

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

**Illinois Gas Company** :  
: **98-0298**  
**Proposed general increase in gas** :  
**rates.** :

**ORDER**

By the Commission:

I. **PROCEDURAL HISTORY**

On November 19, 1997, Illinois Gas Company ("Illinois Gas" or "Company" or "Respondent") filed a petition requesting a waiver of the standard filing requirements of 83 Ill. Adm. Code 285. The Illinois Commerce Commission ("Commission") assigned this filing Docket No. 97-0598. Illinois Gas sought authority to use, in substitution, Staff's proposed revision of 83 Ill. Adm. Code 285, proposed Part 286 and proposed Part 287. On December 17, 1997, the Commission entered an Order granting Respondent a waiver of the requirements of 83 Ill. Adm. Code 285, Standard Filing Requirements, pursuant to 83 Ill. Adm. Code 285.140 and, further ordering the Company to use, in lieu of Part 285, Staff's proposed revision of 83 Ill. Adm. Code 285, proposed Part 286 and proposed Part 287.

On March 31, 1998, Illinois Gas filed with the Commission its Ill.C.C. No. 13 1st Revised Title Sheet, 12th Revised Sheet No. 1, 3rd Revised Sheet No. 1.1, 11th Revised Sheet No. 2, 5th Revised Sheet No. 3, Original Sheet No. 3.1, Original Sheet No. 3.2, Original Sheet No. 3.3, 13th Revised Sheet No. 4, 4th Revised Sheet No. 5, 6th Revised Sheet No. 6, 5th Revised Sheet No. 6.1, 6th Revised Sheet No. 7, Original Sheet No. 7.1 and 1st Revised Sheet No. 8; and Ill.C.C. No. 14, 1st Revised Title Sheet, 1st Revised Sheet No. 1, 3rd Revised Sheet No. 2, 4th Revised Sheet No. 3, 6<sup>th</sup> Revised Sheet No. 4, 3rd Revised Sheet No. 4.1, 2nd Revised Sheet No. 4.2, 1st Revised Sheet No. 4.5, Original Sheet No. 4.5.1, 2nd Revised Sheet No. 4.6, 2nd Revised Sheet No. 4.7, 3rd Revised Sheet No. 4.8, 9th Revised Sheet No. 8, 2nd Revised Sheet No. 8.1, 1st Revised Sheet No. 10, 1st Revised Sheet No. 11, and 5th Revised Sheet No. 12 ("Proposed Tariffs"), by which it proposed a general increase in gas rates effective June 1, 1998. The Commission assigned this filing Docket No. 98-0298.

Notice of the Company's filing was published in newspapers of general circulation throughout the Company's service area and posted in conspicuous places in the Company's business offices. The proposed rate schedules were maintained and available for public inspection in the Company's business offices in accordance with the

requirements of Section 9-201(a) of the Public Utilities Act ("Act") (220 ILCS 5/9-201(a)) and the provisions of 83 Ill. Adm. Code 255.

On April 22, 1998, the Commission entered an Order in the above docket suspending the Proposed Tariffs to and including September 13, 1998.

Pursuant to due notice, a prehearing conference was held on May 21, 1998 before duly authorized Hearing Examiners of the Commission at its offices in Springfield, Illinois. Thereafter, a hearing was held in this matter on August 17, 1998. Appearances were entered by counsel on behalf of the Company and Commission Staff ("Staff"). No petitions to intervene were filed in this proceeding.

At the hearing on August 17, 1998, three witnesses on behalf of Illinois Gas and five witnesses on behalf of Staff presented testimony and exhibits. Staff and the Company, being the only parties to this docket, advised the Hearing Examiners they had come to an agreement as to all issues of revenue requirements, rate design and rates. A copy of a Stipulation, signed by both parties and containing the agreement of the parties, was admitted into evidence as Illinois Gas/Staff Joint Exhibit A. The parties agreed to waive all cross examination. At the conclusion of the hearing on August 17, 1998, the record was marked "Heard and Taken."

The parties presented a joint proposed draft order, which was admitted into evidence as Illinois Gas/Staff Joint Exhibit 1.

The record contains an analysis of the Respondent's operations for the pro forma historical 1996 Test Year, with projected adjustments made, including Respondent's operating revenues and expenses, the original cost and accumulated depreciation of the Company's property, and the cost of capital and other matters relating to the appropriate rate of return and revenue requirements for Illinois Gas. Attached to the Stipulation, and incorporated by reference therein, are six schedules setting forth operating income and rate base for the historical Test Year ended December 31, 1996 (hereinafter "Test Year"); the capital structure and cost of capital calculations; rates for the Company's operations; a gas transportation tariff; and certain rules, regulations and conditions of service.

## II. SERVICE AREA AND NATURE OF ILLINOIS GAS COMPANY'S OPERATIONS

Illinois Gas is an Illinois corporation with principal offices at Lawrenceville and Olney, Illinois, in Lawrence and Richland Counties, respectively. The Company provides natural gas service to approximately 10,300 customers, primarily residential and commercial but, in addition, has six industrial interruptible customers. The Company provides gas service to the following communities in Illinois: Lawrenceville, Bridgeport, Sumner, Pinkstaff, Birds, and Russellville in Lawrence County, Sainte Marie, West Liberty, and Willow Hill in Jasper County and Olney, Noble, Parkersburg, Calhoun, Dundas, and Claremont in Richland County. Illinois Gas' operations are supplied by one interstate pipeline: Texas Gas Transmission Company.

### III. PROPOSED INCREASE; TEST YEAR

In its direct testimony and exhibits, Illinois Gas requested an increase in annual revenues recovered through gas base rates of \$684,047. This represents an increase in gas revenues of approximately 7.2%. Illinois Gas filed its last rate case on July 2, 1987, and the Commission Order in that case was entered in Docket No. 87-0373 on May 25, 1988.

The Company's rate increase request is based on a pro forma historic Test Year which ended December 31, 1996, with adjustments for purported known and measurable charges. Staff did not object to the use of this pro forma historical Test Year.

The Commission concludes that the Test Year consisting of the 12 months ending December 31, 1996, with pro forma adjustments calculated in a manner consistent with the criteria set forth in Section 285.150 of Staff's proposed revision of 83 Ill. Adm. Code 285, is appropriate for the purposes of this proceeding.

### IV. ORIGINAL COST RATE BASE

Respondent's proposed rate base was addressed in the Company's filing and in the testimony and exhibits presented by Staff witnesses Karen Goldberger and Scott Struck of the Accounting Department of the Financial Analysis Division. (Staff Exhibits 1 and 2) The rate base proposed by Illinois Gas is based on balances and costs for the 12 months ending December 31, 1996, with certain pro forma adjustments. The adjusted original cost rate base proposed by Illinois Gas, as shown in Illinois Gas Exhibit PGN 08, is as follows:

Utility Plant in Service	\$12,755,015
Less: accumulated depreciation	<u>( 5,513,094)</u>
Net Plant in Service	7,241,921
M/S Inventories	138,401
Accumulated deferred tax - current	15,073
Deferred rate case expense	17,500
Deferred pension contributions	31,952
Working capital	224,412
Customer advances	( 3,103)
Deferred taxes	<u>( 816,545)</u>
<b>TOTAL RATE BASE</b>	<b><u>\$ 6,849,611</u></b>

During the course of the proceedings, Staff proposed various adjustments to rate base, which were accepted by Company as set forth in the Stipulation on Schedule 1A. Amounts shown below in parentheses represent reductions to rate base. Adjustments were made to Plant in Service, (\$394,749), depreciation reserve, \$155,769, M/S Inventories, (\$3,324), deferred taxes - current, \$850, deferred rate case expense, (\$17,500), working capital, (\$7,621), accumulated deferred income taxes, (\$70,474) and

customer deposits, (\$22,101). The net effect is a \$359,150 decrease in Respondent's pro forma rate base. The Commission finds that the adjustments to rate base as stipulated to by the parties are supported by the evidence, are reasonable, and should be adopted. Upon giving effect to the adjustments to rate base approved hereinabove, the Commission concludes that Illinois Gas' original cost rate base for the Test Year is \$6,490,461. The rate base may be summarized as follows:

Utility Plant in Service	\$12,360,266
Less: accumulated depreciation	<u>( 5,357,325)</u>
Net Plant in Service	7,002,941
Add: materials and supplies	135,077
Deferred taxes - current	15,923
Deferred pension	31,952
Working capital	216,791
Less: customer advances	( 3,103)
Accumulated deferred income taxes	( 887,019)
Customer deposits	<u>( 22,101)</u>
 TOTAL RATE BASE	 <u>\$ 6,490,461</u>

V. OPERATING REVENUES, EXPENSES AND INCOME

Illinois Gas operating revenues and expenses for the Test Year were addressed in the Company's filing and in the testimony and exhibits presented by Staff witness Karen Goldberger. The Test Year Operating Income Statement proposed by Respondent was for the 12 months ending December 31, 1996 with adjustments for purported known and measurable changes. Respondent's filing reflects its proposed rate base increase of \$922,914 and a rate of return on rate base of 10.02%. The operating revenues, operating expenses, and operating income proposed by Illinois Gas, as shown in Illinois Gas Schedule C-1 Revised, are as follows:

Revenue before rate increase	\$8,866,028
Revenue increase	<u>684,047</u>
 TOTAL OPERATING REVENUES:	 9,550,075
 OPERATING EXPENSES:	
Uncollectible accounts	57,118
Cost of gas	5,987,947
Distribution expense	342,464
Maintenance expense	339,879
Customer accounts expense	309,847
Sales expense	6,315
Administrative/general expense	628,206
Depreciation & Amortization	439,219

Taxes other than income	524,149
Income taxes	228,745
Amortization - debt expense	<u>456</u>
<b>TOTAL OPERATING EXPENSES:</b>	<b>\$8,864,332</b>
<b>NET OPERATING INCOME:</b>	<b><u>\$ 605,743</u></b>

During the course of the proceedings, Staff proposed various adjustments to Illinois Gas' operating revenues, expenses, and income. The Company accepted these adjustments for purposes of this docket as set out in the Stipulation on Schedule 1.

Adjustments (Staff Exhibit 1.0 Schedule 1.2) were made to reduce rate case expense (\$4,770), advertising expense (\$1,845), postage expense (\$1,453), amortized debt expense (\$456), depreciation expense (\$17,891), and incentive compensation plan expense (\$11,871) and to increase customer deposits interest expense \$1,550, state income tax \$3,333 and federal income tax \$14,672 for a net reduction in total-operating expenses of (\$18,731).

Based on all of the evidence of record in this proceeding, the Commission finds that the adjustments to the Operating Income Statement as stipulated to by the parties are reasonable and should be adopted for rate making purposes in this proceeding. Upon giving effect to these adjustments and the rate of return on original cost rate base of 9.63% hereafter allowed in this Order, the Commission concludes that for purposes of this proceeding, Illinois Gas' Operating Income Statement for the Test Year ended December 31, 1996, at approved rates, is as follows:

OPERATING REVENUE	\$9,015,761
<b>OPERATING EXPENSES:</b>	
Uncollectible accounts	44,394
Cost of gas	5,987,947
Distribution expense	342,464
Maintenance expense	339,879
Customer accounts expense	320,830
Sales expense	6,315
Administrative/general expense	609,642
Depreciation and amortization	421,328
Taxes other than income taxes	121,397
Income taxes	<u>196,534</u>
<b>NET OPERATING INCOME:</b>	<b><u>\$ 625,031</u></b>

The Operating Income Statement hereinabove reflects a rate increase of \$552,485 or 6.53% and a rate of return on original cost rate base of 9.63% which is granted in this Order.

## VI. CAPITAL STRUCTURE, COST OF CAPITAL, AND RATE OF RETURN

### A. Introduction

Illinois Gas' capital structure, cost of capital, and rate of return were addressed in the Company's filing. Evidence on behalf of Staff relating to the cost of capital and capital structure was sponsored by Staff witness Robert Plaza, a Financial Analyst in the Finance Department of the Commission's Financial Analysis Division.

### B. Capital Structure

For purposes of this proceeding, Illinois Gas proposed the use of the capital structure in place as of December 31, 1996. The capital structure presented by Illinois Gas in its Schedule D-1 may be summarized as follows:

<u>COMPONENT</u>	<u>AMOUNT</u>	<u>RATIO</u>
Short term debt	\$1,338,919	23.08%
Long term debt	1,665,820	28.72%
Common equity	<u>2,795,351</u>	<u>48.20%</u>
TOTAL:	\$5,800,090	100.00%

Staff witness Plaza recommended adopting Illinois Gas (December 31, 1997) capital structure in Staff Exhibit 4, Schedule 4.2, which may be summarized as follows:

<u>COMPONENT</u>	<u>AMOUNT</u>	<u>RATIO</u>
Short term debt	\$1,245,372	21.92%
Long term debt	1,760,283	30.99%
Common equity	<u>2,675,381</u>	<u>47.09%</u>
TOTAL:	\$5,681,036	100.00%

The Company accepted Staff's proposed capital structure for the purposes of this docket.

### C. Costs of Long-Term and Short-Term Debt

Staff witness Plaza determined Illinois Gas' embedded cost of long-term debt to be 8.28% (Staff Exhibit 4, Schedule 4.4). The Company accepted Staff's calculations and results for the purposes of this docket as set forth in Schedule 2 of the Stipulation. Based on the evidence, the Commission determines that Illinois Gas' embedded cost of long-term debt for purposes of this proceeding is 8.28%.

The Company and Staff agreed that the cost of the Company's short-term debt is 8.50%, which was the prime rate at the time that Staff filed its testimony.

The Commission is of the opinion that the capital structure amounts and ratios, and cost rates for long-term debt and short-term debt as determined by Staff, are reasonable and should be used for the purposes of this proceeding. Consistent with this conclusion, the capital structure that should be used for rate making purposes and establishing the fair rate of return in this proceeding is as follows:

<u>COMPONENT</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>COST</u>
Short-term debt	\$1,245,372	21.92%	8.50%
Long-term debt	1,760,283	30.99%	8.28%
Common equity	<u>2,675,381</u>	<u>47.09%</u>	
TOTAL:	\$5,681,036	100.00%	

#### D. Cost of Common Equity

In its filing, Illinois Gas proposed a cost of common equity of 11.8%. Staff witness Plaza performed an analysis of the Company's cost of common equity. Since Illinois Gas' common stock is not market-traded, Mr. Plaza applied the quarterly version of the discounted cash flow model ("DCF"), which is a method of equating future cash flows to their present values by a means of a quarterly discount rate, to a sample of eight public utility companies deemed comparable in risk to Illinois Gas. In performing his DCF analysis, Mr. Plaza used the most current stock price and forward-looking growth rates for each firm which were available at the date he prepared his testimony. Using the DCF analysis, Mr. Plaza determined that the comparable sample cost of common equity ranged from 9.47% to 9.79%. Mr. Plaza also performed a risk premium analysis applying the capital asset pricing model ("CAPM"). For his CAPM analysis, Mr. Plaza used the risk-free rate of return implied by the prices of U.S. Treasury bill futures contracts, which are a better current proxy for the risk free rate than U.S. Treasury bond futures contracts. Using the risk premium analysis, he determined that the cost of common equity for the comparable sample was 10.73%.

In addition to his DCF and CAPM results, Mr. Plaza added a 90 basis point liquidity premium to reflect the consequences of an investor's inability to sell an asset at a desired time and at a predictable price. This adjustment was necessary because, unlike the firms that comprised Mr. Plaza's public utility sample, the securities of Illinois Gas are not publicly traded. Mr. Plaza estimated the 90 basis point liquidity premium by comparing the yield on the Company's debt to the yield on BBB-rated utility debt during the week of May 30, 1997.

Based on his entire analysis, Mr. Plaza estimated that a reasonable cost of common equity for Illinois Gas Company ranges from 10.50% to 11.60% with a midpoint estimate of 11.05%.

E. Conclusion on Rate of Return

The parties stipulated to Staff witness Plaza's recommended midpoint rate of return on common equity for the purpose of setting rates.

Based on the evidence presented, the Commission finds that Illinois Gas' cost of equity capital is 11.05% and its overall cost of capital is 9.63% as proposed in Staff's exhibits. The capital structure and cost rates presented by Staff are reasonable and may be summarized as follows:

<u>OVERALL COST OF CAPITAL</u>			
<u>COMPONENT</u>	<u>RATIO</u>	<u>COST</u>	<u>WEIGHTED COST</u>
Short term debt	21.92%	8.50%	1.86%
Long term debt	30.99%	8.28%	2.57%
Common equity	<u>47.09%</u>	<u>11.05%</u>	<u>5.20%</u>
TOTAL:	100.00%		9.63%

VII. EMBEDDED COST OF SERVICE STUDIES

Illinois Gas submitted an embedded Cost of Service Study ("COSS") utilizing GasWorks 1.0, which is a COSS program designed by the Commission Staff. The Company's costs for the test period were placed into their respective functional groups and allocated based on allocation factors provided in the spread sheet. Staff suggested the development of two new allocation factors, average and peak coincident peak ("APCP") and average and peak non-coincident peak ("APNCP"), which are average and peak allocators used to allocate cost based on coincident and non-coincident peaks. The Company, by use of its COSS, classified costs for its proposed six rate classes: (a) Rate 1, Residential; (b) Rate 2, Small General Use; (c) Rate 3, Medium General Use; (d) Rate 4, Large General Use; (e) Rate 5, Seasonal; and (f) Rate 6, Interruptible Service.

Staff witness William G. Saxe, a Senior Analyst in the Rates Department of the Financial Analysis Division of the Commission, generally agreed with the Company's COSS but recommended an adjustment so that the gas rate base and operating expenses under present revenues are based on the actual rate of returns that result from the current class rates. For purposes of this proceeding, Illinois Gas accepted the COSS recommendations of Staff.

The Commission concludes that Staff's COSS should be used in determining rates in this proceeding.

## VIII. INTERCLASS REVENUE ALLOCATION

Illinois Gas in its filing and Staff, through Staff witness Saxe, each presented a separate proposal for allocating revenue among gas service rate classes. Illinois Gas proposed that the bulk of the revenue increase should be distributed to the residential rate. Staff's proposed allocation was based on cost of service principles, as well as the avoidance of undue impacts on individual rate classes. Staff witness Saxe proposed eliminating cross-subsidization by allocating proposed revenues to rate classes based on that class' cost responsibility. Illinois Gas agreed with the use of Staff's allocation proposal in this proceeding.

The Commission concludes that Staff's allocation proposal, which eliminates cross-subsidization between rates classes, should be used in determining rates in this proceeding.

## IX. GAS RATE DESIGN

### A. Introduction

Illinois Gas proposed changes to the tariff language and charges of its service classifications. The adjustments to each service classification's facilities charge and commodity charge (also referred to as a distribution charge) are based on its COSS, interclass revenue allocation ("IRA"), and revenue requirement proposals. The Company has proposed that most of the rate increase be applied to the facilities charges. In addition, Illinois Gas proposed a modification to its Rider A, General Interruptible Transportation Service, tariff.

Staff agreed with the non-charge related changes to Illinois Gas' service classifications. With regards to the facilities and commodity charges, Staff witness Saxe stated that the differences between his proposed charges and the Company's are mostly due to the differences in the COSS, IRA, and revenue requirement used by both parties in determining rates. He also stated that he agrees with the Company's decision to reflect a majority of the proposed rate increase in each service classification's facilities charge since the current facilities charges significantly under-recover the customer costs incurred to serve the different groups of customers.

## B. Residential Gas Service

Illinois Gas proposed increases in both the facilities charge and the commodity charge. It proposed a facilities charge increase of \$3.05 per month, from \$6.50 per month to \$9.55 per month and an increase in the commodity charge of 3.95 cents per therm, from 10.38 cents per therm to 14.33 cents per therm. Staff witness Saxe stated that his proposed rates were based on a more reasonable COSS and IRA. He stated that based on Staff's COSS, IRA, and revenue requirement proposals, the customer cost to serve this class justifies a \$12.60 per month facilities charge; however, since this facilities charge would result in a significant increase over the current charge, which could unduly impact these small gas customers, he proposed a facilities charge of \$9.55 per month and a commodity charge of 13.94 cents per therm for residential gas service.

Subsequently, the parties agreed to a residential gas service rate design as set forth in Schedule 3 of the Stipulation. The agreed to charges are a facilities charge of \$9.55 per month and a commodity charge of 13.94 cents per therm. The Commission concludes that the stipulated rate design for residential gas service, Rate 1, is reasonable and should be approved.

The Company proposes the elimination of its Rate 1A, multi-meter residential limited use. During the test year, only nine residential customers of the 9,122 residential customers of the Company were taking service under Rate 1A. Due to the lack of interest in Rate 1A, the Company does not see the need to maintain a separate residential rate for a small group of residential retail customers; thus, it proposed eliminating Rate 1A. Staff witness Saxe agreed with the Company's recommendation and testified that the nine customers currently taking service under Rate 1A will see an increase of only approximately \$1.50 per month due to the elimination of this option.

## C. Small Commercial/Industrial

Illinois Gas proposed changing the Rate 2 name from small commercial/ industrial to small general use, and raising the Rate 2 eligibility requirements from 500 cubic feet per hour of meter capacity to 700 cubic feet per hour of connected load. In addition, the Company proposed an increase in Rate 2 facilities charge of 50 cents per month, from \$10.00 per month to \$10.50 per month, and an increase in the commodity charge of 2.39 cents per therm, from 9.14 cents per therm to 11.53 cents per therm. Staff witness Saxe testified that he agrees with the Rate 2 name change and change in the eligibility requirement since these changes appear to clarify who qualifies for Rate 2 and, all current Rate 2 customers will still qualify for service under this rate. He also stated that based on Staff's COSS, IRA, and revenue requirement proposals, the customer cost to serve this class justifies a \$14.59 per month facilities charge; however, since this facilities charge would result in a significant increase over the current charge, which could unduly impact small gas customers, he recommended a facilities charge of \$11.86 per month and that the commodity charge remain at the current rate of 9.14 cents per therm.

The parties subsequently agreed to the Rate 2 rate design as set forth in Schedule 3 of the Stipulation. The agreed to charges are a facilities charge of \$11.86 per month and a commodity charge of 9.14 cents per therm. The Commission concludes that the stipulated rate design for Rate 2 is reasonable and should be approved.

D. Large Commercial/Industrial

Rate 3 is currently available to customers who use gas for commercial or industrial purposes, provided that the capacity of the service meter is in excess of 500 cubic feet per hour. The Company has proposed splitting Rate 3 into three separate rates (i.e., Rate 3, medium general use; Rate 4, large general use; and Rate 5, seasonal) to reflect the differences in costs to serve the various customer groups. The Company proposes to renumber its current Rate 4 to Rate 6. The Company's proposed Rate 3, medium general use, will be available to commercial or industrial customers that have a total connected load of more than 700 cubic feet per hour but less than 5,000 cubic feet per hour. Rate 4, large general use, will be available to commercial or industrial customers that have a total connected load of more than 5,000 cubic feet per hour. Rate 5, seasonal, will be available to customers who wish to be provided with gas service for only a portion of the calendar year. Company witness Houchin testified that there are significantly higher costs associated with metering and pressure regulation for the large general use group compared to the medium general use group, justifying a higher facilities charge. The large general use group also uses substantially more gas than the medium general use group and, therefore, should pay a lower rate per therm. Mr. Houchin further stated that the seasonal rate was needed because the seasonal customer's usage results in the customer not paying facilities charges for the entire year, causing an underrecovery of costs associated with serving this group.

The Company has proposed increasing the Rate 3 facilities charge from \$18.42 to \$25.50 per month and the commodity charge from 9.14 cents per therm to 9.53 cents per therm. In addition, the Company recommended that the Rate 4 facilities charge be \$50.50 per month and the commodity charge be 8.40 cents per therm and that the Rate 5 facilities charge be \$40.50 per month and the commodity charge be 13.50 cents per therm.

Staff witness Saxe agreed with the non-charge related changes the Company has proposed to Rate 3 since the purpose of the changes is to better match the rates with the different groups of customers taking service from Illinois Gas. He stated that based on the COSS, there appears to be differences in the cost to serve each of the three groups of customers that the new rates are designed to cover. Therefore, Staff witness Saxe agreed with the Company that Rate 3 should be split into the three proposed rates so that each rate can be designed to recover the cost to serve that particular group of customers. Based on Staff's COSS, IRA, and revenue requirement proposals, to permit the Company to fully recover customer cost, the facilities charges for Rates 3, 4, and 5, should be set at \$24.36, \$52.99, and \$129.41, respectively. Staff recommended facilities charges for Rates 3 and 4 of \$24.36 and \$52.99, respectively. The Rate 3 facilities charge proposed by Staff is less than that proposed by the Company because in Staff's opinion the Company's proposed facilities charge for Rate 3 would overrecover the customer cost

required to serve this group of customers. Staff recommended a facilities charge of \$40.50 for Rate 5 in light of customer impact concerns. Staff recommended a commodity charge of 7.85 cents per therm for Rate 3, 6.86 cents per therm for Rate 4, and 11.22 cents per therm for Rate 5.

Staff witness Saxe agreed that the Company needed to renumber its current Rate 4 to Rate 6, but stated that the Company's proposed facilities charge of \$120.50 per month for Rate 6 would not fully recover the projected customer cost to serve this class. Therefore, he recommended that the facilities charge be set at \$129.41 per month, with the remaining revenue requirement recovered through a commodity charge of 4.03 cents per therm.

Staff further proposed, with respect to the proposed changes to the Company's interruptible tariffs, that the following language be included in Illinois Gas' Rate 6, interruptible service tariff, as well as its Rate 5, seasonal tariff:

In the event that Illinois Gas determines that a peak day situation may occur, Illinois Gas will contact the customer and offer a choice of interruption of gas service or to remain on service and to pay the estimated additional cost of transportation which will be assigned to that customer based on the amount of gas that customer uses which contributes to any overrun charges incurred on the pipeline. In the event that the pipeline issues an Operational Flow Order then Illinois Gas will notify the customer of the need to interrupt gas service.

Subsequently, the parties agreed to the rate design for Rate 3, medium general use; Rate 4, large general use; Rate 5, seasonal; and Rate 6, interruptible service, as set forth in Schedule 3 of the Stipulation. The agreed to charges are a facilities charge of \$24.36 per month and a commodity charge of 7.85 cents per therm for Rate 3, medium general use; a facilities charge of \$52.99 and a commodity charge of 6.86 cents per therm for Rate 4, large general use; a facilities charge of \$40.50 per month and a commodity charge of 11.22 cents per therm for Rate 5, seasonal; and a facilities charge of \$129.41 per month and a commodity charge of 4.03 cents per therm for Rate 6, interruptible service. The Commission concludes that the stipulated rate design for Rates 3, 4, 5, and 6 is reasonable and should be approved and that the proposed language herein above set forth to be included within Illinois Gas Company Rates 5 and 6 is reasonable and shall be included in the tariff sheets to be filed by the Company.

#### E. Rider A Gas - Firm Transportation Service

Illinois Gas proposed a gas transportation rider available to customers contracting with it to transport customer-owned gas. The Company proposed a monthly customer charge of \$129.41 per month and that commodities charges be billed at the per therm charge specified in the rate classification of the customer utilizing this firm transportation service. The rider set out other terms and conditions of service. Company and Staff agreed to language for the new tariff as set out in Schedule 5 of the Stipulation between the

parties. The Commission concludes that the stipulated rate designed for the Company's Rider A - Firm Transportation Service, is reasonable and should be approved.

#### X. RULES, REGULATIONS AND CONDITIONS OF SERVICE

In its filing, Illinois Gas proposed to increase its reconnection and voluntary disconnection fees from \$22.00 to \$30.00 to reflect the normal hourly labor rate the Company now charges for labor. The Company also recommends increasing the fee for processing insufficient funds checks from \$5.00 to \$15.00. Staff had no objection to these charges.

Illinois Gas also proposes changing its current full month billing period from 27-33 days to 25-35 days. Staff agrees with this proposal, which will reduce the administrative burden of providing customer bills in a six-day period while it has no projected net effect on the Company's revenues.

The Company also proposes to no longer provide its customers, other than Rate 5 customers, with the option to request the disconnection of gas service without paying a reconnection fee, as long as they are reconnected in a twelve-month period. Staff agrees with this recommendation because this option placed Illinois Gas at risk of not being able to recover the facilities charges necessary to serve these customer classes. In addition, although Staff does not completely agree with the Company's decision to allow Rate 5 customers the ability to disconnect without paying reconnection fees, for purposes of this docket Staff will agree to accept the Company's decision but recommends that in the Company's next rate proceeding, the Company reevaluate its decision to allow these customers the option to disconnect service without incurring a reconnection fee.

Staff and the Company agree to provide in the rules, regulations and conditions of service a policy concerning main and service line extensions, as included in Illinois Gas Exhibit DLH-9, under gas mains, deposits and residential customers.

The Commission concludes that the changes and the additions to the rules, regulations and conditions of service herein above described are reasonable and should be approved.

#### XI. PRESERVATION OF RECORDS

Staff witness Struck testified that requirements for preservation of records are set forth in 83 Ill. Adm. Code 510, The Preservation of Records for Gas Utilities. He noted that Appendix A of Part 510 contains requirements for the preservation of specific records. He indicated, for example, that journal vouchers and journal entries which support plant accounts are to be maintained for seven years prior to the date as of which original cost of plant has been unconditionally determined or approved by the Commission in an original cost proceeding or a rate case.

Mr. Struck indicated that the Commission should use the most recent year-end historical plant balances for Part 510 valuation purposes. He noted that historical plant balances are available through December 31, 1997 and that Staff has reviewed these balances. He recommended that, with respect to Part 510 requirements, the Commission unconditionally approve the gas plant balances for Illinois Gas at December 31, 1997, adjusted to reflect any adjustments the Commission may make to those balances in this proceeding.

The Commission concludes that Mr. Struck's recommendation, which was not opposed by the Company, is reasonable and is approved.

## XII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having reviewed the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Illinois Gas Company is an Illinois corporation engaged in the distribution and sale of natural gas at retail in Illinois and as such is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties and the subject matter herein;
- (3) the facts recited and conclusions reached in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of facts; Appendix A attached hereto provides supporting calculations for various portions of this Order;
- (4) all parties to this proceeding have signed a Stipulation, admitted into evidence as Illinois Gas/Staff Joint Exhibit A, in which they agree, for the purposes of this proceeding, to operating income and rate base, capital structure and cost of capital, revenue requirements, cost of service methodology, rate design principles, and resulting rate calculations;
- (5) for purposes of this proceeding, the Test Year is a twelve month period ending December 31, 1996;
- (6) for purposes of this proceeding, Illinois Gas net original cost rate base is \$6,490,461;
- (7) Illinois Gas' cost of common equity is 11.05% and its overall cost of capital is 9.63%;
- (8) giving effect to the determinations made in this Order, Illinois Gas Company should be allowed an opportunity to earn a rate of return of 9.63% on its net original cost rate base;

- (9) Illinois Gas' rates which are presently in effect are insufficient to generate the operating income necessary to permit Illinois Gas the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;
- (10) the specific rates proposed by Illinois Gas do not reflect various determinations made in this Order on cost of service and rate design issues; Illinois Gas' proposed rates should be permanently canceled and annulled consistent with the findings herein;
- (11) Illinois Gas should be authorized to place into effect tariff sheets designed to produce annual operating revenues of \$9,015,761, which represents an increase of \$552,485 or 6.53%; such revenue will provide Illinois Gas with an opportunity to earn the rate of return set forth in finding (8) above; based on the record in this proceeding, this return is fair and reasonable for Illinois Gas;
- (12) determinations regarding cost of service, interclass revenue allocations, rate design, and tariff terms and conditions, as are contained in the prefatory portion of this Order above, are reasonable for purposes of this proceeding; the tariffs filed by Illinois Gas should incorporate the rates and rate designs set forth and referred to herein;
- (13) the original cost of Illinois Gas' plant is determined to be the Company's plant balances as reported in Illinois Gas' Form ILCC21 for the period ending December 31, 1997;
- (14) new tariff sheets authorized to be filed by this Order should reflect an effective date not less than three (3) working days after the date of filing, with the tariff sheets to be corrected, within that time period if necessary.

IT IS THEREFORE ORDERED that the tariffs presently in effect for gas service rendered by Illinois Gas Company are hereby permanently canceled and annulled effective at such time as the new gas tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in gas rates, filed by Illinois Gas Company on March 31, 1998 and the proposed tariff seeking to change and add to the rules, regulations and conditions of service are permanently canceled and annulled.

IT IS FURTHER ORDERED that Illinois Gas Company is authorized and directed to file new tariff sheets with supporting work papers in accordance with finding (11), (12) and (14) of this Order, applicable to gas service furnished on and after the effective date of said gas tariff sheets.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act in 83 Ill. Adm. Code Section 200.800, this Order is final; it is not subject to the administrative review of law.

By Order of the Commission this 10th day of September, 1998.

Chairman