

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company)	
d/b/a Nicor Gas Company)	Docket No. 17-0124
)	
Proposed general increase in gas rates.)	

Revised Supplemental Testimony of

BENTE VILLADSEN, PH.D.

Principal,
The Brattle Group

On behalf of Northern Illinois Gas Company
d/b/a Nicor Gas Company

November 15, 2017

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1 **I. INTRODUCTION AND SUMMARY**

2 **Q. Will you please state your name and business address?**

3 A. My name is Bente Villadsen and I am a Principal of The Brattle Group, whose business
4 address is One Beacon St., Suite 2600, Boston, Massachusetts 02108.

5 **Q. Are you the same Bente Villadsen who has previously testified in this proceeding?**

6 A. Yes. I previously submitted written Direct, Rebuttal and Surrebuttal testimony and also
7 testified live on behalf of Northern Illinois Gas Company d/b/a Nicor Gas Company
8 (“Nicor Gas” or the “Company”).

9 **Q. What is the purpose of your supplemental testimony?**

10 A. My supplemental testimony responds to the Illinois Commerce Commission’s
11 (“Commission”) November 8, 2017 order to submit additional testimony addressing the
12 return on equity (“ROE”) discussion on pages 59 and 60 of Nicor Gas’ Reply Brief and
13 the approach discussed therein of averaging or combining the recommendations and
14 results of several different witnesses. In doing so, I support the reasonableness of the
15 overall rate of return (“ROR”) set forth in the Stipulation (“Stipulation”) between Nicor
16 Gas and the Commission’s Staff (“Staff”), attached as Nicor Gas Ex. 39.1, which is based
17 on such an approach. I conclude that the stipulated ROR, while below my
18 recommendation, is reasonable and within the range of what I recommended in prior
19 testimony. Consequently, the Commission has before it evidence that supports adopting
20 this Stipulation and approving the stipulated ROR.

21 **II. NICOR GAS' REPLY BRIEF AND THE STIPULATION**

22 **Q. What approach to setting an ROR does the Company articulate at pages 59 and 60**
23 **of its Reply Brief?**

24 A. In that portion of its Reply Brief, Nicor Gas points out that the evidence, at the time
25 evidentiary hearings concluded on September 7, 2017, included the results of several
26 different methodologies employed by several witnesses including myself, Ms. Phipps,
27 and Mr. Gorman. The Company observed that in other recent rate cases the Commission
28 utilized results from different witnesses testifying concerning ROE in arriving at a
29 Commission-allowed reasonable ROE. The referenced portion of the Company's Reply
30 Brief noted that such an approach was an alternative option for the Commission in this
31 case and presented a means of averaging the results of various witnesses' analyses
32 modelled on how witnesses average different methodologies.

33 **Q. Are you aware of the Stipulation entered into between Staff and the Company?**

34 A. Yes. I have reviewed it.

35 **Q. Did you participate in the development of the Stipulation?**

36 A. No.

37 **Q. How does the Stipulation relate to the type of approach discussed on pages 59 and**
38 **60 of the Company's Reply Brief?**

39 A. The Stipulation is consistent with the view that the Commission can assess the totality of
40 the evidence to determine a reasonable ROE that, ultimately, determines a reasonable
41 weighted average ROR. It recites the range of final recommendations made by the
42 witnesses who address the components of Nicor Gas' proposed 2018 test year capital
43 structure and their costs. Those recommendations reflect different methods used to

44 estimate the contributions of the different sources of capital to Nicor Gas' test year
45 capital structure and several different ways of assessing the expected cost of those capital
46 components. As with the approach outlined in Nicor Gas' brief, the Stipulation also
47 recognizes that there are differences among the witnesses as to that estimation and that
48 the Commission has, in the past, resolved such disputes by considering different
49 witnesses' methodologies and results and approving a capital structure, return on equity,
50 and overall ROR that fall within a reasonable range defined by reference to those
51 recommendations.

52 **Q. Have you analyzed the reasonability of the result the Stipulation recommends?**

53 A. Yes. The Stipulation recommends that the Commission adopt, for ratemaking purposes,
54 results that fall within the ranges recommended by the various witnesses. The capital
55 structure is, for example, more leveraged than Nicor Gas proposed and the proposed ROE
56 is lower than I recommended, but it includes a higher ROE than other witnesses
57 recommended. While I stand by my recommendations, the Stipulation reflects a way in
58 which the Commission could evaluate and synthesize the conclusions reached by the
59 various witnesses rather than choose the results recommended by one witness. I have
60 also considered the overall ROR of 7.256% recommended by the Stipulation, as the ROR
61 is the relevant number for customer rates. While that ROR is at the bottom end of the
62 range that I recommend, it falls within what I believe to be the reasonable range of
63 results.¹

¹ For example, it is within the range of allowed RORs for gas LDC as shown in Nicor Gas Ex. 25.1, p. 1.

64 **III. CONCLUSION**

65 **Q. Does this conclude your supplemental testimony?**

66 **A. Yes.**