STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company (Tariffs filed April 29, 2008)	:	
	:	08-0363
Proposed general increase in rates, and revisions to other terms and conditions of service.	:	

ORDER

Dated: March 25, 2009

control their gas bills by using less gas. Nicor's proposal would, however, provide a consumer with a more accurate prediction of his or her gas bill. And, such consumers would nevertheless still be able to manage the greater portion of their gas bills, which is, the portion of that bill that imposes the cost of the gas provided, as well as those charges, like taxes, that are determined based upon a percentage of a gas bill, by using less gas. Also, we note that Nicor is decreasing its volumetric charges. Any adverse impact upon a customer in financial distress, while unfortunate, would be negligible.

Staff also argues that a continuation of Nicor's declining-block structure should be rejected because it imposes a greater increase on lower-consuming ratepayers. This argument overlooks the fact that, in an effort to gradually move toward imposing actual costs upon Rate 1 residential customers, Nicor has decreased its declining blocks from three blocks to two. This change reflects a gradual movement, which lessens its impact upon consumers toward what Staff proposes as it moves from three blocks to two blocks. This argument, also, is not persuasive.

Staff also raised the argument that distribution mains are demand costs, or volumetric costs, not fixed costs. Staff provided an example of a 1,000 square foot house and a 4,000 square foot house where Staff asserted that the larger house would be expected to use a larger share of main capacity, but both customers would pay the same amount.

The Commission notes, as we did in our prior Ameren decision (Docket No. 07-0585 Cons., at 238), that, on average, the combination of increasing the fixed customer charge and decreasing the volumetric charges for fixed cost recovery is essentially a revenue neutral exercise. Staff apparently believes this rate structure would create an intra-class subsidy within Rate 1, whereby smaller customers would subsidize larger customers within the class. However, as stated in the Gas Distribution Rate Design Manual prepared by NARUC, rate classes should be defined "according to certain characteristics which are common to all members of the class." These characteristics can include size or load factors. To the extent that the Rate 1 residential class of customers may contain identifiable groups of customers that are not homogenous in their consumption or demand characteristics, the company should provide the Rate 1 customer, billing determinant information and any other statistical information necessary for Staff, the Company and any interested intervenors can to propose changes in the next rate case. Based on the record evidence provided, the Commission determines that an SFV rate design for Rate 1 is appropriate and accepts the Company's alternative SFV rate design as explained more fully below.

ii. Nicor's Alternative Rate 1 SFV Rate Design

Nicor proposed an alternative SFV rate design if the Commission denied Rider VBA. This alternative recovers 80% of Rate 1 customers' fixed delivery service costs through the monthly customer charge.

> In Docket 07-0585 (cons.), the Commission noted an alternative to Rider VBA that would still promote fixed cost recovery by the utility is recovery of a greater portion of fixed delivery costs through the fixed monthly charge to all affected customers. AIU makes this suggestion and

> notes that under this method, utilities could not over- or under-recover their Commission-approved base rate revenue requirement with changes in sales. AIU adds that this alternative would also send proper price signals to customers. The Commission concurs with these statements and notes further that this alternative arguably decreases any disincentive AIU may perceive to implementing gas efficiency programs. Docket 07-0585 (cons.) at 237.

And also that,

> While the Commission acknowledges that the monthly charges will increase and such increases may be more apparent on bills than changes to volumetric rates, the fact remains that the volumetric rates will decrease by a corresponding amount. Therefore, on average, there should be no overall adverse revenue impact on customers resulting from recovering a greater portion of fixed costs through the monthly customer charge than a volume based rate. *id*. at 238.

In addition, the Commission concluded that:

> AIU should modify its monthly customer charges for these classes to recover 80% of the fixed delivery services costs approved in this proceeding... The Commission anticipates that this method of recovering fixed delivery costs will be simpler and easier for customers to understand than Rider VBA. *id*. at 237.

Consistent with our decision in the 07-0585 Order and the evidence provided in this proceeding as cited above, the Commission accepts Nicor's alternative SFV rate design. In addition, as noted above, the Commission directs the Company to provide the necessary Rate 1 customer information in its next rate case filing with sufficient detail to allow Staff and other parties to determine the extent to which Rate 1 intra-class subsidies exist and, if so, the parties can provide the Commission alternative cost of service and rate design approaches to address the issue in that proceeding. As we have accepted the alternative SFV rate design for Rate 1, Rider VBA is herein denied.

iii. Rate 1 Design and Conservation

At issue here is whether Nicor's proposal to lower its per therm delivery charges will discourage customers from conserving natural gas. Staff argued that Nicor's proposed SFV charge will send the wrong message to residential consumers because it will diminish the per therm delivery charge, thus providing a disincentive for these consumers to conserve in their use of natural gas. As a general proposition, a higher rate, should discourage use. However, this assertion does not take into account the facts that are pertinent here. The portion of fixed costs that are currently recovered through a volumetric charge are in fact fixed costs, and thus cannot be conserved. During periods of rising fuel costs that result in consumer conservation of the gas commodity, the utility under-recovers its fixed costs of delivery. Moving a greater percentage of fixed cost recovery to fixed charges rather than volumetric charges provides a more stable revenue stream and sends a better price signal to the consumer.