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BEFORE THE

ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
)
ILLINOIS COMMERCE COMMISSION)
On Its Own Motion)
-vs) No. 01-0706
NORTH SHORE GAS COMPANY)
)
Reconciliation of revenues)
collected under gas)
adjustment charges with)
actual costs prudently)
incurred)

Chicago, Illinois

April 21, 2005

Met, pursuant to adjournment, at 1:15 p.m.

BEFORE:

MS. CLAUDIA SAINSOT,
Administrative Law Judge

APPEARANCES:

MR. SEAN R. BRADY and
MR. JAMES E. WEGING
160 North LaSalle Street, Suite C-800
Chicago, Illinois 60601
appearing for staff;

McGUIREWOODS, LLP, by
MS. MARY KLYASHEFF,
MR. THOMAS J. MULROY and
MR. MARK J. McGUIRE
77 West Wacker Drive, Suite 4100
Chicago, Illinois 60601
appearing for North Shore Gas Company;

1 APPEARANCES (continued):

2 MR. MARK KAMINSKI
100 West Randolph Street, 11th Floor
3 Chicago, Illinois, 60601

-and-

4 MR. PAUL J. GAYNOR
100 West Randolph Street, 12th Floor
5 Chicago, Illinois 60601

appearing for the People of the
6 State of Illinois;

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SULLIVAN REPORTING COMPANY, by
20 Patricia Wesley, CSR, RPR
License No. 084-002170

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I N D E X

Witnesses Direct Cross Redirect Recross Exmnr.

FRANK C.
GRAVES 304

DENNIS
ANDERSON 309 314 319

E X H I B I T S

<u>NUMBER</u>	<u>For Identification</u>	<u>In Evidence</u>
F, J and k		307
K, fcg-ar-1		307
2.00, 6.00 & 10.00		314

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(Off the record.)

4

JUDGE SAINSOT: Okay. Now by the authority

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vested in me by the Illinois Commerce Commission, I

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now call Docket No. 01-0706. It is the Illinois

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Commerce Commission on its own motion vs. North

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Shore Gas Company and it is a reconciliation of

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revenues collected under gas adjustment charges with

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actual costs prudently incurred.

11

Will the parties identify themselves for

12

the record, please.

13

MR. MULROY: Appearing for North Shore Gas

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Company, Thomas Mulroy, Mark McGuire, and Mary

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Klyasheff with McGuireWoods, 77 West Wacker Drive,

16

Chicago, Illinois, 60601.

17

MR. KAMINSKI: Mark Kaminski of the Illinois

18

Attorney General's Office, 100 West Randolph Street,

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Chicago, Illinois, 60601, on behalf of the People of

20

the State of Illinois.

21

MR. BRADY: Appearing on behalf of staff of the

22

Illinois Commerce Commission, Sean R. Brady and

1 James E. Weging, 160 North LaSalle Street, Suite
2 C-800, Chicago, Illinois, 60601.

3 JUDGE SAINSOT: Ms. Klyasheff, you have a witness
4 at this time?

5 MS. KLYASHEFF: North Shore calls Frank Graves.

6 (Witness sworn.)

7 JUDGE SAINSOT: Okay.

8 FRANK C. GRAVES,

9 called as a witness herein, having been first duly
10 sworn, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY

13 MS. KLYASHEFF:

14 Q. Mr. Graves, please state your name and
15 business address.

16 A. My name is Frank C. Graves. I work with the
17 Brattle Group, B-r-a-t-t-l-e, at 44 Brattle Street,
18 Cambridge, Massachusetts, 02138.

19 Q. Mr. Graves, you have before you a document
20 entitled, "Rebuttal Testimony of Frank C. Graves"
21 and marked for identification as Respondent's
22 Exhibit F.

1 A. Yes.

2 Q. Included with that testimony were several
3 schedules identified as Exhibit Nos. FCG-1 through
4 9.

5 A. Yes.

6 Q. You have another document before you
7 entitled, "Additional Rebuttal Testimony of Frank C.
8 Graves," which at this time I propose to mark for
9 identification as Respondent's Exhibit K.

10 A. I have it.

11 Q. Included with that testimony were documents
12 identified as Exhibit FCG-AR-1 through AR-4.

13 A. Yes.

14 Q. And, finally, a document entitled,
15 "Surrebuttal Testimony of Frank C. Graves," and
16 marked for identification as Respondent's Exhibit J.

17 A. Correct.

18 Q. Do you have any changes or corrections to
19 any of these documents?

20 A. I do not.

21 Q. Do these documents include the testimony
22 that you wish to give in this proceeding?

1 A. They do.

2 Q. If I were to ask you the questions included
3 in these documents at this time, would your answers
4 be the same as included in the documents?

5 A. Yes.

6 Q. Do you adopt these documents as your sworn
7 testimony in this proceeding?

8 A. Yes, I do.

9 Q. Were the various schedules included with the
10 testimony prepared by you or under your supervision
11 and direction?

12 A. They were.

13 MS. KLYASHEFF: Subject to cross, I move for the
14 admission of Respondent's Exhibits F, J, and K, and
15 the associated schedules.

16 JUDGE SAINSOT: So the surrebuttal is
17 Respondent's Exhibit J; is that correct?

18 MS. KLYASHEFF: Yes.

19 JUDGE SAINSOT: Is there any objection to
20 Ms. Klysheff's motion?

21 MR. BRADY: Staff has no objection.

22 JUDGE SAINSOT: That being the case, your motion

1 is granted and Respondent's Exhibits F, J, and K,
2 and the attachments to Respondent's Exhibit F are
3 admitted into evidence.

4 (Whereupon, Respondent's
5 Exhibit Nos. F, J, and K
6 were received in
7 evidence.)

8 MS. KLYASHEFF: There were also attachments
9 associated with Respondent's Exhibit K, FCG-AR-1
10 through AR-4. I'm not sure you included that when
11 you granted the motion.

12 JUDGE SAINSOT: No, I didn't. Thank you for
13 pointing that out. I'm kind of buried. So for the
14 record the attachments to Respondent's Exhibit K,
15 which are marked as Exhibit FCG AR1, are admitted
16 into evidence also.

17 (Whereupon, Respondent's
18 Exhibits K, FCG-AR-1 were
19 received in evidence.)

20 Thank you, Ms. Klyasheff.

21 MS. KLYASHEFF: The company has no questions for
22 Mr. Graves. He's available for cross-examination.

1 JUDGE SAINSOT: Any cross?

2 MR. BRADY: Your Honor, staff would move that
3 that portion of the transcript from 01-0707 that
4 includes staff's cross examination of Mr. Graves be
5 taken administrative notice of in this Docket
6 01-0706.

7 JUDGE SAINSOT: I'm sorry to mislead you,
8 Mr. Graves. There's one slight problem that I
9 thought of about that and that's normally for me to
10 take administrative notice of something it has to
11 actually physically exist and so that I can
12 physically put it in the record.

13 MR. BRADY: Okay.

14 JUDGE SAINSOT: Okay. So if you renew your
15 motion when there are transcripts, I will be happy
16 to grant it at that time. I'm sorry.

17 MR. BRADY: Okay.

18 JUDGE SAINSOT: For the record, would there be
19 any objection to that? I assume there would be
20 none.

21 MS. KLYASHEFF: No objection.

22 JUDGE SAINSOT: So --

1 MR. BRADY: Thank you, your Honor.

2 JUDGE SAINSOT: Okay. Is there anything further
3 for Mr. Graves?

4 (No response.)

5 Okay. You are free to go. Thank you
6 very much, Mr. Graves.

7 THE WITNESS: Thank you.

8 MR. WEGING: Your Honor, with the agreement of
9 the parties, we're calling staff witnesses out of
10 order in the 0706 docket.

11 JUDGE SAINSOT: Okay.

12 MR. WEGING: And I would like to call Mr. Dennis
13 Anderson to the stand.

14 (Witness sworn.)

15 DENNIS ANDERSON,
16 called as a witness herein, having been first duly
17 sworn, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY

20 MR. WEGING:

21 Q. Mr. Anderson, can you state your name and
22 business address for the record, please.

1 A. My name is Dennis L. Anderson, and my
2 business address is 527 East Capitol Avenue,
3 Springfield, Illinois, 62701.

4 Q. And, Mr. Anderson, do you have a document
5 before you that has been marked ICC Staff Exhibit
6 2.00?

7 A. Yes, I do.

8 Q. And could you identify that document for the
9 record, please.

10 A. It's my unredacted direct testimony in this
11 case.

12 Q. And that testimony consists of approximately
13 29 pages and has an attachment to it?

14 A. Yes.

15 Q. And if I were to ask you today the questions
16 and answers -- the questions contained in Staff
17 Exhibit 2.00, would your answers be substantially
18 the same as indicated in that document?

19 A. Yes, they would be.

20 Q. Do you have any corrections, changes, or
21 amendments to make to Staff Exhibit 2.00?

22 A. No, I do not.

1 Q. This document was also prepared both in an
2 unredacted and a public version?

3 A. That's correct.

4 Q. For purpose of identification, what is
5 Attachment 1 to Staff Exhibit 2.00?

6 A. It is the North Shore GPAA Agreement.

7 Q. What does GPAA stand for?

8 A. Gas Purchase and Agency Agreement.

9 Q. And that agreement was with what company?

10 A. Enron North America.

11 Q. That document is contained in your
12 unredacted testimony?

13 A. This is all confidential. There's no public
14 version.

15 Q. Okay. You got to my point. Thank you.

16 Do you have before you what has been
17 marked ICC Staff Exhibit 6.00?

18 A. Yes, I do.

19 Q. And could you identify that item for the
20 record, please?

21 A. It's the unredacted revised additional
22 direct testimony of Dennis L. Anderson.

1 Q. That was filed in this case?

2 A. Yes.

3 Q. And does it consist of approximately 31
4 pages of questions and answers?

5 A. That's correct.

6 Q. And today if I were to ask you the questions
7 contained in Staff Exhibit 6.00, would your answers
8 be substantially the same as the answers in that
9 document?

10 A. Yes, they would be.

11 Q. Do you have any additions, corrections, or
12 changes to make to Staff Exhibit 6.00?

13 A. No, I do not.

14 Q. And this document also was prepared in both
15 an unredacted and a public version?

16 A. That's correct.

17 Q. Finally, do you have before you what has
18 been marked ICC Staff Exhibit 10.00?

19 A. Yes, I do.

20 Q. And what is that document?

21 A. It's the rebuttal testimony of Dennis L.
22 Anderson in this docket.

1 Q. And that testimony consist of approximately
2 9 pages of questions and answers?

3 A. That's correct.

4 Q. And if I today were to ask you the questions
5 contained in Staff Exhibit 10.00, would your answers
6 be substantially the same as the answers contained
7 in Staff Exhibit 10.00?

8 A. Yes, they would be.

9 Q. Do you have any changes, corrections, or
10 amendments to make to 10.00?

11 A. No, I do not.

12 Q. And this document is completely public,
13 isn't it?

14 A. That's correct.

15 MR. WEGING: With that, I would move for the
16 admission of Staff Exhibit 2.00 in both of its
17 forms, including Attachment 1, which is only in the
18 confidential unredacted version, the admission of
19 Staff Exhibit 6.00 in both its forms, and the
20 admission of Staff Exhibit 10.00.

21 JUDGE SAINSOT: Any objection?

22 (No response.)

1 That being the case, Mr. Weging, your
2 motion is granted. Staff Exhibit 2.00, 6.00, and
3 10.00, including attachments, which are direct,
4 additional direct, and rebuttal, and rebuttal of
5 Dennis L. Anderson is admitted into evidence.

6 (Whereupon, Staff
7 Exhibit Nos. 2.00,
8 6.00, and 10.00 were
9 received in evidence.)

10 MR. WEGING: I have no further questions for this
11 witness and I tender the witness for cross. I'm
12 also presenting the ALJ with the unredacted versions
13 of those three documents, plus attachments.

14 JUDGE SAINSOT: Okay. The record so indicated.
15 Any cross?

16 MS. KLYASHEFF: The company has a few questions.

17 CROSS EXAMINATION

18 BY

19 MS. KLYASHEFF:

20 Q. Mr. Anderson, I'm Mary Klyasheff. I am
21 representing North Shore.

22 Your testimony addresses what has been

1 called the GPAA in this case, and I believe you just
2 identified that that's the Gas Purchase and Agency
3 Agreement between North Shore and Enron North
4 America; is that correct?

5 A. Yes.

6 Q. Referring to Page 9 of your direct
7 testimony, you used the phrase "least cost
8 alternative."

9 A. What line number is that on?

10 Q. I believe Line 220. I have the wrong line
11 reference.

12 MR. WEGING: I believe it's mentioned on Line 213
13 on Page 9. Line 220 is on Page 10.

14 THE WITNESS: I found it.

15 MS. KLYASHEFF: Q. In your opinion, does least
16 cost alternative mean something different than
17 prudent?

18 A. Yes.

19 Q. With reference to your additional direct and
20 rebuttal testimony, Page 10, you cite Section 1-102
21 of the Public Utilities Act in response to a
22 question about least cost.

1 A. I'm sorry. My pages aren't agreeing with
2 yours for some reason. I believe on Page 15,
3 Section 1-0102.

4 Q. Yes. I'm sorry. It's a typo on my part.

5 Is it your testimony that this section
6 requires North Shore to demonstrate that its service
7 is provided at least cost?

8 A. I'm sorry. I didn't hear your question.

9 Q. Is it your testimony that this section of
10 the act requires North Shore to demonstrate in this
11 proceeding that its service is provided at least
12 cost?

13 A. Yes.

14 Q. Is it your testimony that this section of
15 the act governs this proceeding?

16 A. Yes.

17 Q. Are you offering that as a legal opinion?

18 A. No, I'm not. I'm not an attorney.

19 Q. Is it your testimony that a utility should
20 contract for least cost gas supply alternatives?

21 A. Yes.

22 Q. If North Shore had a choice between

1 purchasing interruptible transportation or firm
2 transportation and interruptible transportation were
3 least costly, would prudence require it to purchase
4 the interruptible transportation?

5 A. In my opinion, no, it would not. It would
6 depend upon the needs of North Shore, and if they
7 required firm transportation, they should buy firm
8 transportation.

9 Q. Does that mean that there are factors other
10 than least cost that should go into the decision?

11 A. Yes.

12 Q. What would some of those factors be in your
13 opinion?

14 A. Reliability of the supplier, diversity of
15 supply.

16 Q. Would you agree that any number of gas
17 purchasing methodologies can be prudent?

18 A. Yes.

19 Q. If a utility's purchasing practices were
20 consistent with its historical practices, would that
21 represent evidence of prudence?

22 A. No.

1 Q. If a utility's purchasing practices were
2 similar to that of other Illinois utilities, would
3 that represent evidence of prudence?

4 A. No.

5 Q. Would you agree that each utility is unique
6 in the manner that it puts its gas supply portfolio
7 together?

8 A. Yes.

9 Q. Was it your testimony that renegotiating
10 pipeline contracts would be a way for North Shore to
11 have addressed its opinion about declining basis?

12 A. Yes.

13 Q. And would renegotiating pipeline contracts
14 possibly involve North Shore shifting capacity from
15 one pipeline to a different pipeline?

16 A. Yes, that's possible.

17 Q. Would you agree that capacity on one
18 pipeline is not necessarily a substitute for
19 capacity on another pipeline?

20 A. Yes.

21 Q. Do factors other than price affect a
22 utility's decision to contract over the pipeline?

1 A. Yes.

2 Q. What might some of those factors be?

3 A. Again, I would mention reliability and
4 diversity also simply the physical piping
5 configuration of the utility and its ability to use
6 gas from one pipeline versus another.

7 MS. KLYASHEFF: I have no further questions.

8 Thank you.

9 JUDGE SAINSOT: Redirect?

10 MR. WEGING: Just one question.

11 REDIRECT EXAMINATION

12 BY

13 MR. WEGING:

14 Q. Mr. Anderson, in your opinion did North
15 Shore Gas demonstrate that the GPAA was the least
16 cost reliable supply option for it during this
17 reconciliation period?

18 A. No.

19 MR. WEGING: I have nothing further.

20 JUDGE SAINSOT: Anything from North Shore?

21 MS. KLYASHEFF: No.

22 JUDGE SAINSOT: Okay. Thank you very much,

1 Mr. Anderson.

2 Am I correct that -- can we go off the
3 record for a second.

4 (Off the record.)

5 (Whereupon, the above matter
6 was adjourned.)

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