

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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| THE PEOPLES GAS LIGHT | : | |
| AND COKE COMPANY | : | |
| | : | No. 07-_____ |
| Proposed General Increase | : | |
| In Rates for Gas Service | : | |

Direct Testimony of

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Integrys Energy Group, Inc.

On Behalf of

The Peoples Gas Light and Coke Company

March 9, 2007

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Introduction**

3 Q. Please state your name and business address.

4 A. Thomas E. Zack, 130 East Randolph Drive, Chicago, Illinois 60601.

5 Q. By whom are you employed?

6 A. The Peoples Gas Light and Coke Company (“Peoples Gas” or the “Company”).

7 Q. What position do you hold with Peoples Gas?

8 A. I am Vice President, Gas Supply of the Integrys Gas Group.

9 Q. What are your responsibilities in that position?

10 A. I am responsible for the overall direction, management and leadership of the Gas
11 Supply, Gas Storage and Gas Control areas for the Integrys Energy Group, Inc.
12 gas utilities, which include Peoples Gas.

13 **B. Purpose of Testimony**

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to describe the changes the Company is
16 proposing to its transportation tariffs. First, my testimony will describe the
17 Company’s current transportation program. Second, my testimony will describe
18 the changes being proposed to the Company’s transportation programs, including
19 the expansion of Rider SVT, elimination of Rider FST, changes to Rider SST, the
20 merging of Rider LST into SST, and changes to Rider TB and Rider P. I will
21 discuss in some detail why the transportation services the Company provides must
22 reflect the assets in place to support them and the costs of those assets. Included

23 in that discussion is a proposed revision to the Diversity Factor applied to the
24 rates of transportation customers and transportation related charges which have
25 been developed from cost studies.

26 Q. What are the Company's overall objectives in this case with respect to
27 transportation service?

28 A. The Company's overall objectives include the following:

- 29 • Continuing to provide all customers the opportunity to select an alternative
30 natural gas supplier.
- 31 • Enhancing the transportation services available to customers and
32 suppliers.
- 33 • Ensuring that the decision by some customers to choose an alternative
34 natural gas supplier does not harm the Company's remaining retail sales
35 customers.
- 36 • Ensuring that transportation customers, who currently represent about
37 40% of annual throughput, receive all of the services for which they are
38 paying and pay for all of the services they receive.

39 Q. What do you mean when you use the term "Transportation Tariff"?

40 A. When I use the term "Transportation Tariff," I am referring to that portion of the
41 Company's current Schedule of Rates for Gas Service (Ill.C.C.No. 27) that
42 consists of Riders SVT, AGG, FST, SST, LST, P and TB. The Transportation
43 Tariff and the matters pertaining to it comprise the Company's transportation
44 program.

45 **C. Summary of Conclusions**

46 Q. Please summarize the conclusions of your direct testimony.

47 A. In brief, the conclusions of my direct testimony are that Peoples Gas'
48 transportation program needs to be changed in the following respects:

49 (1) The storage and standby rights of the transportation customers
50 need to be shaped to be consistent with the capabilities of Peoples Gas' gas supply
51 portfolio, and the Company needs to have an annual mechanism to adjust those
52 rights as its gas supply portfolio changes.

53 (2) The Company's tariff must establish provisions that insure that
54 transportation customers and their suppliers manage the supplies and services they
55 have elected in a way that complies with Peoples Gas' intrinsic daily and seasonal
56 operational limitations.

57 (3) The Company's tariff should eliminate any cross-subsidies that
58 exist.

59 (4) The Company should eliminate any unnecessary provisions in its
60 transportation tariff.

61 (5) The Company's tariff should be revised to reflect changes in the
62 natural gas market that have occurred since the Company's current transportation
63 program was established.

64 (6) The Company's transportation program needs to be modified to
65 reflect customer and supplier suggestions that are acceptable to the Company.

66 (7) The Company needs to revise its transportation tariff to encourage
67 growth in the number and throughput of transportation customers without
68 adversely affecting retail gas sales customers or the reliability of the Company's
69 services to all customers.

70 **D. Exhibits to Direct Testimony**

71 Q. Are you sponsoring any attachments to your direct testimony?

72 A. Yes. I am the sponsor of Peoples Gas Ex. Nos. TZ 1.1 through TZ 1.17.

73 Q. Were Ex. Nos. TZ 1.1 through TZ 1.17 prepared by you or under your supervision
74 and direction?

75 A. Yes, they were.

76 **E. Background and Experience**

77 Q. Please summarize your educational background and experience.

78 A. In 1983, I received my Bachelor of Arts degree, with majors in Accounting and
79 Business Administration, from St. Ambrose University in Davenport, Iowa. In
80 1986, I received a Masters of Business Administration, with a concentration in
81 Finance, from DePaul University.

82 I began my employment with Peoples Gas in 1984 in the Auditing
83 Department. In 1986, I transferred to the Financial Reporting Department. In
84 1988, I transferred to the Rate Research and Policy Department. Four years later I
85 transferred to the Office of Corporate Planning. In November 1996, I transferred
86 to the Rates Department as a Supervisor. In September 1997, I was promoted to
87 Manager of the Rates Department. In October 2000, I was promoted to Director,
88 Customer Relations. In March 2003, I transferred to the position of Director, Gas
89 Supply. In February 2007, I became Vice President of Gas Supply for the
90 Integrys Energy Group.

91 **II. CURRENT TRANSPORTATION PROGRAMS**

92 Q. Please provide a brief overview of the transportation program.

93 A. The Company first made transportation available to large volume customers in the
94 mid-1980s. The current Riders that set forth the detail of transportation service
95 were largely put in place in the Company's last rate case in Docket No. 95-0032.
96 Currently, over 17,000 (21%) General Service customers and about 180 (94%)
97 Large Volume and Large Volume Demand Service customers use these
98 transportation services.

99 Q. Please continue.

100 A. The Company currently offers a small volume program and a large volume
101 program. The small volume program is set forth in Riders SVT and AGG. Rider
102 SVT defines the customer's service and Rider AGG defines the aggregation
103 service that the supplier purchases. The Company introduced Riders SVT and
104 AGG in 1997 as a pilot program for small volume General Service customers. In
105 2002, the program was made permanent and expanded to include Small
106 Residential Service customers. Improvements to the program have been put into
107 place since its inception and, as a result, Rider SVT customers have grown to
108 make up the majority of the Company's transportation accounts.

109 Q. Please explain the large volume transportation programs.

110 A. The Company's large volume programs are set forth in Riders FST, SST, LST,
111 TB and P. Riders FST, SST and LST define the customer's service. Rider FST is
112 a full standby service that is available to all customers, except those served under
113 S.C. No. 1. Rider SST is a partial standby service that is available to S.C. Nos. 2
114 and 8 customers. Rider LST is a partial standby service that is very similar to
115 Rider SST, but it is available to S.C. Nos. 3 and 4 customers. The S.C. Nos. 3 and

116 4 customers have fully unbundled base rates and Rider LST reflects this rate
 117 design. Rider TB is the required balancing service used by Rider LST customers
 118 who elect 0% standby service. Finally, Rider P is similar to Rider AGG in that it
 119 is the aggregation or pooling service that the supplier purchases. Below is a table
 120 illustrating which transportation riders are currently available to each service
 121 classification.

| Service Classification | Applicable Transportation Riders |
|------------------------------------|----------------------------------|
| 1 – Small Residential | SVT, AGG |
| 2 – General Service | SVT, AGG, FST, SST, P |
| 3 – Large Volume Service | FST, LST, TB, P |
| 4 – Large Volume Demand Service | FST, LST, TB, P |
| 6 – Standby Service | FST, P |
| 8 – Compressed Natural Gas Service | FST, SST, P |

122 Q. You stated that the Company has modified its transportation program to
 123 accommodate customer and supplier suggestions. Please explain.

124 A. As an ongoing matter, the Company receives feedback from customers and
 125 suppliers in its day-to-day administration of the transportation program.
 126 Additionally, prior to filing this rate case, Company personnel met with various
 127 suppliers to obtain valuable feedback concerning the operation of the
 128 transportation program. Furthermore, in the merger proceeding, Docket No. 06-
 129 0540, the Company agreed to a number of Conditions of Approval. Peoples Gas

130 witness Mr. Borgard (Peoples Gas Ex. LTB-10) testifies more fully as to Peoples
131 Gas' compliance with all of the Conditions of Approval. However, I will briefly
132 describe the Conditions of Approval that pertain to the transportation programs.
133 Under Condition 34, the Company agreed to revise certain tariff provisions and to
134 make the filings within 90 days of the order. Since these filings affect the
135 proposals made in this filing, they are discussed in my testimony. Under
136 Condition 35, the Company agreed to make certain proposals in its upcoming rate
137 filing, and those proposals are also discussed below. Under Condition 36 the
138 Company agreed to meet with stakeholders to discuss certain issues. Those
139 meetings were held.

140 **III. CHANGES SINCE THE LAST RATE CASE**

141 Q. What changes have occurred since the Company's last rate case that impact gas
142 supply and transportation?

143 A. It has been over 11 years since the Company's last rate case and much has
144 changed since then, including:

- 145 • The Company created Riders SVT and AGG, the Riders associated with
146 the Choices For Yousm small volume transportation program.
- 147 • In 1992, the Federal Energy Regulatory Commission ("FERC") issued
148 Order No. 636, which required pipelines to fully exit the citygate merchant
149 function. Although this occurred before the Company's last rate case
150 filing, at that time, the pipelines were still developing new services to
151 respond to these changes. The services available to the Company today
152 from these pipelines are not the same as they were in 1995. When
153 pipelines eliminated their bundled citygate sales service, they greatly
154 changed the array of services available to shippers and, in particular, the
155 way in which pipelines offered no notice service changed. Today, none of
156 the pipelines serving the Company offer storage services that allow
157 injection quantities to equal the Company's maximum daily contract
158 quantity.

- 159 • Order No. 636 also required pipelines to apply the Straight Fixed Variable
160 (“SFV”) rate design. All pipelines connected to the Company’s system
161 have adopted this rate design. As Peoples Gas witness Ms. Grace (Peoples
162 Gas Ex. VG-10) explains, the SFV rate design places all fixed costs in a
163 demand or reservation charge and only commodity costs, typically a fairly
164 small portion of total pipeline costs, are in a variable, commodity charge.
- 165 • Subsequent to Order No. 636, the purchasing/selling of natural gas has
166 evolved to include four nomination cycles available each day (two prior to
167 the flowing gas day and two within the gas day). During each of these
168 nomination cycles shippers can change the amount of gas they schedule to
169 be received or delivered. This contrasts significantly with the pre-Order
170 No. 636 system. The old system only allowed for a single daily
171 nomination deadline, which occurred the day before gas would flow. The
172 old system also required the nomination for the first day of each new
173 month three business days prior to the start of the month.
- 174 • Since 1996, four new or expanded interstate pipelines, have entered the
175 Chicago market area.
- 176 • The gas marketing landscape has changed. There has been a consolidation
177 of natural gas suppliers that operate in the Company’s service territory,
178 from over 100 active suppliers in the early 1990’s to fewer than 30 active
179 suppliers currently operating.
- 180 • The commodity cost of gas has risen dramatically. The gas bubble that
181 was present during the last rate case no longer exists.
- 182 • The trading of NYMEX natural gas futures contracts has increased
183 dramatically over the past decade, fueling the growth of large over-the-
184 counter market for natural gas products and services. For example, a
185 “basis” market, relating to price differentials at different locations on the
186 interstate transportation grid has emerged. This basis market provides a
187 degree of price transparency that can be used to value pipeline
188 transportation. Gas is now actively traded in physical and financial
189 markets and many financial products have been created that relate to the
190 commodity and to its underlying transportation.

191 Q. Why are these changes important?

192 A. These changes affect all aspects of the services that the Company purchases to
193 serve both its retail sales and its transportation customers. The changes also
194 influence what is available to alternative retail gas suppliers seeking to sell gas to

195 end use customers. In light of these industry changes, it is appropriate to review
196 the Company's transportation programs.

197 **IV ISSUES IN PROVIDING TRANSPORTATION SERVICE**

198 Q. Describe how transportation service operates on the Company's system.

199 A. If a customer elects transportation service under the existing transportation
200 programs, gas is delivered to the city gate by a supplier. The Company receives
201 this gas and is responsible for delivering gas to the customer's premises. Since a
202 supplier cannot accurately predict exactly how much gas a customer will consume
203 on any given day, the Company balances the overage or underage and accounts
204 for these differences in the customer's Allowable Bank ("AB").

205 Q. Is balancing the only function of AB?

206 A. No. The AB has two distinct functions: a daily balancing function and a gas
207 banking function. The daily balancing function allows the customer the flexibility
208 required when deliveries to the Company do not exactly match the customer's
209 demand. The gas banking function allows transportation customers to take
210 advantage of seasonal price differences by delivering to the Company and
211 placing into the AB, normally lower cost summer gas for later use in the winter
212 months. On any day that a customer's gas deliveries exceed its consumption, that
213 excess gas is, subject to the size of the bank, accounted for as an increase in the
214 AB. When consumption exceeds deliveries, this banked quantity of gas is
215 available for the customer's use.

216 Q. What costs are incurred by the Company in order to provide the balancing and gas
217 banking functions of the AB?

218 A. The two functions of the AB service that I have described are provided through
219 the utilization of the Company's entire gas supply portfolio. Included in the
220 portfolio are purchased gas supplies, transportation capacity, leased storage and
221 Company-owned storage. All costs that are incurred in order to maintain the
222 portfolio are relevant to the AB. These costs include the fixed gas costs
223 associated with (1) reserving gas supplies; (2) reserving pipeline capacity;
224 (3) operating Company-owned storage facilities; (4) reserving the rights to store,
225 withdraw gas from and inject gas into leased storage facilities; and (5) the
226 variable costs of withdrawing, injecting and transporting that gas into and out of
227 storage.

228 Q. How is the size of a customer's AB determined?

229 A. Under the current formula, previously approved by the Commission in Docket
230 No. 95-0032, the Company's total storage top gas capacity is divided by the
231 Company's total Design Peak Day Supply less expected peak day customer-
232 owned gas deliveries to the Company. The resulting number is the total number
233 of bank days. These bank days are then used to determine the customer's bank
234 rights. The bank days are divided into Base Rate Days and Gas Charge Days.
235 The number of Base Rate Days is based on the relationship of costs associated
236 with the Company owned storage to total storage costs and the Gas Charge Days
237 are based on the relationship of costs associated with the Company's leased
238 storage services to total storage costs. The total number of bank days each

239 customer receives is related to the customer's service classification and the
240 services the customer elects to buy from the Company.

241 **A. Storage**

242 Q. You stated that storage is one of the assets that support the availability of AB for
243 transportation customers. Describe generally the physical storage capability of
244 the Company.

245 A. The Company's gas storage generally consists of storage services that are leased
246 from interstate pipelines and storage at Manlove Field, which is owned by the
247 Company. The leased storage costs are recovered through Rider 2, the Gas
248 Charge. Company-owned storage costs are recovered through base rates. Each of
249 these storage assets operates differently for both physical and contractual reasons.
250 Each storage asset or service has its own daily, monthly, and seasonal, injection
251 and withdrawal limitations.

252 Q. How does storage impact Peoples Gas' operations?

253 A. Peoples Gas could not operate its system without storage. With numerous points
254 of receipt of gas into Peoples Gas' system, and hundreds of thousands of points of
255 delivery of gas to Peoples Gas' sales and transportation customers (whose
256 demand for gas changes constantly), it is practically impossible for the aggregate
257 quantity of gas received by Peoples Gas on any day to equal the aggregate
258 quantity of gas delivered by Peoples Gas to its sales and transportation customers
259 on that day. With storage, Peoples Gas can take gas stored in its own storage field
260 or stored in services purchased by Peoples Gas into its system for delivery to its
261 customers when the aggregate quantity of gas otherwise received by Peoples Gas

262 on any day is less than the aggregate quantity of gas delivered by Peoples Gas to
263 its sales and transportation customers on that day. Conversely, with storage,
264 Peoples Gas can put gas into its own storage field or into services purchased by
265 Peoples Gas when the aggregate quantity of gas otherwise received by Peoples
266 Gas on any day is more than the aggregate quantity of gas delivered by Peoples
267 Gas to its sales and transportation customers on that day, subject to physical and
268 contractual limitations.

269 Q. Please describe how the Company-owned storage operates.

270 A. Manlove Field is an underground aquifer storage field. For the reasons set forth
271 more fully by Mr. Puracchio in his direct testimony, due to the characteristics of
272 this field and the Company's load profile, the Company generally operates this
273 field on a one cycle per year basis. That is to say, when injections into the field
274 begin, they typically will continue until all injections are completed. Similarly,
275 there are generally no storage injections during the withdrawal period and usually
276 no storage withdrawals during the injection period at Manlove Field.

277 Q. Are there any additional operational characteristics of Manlove Field that are
278 noteworthy?

279 A. Yes. For the reasons set forth more fully by Mr. Puracchio in his direct
280 testimony, (Peoples Gas Ex. TLP-1.0) physical and operational characteristics of
281 the facility impact the extent to which injections and withdrawals can be made at
282 a given point in time. For example, injection and withdrawal capabilities differ at
283 the beginning and end of each season (injection or withdrawal). In the early part
284 of the injection season when field pressures are low, gas is more easily injected

285 than in the latter part of the injection season. As a result, the maximum daily
286 injection capability diminishes from the start of the injection season until its
287 conclusion. Similarly, during the withdrawal season, the maximum daily
288 withdrawal capability declines once a certain amount of inventory is removed
289 from the field. The Company relies on Manlove field to meet design day sendout
290 requirements through late January. Withdrawing too much gas early in the winter
291 could put this capability at risk.

292 Q. Please describe how the Company's leased storage assets operate.

293 A. The Company purchases storage services from interstate pipelines under terms
294 and conditions included in the pipelines' tariffs, which are approved by the FERC.
295 The tariffs define how the Company can use the services and specify any daily,
296 monthly, and seasonal limitations. The Company must adhere to these
297 limitations. Currently, the Company purchases several types of leased storage
298 services.

299 Q. Please describe these services.

300 A. First, the Company leases storage from ANR Pipeline Company ("ANR") under
301 its Firm Storage Service ("FSS") tariff. ANR's FSS is a 50 day service designed
302 primarily to have gas injected during the April-October period and withdrawn
303 during the November-March period. In addition the FSS tariff permits the
304 Company to perform limited winter injections and limited summer withdrawals.
305 The Company enhances ANR's FSS service through the purchase of No-Notice
306 Service ("NNS") from ANR. ANR's NNS allows the Company to exercise a
307 portion of its firm injection and withdrawal rights without the Company providing

308 notice through one of four nomination cycles. ANR's daily no-notice balancing
309 service is critical to enabling the Company to meet hourly demand fluctuations
310 throughout the day and to manage gas consumption changes caused by changes in
311 weather. No-notice balancing also protects the Company against unexpected
312 supply interruptions throughout the day. The ANR tariffs require that the
313 Company also purchase firm transportation services from ANR to bring supplies
314 to and from storage. In sum, the storage and firm transportation services that
315 Peoples Gas buys from ANR give the Company the ability to deliver gas to its
316 sales and transportation customers when their aggregate demand for gas exceeds
317 the amount of gas being delivered to Peoples Gas by suppliers. The no-notice
318 feature of the service also allows Peoples Gas to inject gas when deliveries to its
319 system on a day exceed customers' requirements and the Company's planned
320 storage injections.

321 The Company also leases storage from Natural Gas Pipeline Company of
322 America ("NGPL") under both its 50 day Delivered Storage Service ("DSS") and
323 its 75 day Nominated Storage Service ("NSS") tariffs. These storage services
324 have different levels of monthly and daily withdrawal and injection capability, no-
325 notice injections or withdrawals that vary by season and within a season, and
326 monthly or seasonal minimum withdrawal or injection. The Company must also
327 purchase firm transportation services from NGPL to use these storage services. In
328 sum, the storage and firm transportation services that Peoples Gas buys from
329 NGPL also give the Company the ability to deliver gas to its sales and
330 transportation customers when their aggregate demand for gas exceeds the

331 amount of gas otherwise being delivered to Peoples Gas by suppliers. The no-
332 notice feature of these services also allow Peoples Gas to inject gas when
333 deliveries to its system on a day exceed customers' requirements and the
334 Company's planned storage injections.

335 **B. Storage Rights**

336 Q. Please generally describe the storage rights granted to the Company by the
337 pipeline storage suppliers.

338 A. Generally, the pipelines' leased storage contracts grant the Company three
339 specific rights: 1) a right to a certain maximum inventory level or capacity; 2) a
340 right to withdraw a certain amount from that inventory on a given day, for a
341 maximum number of days, during a particular season; and 3) a right to inject a
342 certain amount into that inventory on a given day, for a maximum number of
343 days, during a particular season.

344 Q. Are the daily withdrawal and injection rights constant?

345 A. No. The daily injection and withdrawal rights change frequently.

346 Depending on the tariff, firm injection and withdrawal rights can be a
347 function of the month of the year, the current inventory balance, or even the
348 running average of activity over a period of days or some combination of these
349 and other factors. In general, the daily withdrawal rights are higher than the daily
350 injection rights in the winter and the daily injection rights are higher than the daily
351 withdrawal rights in the summer.

352 Q. Are there other limitations?

353 A. Yes. In addition to these daily limits, each storage service has unique monthly
354 and seasonal withdrawal and injection parameters imposed by the relevant
355 pipeline tariffs.

356 For example, the NGPL DSS service has a required minimum storage
357 inventory quantity that must be met during the injection months, and a minimum
358 injection requirement that must be met sometime between October 15 and
359 November 15 in order for a shipper to retain full withdrawal rights under the
360 services. Also, during the withdrawal period this service has monthly minimum
361 and maximum withdrawal quantities, a rolling 15 day maximum withdrawal
362 limitation, and a target end of season inventory level that must be met to retain
363 full injection rights for the upcoming injection season.

364 Q. How does the Company manage its storage inventory levels seasonally?

365 A. To help put the Company's use of storage in context, Ex. TZ 1.1 displays storage
366 inventory levels, as a percent of capacity, for each month over the last six fiscal
367 years (2001-2006). On average, the Company's inventories were at 86% on
368 November 30 and at 20% at the end of March.

369 Q. What factors drive these percentages other than the Company's operating history?

370 A. These percentages are driven by four factors: 1) the planned cycling for the
371 Company-owned storage (roughly full by December 1 and roughly empty by the
372 first week in March), 2) the tariff restrictions on NGPL's DSS storage (must be
373 95% full sometime between October 15 and November 15 or the Company loses
374 as much as 50% of its withdrawal rights, and no more than 50% full as of April 30
375 or the Company is subject to tariff cycling charges), 3) the cycling charge levied

376 by ANR if the Company's FSS storage is more than 20% full on April 1 and 4)
377 the contingency needed in the event of a warm start to the winter season. The
378 Company's use of its storage portfolio reflects these requirements.

379 Q. How does the Company combine its two types of storage in providing
380 transportation to its customers?

381 A. Combining the leased storage services with Company-owned storage creates a
382 "hybrid" storage portfolio that is used to service transportation customers in
383 addition to being used to service Peoples Gas' sales customers.

384 Q. Do the current tariffs create any operational concerns for the Company?

385 A. Yes. The current tariffs allow transportation customers to use a disproportionate
386 share of the storage services used to support services to them.

387 Q. Under the Company's current tariff, what are the consequences to the Company's
388 system when transportation customers utilize a disproportionate share of the
389 Company's storage services?

390 A. There are basically two types of consequences. First, when transportation
391 customers or suppliers utilize a disproportionate share of storage balancing
392 services, the Company must adjust its other operations, such as planned storage
393 injections and withdrawals. These are system resources which could otherwise be
394 used for retail sales customers. This can potentially create an inappropriate cross
395 subsidization, and could cause the Company to incur increased costs.

396 Second, if the activity outside of service parameters is substantial, it could
397 cause the Company to impose system wide restrictions on transportation

398 customers, such as imposing delivery restrictions or constraints on the use of
399 delivery points. These restrictions can cause considerable disruption of the
400 marketplace.

401 Q. Are the negative consequences of actions of one transportation customer often
402 offset or mitigated by the actions of another?

403 A. Sometimes they are. But there are times that the Company must impose delivery
404 restrictions on the entire class of transportation customers when perhaps only a
405 small portion of the transportation customers are operating outside their relative
406 share of the storage services available to the Company.

407 Q. Please describe the extent to which transportation customers have operated
408 outside the storage limitations necessary for the Company's system to operate
409 effectively.

410 A. Ex. TZ 1.2 illustrates the degree to which daily metered transportation customers
411 have operated outside the bounds of the Company's storage assets' capabilities.
412 The four years cover a wide range of market and weather conditions. The exhibit
413 shows, for each of the last four years (pages 1-4), the Company's storage injection
414 and withdrawal capabilities as a percentage of the Company's design day. The
415 injection percentages are represented as negatives in the lower line while the
416 withdrawal percentages are represented as positives in the upper line. The dots
417 represent the actual net daily storage injections and withdrawals of daily metered
418 transportation customers, as a percent of their aggregate Selected Standby
419 Quantity ("SSQ") which is a component of the level of storage rights for which
420 they are paying. Even when netting the storage activity of these customers

421 against each other, many of the dots are outside the Company's storage parameter
422 lines, meaning that the storage activities of the transportation customers, in the
423 aggregate, exceed the Company's storage injection or withdrawal capabilities as a
424 percentage of the Company's design day. The Company cannot predict when
425 transportation storage activity will deviate so significantly, as it can be driven by
426 many factors. But the Company must adjust when it does happen.

427 This daily adjustment issue is portrayed differently in Ex. TZ 1.3. This
428 exhibit shows the daily change in all transportation customer deliveries (including
429 customers not daily metered) over the same four year period. Page one displays
430 the daily changes in volumes while page two displays them as percentage
431 changes. Again, the Company can only accommodate these volatile swings using
432 the assets at its disposal.

433 Q. What does the Company currently do to avoid such consequences?

434 A. The Company, under its current tariffs, imposes operational restrictions and
435 penalties to discourage actions by customers that adversely impact system
436 operations.

437 Q. Please explain the Company's proposal.

438 A. Under the Company's proposed system shaping, the Company would more
439 closely define the operational parameters in which suppliers and customers may
440 act in order to better guard against the imposition of system-wide restrictions.
441 Hence, the Company is proposing that the transportation customers have
442 injection, withdrawal and storage balance limitations based on their pro rata share
443 of all of the storage capabilities available to the Company. The Company

444 believes that this is a more equitable and potentially less market-disruptive
445 method of avoiding operational restrictions. The precise amount of this storage
446 available to a given transportation customer will be determined by the proportion
447 of the base rates and gas charge demand charges a particular customer pays.

448 Q. What impact does this proposal have on storage available to transportation
449 customers?

450 A. The hybrid storage I previously described will require customers to comply with a
451 more defined seasonal shaping of injection, withdrawal and inventory balance
452 parameters commensurate with the daily, monthly and seasonal limitations
453 imposed upon the Company by its FERC-regulated suppliers and the operating
454 constraints of its own storage. This should minimize the likelihood that the
455 Company might have to impose additional restrictions on all transportation
456 customers.

457 **C. Demand Diversity**

458 Q. What is demand diversity?

459 A. Demand diversity is the concept that the Company's system peak day is not
460 necessarily the peak day for each individual transportation customer. Commercial
461 and industrial transportation customers may have requirements that are relatively
462 less sensitive to weather in relation to customers whose primary use of gas is for
463 space heating. Consequently, the resources needed to provide peak day service to
464 transportation customers as a class are reduced to the extent that some
465 transportation customers experience their peak on a day other than the system
466 peak.

- 467 Q. What is the purpose of the Company's Diversity Factor?
- 468 A. The Company's Diversity Factor recognizes the demand diversity that exists
469 among the Company's transportation customers and adjusts those customers'
470 rates to account for the differences in demand.
- 471 Q. How is the Diversity Factor determined?
- 472 A. The Diversity Factor is the result of dividing the transportation customers' total
473 demand on the Company's peak day (i.e., coincident peak demand) by the sum of
474 each individual customer's peak demand on any day (i.e., non-coincident peak
475 demand).
- 476 Q. How does the Company use the Diversity Factor?
- 477 A. It is used in calculating the Standby Demand Charge and the Standby Commodity
478 Charge (by applying one minus the Diversity Factor), which is billed to the
479 Company's transportation customers, and to adjust the number of AB days a
480 transportation customer receives. In addition, it will adjust the maximum daily
481 injection and withdrawal rights available under the proposed Rider SST.
- 482 Q. What is the current value for the Diversity Factor?
- 483 A. The Commission, in its order in the Company's last rate case, Docket 95-0032,
484 approved a value of .50 for the Standby Demand Charge Diversity Factor.
- 485 Q. Is .50 the appropriate value for the Diversity Factor?
- 486 A. No, it is not the appropriate value for the Company's system. The Company has
487 performed studies that analyze the previous four years. Each of these studies

488 indicates that the actual value is at least .85 and has averaged .87. Thus, the
489 Company proposes to set the Diversity Factor at .87.

490 Q. Why is it appropriate to establish the correct Diversity Factor value?

491 A. This factor should be set correctly so that there is no cross subsidization between
492 retail and transportation customers. If the factor is too low, the price of reserving
493 standby service is below cost, and retail customers bear those costs.

494 Q. Please describe Ex. TZ 1.4.

495 A. Ex. TZ 1.4 describes the methodology underlying the Diversity Factor analysis
496 performed on three groups of customers (Riders FST, SST and LST customers
497 with daily meters). The analysis includes four contract years (May 1, 2002
498 through April 30, 2006) evaluated by individual years and as an average of the
499 four years.

500 Q. Please summarize the findings of your study.

501 A. As shown in Ex. TZ 1.5, the annual Diversity Factor determined for daily metered
502 customers ranged from .8532 to .8796 and averaged .8703 for the four years. The
503 range by rider for the four year average was .8647 to .9224.

504 Q. What conclusions can be drawn from this analysis?

505 A. The Diversity Factor for individually metered customers does not vary much year
506 to year. Even by rider, the three averages are similar. The Company proposes to
507 use .87, which is the average.

508 Q. What would be the impact of this change in the Diversity Factor?

509 A. The effects on revenues for the test year reflecting proposed rates resulting from
510 the proposed Diversity Factor are shown on page 1 of Peoples Gas witness Ms.
511 Grace's Ex. VG 1.2. As indicated in line 22 column M thereof, the amount of
512 additional Gas Charge revenue received from transportation customers would
513 increase by about \$1.7 million due to the change in Demand Charge Revenue
514 caused by the change in the Diversity Factor. The net increase to transportation
515 customers' gas charge revenue of about \$1.7 million would result in a
516 corresponding net decrease to retail sales customers. While the impact of an
517 increase in the Diversity Factor is to shift costs from the retail customers to the
518 transportation customers, the increased Diversity Factor also provides more
519 storage AB to the transportation customers.

520 **V. CHANGES TO TRANSPORTATION TARIFFS**

521 Q. What major changes does the Company propose to its transportation riders?

522 A. The Company is proposing 15 major changes to its transportation riders. These
523 changes will move the Company to having one monthly based service and one
524 daily based service. Each transportation customer can make its own election on
525 which service to use based on its particular risk preference and load
526 characteristics. The proposals are to:

- 527 1. Eliminate enrollment limitations associated with Rider SVT and to rename
528 the service Rider CFY (Choices For Yousm).
- 529 2. Make the Rider CFY enrollment process simpler.
- 530 3. Increase Rider CFY's monthly delivery tolerance and change the way
531 storage is handled to have storage better match the CFY supplier's
532 customer requirements and rights.

- 533 4. Eliminate Rider FST and enable Rider FST customers to (1) take service
534 under a more inclusive Rider CFY, (2) take service under a modified
535 Rider SST or (3) elect to return to retail sales service.
- 536 5. Merge Rider SST into a revamped Rider SST.
- 537 6. Modify the Rider SST injection and withdrawal formulae as well as the
538 charges and the methodologies applicable to Rider SST. The Company
539 also proposes to incorporate an annual mechanism to adjust the storage
540 rights of the programs as the portfolio changes.
- 541 7. Include seasonal inventory requirements for Rider SST.
- 542 8. Align Rider TB customers' daily balancing rights with the fraction of the
543 balancing costs that they are paying.
- 544 9. Eliminate the Customer Change and Activation Charges for Riders P and
545 AGG, respectively.
- 546 10. Eliminate charges to suppliers for the use of PEGASys[®] (the Company's
547 electronic bulletin board).
- 548 11. Revise the Diversity Factor.
- 549 12. Modify the cash-out index in Rider TB.
- 550 13. Allow imbalance trades in more circumstances with no change to the fee.
- 551 14. Introduce an intra-day allocation service.
- 552 15. Update various transportation administrative fees to reflect the associated
553 cost of service.
- 554 Q. Are the present and proposed charges under each transportation rider summarized
555 in an exhibit?
- 556 A. Yes. Ex. TZ 1.6 illustrates the charges for each present and proposed
557 transportation rider. The exhibit also shows the decrease in the Standby
558 Commodity Charge and the increase in the Standby Demand Charge due to the
559 change in the Diversity Factor from .50 to .87.

560 **A. Changes to Rider SVT, Small Volume Transportation Service and**
561 **Rider AGG, Aggregation Service**

562 Q. Please discuss the specific changes the Company proposes for Riders SVT and
563 AGG.

564 A. Certain restrictions will be removed for Riders SVT and AGG services. First, the
565 Company will eliminate the Application Period, which is outdated. Second, the
566 Company proposes to eliminate the minimum pool size of 50 accounts. Instead,
567 the Company will allow the monthly Aggregation Charge to act as the economic
568 incentive to encourage larger pools. Pursuant to the Commission’s Order in
569 Docket No. 06-0540, the Company will file to change this provision not later than
570 May 8, 2007. Accordingly, the proposal in this rate case to eliminate the
571 minimum pool size will become moot if the filing is accepted. Finally, the
572 Company proposes to eliminate the 50,000 annual therm cap to participate in
573 CFY. Note that the Company addressed this topic as part of the workshops called
574 for in the Commission’s Order in Docket No. 06-0540. By removing this cap,
575 mid-sized to larger accounts could become part of the pools. This would allow
576 suppliers to solicit all customers for CFY Service, except S.C. No. 4, and move
577 any of their existing FST customers to CFY.

578 Q. Why is the Company proposing that S.C. No. 4 customers be ineligible for CFY
579 Service?

580 A. The S.C. No. 4 base rates are fully unbundled, which means that no storage costs
581 are embedded in these customers’ base rates. The storage rights available to
582 Rider CFY customers are determined in a uniform manner and assume that
583 customers pay the same amount for Company provided balancing and storage.

584 By definition, S.C. No. 4 does not fit in this structure. Rider SST is designed to
585 accommodate variable levels of storage and balancing, and S.C. No. 4 customers
586 are more appropriately served under that transportation service.

587 Q. What technical improvements is the Company proposing to better manage data?

588 A. The Company will provide enhanced self-serve functionality through its
589 PEGASys[®] system and will implement secure FTP automated file exchanges.
590 Specifically, the Company will:

- 591 • Modify PEGASys[®] to accept intra-day end-user re-allocation of confirmed
592 gas deliveries. This will allow a customer to be able to re-allocate, on an
593 intra-day basis, the customer gas deliveries within its own pools and
594 transportation contracts – subject to the applicable storage and contract
595 balancing rules.
- 596 • Provide enhanced on-line access to customer billing information, such as
597 data concerning the most recent meter read.
- 598 • Eliminate the requirement that a customer's meter number must be
599 entered to retrieve historical usage data on-line through PEGASys[®].

600 Q. Beyond these technological improvements, what changes have been made to
601 Rider CFY to make enrollment easier?

602 A. The Company will eliminate the requirement that the supplier include the
603 customer's meter number as part of the electronic enrollment process. Pursuant to
604 the Commission's Order in Docket No. 06-0540, the Company will file to change
605 this provision not later than May 8, 2007. Accordingly, the proposal in this rate
606 case eliminating the customer meter number requirement will become moot if the
607 filing is accepted. The customer account number will be sufficient for enrollment
608 purposes.

609 Q. Pursuant to Condition 35 of the merger Conditions of Approval, Peoples Gas
610 agreed that it would consider providing customer lists (customer name and
611 address) to Rider SVT suppliers on substantially the same terms and conditions
612 that these lists are provided for commercial customers. Has Peoples Gas
613 developed such a proposal?

614 A. Yes. Peoples Gas proposes providing, by contract, two tiers of information to
615 suppliers. The information would not be limited to residential customers.

616 The first tier would be account level information that does not identify the
617 customer. The supplier would not need customer authorization to view this
618 information because it would not receive any information that was identified with
619 particular customers. For example, the first tier information would include terms
620 billed, billing dates and whether the information is based on an actual or estimated
621 meter reading. The information would be at the account level, but the account
622 would not be identified by name, address or other customer-specific information.

623 The second tier would be customer-specific information. A supplier could
624 only view this information if it had the customer's consent, and consent would be
625 evidenced by the supplier having one or two customer-specific pieces of
626 information to input as keys to access the information. Keys could include, for
627 example, the account number or meter number in combination with a telephone
628 number or amount billed on one of the two most recently issued bills. The type of
629 information available would include name, account number, billing address,
630 premises address, usage, type of meter reading, and meter reading dates.

631 Q. You stated that the supplier would need to contract with Peoples Gas. What
632 would the contract address?

633 A. The contract would define each party's rights and obligations more specifically.
634 For example, it would define each item of information available in the first and
635 second tiers. It would specify limits on the use, such as disclosure and retention,
636 of the information and address the confidential nature of the information. It
637 would include typical contract terms and conditions such as definitions, charges
638 and payment, term and termination rights, and clauses governing the
639 interpretation of the contract.

640 Q. Are suppliers required to purchase this service?

641 A. No. Peoples Gas is offering the service because some suppliers have requested it,
642 and we think it can assist suppliers in serving customers without detriment to the
643 customers who do not wish to participate in the transportation programs.
644 Suppliers can participate in the transportation programs without obtaining any of
645 this information from Peoples Gas, as they have done under the current program.
646 Notably, the second tier information is all information that the customer could
647 provide to the supplier. The service that Peoples Gas is proposing allows a
648 supplier to review information in an electronic format, but only after the supplier
649 has obtained the customer's consent in the form of customer-specific keys. This
650 is easier for the supplier, and it is less burdensome to a customer who wants to
651 participate in the program.

652 Q. What other enhancements is the Company proposing?

653 A. As I mentioned previously, the minimum requirement of 50 accounts in a pool has
654 been eliminated.

655 Q. Please describe the changes proposed for delivery requirements.

656 A. The Company currently establishes Required Daily Delivery Quantities
657 (“RDDQs”) and a Required Monthly Delivery Quantity (“RMDQ”). The RMDQ
658 is simply the sum of the RDDQs for the month. These are the amounts of gas,
659 subject to daily and monthly tolerances, that the supplier must deliver each day or
660 month. The Company is making no changes to the RDDQ tolerance, but it is
661 adding more flexibility to the RMDQ tolerance. Specifically, the Company
662 proposes to increase the monthly tolerance applicable to the RMDQ from 2% to
663 5%.

664 Q. Please describe the impact of this change on the Company and its customers.

665 A. This change can be made manageable for the Company within its gas supply
666 portfolios and provides benefits to the suppliers by granting them greater monthly
667 tolerances. The 150% increase in the monthly tolerance benefits customers
668 because it reduces the cashout concerns of the supplier and allows suppliers to
669 further utilize the current daily 10% tolerance level applicable to the RDDQ.

670 Q. What changes are proposed with respect to Rider CFY and Rider AGG storage?

671 A. The Company proposes to introduce a storage “true up” mechanism that would
672 provide suppliers with a customer’s full storage rights at the time the suppliers
673 enroll customers. Currently, unless the supplier has all of its customers in place at
674 April 1, the supplier will not get the full benefit of its customers’ storage rights

675 because customers enrolled after April 1 will have missed part of the injection
676 season. Conversely, for customers no longer with the supplier, the amount of
677 storage available to the supplier exceeds what is properly associated with its
678 customer group. Thus, the Company proposes to adjust (reduce or increase) the
679 supplier's Maximum Storage Quantity monthly during most of the injection
680 period (May through September) as its customer base changes by allocating to the
681 suppliers their customers' pro rata share of storage. The storage true-up would be
682 accomplished by charging or crediting the supplier's Rider CFY pool each month
683 with storage gas priced at the Chicago City Gate First-of-Month ("FOM) index
684 price. In this way, a pool's storage inventory will mirror the inventory rights of
685 the pool's current customer base. These true-up dollars will be credited or
686 charged to Rider 2, as appropriate.

687 Q. What does the Company expect to be the effect of the proposed changes to the
688 RMDQ tolerance and the storage true up mechanism?

689 A. The combined effect of these proposed delivery and storage changes should be to
690 offer additional value components which will encourage large volume
691 transportation customers to switch to Rider CFY service. They reduce the impact
692 to current Rider FST customers who elect to switch to CFY.

693 Q. Previously you discussed how the Company used its system storage and stated
694 that changes would be proposed to bring the operations of the transportation
695 customers more in line with Company operations. How do the proposals for
696 Rider CFY contribute to this goal?

697 A. With the exception of the change in the monthly tolerance applicable to the
698 RMDQ, no significant changes are necessary for Rider CFY. Basing CFY storage
699 use on how the Company uses its storage was approved in the Commission's
700 Order in Docket No. 01-0470. The Company annually provides CFY suppliers
701 the monthly storage injection and withdrawal parameters for CFY pools. In
702 addition to the daily tolerance (+/- 10% of the RDDQ) the Company provides
703 suppliers under CFY, the Company must provide additional balancing for weather
704 changes and forecast error. Unlike the large volume transportation programs with
705 daily metering to determine actual consumption, the Company takes the
706 responsibility for forecasting daily CFY volumes correctly. The supplier does not
707 bear the forecasting risk. In addition, the newly proposed storage true-up
708 provision transfers appropriate storage gas to and from the Company and the
709 supplier. This allows both parties to have the appropriate amount of storage gas
710 operationally for their respective customers.

711 Q. What changes, and what remains the same, for the Rider CFY/AGG rates?

712 A. First, the Company proposes to eliminate the Customer Pool Activation Charge of
713 \$10 per account. This will encourage additional participation by suppliers by
714 removing a disincentive to pooling. Second, the Company proposes to maintain
715 the per pool Aggregation Charge at \$200 per month and to change the per account
716 Aggregation Charge from \$0.49 per month to \$1.30 per month. Support for the
717 per account charge is in Ex. TZ 1.7, column F. Third, the Company proposes to
718 move the billing of the Aggregation Balancing Gas Charge ("ABGC") from the
719 supplier to the customer at the account level. Suppliers have raised this as an

720 important issue. Given the nature of the ABGC monthly calculation, the rate
721 fluctuates considerably and renders it more problematic for suppliers to include
722 this varying charge in their fixed rate quotes. The change will make it easier for
723 suppliers to price their services and explain those services to the customer. The
724 customers should not be adversely impacted by this change since they were likely
725 paying this charge as part of their supplier charges.

726 Q. Have you calculated bill impacts that show the proposed increase in delivery
727 charges as proposed by Peoples Gas witness Ms. Grace and the changes that you
728 propose?

729 A. Yes. Illustrative examples of annual bill impacts are presented in Ex. TZ 1.8.
730 Page 1 displays the bill impacts for a typical size S.C. No. 1 space-heating
731 customer under present and proposed rates. The top section breaks the bill out by
732 component for a sales customer while the bottom section does the same for a CFY
733 transportation customer. The comparison illustrates that the most significant
734 portion of the increase is due to the base rate component. Page 2 is a similar
735 comparison, showing similar results, for a typical S.C. No. 2 customer

736 **B. Elimination of Rider FST – Full Standby Transportation Service**

737 Q. Why does the Company propose to eliminate Rider FST?

738 A. The Company proposes to eliminate Rider FST, Full Standby Transportation
739 Service, because the program is unnecessary. Changes since the Company's last
740 rate case and proposed changes in this case justify its elimination. The Company
741 is also proposing to allow Rider SST customers to choose up to 100% standby,

742 thus providing another option for customers currently taking service under Rider
743 FST.

744 Q. Why is the Rider FST program unnecessary?

745 A. The FST program results in inefficient meter reading procedures and the actual
746 operation of the program expends assets beyond those reasonably appropriate for
747 the provision of the service.

748 Q. Please explain.

749 A. The FST program is a full standby program that is billed on a calendar month
750 basis. This requires that manual meter readings be taken outside of normal meter
751 reading routes (cycles). This is much less efficient than reading meters on their
752 scheduled "cycle" dates by geographic routes as the CFY program does.
753 Presently, this additional cost of out of cycle meter reads is recovered in the
754 monthly Administrative Charge and provides little benefit. Beyond the
755 inefficiency of obtaining the readings, monthly meter readings do not provide the
756 daily consumption information that is required to assure that assets are being
757 utilized equitably by the transportation customers.

758 Q. Why is FST inappropriate for the assets associated with the service?

759 A. The FST program is incompatible with the current operational capabilities of the
760 Company. Ex. TZ 1.9 illustrates the current withdrawal (page 1 of 2) and
761 injection (page 2 of 2) rights of FST customers expressed as a percentage of
762 Maximum Daily Quantity ("MDQ"), compared with the Company's rights
763 expressed as a percentage of the Company's design peak day. As shown by the

764 data in Ex. TZ-1.9, the rights of the FST service are much too broad in relation to
765 the assets available to support this service. As an example, while the Company's
766 summertime storage injection rights may only be the equivalent to 16% of its
767 peak day sendout, an FST customer could inject 100% of its peak day (MDQ)
768 under the Company's current program. Likewise, the Company's withdrawal
769 rights in the summer would be an even lower percentage of its peak day
770 withdrawal rights, but FST customers can withdraw up to 100% of their peak day.
771 Similar inequities exist for the winter season. The Company strongly believes
772 that the services that transportation customers receive must correspond to the
773 assets available to support those services.

774 As proposed in this proceeding, Riders CFY and SST will have daily
775 tolerance responsibilities linked to actual or estimated daily consumption.
776 Proposed Rider SST will require the supplier to keep the difference between its
777 deliveries and consumption within its daily storage rights. As with the current
778 program, the CFY supplier will be responsible for delivering to the Company a
779 quantity of gas (adjusted for storage activity) that is within a defined tolerance
780 range of the best estimate of that pool's daily consumption provided by the
781 Company (that is, the RDDQ). Eliminating FST and transferring these customers
782 to CFY or SST will align the FST customers' use of the services to the assets used
783 to support them.

784 Q. How does Peoples Gas expect the existing Rider FST customers to be affected by
785 the proposal to eliminate Rider FST?

786 A. There are currently about 4,500 Rider FST customers. Rider FST customers will
787 have the choice to participate in the enhanced and expanded Rider CFY or Rider
788 SST. The FST customers can also choose retail sales service. The Company
789 expects that most Rider FST customers would switch to Rider CFY partly because
790 these customers would have their monthly administrative fees reduced
791 substantially.

792 A smaller number of the Rider FST accounts, those using above 50,000
793 therms annually, are likely to switch to service under Rider SST. As stated above,
794 the Company is proposing to allow customers to choose 100% standby under
795 Rider SST, as they did under Rider FST. By choosing Rider SST, the customers,
796 or their supplier, would be responsible for managing their daily deliveries and
797 storage balances. To ensure that this is being done, the requirement that all SST
798 customers have daily metering devices will remain in place. Rider FST does not
799 have such a requirement.

800 Q. Is the cost of the daily metering device a significant burden for customers
801 currently on FST that want to switch to SST?

802 A. No. Under the Company's proposed daily metering device rates, Rider SST
803 customers will pay about \$336 per year. For a 50,000 annual therm customer,
804 that works out to be about 0.7¢ per therm. Also, as a portion of the total gas bill,
805 that amount would be small (less than 1% of the annual gas bill) and should not
806 be an obstacle. However, a less expensive alternative is offered under Rider CFY.
807 The 50,000 therm annual usage limit on CFY is being removed, so larger
808 customers can go to CFY, if it is a better fit for them.

809 Q. What is the bill impact of these changes on the S.C. No. 2 Rider FST
810 transportation customers switching to Rider CFY?

811 A. Ex. TZ 1.10, pages 1 (5,000 annual therms) and 2 (30,000 annual therms)
812 illustrate the bill impacts by component for Rider FST customers switching to the
813 Rider CFY program. The Exhibit shows decreases in administrative charges and
814 increases in other charges. The decreases in the Administrative Charges
815 substantially offset the increases in the other charges.

816 Q. What is the bill impact of these changes on the S.C. No. 2 Rider FST
817 transportation customers switching to Rider SST?

818 A. Ex. TZ 1.11, pages 1 (30,000 therms) and 2 (50,000 therms) illustrate the bill
819 impacts by component for Rider FST customers switching to the Rider SST
820 program. The largest increases are in the base rate component. While the
821 Standby Demand Gas Charge is also increasing due to the change in the Diversity
822 Factor, there will be an associated increase in the amount of AB. As can be seen
823 by comparing column C of Ex. TZ 1.10, page 2 of 2, and Column C of Ex. TZ
824 1.11, page 1 of 2, the 30,000 annual therm customer would pay less under the
825 proposed Rider CFY than under the proposed Rider SST tariffs.

826 Q. Operationally what effect do these changes have on the Rider FST customers
827 switching to Rider SST?

828 A. The most important change is that customers' and their suppliers' rights and
829 obligations will be defined in daily, and not monthly, terms. Rider FST customers
830 switching to Rider SST will know their daily consumption *via* the daily metering
831 device. The customers or their suppliers will be responsible for providing daily

832 gas supply to satisfy those daily requirements within their *pro rata* share of the
833 Company's storage and balancing capabilities. These customers have chosen an
834 alternative supplier. The alternative supplier has agreed to supply them. The
835 Company simply wants to make sure that individual transportation customers
836 have a right to call on their fair share of the Company's storage and balancing
837 resources without usurping the shares rightfully available to other transportation
838 customers and to the Company to serve sales customers.

839 **C. Changes to and the Merging of Rider SST, Selected**
840 **Standby Transportation Service, and Rider LST, Large**
841 **Volume Selected Standby Transportation Service**

842 Q. What changes do you propose for existing Riders SST and LST?

843 A. First, the Company proposes to merge Riders SST and LST into a new Rider SST
844 Tariff. Currently, Riders SST and LST are largely identical, except for
845 distinctions that are needed to accommodate the fact that the S.C. No. 4 customers
846 who take service under Rider LST have fully unbundled rates. Both tariffs
847 require daily metering. Rider LST is currently available to S.C. Nos. 3 and 4
848 customers. As Peoples Gas witness Ms. Grace explains in her direct testimony,
849 the Company is proposing to merge S.C. Nos. 3 and 4 into S.C. No. 4. S.C. No. 4
850 will continue to have fully unbundled base rates.

851 Second, due to the merger of the two tariffs, the Company will make a
852 distinction in the AB formulas to account for the differences between bundled and
853 unbundled rates. In essence, the distinction recognizes that the bundled rates of
854 S.C. No. 2 include Company-owned storage, while the unbundled rates of S.C.
855 No. 4 do not.

856 Third, rates have been adjusted to reflect current cost of service study
857 results.

858 Fourth, gas delivery and storage requirements have been revised to reflect
859 the services the customers are paying for and the gas supply, storage, and
860 transportation portfolio supporting them. This includes a more defined seasonal
861 shaping of storage injection and withdrawal rights, as well as seasonal storage
862 balance requirements.

863 Fifth, the Standby Demand Charge is being revised to reflect the revised
864 Diversity Factor of 87%. The remaining 13% is recovered in the Standby
865 Commodity Charge.

866 Q. What language changes were made to Rider SST?

867 A. To accommodate the changes to storage use and the merger of Riders SST and
868 LST, additional terms and acronyms have been added. The terms are defined in
869 the Company's proposed Rider SST tariff, which is included in Peoples Gas
870 witness Ms. Grace's Ex. VG-1.1.

871 Q. Please explain the new Maximum Daily Withdrawal Quantity ("MDWQ") and
872 the Maximum Daily Injection Quantity ("MDIQ") terms.

873 A. The MDWQ is the maximum amount of gas, accounted for in the AB, that a
874 customer can withdraw from its AB on a daily basis. The MDWQ is the
875 customer's pro rata share of the Company's total storage portfolio maximum daily
876 withdrawal that is allocated to a transportation customer. It is based on the
877 relationship of the customer's contract Maximum Daily Quantity ("MDQ") to the
878 Company's Design Peak Day Demand ("DPD"). It takes into account the

879 proportion of base rate storage assets the customer is paying for and the gas
880 charge storage assets the customer is paying for through the Standby Demand
881 Charge, which is determined by that customer's Selected Standby Quantity
882 ("SSQ"). The Company proposes to annually provide to transportation customers
883 the information needed to determine the monthly MDWQ. The MDIQ is the
884 injection counterpart to the MDWQ and works in a similar fashion.

885 Q. Are the definitions of MDIQ's and MDWQ's that you propose stringent relative
886 to how the Company plans to use its storage?

887 A. No. These quantities will be determined based on monthly percentages (the
888 Maximum Daily Injection Percentage or MDIP, and the Maximum Daily
889 Withdrawal Percentage or MDWP) that will mirror the rights that are available to
890 the Company from its storage suppliers. Ex. TZ 1.12 illustrates the Company's
891 planned average withdrawals (page 1 of 2) and injections (page 2 of 2) by month
892 as a percentage of its design peak day. These are represented by the lines closest
893 to "0%" on each graph. The outside lines on each graph (indicating greater
894 withdrawal and injection capability than the Company's plan) represent the rights,
895 as a percentage of MDQ, that a 100% standby Rider SST customer would have
896 under the Company's proposals. As may be noted, there is a relatively large
897 amount of flexibility for the customer, albeit less than the 100% of MDQ
898 flexibility that exists today.

899 Q. How did the Company determine the total storage that is available to allocate to
900 the AB?

901 A. Total available storage was calculated as the non-coincident maximum top-gas
902 inventory for each storage service under the Company's contractual agreements
903 with storage providers.

904 Q. How are the AB days calculated?

905 A. As illustrated in Ex. TZ 1.13, AB is calculated by dividing the maximum top-gas
906 inventory by the system Design Peak Day Supply ("DPDS"), yielding a value of
907 29 times DPDS. This figure is allocated between a base rates component of 9
908 times MDQ (31%), and a Rider 2 (gas charge) component of 20 times MDQ
909 (69%). The Rider 2 component is then adjusted to 17 times MDQ to reflect the
910 proposed .87 Diversity Factor (20 times .87, rounded). All Rider SST S.C. No. 2
911 transportation customers' base rates include the costs of the 9 times MDQ of AB,
912 while Rider SST S.C. No. 4 transportation customers elect how much they want in
913 base rates and gas charge days.

914 Q. How is the proposed AB calculation different than it is under the current tariffs?

915 A. The proposed calculation is very similar to the calculation in the current tariffs.
916 The only change is that the base rate days will be locked at 9, and will not change
917 between rate cases. This is consistent with the rates being charged for base rate
918 days. The gas charge days may change each year as gas charge assets supporting
919 them change.

920 Q. What AB size can the transportation customer obtain under the Company's
921 proposal in this proceeding?

922 A. Examples of the effect selected standby percentages have on AB size are
923 presented in Ex. TZ 1.14. Ex. TZ 1.14 illustrates the results of the Company's
924 proposed calculation for transportation customers for six sample rate/standby
925 level combinations.

926 Q. Please continue.

927 A. The number of days of a transportation customer's AB, using these components,
928 were calculated as shown in the following formulas:

929 For Rider SST S.C. Nos. 2, 6 and 8 Transportation Customers

930 Days of AB = [Base Rate Days + (Gas Charge Days x DF x SSP)]
931 rounded to the nearest day

932 For Rider SST S.C. No. 4 Transportation Customers

933 Days of AB = [(Base Rate Days x SSP) + (Gas Charge Days x DF x SSP)]
934 rounded to the nearest day

935 In the formulas, factor "DF" is the .87 Diversity Factor. "SSP" is the
936 percentage of standby service selected by the Rider SST customers.

937 Q. How frequently will the Company calculate the storage day components of the
938 formulas for determining the AB for transportation customers?

939 A. Since the base rate component is determined using the base rate costs determined
940 in this proceeding, the Company would retain the base rate component exactly as
941 determined and approved in this proceeding until a future rate case changes it. As
942 the Company does today, every year, the Company will calculate the total
943 Company Maximum Days of AB ("CMD") and the Gas Charge components. By

944 April 1 of each year, the Company will file the determinations with the
945 Commission to be in effect for a one-year period commencing May 1 (except for
946 the first year which is discussed in the “Timing of Tariff Changes” later in my
947 testimony). This annual re-computation will enable the Company to reflect
948 changes in the services supporting the AB and ensure that transportation
949 customers receive the amount of bank for which they are paying through their
950 base and gas charge rates.

951 Q. What specific storage inventory requirements is the Company proposing?

952 A. The Company proposes that each transportation customer or each supplier have
953 its AB at least 70% full by November 30, and no more than 35% full by March 31
954 each year. This is supported by Ex. TZ 1.1, which shows that the Company
955 generally has its storage filled to 86% of capacity by November 30 because of the
956 demands of the winter season and its storage depleted to approximately 20% of
957 capacity by March 31. To the extent the customer’s inventory is less than 70% at
958 November 30, the customer would purchase the deficient quantity from the
959 Company at 110% of the average monthly index price (“AMIP”) determined for
960 November. To the extent the customer’s inventory exceeds 35% at March 31, the
961 Company would purchase the excess quantity from the customer at 90% of the
962 AMIP determined for March. The AMIP will be the arithmetic average of daily
963 Chicago citygate gas prices, published by Gas Daily, for the applicable month.

964 Q. Why is the Company proposing these limits?

965 A. As with other proposed operational changes, the Company is seeking to better
966 match the suppliers’ and customers’ rights with the assets supporting those rights.

967 Q. What would be the effect of the new AB requirement?

968 A. The Company's proposal is reasonable with respect to how suppliers can manage
969 their storage inventories relative to the Company's planned use of those assets.
970 As illustrated in Ex. TZ 1.1, on average for the past six (fiscal years 2001-2006),
971 the Company's inventories were at 86% on November 30 and at 20% at the end of
972 March.

973 Between these dates, the Rider SST customers have the storage inventory
974 flexibility allowed them within the MDIQ and MDWQ parameters. It is the
975 Company's belief that most suppliers would plan to operate within these
976 parameters anyway in order to take advantage of seasonal price differences. But
977 when economic incentives make other usage of storage patterns beneficial to
978 suppliers, it would not be equitable for transportation suppliers to use storage far
979 beyond normal operating parameters, thereby necessitating that the Company
980 compensate in the opposite direction, perhaps to the detriment of sales customers.
981 For example, a warm period in late February may reduce prices dramatically,
982 creating an incentive for Rider SST customers to buy daily priced gas rather than
983 reduce their inventory. If that were to happen, since the inventories in the storage
984 field or services must be physically reduced, the Company and the retail sales
985 customers are forced to make up for the necessary storage withdrawals

986 Q. Do these daily and seasonal storage parameters you propose to impose on
987 transportation customers mirror exactly how the Company's plan performs?

988 A. No, the parameters reflect the hybrid storage concept I described above and are
989 reasonable for the transporters for the following reasons:

- 990 • The Company is proposing only maximum daily limits on Rider SST
991 customers, but no minimums.
- 992 • Inventory requirements going into and out of the winter are at the least
993 restrictive extremes experienced by the Company, which is to the
994 customers' benefit.
- 995 • In the calculations, customers get the benefit all winter of the limited
996 peaking service withdrawals that are actually only available for a small
997 number of days.
- 998 • NGPL's DSS tariff prescribes not only daily and monthly minimum and
999 maximum limitations, but it also looks at running fifteen-day periods to
1000 limit withdrawals to ten days of rights, restrictions which were not
1001 incorporated into the Rider SST calculations.

1002 Q. What changes does the Company propose with respect to the administrative
1003 charges for Rider SST?

1004 A. The Company proposes to revise the administrative charges for Rider SST
1005 customers from \$60 for individual contracts and the greater of \$73 or \$23 times
1006 the number of accounts for group contracts to a straight \$23 per account charge.
1007 The Company believes that these charges more accurately recover the costs of
1008 administering a transportation account. These costs are not incurred to serve
1009 retail sales customers. A cost study was done to determine the cost of serving
1010 transportation customers which is presented as Ex. TZ 1.7, with the results for
1011 Rider SST shown in Column D.

1012 Q. Has the Company developed illustrative bill impacts for Rider SST customers
1013 under present and proposed rates?

1014 A. Yes. Ex. TZ 1.15 reflects illustrative bill impacts by component for a 50,000
1015 annual therm Rider SST customer under present and proposed rates. The largest

1016 increases are in the base rate component and the Standby Demand Gas Charge
1017 (“SDGC”).

1018 **D. Rider P, Pooling Service**

1019 Q. What changes is the Company proposing for Rider P?

1020 A. First, in response to supplier requests, the Company proposes to increase the
1021 maximum pool size from 150 to 200 accounts. This 33% increase will simplify
1022 management of pools for the suppliers and potentially reduces their costs.
1023 Second, the Customer Change Charge of \$10 is being eliminated. Third, while
1024 the monthly pooling charge remains at \$200 per month, the monthly per account
1025 charge will be changed from \$10 to \$18. This charge is supported in Ex. TZ 1.7,
1026 column E. This increase is mitigated and perhaps entirely eliminated by
1027 elimination of or reductions in other charges or other modifications. For example,
1028 customers will benefit from the elimination of customer change charges as well as
1029 the increased pool sizes which effectively reduce the \$200 monthly charge. In
1030 addition, the more liberal trade rules and intra-day balancing have significant
1031 value.

1032 Finally, the Rider SST changes related to the AB and use of the bank (for
1033 example, the MDIQ and MDWQ) are all incorporated in Rider P. The supplier,
1034 as is the case today, acquires the management of its customers’ rights, and Rider P
1035 has been revised to mirror the Rider SST changes.

1036 Q. Has the Company developed illustrative bill impacts for Rider P customers under
1037 present and proposed rates?

1038 A. Yes. Ex. TZ 1.16 reflects illustrative bill impacts by component for a 50,000
1039 annual therm, 20% standby Rider P (SST) customer under present and proposed
1040 rates. As may be noted, the largest increases are in the base rate component.

1041 **E. Rider TB, Transportation Balancing Service**

1042 Q. What changes is the Company proposing for Rider TB?

1043 A. First, the basis for the Cash-out calculation imbalance tier charges is being
1044 modified. Second, the Non-Critical Day Balancing and the Daily Storage
1045 Quantity services are being eliminated due to lack of participation. Third, the
1046 Contract Administrative Charge of \$25 per month is being eliminated as these
1047 customers will pay the same \$23 monthly charge as all other Rider SST
1048 customers. Finally, the daily volumetric balancing rights are being revised to be
1049 commensurate with the proportion of the balancing costs paid for by the Rider TB
1050 customers.

1051 Q. How are the Rider TB Cash-outs being modified?

1052 A. The one modification is a change in the calculation of the Average Monthly Index
1053 Price (“AMIP”). The AMIP calculation is changing to better reflect average daily
1054 prices throughout the month. Instead of the current practice of averaging weekly
1055 indices for the Midwest region, the AMIP will now be the arithmetic average of
1056 the daily Chicago City Gate price as published in Platts Gas Daily.

1057 Q. What changes occur because the Non-Critical Day Balancing and the Daily
1058 Storage Quantity services are being eliminated?

1059 A. There are several changes related to consolidating and re-naming the current
1060 Critical Day or Non-Critical Day concepts for balancing, Diversity Factors and
1061 charges. For example, the Critical Day Balancing Quantity (“CDBQ”) and Non-
1062 Critical Day Balancing Quantity (“NDBQ”) will both be replaced with the
1063 Balancing Quantity (“BQ”). Similar related changes affect, and have simplified,
1064 the Definitions, Customer Selections, Rates, Charge Determination, and Order of
1065 Deliveries sections of Rider TB. Eliminating the Daily Storage Quantity (“DSQ”)
1066 also eliminates the current Section H – Restrictions on DSQ.

1067 Q. How are the Rider TB daily balancing volumetric rights tied to the balancing
1068 costs paid by Rider TB customers?

1069 A. The Imbalance Coincidence Factor (“ICF”) will be used to represent both the
1070 proportion of the pro-rata share of the daily balancing costs that the Rider TB
1071 customer is paying and the proportion of the pro-rata share of the volumetric daily
1072 balancing benefits that the Rider TB customer is receiving. The ICF is currently
1073 called the Critical Day Diversity Factor (“CDDF”). As noted above, the Non-
1074 Critical Day Balancing services are being eliminated due to lack of participation,
1075 so the CDDF and its Non-Critical Day Diversity Factor (“NDDF”) counterpart are
1076 being replaced by the ICF.

1077 **F. PEGASys[®] System and Charges**

1078 Q. Please describe the PEGASys[®] system.

1079 A. PEGASys[®] is an electronic system accessible to transportation suppliers. The
1080 system is designed to handle various business processes through on-line

1081 interactive data entry panels and reports. PEGASys[®] exists to manage such
1082 diverse business processes as scheduling gas deliveries to both Peoples Gas and
1083 North Shore Gas Company; viewing, exporting and importing a variety of data
1084 such as contract / pool balancing information; imbalance trades of gas volumes;
1085 and monitoring daily meter usage. For CFY suppliers, the system is the required
1086 mechanism through which enrollment and exchange of billing and usage data
1087 occurs. Reporting functionality is extensive and can be viewed in aggregate or
1088 drilled down to a single meter and day, if needed.

1089 Q. How are the costs of PEGASys[®] recovered today?

1090 A. PEGASys[®] costs are recovered through monthly charges and per minute of usage
1091 fees. While most participating suppliers use the PEGASys[®] system, it is only
1092 required for SVT/AGG suppliers today.

1093 Q. Does the Company propose to change these rates?

1094 A. Yes, the Company proposes to eliminate PEGASys[®] fees. In conjunction with
1095 that elimination, the Company will require PEGASys[®] to be used by all
1096 transportation suppliers.

1097 **G. Daily Demand Measurement Device Charge**

1098 Q. What changes are being proposed for the Daily Demand Measurement Device
1099 Charge?

1100 A. The Company proposes to make it one single charge of \$28 per month for each
1101 Daily Demand Measurement Device. Currently, there are three charges, that
1102 range from \$28-\$32 per month, depending on the type of meter. The proposed

1103 change is supported by a cost of service study. The calculation of the cost basis
1104 for the charge is included in Ex. TZ 1.17.

1105 **H. Imbalance Trading**

1106 Q. Will the Company continue to allow imbalance trading?

1107 A. Yes. The Company will continue to allow imbalance trading for customers or
1108 suppliers receiving service under Riders SST, P, and TB. The Company will also
1109 expand the circumstances under which trades can be executed.

1110 Q. Under what expanded circumstances will trades be allowed?

1111 A. Trades will no longer be limited to gas volumes related to penalty situations.
1112 Trades will now be allowed for any movement of gas to or from AB for any
1113 reason.

1114 Q. What limitations is the Company placing on trades?

1115 A. The Company proposes to allow trades as long as:

- 1116 • they net to zero within the Company's system;
- 1117 • they cannot reduce bank balances below minimum bank requirements or
1118 increase them above maximum bank requirements;
- 1119 • they are completed by 5:00 p.m. on the third working day following
1120 notification of the trade window being open;
- 1121 • they are confirmed by both parties;
- 1122 • they are done via PEGASys®; and
- 1123 • they may not eliminate daily imbalance penalties.

1124 **I. Intra Day Allocations**

1125 A. Yes, in addition to imbalance trading, each day a customer or supplier with more
1126 than one contract or pool may, on an intra-day basis, re-allocate deliveries
1127 between or among its contracts.

1128 Q. How will the intra-day allocations work?

1129 A. Currently, allocation of deliveries to end users occurs only on the timely
1130 nomination cycle. The nomination deadline is, and will remain, 11:30 a.m. on the
1131 day prior to gas flow (i.e., timely cycle). The Company will offer intra-day
1132 nominations only for purposes of re-allocation of deliveries. At any time prior to
1133 4:00 p.m. on the day of gas flow, a customer or supplier may make an intra-day
1134 nomination to re-allocate deliveries among its contracts subject to the applicable
1135 nomination cycle deadlines. This will allow suppliers to reallocate gas among
1136 their contracts as they wish to offset any potential gas deficiencies and avoid
1137 penalties.

1138 **J. Cash-outs**

1139 Q. When do Cash Out Charges occur?

1140 A. A Cash Out Charge will occur when there is still some remaining imbalance after
1141 imbalance trading has taken place or when contracts or pools are terminated.

1142 Q. Are you changing the way cash outs are determined?

1143 A. As explained above, we are changing the way the AMIP is calculated from using
1144 weekly to using daily price indices to compute an average for the month. There
1145 are no other changes being proposed.

1146 **K. Timing of Tariff Changes**

1147 Q. When does the Company propose that its new transportation riders take effect?

1148 A. The Company assumes that this filing will be suspended for eleven months and an
1149 order will be received in the mid winter of 2008. The Company proposes that the
1150 new large volume (Riders SST, TB and P) transportation tariffs take effect August
1151 1, 2008. Until that time, the existing large volume transportation riders (FST,
1152 SST, LST, TB and P), with revisions to have them serve as transitional riders, will
1153 remain in effect. The reasons to delay effectiveness of the new transportation
1154 riders past the base rate changes are: (1) the Company must know the ultimate,
1155 approved changes to the transportation tariffs to finalize programming, which
1156 requires some lead time before the changed tariffs can be implemented, (2) the
1157 August 1 date is still well in advance of the winter high consumption period, and
1158 (3) it gives the suppliers and customers time to evaluate their alternatives and
1159 adjust their programs accordingly. Current Rider FST customers will be required
1160 to elect another transportation program by June 15, 2008, or they will be returned
1161 to retail sales service on August 1. Current Rider LST customers will be
1162 transferred to Rider SST with the option to change their level of standby service.

1163 During the transition period, Rider SST and Rider TB customers will
1164 utilize the same MDQ as they had when contracting in the spring of 2008. The
1165 new Diversity Factor and AB parameters will be effective August 1. The monthly
1166 MDIQ and MDWQ parameters will also be effective August 1, 2008. These
1167 monthly factors as well as the other pertinent storage parameters, will be made
1168 available to all suppliers within ten days of the Commission's order. This will

1169 allow time for suppliers to adjust standby levels and/or move customers to a new
1170 rider.

1171 If approved substantially as proposed, the Company's changes for the
1172 Choices For Yousm tariffs (Riders CFY and AGG) will become effective
1173 simultaneously with the base rate changes. Changes to the CFY programs are
1174 relatively modest and can be implemented shortly. However, significant
1175 alterations to the Company's proposed changes may require adjusting the
1176 implementation date.

1177 During the interim period between the effective date of the CFY tariff
1178 changes and August 1, customers being served under the other transportation
1179 riders may switch to Rider CFY. The Company will not impose any transfer
1180 charges and will waive otherwise applicable standby demand charges for the
1181 remainder of the contract period for such applicable transfers. The new storage
1182 catch-up provision will allow the customers to acquire an appropriate level of
1183 storage for the winter.

1184 Q. Does this conclude your direct testimony?

1185 A. Yes, it does.