

Admitted
4/19/05
[Signature]

Docket No. 01-0707
ICC Staff Exhibit 4.00

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DIRECT TESTIMONY
OF
ERIC LOUNSBERRY

Engineering Department
Energy Division
Illinois Commerce Commission

Purchased Gas Adjustment Clause Reconciliation

Peoples Gas Light and Coke Company

Docket No. 01-0707

August 15, 2003

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0707
Staff Exhibit No. 40
Witness Eric Lounsberry
Date 4/19/05 Reporter TR

- 1 Q. Please state your name and business address.
- 2 A. My name is Eric Lounsberry and my business address is: Illinois Commerce
- 3 Commission ("Commission"), 527 East Capitol Avenue, Springfield, Illinois
- 4 62701.
- 5 Q. By whom are you employed and in what capacity?
- 6 A. I am employed by the Commission as the Supervisor of the Gas Section of the
- 7 Engineering Department of the Energy Division. I have worked for the
- 8 Commission since 1989.
- 9 Q. Please state your educational background.
- 10 A. I received a Bachelor of Science degree in Civil Engineering from the University
- 11 of Illinois and a Master of Business Administration degree from Sangamon State
- 12 University (now known as University of Illinois at Springfield).
- 13 Q. What are your primary responsibilities and duties as the Gas Section Supervisor
- 14 of the Energy Division's Engineering Department?
- 15 A. I assign my employees or myself to cases, provide training, and review work
- 16 products over the various areas of responsibility covered by the Gas Section. In
- 17 particular, the responsibilities and duties of Gas Section employees include
- 18 performing studies and analyses dealing with day-to-day, and long term,
- 19 operations and planning for the gas utilities serving Illinois. For example, Gas
- 20 Section employees review purchased gas adjustment clause reconciliations, rate

- 21 base additions, levels of natural gas used for working capital, and utility
22 applications for Certificates of Public Convenience and Necessity. They also
23 perform audits of utility gas meter shops.
- 24 Q. What is the purpose of this proceeding?
- 25 A. On November 7, 2001, the Commission initiated its annual investigation of the
26 Purchased Gas Adjustment ("PGA") reconciliation for fiscal year 2001 filed by
27 Peoples Gas Light and Coke Company ("Peoples" or "Company"), pursuant to
28 Section 9-220 of the Illinois Public Utilities Act. This investigation was initiated to
29 determine whether Peoples' PGA clause reflects actual costs of gas and gas
30 transportation for the twelve-month period from October 1, 2000 through
31 September 30, 2001, and whether purchases pursuant to this clause were
32 prudent.
- 33 Q. What are your duties and responsibilities associated with this docket?
- 34 A. My assignment is to provide an explanation as to why the Commission staff's
35 ("Staff") recommendation on the Company's gas purchasing decisions,
36 particularly its decision to enter into the agreement with Enron North America
37 ("*Enron NA*") during the instant reconciliation review period, is different than
38 those recommendations reached during prior reconciliation review periods.
- 39 Q. Are you making any recommendations in this proceeding?
- 40 A. No.

- 41 Q. What recommendation is Staff making in this proceeding?
- 42 A. Among other things, I understand Staff is recommending the Commission find
43 the Company's decision to enter into the contract with Enron NA imprudent. Staff
44 also questions whether the Company should flow revenue associated with non-
45 tariff transactions through the PGA and expects Peoples will address this matter
46 in rebuttal testimony.
- 47 Q. Has Staff previously reviewed the Company's contract with Enron NA?
- 48 A. Yes. The Enron NA agreement was in force during the Company's prior
49 reconciliation period, reviewed in Docket No. 00-0720.
- 50 Q. What recommendation did Staff make in Docket No. 00-0720?
- 51 A. Staff noted on page 4 of ICC Staff Ex. 2.00 in that Docket that it had not found
52 any imprudent purchases during the reconciliation period.
- 53 Q. Do you believe Staff's recommendation from Docket No. 00-0720 conflicts with
54 the recommendation that Staff makes in the instant proceeding?
- 55 A. No.
- 56 Q. Why do you believe Staff's recommendation in the instant case is not in conflict
57 with the recommendation provided for the prior reconciliation period?
- 58 A. Staff provided a considered opinion in Docket No. 00-0720 given the
59 circumstances it faced at the time. Namely, Staff had to conduct an expedited

60 review that did not provide it with sufficient time to reconstruct the Company's
61 judgments and reasoning used in signing the Enron NA agreement. However, in
62 the instant reconciliation period, Staff benefited from a much longer review period
63 to investigate the Company's actions and activities, including the reasoning used
64 in signing the Enron NA agreement.

65 Prior to the Company filing testimony in Docket No. 00-0720, gas prices during
66 the winter season of 2000-2001 had risen dramatically and reached levels that
67 had not been seen previously. As a result of the concern over the high gas
68 costs, Staff performed expedited reviews on all of the gas utilities' reconciliations.
69 Further, on March 7, 2001, the Cook County State's Attorney Office filed a
70 Motion for Expedited Reconciliation in Docket No. 00-0720. Staff moved rapidly,
71 filing its direct testimony in Docket No. 00-0720 on May 31, 2001 – 10 weeks
72 after the Company filed its March 12, 2001 direct testimony.

73 In the instant proceeding, Staff has had a considerably longer period to conduct
74 its review into the Company's activities and provide an opinion regarding those
75 activities. The longer period of time allowed for several rounds of data requests
76 regarding various topics in the instant proceeding. Further, as is noted in Staff
77 witness Anderson's direct testimony in the instant proceeding, Staff was able to
78 conduct the time consuming and difficult task of reconstructing the Company's
79 judgments and reasoning used to sign the Enron NA agreement.

80 Understandably Staff did not have time to do this reconstruction during its
81 expedited investigation in Docket No. 00-0720.

82 In short, Staff provided the best recommendation that it could in Docket No. 00-
83 0720, given the level of information available from the Company during the
84 truncated time frame and the short amount of time Staff had to review that
85 material. However, Staff's review in the instant proceeding, primarily due to the
86 amount of time afforded to conduct the review, is much more detailed and has
87 allowed Staff to carefully consider the Company's judgments and reasoning used
88 in signing the Enron NA agreement.

89 Q. What are non-tariff transactions?

90 A. Non-tariff transactions, generally speaking, are those transactions entered into by
91 a gas utility that are not governed by a Commission approved tariff.

92 Q. Prior to the review conducted in this proceeding has Staff reviewed the type of
93 Company non-tariff transactions presently at issue?

94 A. No. It is my understanding that Staff has not reviewed the type of non-tariff
95 transactions that are at issue in this proceeding in prior Company PGA
96 proceedings.

97 Q. Why has Staff not previously reviewed these Company non-tariff transactions?

98 A. My understanding is that these non-tariff transactions had not come to Staff's
99 attention prior to its review in the instant proceeding. I reviewed the Company's
100 responses to Staff data requests in prior PGA proceedings – specifically Docket
101 Nos. 97-0024, 98-0706, 99-0482, and 00-0720 – as well as in the instant

102 proceeding. From my review of the data requests responses, it appears the
103 instant proceeding is the first docket in which the Company's non-tariff
104 transactions and its decision to not flow the revenue from those transactions
105 through the PGA came to Staff's attention.

106 Q. Does this conclude your direct testimony?

107 A. Yes.