction in the allocation of revenue requirements
183 to the S.C. 2 customer class and a reallocation of those reductions to the rate classes that
184 represent proportionately higher costs to the Peoples Gas delivery system.

185 **IV. Rate Design**

186 **Q. Have you reviewed Peoples Gas's proposed rates?**

187 A. Yes.

188 **Q. What conclusions have you drawn regarding the rates as they relate to the ECOSS?**

189 A. As noted above, the ECOSS in the current case allocates a disproportionate amount of
190 revenue requirements to the S.C. 2 customer class. This artificially high allocation has been
191 carried through to the proposed rates, as shown on BOMA Ex. 2.3. BOMA Ex. 2.4
192 compares current Customer Charges, Distribution Charges, and Rider QIP charges (the
193 collection of the current Rider QIP costs are to be embedded within the S.C. 2 General
194 Service rate under the proposed tariff) with the Customer Charges and Distribution Charges
195 identified in Exhibit 7.4 of the Peoples Gas testimony. The proposed rates include a fixed
196 monthly Customer Charge and a unit-based Distribution Charge. The proposed rates seek
197 an increase to both charges over their current approved level.

198 The proposed increases in Customer Charges vary across customer classes and range from
199 a 34.7% reduction (S.C. 8) and a 116.8% increase (S.C. 4). The proposed rate increases in
200 Customer Charges for S.C. 2 customers are 52.3% for S.C. 2 Small, 36.5% for S.C. 2
201 Medium, and 7.1% for S.C. 2 Large. While the proposed increases in Customer Charges
202 presents wide variability, the Customer Charge is a small portion of overall costs to most
203 non-residential consumers.

204 The proposed rate increases to the Distribution Charge represent a much larger cost for
205 commercial customers, including BOMA/Chicago members. I note that the proposed tariff
206 significantly increases Distribution Charges. The current tariff applies a rate of
207 \$0.16289/therm to the first 5,000 therms delivered to a customer in each billing cycle, and
208 a rate of \$0.09577/therm to all therms more than 5,000 delivered to a customer in each
209 billing cycle. The proposed tariff applies a rate of \$0.28767/therm to the first 3,000 therms
210 delivered to a customer in each billing cycle, and a rate of \$0.21884/therm to all therms
211 more than 3,000 delivered to a customer in each billing cycle.

212 BOMA Ex. 2.4 applies the current and proposed Customer Charge, Distribution Charges,
213 and Rider QIP charges to the representative monthly consumption of a S.C. 2 customer
214 class account. As noted, the proposed tariff increases the average annual rate from
215 \$0.16227/therm to \$0.23704/therm (a 46.07% increase). As noted above, a portion of the
216 increase in costs for the S.C. 2 customer class is due to the merging of Rider QIP charges
217 into base rates. However, the overallocation of revenue requirements in the ECOSS that I
218 noted in Part III of my testimony improperly allocates higher a revenue requirement to the
219 S.C. 2 class for both the standard costs of the Peoples Gas delivery system as well as Rider
220 QIP charges. Correcting the allocation of revenue requirements for S.C. 2 customers within
221 the ECOSS will result in a reduction in the proposed rates for S.C. 2 customers.

222 **Q. Have you assessed the cost impacts of the rate changes proposed by Peoples Gas for**
223 **BOMA/Chicago members?**

224 A. Yes. The typical BOMA/Chicago member falls in S.C. 2, Meter Subclass 3. BOMA Ex.
225 2.4 presents my assessment of the natural gas delivery costs under the current and proposed
226 rates for a representative BOMA/Chicago member. Based on the analysis shown on

227 BOMA Ex. 2.4, I conclude that BOMA/Chicago members may realize up to a 46.07%
228 increase in delivery charges under Peoples Gas's proposal.

229 **Q. Are there any other factors that contribute to the dramatic rate increase?**

230 A. Yes, numerous factors contribute to Peoples Gas's proposed rate increase, including an
231 increased revenue requirement and an increased rate of return. While BOMA/Chicago will
232 not be addressing all of these issues in its Direct Testimony, it reserves the right to comment
233 on issues raised by Staff and other intervenors.

234 **Q: Can you provide examples of how the rates should be adjusted or changed if the**
235 **ECOSS was adjusted per your recommendations above?**

236 A: Yes. The ECOSS should be adjusted to better reflect the reduction in delivery system costs
237 that are represented by the S.C. 2 customer class. This can be accomplished by first
238 adopting generally lower cost allocation metrics values for the S.C. 2 customer class to
239 reflect the general reduction in system use represented by the customer class. Then, those
240 lower cost allocation metrics should be consistently and transparently applied to each cost
241 subcategory included in the ECOSS (i.e., Production, Gas in Storage, Transmission,
242 Distribution, and Customers) for each customer class. Then, the ECOSS should be
243 corrected for the above noted variance in the Tax Gross Up Factor. After these corrections,
244 the new resulting Rate Base and Revenue Requirement values should be used to calculate
245 new rates for S.C. 2 customer class accounts.

246 **Q: Does this conclude your direct testimony?**

247 A: Yes.