DIRECT TESTIMONY

OF

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SENIOR ECONOMIST

ILLINOIS COMMERCE COMMISSION

ENERGY DIVISION -- POLICY SECTION

ILLINOIS POWER COMPANY

d/b/a AmerenIP

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I. Introduction

Q. State your name and business address.

A. Charles C. S. Iannello, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. By whom are you employed and in what capacity?

A. I am employed as a Senior Economist in the Illinois Commerce Commission's ("Commission") Energy Division -- Policy Program.

Q. What are the responsibilities of an Economic Analyst IV in the Energy Division -- Policy Program?

A. A Senior Economist in the Energy Division -- Policy Program, conducts research and economic analyses of the gas and electric industries, reviews filings and prepares recommendations to the Commission, identifies policy issues in Commission dockets and prepares written and oral testimony that sets forth opinions and positions on pertinent policy issues.

Q. State your educational background and professional experience.

A. I hold a Bachelor of Science degree in Economics with a concentration in Finance from the State University of New York College at Buffalo, and a Master of Science degree in Economics from the University of Wyoming with fields in both Regulatory and Environmental Economics. Prior to attending graduate school, I was employed by Smith Barney Incorporated as a financial consultant's assistant. During graduate school I worked as a research and teaching assistant in the Department of Economics at the University of Wyoming. I have been employed at the Illinois Commerce Commission since September 1998.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address various issues related to gas transportation service in AmerenIP's ("IP" or "Company") service territory and transportation-related proposals in the direct testimony of Company Witness Brian W. Blackburn.

Q. What do you consider when evaluating transportation tariffs?

A. Transportation tariffs should create a level playing field for suppliers and customers and allow customers to benefit from the existence of competitive supply markets. Transportation service and the ancillary services associated with transportation service should be provided on a non-discriminatory basis. Transportation tariffs should balance the interests of transportation customers and bundled service customers.

Q. Please summarize the Company's proposed transportation tariff changes as outlined in Mr. Blackburn's direct testimony.

A. The Company proposes significant changes to the balancing requirements in Service Classification 76 – Transportation of Customer-Supplied Gas with Best Efforts Backup ("SC 76"). Specifically, the Company proposes a shift from monthly balancing to daily balancing, a daily imbalance cashout at a Chicago citygate index, elimination of optional balancing services, an allowance for intra-day nominations, and a number of housekeeping changes to SC 76. The Company proposes several changes to Rider OT, Optional Transportation of Customer-Supplied Gas with Firm Utility Gas Supply Backup, ("Rider OT") including the elimination of an annual storage bank cashout, the replacement of the current cashout price with a Chicago city-gate index price, the allowance of intra-day nominations and other housekeeping changes.

Q. Please identify the main issues that you address.

A. I address issues related to the Company's proposed changes to a shift from monthly to daily balancing for SC 76 customers, including stricter daily delivery tolerances, the daily cash-out schedule, the elimination of optional balancing services, and the absence of timely and useful usage data. I also address the Company's requirement to individually balance Rider OT and SC 76 customers, the assessment of pipeline penalties to SC 76 customers, and the application of transportation-specific administrative charges to Rider OT and SC 76. I discuss these issues and make several recommendations below.

II. Background

Q. Please provide some background on the difference between transportation service and bundled sales service.

A. Transportation service allows retail customers to purchase competitively priced natural gas commodity from competing suppliers. Customers that choose transportation service pay regulated utility rates for the delivery of natural gas but pay unregulated rates for natural gas purchased from alternative suppliers. Transportation service has the potential to result in lower prices, a wider array of services, and customized pricing, terms, and conditions of service for individual customers or groups of customers. In Illinois, transportation service is offered as an optional alternative to bundled sales service.

Bundled sales service constitutes the sale and delivery of natural gas supply to retail customers at regulated rates. The delivery component of utility sales service varies by customer class just as it does for transportation service, but the tariffed rate for natural gas supply is the same for all customers. The tariffed rate for natural gas supply is referred to as the Purchased Gas Adjustment ("PGA") clause. The utility flows its actual costs associated with the purchase of natural gas through the PGA, including the cost of interstate pipeline capacity, leased storage, no-notice service, and natural gas commodity. Utilities are not permitted to earn a profit on natural gas commodity costs.

III. Rider OT

Q. Please describe the current Rider OT.

A. Rider OT is an unbundled transportation tariff available to all non-residential customers in the Company's service territory. Rider OT customers, or suppliers acting as their agents, arrange for the purchase and delivery of natural gas to the Company's distribution system by nominating volumes on interstate pipelines for delivery to the Company's citygate. A citygate is a point of delivery from the interstate pipeline into the Company's distribution system. Rider OT customers are responsible for balancing their deliveries with their usage on a monthly basis.[1] Rider OT customers are allocated storage capacity and pay for the cost of such storage capacity through the Company's delivery rates. Customers are permitted to carry daily imbalances and inject gas into storage throughout the course of the month within certain limits. Monthly imbalances can be rectified through storage withdrawals and storage balances can be carried across months. However, Rider OT customers are required to cash out storage in October of each year.

Q. Please summarize the Company's proposed changes to Rider OT.

A. The Company proposes to eliminate the requirement to cash out storage in October of each year and allow customers to maintain a storage account year-round without cashout. The Company proposes to change the cashout price for billing period imbalances from a price that reflected the average daily price for the billing period on the various pipelines that serve the Company to a Chicago citygate price. The Company proposes

[1] The Company's transportation tariffs use the term "delivery" to describe the amount of gas that is consumed by the customer while other Illinois utility tariffs use the term "usage". The Company uses the term "nomination" to refer to the total amount of gas delivered to the Company's system by the customer. Other Illinois tariffs use the term "deliveries" to refer to the total amount

formalizing its current practice of allowing customers to deliver gas only from pipelines that can physically provide gas to the customer". (IP Exhibit 8.1, p. 16) The Company also proposes to allow Rider OT customers to make specific intra-day nominations.

Q. Do you have any concerns with respect to the Company's proposed changes to Rider OT?

A. Yes. I have one concern with respect to the proposed cashout price that is applied to month-end imbalances. I have a similar concern with the proposed cash-out price that is applied to daily imbalances in SC 76. I address this issue at the end of my testimony since this issue is common to both transportation tariffs. The other proposed Rider OT changes appear to generally improve the service without causing harm to bundled service or SC 76 customers.

IV. Service Classification 76

Q. Please describe the Company's current SC 76.

A. SC 76 is an unbundled transportation tariff available to all non-residential customers in the Company's service territory. SC 76 customers, or suppliers acting as their agents, arrange for the purchase and delivery of natural gas to the Company's distribution system by nominating volumes on interstate pipelines for delivery to the Company's city-gate. SC 76 customers are responsible for balancing their deliveries with their usage

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delivered to the customer while reserving the term nominations to refer specifically to volumes nominated on interstate pipelines for delivery to the Company's distribution system.

on a monthly basis. SC 76 has built-in delivery tolerances that allow for variances between daily deliveries and daily usage. Customers are permitted to carry daily imbalances, within limits, throughout the course of a month. However, monthly imbalances must be cashed out at the end of each month. SC 76 customers are not allocated any costs associated with the Company's on-system storage and, therefore, are not allocated any seasonal storage capacity.[2]

Q. Please summarize the Company's proposed changes to SC 76.

A. The Company proposes to replace monthly balancing with daily balancing. Daily delivery tolerances, or the amount that usage can vary from deliveries on a daily basis, would be stricter. Imbalances would be cashed out on a daily basis. The cashout schedule would penalize large imbalances by cashing them out at unfavorable prices. The Company proposes to eliminate a number of optional balancing services. The Company also proposes a number of housekeeping changes to SC 76 that shorten and simplify the tariff.

A. Balancing SC 76 Customer Accounts

Q. Please explain how customer accounts are balanced under the current SC 76.

A. Under the current SC 76, customer accounts are balanced on a monthly basis but daily delivery tolerances restrict the amount that a customer's daily usage can vary from the customer's daily delivery. SC 76 allows a customer's daily usage to vary from daily deliveries by as much as plus or minus 50% without penalty. An SC 76 customer is allowed to build up imbalances throughout the course of a month by carrying forward daily imbalances. Customers can balance their accounts during the month by delivering more or less gas to offset the imbalance. At the end of the month, the Company downloads daily usage data from each SC 76 customer's meter. This data is used to calculate customer bills and determine the month-end imbalance. The month-end imbalance is the difference between the sum of the daily deliveries, including deliveries under optional balancing services, and the sum of the daily usage for the month. Imbalances can be negative or positive. A positive imbalance occurs when deliveries are greater than usage. A negative imbalance occurs when deliveries are less than usage. The Company cashes out imbalances by purchasing gas from or selling gas to the customer according to an imbalance cashout schedule. Larger imbalances are cashed out at less favorable prices as an incentive to maintain smaller imbalances. SC 76 also offers optional balancing services at an additional cost that provide customers with more balancing options than the basic service provided under SC 76.

[2] Seasonal storage capacity provides the customer with the opportunity to inject gas into storage and withdraw the gas in future periods.

Q. Please describe the Company proposed changes to the balancing provisions of SC 76?

A. The Company proposes to move from a monthly cash-out to a daily cash-out of imbalances. The Company proposes to cash-out all therms of imbalance on a daily basis with no option to carry over an imbalance. If the difference between daily usage and the daily delivery (i.e. the difference between usage and the volume of gas nominated by the customer) is less than or equal to plus or minus 10%, then the daily imbalance is cashed out at 100% of the market price. I refer to the range of imbalances that are cashed out at 100% of the market price as the "deadband". So, the Company proposes a 10% deadband. Imbalances that are greater than plus or minus 10% would be either sold to the customer at above market prices or purchased from the customer at below market prices. This provides an incentive to avoid large daily imbalances and stay within the deadband.

Q. Do you support a move from monthly to daily balancing for SC 76 customers?

A. I conditionally support a move from monthly to daily balancing for SC 76 customers. My support for a move from monthly to daily balancing for SC 76 customers is contingent on the adoption of my proposed daily imbalance cashout schedule, the implementation of group balancing service, and the provision of timely and useful daily usage data. I discuss these proposals in subsequent sections below but mention them now because the issues are inextricably intertwined with a shift from monthly to daily balancing. If these proposals are not adopted, I recommend no changes to the balancing provisions in the current SC 76 tariff.

Q. Why do you conditionally support daily balancing for SC 76 customers?

A. Daily balancing prevents SC 76 customers from gaming the monthly balancing and cashout procedures by purposefully delivering more or less gas than they use in order to capitalize on intra-month price changes or achieve a favorable month-end cashout position. While the Company has provided evidence that customers have gamed the monthly cashout procedure, it is appropriate to design tariffs that are not susceptible to such gaming. Under the current SC 76, customers are allowed to carry imbalances from day to day and rectify their imbalances by adjusting deliveries during the course of the month or cashing out month-end imbalances. The cashout price consists of a basket of average daily prices for the month. Therefore, customers observe the prices that contribute to the final cashout price calculation as the month progresses. Based on observations and expectations, SC 76 customers might purposefully over or under deliver to exploit differences between the expected cashout price and the prevailing market price of gas. Customers might also systematically under deliver on days when market prices are relatively high and over deliver on days when market prices are relatively low.

Q. What is the potential impact of gaming monthly balancing under the current SC 76.

A. The revenues and costs incurred by the Company when balancing transportation customer accounts flow through the PGA. Gaming the delivery flexibility and monthly cashout under the current SC 76 could result in an increase in the PGA price that is charged to bundled service customers. For example, the Company could be required to deliver more gas on days when transportation customers carry negative imbalances. If market prices were relatively high on those days and the Company was forced to purchase high-priced gas to balance the system, then those relatively high gas costs would flow through the PGA.

B. Cashout of Imbalances

Q. How are cashouts handled under the current SC 76?

A. At the end of each month, imbalances between deliveries and usage are cashed-out at a market index, consisting of a basket of average daily prices on the various pipelines that serve the Company's distribution system. If total deliveries for the month are within plus or minus 10% of total usage for the month, then imbalances for the month are cashed out at 100% of the market index. Any portion of a month-end imbalance greater than 10% but no more than 25% of total deliveries for the month is either purchased by the Company from the customer at 85% of a market price or sold to the customer by the Company at 115% of the market price. Any portion of a month-end imbalance greater than 25% is either purchased by the Company from the customer at 70% of the market price or sold to the customer by the Company at 130% of the market price.

Q. How does the Company propose to cashout daily imbalances?

A. The Company proposes to cashout daily imbalances according to the following daily imbalance cash-out schedule with a 10% deadband:

Nominations greater than 125% of actual use	Company pays Customer	75% of the Chicago citygate index price
Nominations greater than 110% but less than or equal to 125% of actual use	Company pays Customer	90% of the Chicago citygate index price
Nominations greater than 100% but less than or equal to 110% of actual use	Company pays Customer	100% of the Chicago citygate index price
Nominations greater than or equal to 90% but less than 100% of actual use	Customer pays Company	100% of the Chicago citygate index price
Nominations greater than or equal to 75% but less than 90% of actual use	Customer pays Company	110% of the Chicago citygate index price
Nominations less than 75% of actual use	Customer pays Company	125% of the Chicago citygate index price

Q. Does the Company provide any support for its daily cashout schedule?

A. The Company states that daily balancing with a 10% dead band will more closely align the basic service provided under SC 76 to the basic service provided by pipelines interconnected to the Company's distribution system. The Company also claims that SC 76 customers that create daily imbalances in excess of 10% utilize the Company's on-system storage. (IP Exhibit 8.1, p. 6)

Q. Does the Company provide any analysis or workpapers to support the claim that SC 76 customers use storage when they are more than 10% out of balance?

A. No.

Q. What is your position on the Company's proposed cashout schedule for daily imbalances?

A. I oppose the Company's proposed daily imbalance cashout schedule for three reasons.

First, the Company's proposed cashout schedule is too strict. The radical change from the balancing provisions in the current SC 76 to the Company's proposed 10% deadband is unnecessary. Under the current SC 76, daily usage is only required to be within plus or minus 50% of the daily deliveries. In addition, customers have other options to carry even greater daily imbalances without penalty or cashout. Despite the significant level of daily flexibility provided under the current SC 76, the Company fails to demonstrate that aggregate customer activity has affected the Company's use of on-system storage, been subsidized by other customers, or had any negative impact whatsoever. The Company has not even found it necessary to track individual customer usage data on a timely basis. SC 76 customer usage only becomes known at the end of the month when data is acquired to balance and cashout individual customer accounts. It stands to reason that aggregate transportation customer usage and deliveries will be much more closely balanced under daily balancing.

Second, the narrow 10% deadband proposed by the Company is not necessary to prevent gaming of the cashout price and exploit differences in market prices from one day to the next. Daily balancing, regardless of the size of the deadband, prevents gaming because imbalances are cashed out on a daily basis at a price that is reflective of the cost to purchase additional supplies on the day of the imbalance.

Third, the Company's proposed move to daily balancing with a 10% deadband is coupled with the proposed elimination of three optional balancing services – Contract Balancing Service ("CBS"), Level 3 DASS, and Firm Gas Service – that provided SC 76 customers with additional means of mitigating the impact of imbalances. The elimination of these services removes services that could otherwise be used to provide customers with additional balancing options in the face of the stricter daily balancing requirement.

Q. Do you recommend an alternative to the Company's proposed daily imbalance cashout schedule?

A. Yes. I recommend the less stringent cash-out schedule with a 20% deadband below:

Nominations greater than 120% of actual use	Company pays Customer	90% of the Chicago citygate index price
Nominations greater than 100% but less than or equal to 120% of actual use	Company pays Customer	100% of the Chicago citygate index price
Nominations greater than or equal to 80% but less than 100% of actual use	Customer pays Company	100% of the Chicago citygate index price
Nominations less than 80% of actual use	Customer pays Company	110% of the Chicago citygate index price

Q. Why do you propose a less stringent cashout schedule than the Company?

A. I believe my proposed schedule provides appropriate incentives for customers to accurately balance usage and deliveries and adequate compensation to bundled service customers for the impact of cashouts on the PGA.

Q. Why do you believe your proposal provides adequate incentive for customers to stay in balance?

A. My proposal provides adequate incentive to stay in balance for two reasons. First, there is little or no benefit to creating imbalances within the deadband because cashouts at the prevailing market price mitigate gaming opportunities. Second, since customers face some uncertainty over their actual daily usage, concerns over inaccurate usage estimates and the resulting 10% penalty outside of the deadband will encourage customers to minimize imbalances.

Q. Please explain why your proposed cashout schedule provides adequate compensation to bundled service customers for the impact of cashouts on the PGA?

A. First, the Company is only required to physically address imbalances to the extent that SC 76 customers are out of balance as a group. Positive and negative imbalances across SC 76 customers' accounts will at least partially cancel out and result in lower aggregate imbalances than the sum of all individual customer imbalances to which the cash out applies.

Second, since the cashout price is designed to reflect the prevailing market price at the time that customers are delivering gas to the Company's system, it is reasonable to believe that the Company's gas costs for mitigating the aggregate imbalance, if any such imbalance exists, are reflective of the cashout price. To the extent that any individual customer is substantially out of balance, the 10% penalty that I propose would have a positive impact on the PGA.

Q. What if the Company's transportation, storage, or supply resources are being used at or near their maximum rated, tariffed, or contractual limits?

A. The Company, in its sole discretion, can declare a critical day. On a critical day, a customer's daily imbalance in excess of the greater of 10%

of the customer's nomination or 1000 therms is subject to the Critical Day Imbalance Charge. I address this charge in the Pipeline Penalties section below.

Q. Please provide an example of how your proposed cashout schedule would be applied to customer imbalances.

A. If a customer's delivery for the day is 100,000 therms and the customer's usage for the day is 140,000 therms, then the customer will pay the Company 100% of the Chicago citygate index for the first 20,000 therms of use beyond the customer's delivery, 110% for the remaining 20,000 therms of use.

Q. How does your proposed cashout compare to the current provisions of SC 76?

A. My proposal, like the Company's proposal, represents a shift from monthly to daily balancing, and the cashout schedule represents a significant reduction in the daily delivery tolerance.

Q. Are aggregate SC 76 customer imbalances likely to be smaller under your proposed daily cashout schedule than under the current SC 76 balancing requirements?

A. Yes. Transportation customers will have a much greater incentive to stay tightly balanced under my proposal than under the current SC 76. Under my proposal, SC 76 customers will be penalized for varying nominations from usage by more than 20%. Under the current tariff, usage can vary from nominations by as much as 50% as part of the basic service without penalty. Opportunities to vary by more than 50% are available through optional balancing services.

C. Optional Balancing Services

Q. What are optional balancing services?

A. In general, optional balancing services provide transportation customers with additional opportunities to carry imbalances or balance usage with deliveries while avoiding any penalty charges that would otherwise be assessed if the services were not available.

Q. What optional balancing services are currently available to SC 76 customers?

A. CBS, Best Efforts Gas Service ("BEGS"), Level 3 DASS, and Firm Gas Service are offered under the current SC 76.

Q. Please provide a brief description of these optional balancing services.

A. Level 3 DASS provides customers with the opportunity to incur a daily imbalance greater than the 50% tolerance provided under the basic service in SC 76. Firm Gas Service provides customers with the opportunity to purchase firm gas from the Company at the PGA rate plus some additional demand and commodity charges. CBS provides customers with the opportunity to swing even more than under Level 3 DASS for additional fees. BEGS provides customers with the opportunity to purchase Company-supplied gas at a rate to be determined by the Company.

Q. What does the Company propose with respect to optional balancing services?

A. The Company proposes to eliminate CBS, Firm Gas Service, and Level 3 DASS, but retain BEGS.

Q. Why does the Company propose to eliminate Level 3 DASS, Firm Gas Service and CBS?

A. On page 14 of his direct testimony, Mr. Blackburn states that SC 76 customers currently make little or no use of CBS, Level 3 DASS, and Firm Gas Service. This is the only support provided by the Company for eliminating these services.

Q. Why are you concerned with the elimination of these optional balancing services if customers currently make little or no use of them?

A. Customers may find greater value in optional balancing services when facing the stricter balancing requirements proposed by the Company. CBS, Level 3 DASS, and Firm Gas Service all provide SC 76 customers with options to mitigate imbalances between deliveries and usage and avoid month-end cashouts and curtailment of deliveries. Under the current SC 76, a customer's daily usage can vary from daily deliveries by as much as 50% of the customer’s nomination for the day. This is part of the basic service provided under SC 76. An SC 76 customer is able to carry forward imbalances from one day to the next as long as the size of the imbalance between deliveries and usage is no greater than plus or minus 50% of the customer's net nomination. Customers have not found it economical to incur additional costs for optional balancing services because accounts can be balanced under the flexibility provided through the basic service. However, if tolerance levels are significantly tightened and daily balancing is adopted, such flexibility would no longer exist and customers would likely derive greater benefits from optional balancing services.

Q. Has the Company performed any studies to see if SC 76 customers would make greater use of the optional balancing services if daily balancing with its strict tolerance levels were adopted?

A. No. According to the Company's response to Staff data request CCSI 1.14, attached to my direct testimony as Schedule 8.01, the Company has not surveyed customers to determine if they would make greater use of optional balancing services when facing significantly tighter delivery tolerances and daily cashouts.

Q. What is your position on the Company's proposed elimination of Level 3 DASS, CBS, and Firm Gas Service?

A. Like my position on the move from monthly to daily balancing, I conditionally support the Company's proposal to eliminate Level 3 DASS, CBS, and Firm Gas Service. My support for eliminating these services is contingent on the adoption of my proposed daily imbalance cashout schedule, group balancing service, and the provision of timely and useful daily usage data. The first condition was discussed above. The latter two conditions are discussed below. If these proposals are not adopted, I recommend that all balancing provisions in the current SC 76 tariff, including the optional balancing services, remain in force.

Q. Do you have any concerns with BEGS?

A. Yes. I am concerned with the Company's failure to explicitly address the pricing of therms purchased under BEGS and the treatment of the Company's revenues and costs associated with BEGS. The Company's proposed SC 76 defines BEGS as "Gas sold by Utility to Customer as provided for in Section 6 of SC 76." (IP Exhibit 8.2) The cost of gas purchased under BEGS, or Best Efforts Gas Cost ("BEGC"), is defined as "The price, expressed in dollars per Therm, offered by Utility for Best Efforts Gas Service." (Ibid) It appears that the definition of BEGS should refer to Section 5 of the proposed SC 76, which addresses nomination procedures and other BEGS issues. Nevertheless, no section of the proposed SC 76 explicitly addresses the pricing of BEGS therms and the treatment BEGS revenues and costs. The Company's purchase of natural gas commodity and sale to transportation customers at a rate other than the PGA rate has the potential to create subsidies between bundled service customers and transportation customers.

Q. Do you have any recommendations with respect to BEGS?

A. Yes. I recommend that the Company include language in SC 76 that explicitly states the method for calculating the Best Efforts Gas Cost and describe the treatment of all costs and revenues associated with the service.

D. Metering and Usage Data

Q. How does the Company propose to meter SC 76 customers?

A. The Company proposes to continue to meter SC 76 customers in the same manner that they meter customers under the current SC 76 tariff. It is my understanding that the Company downloads daily usage information from the meter at the customer site to obtain usage data for the billing period. The Company then processes this data to calculate each transportation customer bill. Daily usage data is not available to the Company until the end of the billing period. Daily usage information is not available to customers, agents, or suppliers, in a timely fashion or useful form. In fact, it is my understanding that daily usage is not even provided in the Company's bill.

Q. Do you have any concerns with the Company's method for metering customer usage?

A. Yes. The current method of metering and the lack of timely and useful information is less of a problem under SC 76's monthly balancing process, with its substantial flexibility to deal with imbalances. However, timely electronic information is critical under a strict daily balancing cashout schedule. Suppliers need access to electronic daily usage information, as quickly as it can be made available, in order to observe usage trends and formulate estimates of future use. Transportation customers should not be required to balance on a daily basis if the utility does not provide electronic access to daily usage information in a timely manner.

Q. Do you have a proposal for metering SC 76 customers?

A. Yes. I recommend that the Company install the appropriate metering equipment at the customer site to record daily usage in a timely fashion and make that usage available electronically to customers, agents and suppliers. Usage should be made available no more than one to two days after it is recorded.

Q. Are you familiar with other gas utilities in Illinois that provide customer usage electronically in the timeframe you describe above?

A. Yes. It is my understanding that AmerenCIPS and AmerenUE provide this service. Incidentally, these two companies also require daily balancing of transportation customer accounts.

Q. If the Company is unwilling to make daily usage information available in a timely and useful manner as you describe above, would this impact your recommendation to move from monthly to daily balancing?

A. Yes. Daily balancing should not be implemented unless and until transportation customers have timely and useful access to customer usage data. Transportation customers must be provided with the necessary tools to operate under the stricter provisions of daily balancing proposed by the Company and myself.

V. Group Balancing Tariff

Q. Please describe the tariff provisions that a supplier must follow when serving multiple transportation customers under the Company's current transportation tariffs.

A. A supplier acting as an agent for multiple transportation customers in the Company's service territory is required to follow the same rules in SC 76 and Rider OT as each individual transportation customer. Even though an agency agreement may exist between a supplier and its customers, the Company holds the customer, rather than the supplier, ultimately responsible for all obligations under the Company's tariff. Suppliers are not permitted to group customer accounts for the purposes of nominating gas to the Company's system, injecting gas into and withdrawing gas from storage, and balancing usage with deliveries. That is, suppliers are required to make an individual nomination for each transportation customer. Storage withdrawals and injections are tracked separately for each account. Except in the case of multiple accounts owned by the same customer, transportation customer deliveries and usage must be balanced at the individual account level.

Q. Do you recommend any changes to the method in which the Company requires transportation customers to make nominations and balance their deliveries with usage?

A. Yes. I recommend that the Company implement a group balancing tariff for its SC 76 and Rider OT transportation customers. For SC 76, a move from monthly to daily balancing should be contingent on the implementation of a group balancing service. Like the installation of metering equipment that provides timely and useful information, the move from monthly to daily balancing should not take place unless and until group balancing is made available to SC 76 customers. A group balancing tariff would allow suppliers, or agents representing multiple transportation customers, to group together customer accounts for the purposes of nominating gas to the Company's system, managing customers' storage accounts, and balancing deliveries with usage. The group balancing rider should provide separate options to group Rider OT customers and SC 76 customers.

Q. Why do Rider OT customers and SC 76 customers need to be grouped separately?

A. Rider OT and SC 76 will likely have different balancing requirements and different options to balance usage and deliveries. Further, customers on Rider OT are provided storage banks whereas SC 76 customers receive no storage allocation. These tariff provisions create administrative difficulties that prevent the inclusion of Rider OT and SC 76 customers in the same group for balancing purposes.

Q What benefits can be derived from group balancing?

A. Group balancing reduces the cost of serving transportation customers for suppliers and the utility. Group balancing eases any administrative burden the utility may incur when required to track individual transportation customer account activity and allows for a more accurate measure of the costs that transportation customers impose on the gas system. Group balancing also reduces the transaction costs incurred by a supplier or agent managing multiple transportation customer accounts. For example, a supplier with a group of 30 customers would only be required to make one nomination instead of 30 individual nominations. The single nomination is compared against the aggregate usage of the group for balancing purposes. Group balancing across customer accounts also reduces the level of imbalance charges assessed to transportation customers at no additional supply expense to the Company or bundled service customers.

Q. Can group balancing help transportation customers avoid imbalance penalties without harming bundled service customers?

A. Yes. Consider two scenarios involving one supplier that serves two SC 76 customers (customer A and customer B) served by the same pipeline. Further, assume that each customer consumes 1000 therms and the customers face the same cash-out of daily imbalances that I propose above.

In scenario 1, the supplier is required to balance customer accounts individually. The supplier nominates 800 therms for customer A and 1200 therms for customer B. Customer A would have an imbalance of negative 200 therms. So, Customer A would be required to purchase 200 therms from the Company. 160 therms would be purchased at 100% of the market price and the remaining 40 therms would be purchased at 110% of the market price. Customer B would have a positive imbalance of 200 therms and those 200 therms would be sold back to the Company at 100% of the market price because the imbalance falls within the 20% deadband.

In scenario 2, the supplier is allowed to include multiple transportation customers in a group. The supplier nominates 2000 therms on behalf the group consisting of customer A and customer B, matching the group's daily usage of 2000 therms (1000 therms for customer A and 1000 therms for customer B). No cashout is required.

A comparison of scenario 1 and scenario 2 demonstrates the inherent inequity and inefficiency of requiring individual account balancing. In scenario 1, customers A is assessed what is essentially an imbalance penalty for failing to fall in the 20% deadband. In scenario 2, there is no cashout because the aggregate amount of gas delivered to the Company's system was equal to the aggregate use of the customers in the group. However, the impact on the Company’s system is the same in both scenarios – 2000 therms delivered and 2000 therms consumed. The Company’s supply obligations remain unchanged across both scenarios; however, in scenario 1, customer A is required to purchase gas from the Company at above market prices and charged as if the imbalance impacted the Company’s gas costs. In scenario 2, when the supplier is permitted to group customer A and customer B for balancing purposes, imbalance charges and cashouts are avoided. Transportation customers are better off under scenario 1, and bundled service customers are no worse off because the Company’s supply obligations remain unchanged across both scenarios.

Q. Do other Illinois gas utilities allow suppliers or agents to group transportation customers for the purposes of nominating gas to the Company’s system, managing customers’ storage accounts, and balancing deliveries with usage?

A. Yes. Peoples Gas Light and Coke Company, North Shore Gas Company, MidAmerican Energy Company, Nicor Gas Company, AmerenCIPS, and AmerenUE all have tariff provisions that allow suppliers to group transportation customer accounts. AmerenCIPS’ Rider G, Group Balancing Service, is attached to my direct testimony as Schedule 8.02. It provides an example of a rider that allows suppliers to group transportation customer accounts for the purposes of nominating gas to the city-gate, managing customers’ storage Banks, and balancing deliveries with usage. I recommend that the Company use these tariffs as a starting point for developing a tariff that would permit group management of multiple transportation accounts by a single supplier.

VI. Pipeline Penalties

Q. Please explain how the Company proposes to assess pipeline penalties to transportation customers.

A. On days when imbalance penalties or fees are assessed to the Company by interstate pipelines, the Company proposes to aggregate the penalties and fees and, then, divide the aggregated penalties by the therms associated with the imbalance. The result is the Critical Day Imbalance Charge (“CDIC”), which is applied to those therms contributing to pipeline penalties or fees. "For an SC 76 customer, the charge would apply to therms of Critical Day Imbalance, which is that imbalance in excess of the greater of 10% of the customer's nomination or 1,000 therms that contributed to the penalties or fees." (IP Exhibit 8.1, p. 10) That is, the Company proposes to assess the CDIC to each transportation customer based on their individual imbalances. In contrast, bundled service customers would be treated as a group rather than assessed penalties individually.

Q. Do you have any concerns with the Company's proposed Critical Day Imbalance Charge?

A. Yes. The Company's proposed method of assessing pipeline penalties to transportation customers does not consider the impact of transportation customer activity on the system. Rather, it focuses on the actions of each individual customer but disregards whether transportation customers, as a group, contributed to system imbalances that resulted in pipeline penalties. Under the Company's proposal, it is possible for individual transportation customers to be assessed a CDIC even if aggregate transportation customer imbalances were in the opposite direction of the imbalance that resulted in the assessment of pipeline penalties. That is, the total imbalance associated with transportation customer deliveries and usage could actually lower the pipeline penalties assessed to the Company but individual transportation customers would still be assessed a CDIC. On the other hand, bundled service customers would be treated as a group under the Company's proposal. This bifurcated treatment of bundled service customers and transportation customers is inherently unfair.

Q. What is your recommendation with respect to the allocation of pipeline penalties?

A. I recommend that transportation customers be treated as a group rather than individually for the purpose of assessing pipeline penalties. Aggregate transportation customer imbalances should be used to determine transportation customer responsibility for pipeline penalties. Transportation customers that had an imbalance in the same direction as the pipeline imbalance would then be assessed their share of the total pipeline penalties allocated to the aggregate transportation customer imbalance.

Q. Do other Illinois gas utilities use the same methodology to assess pipeline penalties as you recommend above?

A. Yes. AmerenCIPS and AmerenUE allocate pipeline penalties by first calculating the aggregate transportation customer imbalance to determine transportation customer responsibility for pipeline penalties. I recommend that the Company adopt the following language from AmerenCIPS Rider T – Transport Gas and Stand-by Service:

> The Customer may be allocated that proportion of the transportation group's penalty charges equal to the amount the Customer's imbalance contributed to the creation of such charges, as a percentage of the contribution of all transportation Customers to the creation of such charges.

VII. Administrative Charges

Q. Please describe the administrative charges in SC 76 and Rider OT.

A. Rider OT and SC 76 contain transportation-specific Administrative Charges of $20.00 per month for a single-billing meter and an additional $8.50 for each additional billing meter placed within a customer's delivery locations governed by a single transportation contract.

Q. What costs does the Company propose to recover through the transportation-specific Administrative Charges in Rider OT and SC 76?

A. It is my understanding that the Company proposes to recover labor costs associated with various gas transportation administration functions. These costs are largely fixed and do not vary with the number of customers that choose transportation service.

Q. Do you have any concerns over the assessment of transportation-specific Administrative Charges?

A. Yes. The administrative costs are inefficiently allocated to and recovered from a small number of customers that currently take transportation service even though a much larger number of customers are eligible for transportation service. Because the administrative costs associated with the provision of transportation service are largely fixed and independent of the number of customers on transportation service, the Company does not incur significant cost increases when additional customers choose transportation service. However, customers, particularly smaller volume customers, are unduly discouraged from taking transportation services by the relatively high Administrative Charge. Such customers are unduly discriminated against because the benefits achieved from transportation of customer-owned gas would exceed the Company’s marginal cost of serving an additional transportation customer but would not exceed the cost of the Administrative Charge. Recovering the administrative costs only from transportation customers creates a vicious circle. A small number of customers choose transportation service due to the high Administrative Charge, and the Administrative Charge is high because few customers take transportation service.

Q. Do you have any recommendations with respect to recovery of the administrative costs associated with the provision of transportation service?

A. Yes. I recommend that the largely fixed administrative costs associated with the provision of transportation service be allocated to all customers eligible for transportation service. This would give some commercial and industrial customers a more realistic option to take transportation service and result in a minimal increase to commercial and industrial customer rates.

Q. Would sales customers be subsidizing transportation customers under your proposal to allocate the transportation-specific administrative costs to all eligible customers rather than just those customers taking transportation service?

A. Arguably, my proposed allocation might be considered a subsidy to some extent. However, the increase in base rates for eligible customers would be minimal and, in this case, I believe it is warranted. My proposed allocation eliminates the inefficiencies created by smaller volume customers being effectively precluded from transportation. It also provides sales customers with a more feasible option to choose transportation service -- an option that provides value, or may provide future value, even if it is not exercised immediately.

Q. Please describe the exact methodology that you recommend for allocating costs to all eligible customers.

A. I recommend allocating the transportation-specific administrative costs across all customer classes that are eligible to take transportation service. The costs should be allocated based on each rate class' share of the total number of transportation customers. The costs should be recovered through the Facilities Charge of each rate class eligible to take transportation service under either Rider OT or SC 76. These rate classes include: Service Classification 63 – Small Volume Firm Gas Service, Service Classification 64 – Intermediate Volume Firm Gas Service, Service Classification 65 – Large Volume Firm Gas Service, and the proposed Service Classification 66 – Seasonal Gas Service, and any other transportation eligible rate class that may arise as a result of the Commission Final Order in the instant proceeding.

Q. Is Staff witness Peter Lazare aware of your proposed elimination of the transportation-specific administrative charges to Rider OT and SC 76?

A. Yes. Mr. Lazare and I have discussed the proposal, and he is prepared to incorporate the proposal into his cost of service study and rate design. However, due to the relatively minor impact of the proposal and the possibility of a need to make adjustments moving forward, he has yet to incorporate this proposal into his testimony.

VIII. Cashout Price

Q. What cashout price does the Company propose to apply to SC 76 and Rider OT customer imbalances?

A. On pages 12 and 16 of Company Exhibit 8.1, Mr. Blackburn discusses a Chicago citygate index price that would be used to cashout customer imbalances under Rider SC 76 and Rider OT. This Chicago citygate index price is referred to as "Chicago Citygate Price" in the proposed SC 76 and Rider OT. (IP Exhibit 8.2) According to the Company's proposed Standard Terms and Conditions, "Chicago Citygate Price means that price published in Gas Daily for the Chicago citygate, or in the absence of such publication, the price for a substantially similar point published in an alternate publication." (Ibid)

Q. Do you have any concerns with respect to the Company's proposal to cashout transportation customer imbalances using a Chicago citygate index?

A. Yes. The Company's testimony and proposed tariffs do not clarify the exact price that would be used to cashout imbalances. The Company proposes to cashout SC 76 imbalances on a daily basis but cashout Rider OT imbalances at the end of the billing period. It seems logical that the daily price would be used to cashout daily imbalances under the proposed

SC 76. However, it is unclear exactly how the same price would be applied to Rider OT billing period imbalances.

Q. What is your recommendation with respect to the cashout prices in SC 76 and Rider OT?

A. I recommend that the Company propose tariff language that clarifies the exact price to be used for imbalance cashouts under Rider OT and SC 76.

IX. Conclusion

Q. Please summarize your recommendations.

A. A summary of my recommendations follows:

1) I conditionally recommend a move from monthly to daily balancing of SC 76 customers and the elimination of Level 3 DASS, CBS, and Firm Gas Service. My support is conditioned upon the implementation of my proposed daily imbalance cashout schedule with its 20% deadband, metering that provides timely and useful access to customer data, and group balancing.

2) I recommend the following daily imbalance cash-out schedule for SC 76 customers:

Nomintations greater than 120% of actual use	Company pays Customer	90% of the Chicago citygate index price
Nominations greater than 100% but less than or equal to 120% of actual use	Company pays Customer	100% of the Chicago citygate index price
Nominations greater than or equal to 80% but less than 100% of actual use	Customer pays Company	100% of the Chicago citygate index price
Nominations less than 80% of actual use	Customer pays Company	110% of the Chicago citygate index price

3) I recommend that the Company include language in SC 76 that explicitly states the method for calculating the Best Efforts Gas Cost and describe the treatment of all costs and revenues associated with the service.

4) I recommend that the Company install the appropriate metering equipment at the customer site to record daily usage in a timely fashion and make that usage available electronically to customers, agents and suppliers. Usage should be made available no more than one to two days after it is recorded.

5) I recommend that the Company implement a group balancing rider that would allow suppliers or agents representing multiple

transportation customers to group together customers accounts for the purposes of nominating gas to the Company's system, managing customers' storage Banks, and balancing deliveries with usage. I recommend that the Company use AmerenCIPS' Rider G, attached to my direct testimony as Schedule 8.02, as a starting point for developing a tariff that would permit group management of multiple transportation accounts by a single supplier or agent.

6) I recommend that the Company assess pipeline imbalance charges based on aggregate transportation customer imbalances and adopt the following tariff language to implement this recommendation:

> The Customer may be allocated that proportion of the transportation group's penalty charges equal to the amount, the Customer's imbalance contributed to the creation of such charges, as a percentage of the contribution of all transportation Customers to the creation of such charges.

7) I recommend that the largely fixed administrative costs associated with the provision of transportation service be allocated to all customers eligible for transportation service.

8) I recommend that the Company propose tariff language that clarifies the exact price to be used for imbalance cashouts under Rider OT and SC 76.

Q. Does this conclude your testimony?

A. Yes.

Docket No. 04-0476
ICC Staff Exhibit 8.0
Schedule 8.01

Illinois Power Company
ICC Staff Data Request
CCSI #1.14
Docket No. 04-0476

CCSI #1.14: Has the Company surveyed or in any way attempted to ascertain whether SC 76 customers are interested in obtaining access to the Company's on-system storage capacity for banking, seasonal hedging, mitigating daily price volatility, offsetting the need for additional pipeline capacity during periods of peak demand, or any other use? If so, provide all documents related to the Company's efforts and explain how the SC 76 customers were surveyed. If not, explain why not.

Response: No. Illinois Power is generally aware that a market is available to transporting customers for such services from interstate pipelines and suppliers other than Illinois Power. Bundled customers fully utilize Illinois Power's on-system storage and bear the full costs of on-system storage. As a result, there has been no point to conducting a survey of SC 76 customers on the topics mentioned in the request.

Responsible Witness:
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RIDER G
GROUP BALANCING TRANSPORTATION SERVICE
Applicable to Rider T

AVAILABILITY

Available to a Group Manager who represents multiple customer accounts on Rider T. Group Balancing Service is a service provided by the Company that allows a Group Manger to deliver gas to the Company, on an aggregated basis, for one or more Rider T accounts that comprise the membership in a Customer Group. A Group Manager applying for service under this rider must meet the following requirements;

1) The Customer Groups' metered locations must all be served by the same interstate pipeline;
2) All Customer Groups' metered locations must be balanced within the following standby reservation services;
    - i) inadequate capacity transportation;
    - ii) designated partial stand-by;
    - iii) full stand-by;
    - iv) designated full stand-by.

Service under this rider shall initially commence on or after November 1, 2004. On or after July 1, 2004 a Group Manager may initiate service to commence after November 1, 2004 by entering into an agreement with the Company on a prescribed form. Thereafter, the Group Manager shall submit an executed agreement to begin service no later than ten (10) business days prior to the end of the month in which service is to begin in the following month.

Customer Notifications

A Customer shall provide written notification to the Company, of the Customer's intent that its account be managed by the Group Manager, and such notification must be provided the Company no later than ten (10) business days prior to the end of the month in which service is to begin in the following month. The Customer shall provide written notification to the Company, of the Customer's intent to terminate participation in the Customer Group no later than ten (10) days prior to the end of the month in which service is intended to be terminated.

Notwithstanding the foregoing notification restrictions, a Customer's account(s) must stay in a Customer Group for a minimum of one (1) billing period.

RIDER G
GROUP BALANCING TRANSPORTATION SERVICE
Applicable to Rider T

DEFINITIONS

Customer Group
Customer Group shall be a group of Rider T accounts with the same standby reservation service and served by the same interstate pipeline and will be established under the contract with the Company.

Group Authorized System Gas Use
Group Authorized System Gas Use occurs when the Group Manager has delivered 80% but less than 100% of the Customer Group's actual daily usage.

Group Bank
Group Bank shall be the Group Manger's gas delivered to the Company in excess of the Customer Group's daily requirements and will be held by the Company until taken by the Customer Group.

Group Bank Limit
Group Bank Limit is the summation of the individual bank limits of the Customers in the group.

Group Excess Bank
Group Excess Bank is the amount of therms in the Customer Group's positive balance in excess of the Group Bank Limit as determined above.

Group Excess Gas
Group Excess Gas occurs when the daily amount of system gas delivered less the Customer Group's daily designated level is a positive number.

Group Manager
Group Manager shall be the entity who enters into a contract with the Company to deliver gas to the Company, on an aggregated basis, for two or more accounts being served under Rider T.

Group Unauthorized System Gas Use
Group Unauthorized System Gas Use occurs when the Group Manager delivers transport volumes to the Company that are less than 80% of the Customer Group's actual daily usage.

RIDER G
GROUP BALANCING TRANSPORTATION SERVICE
Applicable to Rider T

CHARGES

The Group Manager will be billed the following charges pursuant to Rider T; Use of System Gas Charge (consisting of Authorized System Gas Use, Unauthorized System Gas Use and Excess Gas); Curtailment, Pipeline and Excess Bank Penalties. In addition to these Rider T charges, the Group Manager will be assessed an annual fee of $250 per group.

Customers taking service under Rider G will be billed the applicable Customer owned delivery charge for all metered gas usage (Company supplied and Customer owned). The Group Manager will be billed a delivery charge for all Company supplied gas usage by the group. The delivery charge will be calculated by multiplying the Company supplied gas usage of the group times an incremental delivery charge. This incremental delivery charge will be the difference between the Company supplied delivery charge and Customer owned delivery charge for Rate 3 Large Use Firm Delivery Service.

All other tariff charges will be billed to the individual Customer accounts, including but not limited to, Firm Standby Service, Environmental, Monthly Customer and Facilities Charges.

CONTRACT

The Group Manager shall enter into a contract with Company for service hereunder on a prescribed form which shall include without limitation terms and provisions addressing contract term, customer account information, nomination and curtailment procedures, billing and payment, security/creditworthiness assurances, assignment limitations, and notices.

GROUP BANK

On any day in which Customer Group-owned gas delivered to the Company exceeds the quantity of gas used by the Customer Group, the difference between such deliveries and usage shall be the volume of gas placed in the Group Bank by the Company and available for the Customer Group's use. The Group Manager may place into the Group Bank amounts up to the aggregate of the individual Customer Group members' Bank Limit.

The bank balance associated with a Customer that is leaving a group shall be transferred upon written notification from the Group Manager. The balance will be transferred on the date notification is received.

RIDER G
GROUP BALANCING TRANSPORTATION SERVICE
Applicable to Rider T

On a Critical Day, withdrawal of gas from the Group Bank is restricted to Group Designated Standby Level. See Terms and Conditions for additional limitations and Order of Deliveries.

On any day, other than a Critical Day, in which Customer Group-owned gas delivered to the Company is less than the Customer Group members' aggregate metered gas usage from the Company, the balance of any banked gas held for the Customer Group's account will be used.

GENERAL

The Schedule of which this rider is a part includes certain Terms and Conditions. Service hereunder is subject to these Terms and Conditions including, but not limited to, Transportation Limitations and Amounts, Designated Standby Amounts, definitions of Curtailment Period, Authorized System Gas Use and Unauthorized System Gas Use.