

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	No. 07-0241
	:	and
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	No. 07-0242
	:	Consol.
	:	
Proposed General Increase In Rates For Gas Service.	:	
	:	

Rebuttal Testimony of

**THOMAS E. ZACK**

Vice President - The Integrys Gas Group

On Behalf of

The Peoples Gas Light and Coke Company and  
North Shore Gas Company

July 27, 2007

## TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION AND BACKGROUND	1
A. Witness Identification	1
B. Purpose of Testimony	1
C. Summary of Conclusions	2
D. Itemized Attachments to Rebuttal Testimony	4
II. LARGE VOLUME TRANSPORTATION PROGRAM	5
A. Rider FST	6
B. Unbundled Storage Bank (“USB”)	14
C. Use of Storage – Injection, Withdrawal and Cycling Requirements	23
D. Rider P – Pooling	35
E. Operational Issues – Intra-Day Nominations; Delivery Restrictions	40
F. Other Large Volume Transportation Issues – Accounting for Trading And Storage Activity; Administrative Charges; Billing Demand Determination	43
III. SMALL VOLUME TRANSPORTATION PROGRAM (CHOICES FOR YOU <sup>SM</sup> or “CFY”)	47
A. Storage Rights and Aggregation Rights	47
B. Month - End Delivery Tolerance	52
C. Customer Enrollment; Customer Data Issues; Minimum Stay Requirement	54
D. Rider SBO – Billing Credit; Order of Payments; NSF Checks	58
E. PEGASys <sup>TM</sup> and Customer Information	60
F. Tariff Corrections and Clarifications	63
IV. MANLOVE FIELD AND INTERSTATE HUB SERVICES	65

A.	Interstate Hub Services	65
B.	Allocation of Base Gas and Gas Charge Assets	67
C.	Hub Costs and Revenues	69
V.	STORAGE ISSUES UNRELATED TO INTERSTATE SERVICES	72
VI.	GAS PRICES	82

1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Identification**

3 Q. Please state your name.

4 A. Thomas E. Zack.

5 Q. Are you the same Thomas E. Zack who submitted pre-filed Direct Testimony on behalf  
6 of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas  
7 Company (“North Shore”) (together, “the Utilities”) in this consolidated Docket?

8 A. Yes.

9 **B. Purpose of Testimony**

10 Q. What is the purpose of your Rebuttal Testimony in this proceeding?

11 A. The purpose of my Rebuttal Testimony is to respond to the direct testimony of Staff and  
12 intervenor witnesses who addressed the Utilities’ proposals to modify their large and  
13 small volume transportation programs; the costs and benefits of the interstate  
14 transportation and storage services that Peoples Gas provides; the storage inventory  
15 information that Peoples Gas and North Shore provided in various schedules and data  
16 responses; and the gas price used by each of the Utilities in developing their rate  
17 proposals. Specifically, I address the direct testimony of witnesses Dennis Anderson,  
18 Eric Lounsberry and David Rearden on behalf of the Commission Staff; Alan Rosenberg  
19 on behalf of the Illinois Industrial Energy Consumers (“IIEC”), Constellation NewEnergy  
20 - Gas Division, LLC (“CNE” or “CNE-Gas”) and Vanguard Energy Services, LLC  
21 (“VES” or “Vanguard”); Lisa Pishevar on behalf of Nicor Advanced Energy L.L.C.  
22 (“NAE”); James L. Crist on behalf of the Retail Gas Suppliers (“RGS”); John M. Oroni  
23 and Lisa A. Rozumialski on behalf of CNE; Nachshon Draiman and Raquel Lavenda on

24 behalf of Multiut Corporation (“Multiut”); Neil Anderson on behalf of VES; and David J.  
25 Effron on behalf of the People of the State of Illinois, the City of Chicago and the  
26 Citizens Utility Board (“Governmental and Consumer Intervenors” or “GCI”)

27 **C. Summary of Conclusions**

28 Q. Please summarize the conclusions of your Rebuttal Testimony.

29 A. Based on my review of the referenced Staff and intervenor direct testimony, I have  
30 reached the following conclusions:

31 1. In general, proposals associated with the Utilities’ large volume  
32 transportation program would perpetuate the cost subsidies that are detrimental to  
33 sales customers or would create unnecessary administrative burdens.

34 2. The Utilities’ proposal to eliminate Rider FST, coupled with changes and  
35 enhancements to Riders CFY, AGG and SST, is the appropriate way to address  
36 the operational and cost issues associated with a large volume transportation  
37 service.

38 3. The intervenors’ proposed modifications to Rider FST do not address the  
39 fundamental problem that sales customers are subsidizing the benefits of a  
40 program that gives FST customers storage service rights that exceed the level  
41 supported by the Utilities’ gas supply assets.

42 4. The proposed Unbundled Storage Bank (“USB”) is flawed. It would make  
43 available more storage than is associated with the asset (Peoples Gas’ Manlove  
44 Field) that purportedly supports the USB. It would be priced at less than the costs  
45 associated with providing the service. It would have service rights that exceed  
46 what Manlove Field can support. Finally, it may substantially reduce the amount

47 of base rate storage available to other customers; and may create administrative  
48 burdens.

49 5. The Utilities’ proposed injection, withdrawal and cycling requirements for  
50 its large volume transportation program are fully supported by the assets available  
51 to support storage service provided to these transportation customers. Intervenor  
52 criticisms of these proposals ignore the disconnect between the rights that they are  
53 seeking and the rights that the Utilities have available to support service to the  
54 transportation customers and the sales customers.

55 6. The Utilities’ proposal to increase the Rider P pool size is reasonable.  
56 Intervenor proposals to further increase or eliminate the cap ignore significant  
57 administrative issues and the absence of a need for a larger pool in light of current  
58 average pool sizes that are well below the current cap.

59 7. Intervenor proposals to impose “super pooling” would be burdensome.  
60 The intervenors’ proposals do not sufficiently address the administrative and  
61 billing obstacles associated with their proposals. Also, the proposal to include  
62 stand alone accounts is inappropriate because these customers have not committed  
63 to take service from a single supplier.

64 8. Intra-day nominations are not an LDC industry standard. It could be  
65 detrimental to the Utilities’ sales customers if the Utilities had to offer such  
66 nominations to their transportation customers.

67 9. Choices For You<sup>sm</sup> (“CFY”) customers and suppliers receive the storage  
68 and the benefits of that storage commensurate with the costs they pay.

69 10. The monthly delivery tolerance for CFY supplier deliveries is an  
70 appropriate complement to the daily delivery tolerance.

71 11. The Utilities agree: (a) to provide residential customer lists; (b) to provide  
72 customer payment history and past due amounts to CFY suppliers, for customers  
73 they serve, provided the supplier indemnifies and holds the Utilities harmless in  
74 connection with claims stemming from the CFY supplier's lack of authority;  
75 (c) to eliminate the CFY 120-day meter read requirement; (d) to apply the  
76 Rider SBO order of payments to LDC Billing Option payments; and (e) to accept  
77 VES's proposal to eliminate the rounding that the Utilities use in proposing  
78 certain charges.

79 12. Staff criticisms of the interstate Hub services that Peoples Gas provides  
80 overstates the costs associated with those services. Staff criticisms also ignore the  
81 financial and operational benefits of offering the Hub services, particularly in  
82 light of the fact that 100% of gross Hub revenues are flowed through the Gas  
83 Charge. Offering Hub services is prudent, and the amount of cushion gas that can  
84 be associated with the Hub capacity should remain in rate base.

85 13. The Utilities have fully addressed Staff's questions and comments  
86 pertaining to storage inventory, and no cost disallowance is warranted.

87 14. The intervenors' proposed average gas costs are understated.

88 **D. Itemized Attachments to Rebuttal Testimony**

89 Q. Are there any attachments to your Rebuttal Testimony?

90 A. Yes. I am sponsoring, and have attached hereto, the following seven exhibits:

- 91 • North Shore/ Peoples Gas Ex. TZ–2.01: Potential Transportation Customer Savings from  
92 Daily Price Swings
- 93 • North Shore/ Peoples Gas Ex. TZ–2.02: Volume and Cost Subsidies Caused by  
94 Dr. Rosenberg’s Storage Diversity Factor (SDF)
- 95 • North Shore/ Peoples Gas Ex. TZ–2.03: Hypothetical Example of Impact of Banking  
96 Service on Cost of Sales Gas
- 97 • North Shore/ Peoples Gas Ex. TZ–2.04: Daily Manlove Activity vs. Current  
98 Transportation Customer MDQ (North Shore and Peoples Gas)
- 99 • North Shore/ Peoples Gas Ex. TZ–2.05: Rider P Pools – North Shore and Peoples Gas  
100 (number of accounts in pools as of July 1, 2007)
- 101 • North Shore/ Peoples Gas Ex. TZ–2.06: Intrinsic Storage Value Given to CFY Customer  
102 (Peoples Gas and North Shore)
- 103 • North Shore/ Peoples Gas Ex. TZ–2.07: Hub Revenues Compared to Estimate of Hub  
104 Revenue Requirement

105 **II. LARGE VOLUME TRANSPORTATION PROGRAM**

106 Q. What issues will you address in connection with the Utilities’ large volume transportation  
107 programs?

108 A. I will address testimony related to the Utilities’ proposed elimination of Rider FST;  
109 Dr. Rosenberg’s proposal to create what he called an unbundled storage bank (“USB”);  
110 testimony opposing certain proposed storage injection, withdrawal and cycling

111 requirements; proposals related to the aggregation of customers under Rider P;  
112 operational issues other than those related to storage; and other testimony related to  
113 administrative issues and certain charges.

114 **A. Rider FST**

115 Q. Witnesses for VES and CNE contend that the Utilities should retain Rider FST. These  
116 witnesses state that the number of customers taking Rider FST service shows that it is  
117 necessary. (CNE-Gas Ex. 1.0, pp. 27-28; Vanguard Ex. 1, pp. 10-11; Vanguard Ex. 2,  
118 pp. 9-10). Is Rider FST (“FST”) still a necessary service?

119 A. No. The revisions that the Utilities proposed for Riders SST and CFY will accommodate  
120 the current FST customers. In my opinion, the number of customers on FST instead  
121 indicates that they or their suppliers find the daily deliverability flexibility allowed to  
122 suppliers for providing supply appealing and profitable.

123 Q. Does the availability of automatic meter reading (“AMR”) address the concerns you  
124 raised in your Direct Testimony about meter reading for Rider FST customers?  
125 (Vanguard Ex. 1, pp. 11-12; Vanguard Ex. 2, pp. 11-12; Multiut Ex. 1.0, p. 6)

126 A. No. The availability of AMR devices only ensures that FST meters are read once a  
127 month. Meters with AMR are read on cycle throughout the month based on meter  
128 reading routes. More importantly, having AMR devices only provides one monthly read.  
129 The larger issue with FST is that daily metering is needed to better align usage with daily  
130 injection and withdrawal rights.

131 Q. VES witness Mr. Anderson states that the Utilities should adjust Rider FST to fit within  
132 their operational parameters, rather than eliminate the Rider. (Vanguard Ex. 1, p. 12;

133 Vanguard Ex. 2, p. 12) Why do the Utilities continue to propose eliminating, and not  
134 modifying, Rider FST?

135 A. The Utilities need to balance their systems every day. Either the customer and its  
136 supplier are accountable for forecasting and providing for the customer's daily supply  
137 needs, or the Utilities have this responsibility. Regardless of who has this responsibility,  
138 it is no longer fair for sales customers to bear a disproportionate share of the costs of  
139 balancing the systems. Rider FST unfairly gives transportation customers, who do not  
140 have daily metering and whose suppliers need not daily balance for them, daily delivery  
141 and daily storage access rights that allow intra-month manipulation to extract the  
142 arbitrage value associated with those rights.

143 If the customer and supplier are responsible for forecasting and balancing, then  
144 the customer needs daily metering to determine the difference between daily supply and  
145 actual daily consumption and to enable the Utilities to determine appropriate allocations  
146 of daily storage activity, daily balancing, and standby commodity gas volumes. This is  
147 the basis for the revised Rider SST ("SST") program. On the other hand, if the Utilities  
148 are responsible for daily consumption forecasting and balancing, then the customer does  
149 not need daily metering. The Utilities are charged with providing an estimate of daily  
150 required deliveries for the supplier and providing all of the daily storage and balancing  
151 necessary when the consumption or supply forecast is wrong. This is what the Utilities  
152 do under the CFY program. The consumption estimate is factored into the Required  
153 Daily Delivery Quantity ("RDDQ") that the Utilities provide CFY suppliers.

154 Adding a CFY-style RDDQ mechanism to Rider FST would essentially duplicate  
155 CFY service. Requiring all FST customers to have daily metering would essentially

156 duplicate SST service. Requiring FST customers to accept some method of  
157 accountability for daily injections and withdrawals and allowing them to choose either  
158 the CFY or SST method that works best for them is more appropriate than changing  
159 Rider FST to operationally mirror either SST or CFY.

160 Q. Mr. Anderson proposed modifications to Rider FST as an alternative to eliminating the  
161 Rider. (Vanguard Ex. 1, pp. 12-14; Vanguard Ex. 2, pp. 12-14) Please describe VES's  
162 proposed modifications.

163 A. Mr. Anderson proposed a modification whereby certain delivery limits would be placed  
164 on the Rider FST customers during the injection season. Specifically, Mr. Anderson's  
165 proposal would allow for daily deliveries up to an amount equal to estimated  
166 consumption (based on the prior year) plus 20% of the customer's Allowable Bank  
167 ("AB") (converted to an average daily amount).

168 Q. Do Mr. Anderson's proposed daily nomination limits address the operational concerns  
169 you raised about Rider FST? (Vanguard Ex. 1, pp. 12-14; Vanguard Ex. 2, pp. 12-14)

170 A. No. The central issue remains unresolved. Without daily metering, it is not practical to  
171 properly allocate to FST customers their proportionate share of storage resources on a  
172 daily basis. More specifically, the proposal is flawed for the following reasons:

- 173 1. VES proposed no daily maximum delivery and/or injection restrictions for the  
174 withdrawal season (November through March). The Utilities have limited injection  
175 rights into storage in the withdrawal season, and their operations can be adversely  
176 affected when too much gas is delivered relative to consumption. This is especially true  
177 for the months of November and December when storage inventories are at or near their  
178 maximum and Peoples Gas' company-owned storage facility, Manlove Field

179 (“Manlove”), begins its withdrawal cycle. In addition, one of Peoples Gas’ storage  
180 services requires a net minimum withdrawal of 10% of the Maximum Storage Volume  
181 for each month of November through February and a minimum seasonal withdrawal of  
182 45% of the Maximum Storage Volume.

183 2. VES proposes no daily maximum withdrawal restrictions for the injection  
184 season (April-October). The Utilities have limited withdrawal rights from storage in the  
185 injection season, and their operations can be adversely affected when not enough gas is  
186 delivered relative to consumption.

187 3. VES proposes no daily maximum withdrawal restrictions for the withdrawal  
188 season. While the Utilities have significant storage withdrawal rights during the  
189 withdrawal season, neither can withdraw the equivalent of its peak day all the time from  
190 all the storage services. Their operations can be adversely impacted when not enough gas  
191 is delivered relative to consumption.

192 4. VES’s proposed formula would use the prior year’s consumption as an  
193 estimate of the current year’s consumption. There can be a significant difference  
194 between actual consumption in a future period and the prior year’s actual consumption,  
195 especially if the weather is different.

196 Q. The CNE witnesses stated that a reason why some Rider FST customers have not moved  
197 to Rider SST is the telephone line requirement. (CNE-Gas Ex. 1.0, p. 29) Do you agree  
198 that the telephone line issues raised by the CNE witnesses are barriers to customers  
199 moving to Rider SST?

200 A. No. A telephone line is not a burdensome requirement. The Utilities do not require that  
201 the customer install a dedicated line. Therefore, no incremental expense is necessarily  
202 incurred to have and maintain a telephone line.

203 Q. The Multiut witnesses question the operational issues you raised by stating that Multiut  
204 does not inject into or withdraw gas from storage. (Multiut Ex. 1.0, pp. 6-7) Do Rider  
205 FST customers and suppliers use storage?

206 A. Yes. All FST customers receive an Allowable Bank (“AB”) that includes gas charge and  
207 base rate days of storage. Every day that the supplier delivers more gas than the FST  
208 customer consumes, the customer uses the AB. Every day that the supplier delivers less  
209 gas than the FST customer consumes, the customer uses the AB to the extent inventory is  
210 available. Since FST customers are not required to have daily metering or to daily  
211 balance, there is no way to monitor the daily differences between supply and  
212 consumption, nor can the Utilities determine, on a daily basis, how FST customers use  
213 the AB. However, it is inevitable that deliveries and consumption do not match each day,  
214 and the AB and standby gas purchases are how this difference is accommodated.

215 Q. The Multiut witnesses, responding to your testimony about Rider FST customers’ use of  
216 storage, state that the Utilities’ proposed changes would make the cost of gas more  
217 expensive for Multiut’s customers. (Multiut Ex. 1.0, p. 7) Please comment.

218 A. Actually, this statement supports my conclusion that FST customers unfairly benefit at  
219 the expense of sales customers. The cost of gas might be relatively less expensive under  
220 Rider FST today because FST customers can avail themselves of gas service from the  
221 Utilities at strategic times without regard to how this activity affects their use of storage.  
222 This opportunity can result in a subsidy to FST customers at the expense of sales

223 customers. If, as proposed by the Utilities for Rider SST, the storage use of current FST  
224 customers who switch to Rider SST were restricted on a *pro rata* basis with the storage  
225 restrictions applicable to the Utilities, the potential for a subsidy would be minimized. As  
226 shown in Exhibit TZ-2.01 (described more fully below), unfettered use of daily storage  
227 injections and withdrawals, even if the end-of-month storage balance does not change,  
228 can benefit the supplier and transportation customers at the expense of the sales  
229 customers. The combination of granting transportation customers more than their *pro*  
230 *rata* share of daily storage injections and withdrawals and the preferential treatment of  
231 their supply always being “first through the meter” compounds the benefit to the  
232 transportation customers whose over-delivered injections on low-cost gas days are first  
233 through the meter on the way to storage, and whose high-cost gas day withdrawals may  
234 force additional utility purchases since the sales customers no longer have their *pro rata*  
235 share of storage withdrawals available to them. Unless the Utilities’ proposals are  
236 adopted, the sales customers will continue to come in last in both directions.

- 237 Q. What do you mean that the transportation customers’ gas is “first through the meter”?
- 238 A. The Utilities accept confirmed deliveries from transportation customers. As a practical  
239 matter, this means that those deliveries are the first gas accepted by the Utilities, and the  
240 Utilities’ supply and storage use must be planned around the confirmed deliveries. These  
241 confirmed transportation deliveries become known well after the timely nomination  
242 cycle, and this leaves the Utilities with only storage assets, and, possibly, intra-day  
243 nominations, to balance the gas day. Similarly, the tariff dictates the order of deliveries  
244 to the transportation customers and how bank withdrawals occur. Again, the Utilities’  
245 supply planning and operations must take these factors into account.

246 Q. The Multiut witnesses describe how they purchase gas for their customers under  
247 Rider FST. (Multiut Ex. 1.0, p. 3, lines 49-58) What does their description indicate  
248 about how suppliers serving customers under Rider FST operate?

249 A. What Multiut describes vividly illustrates why Rider FST can be harmful to sales  
250 customers. By its own admission, Multiut purchases (as can any Rider FST supplier) gas  
251 in the open market when prices are below the Utilities' applicable Standby Commodity  
252 Charge and it purchases gas from the Utilities when the Standby Commodity Charge is  
253 below the market. Because there are no daily or seasonal AB requirements and no daily  
254 Selected Standby Quantity limitation, the FST customers have greater latitude to take full  
255 advantage of these opportunities.

256 Q. Why is this harmful to sales customers?

257 A. The Utilities purchase their supplies for their customers in advance, much of it well in  
258 advance, of the delivery date. Many of the Utilities' purchases are contracted for based  
259 on a monthly first-of-month ("FOM") price. An FOM price means that all the associated  
260 volumes will be purchased at that price throughout the month, no matter what the daily  
261 prices are doing. The Utilities purchase gas in this way to assure that supply will be  
262 available. The Utilities are likely to hedge a good portion, if not all, of these volumes,  
263 which establishes pricing for the hedged volumes. Meanwhile, before the delivery month  
264 arrives, prices are changing. Furthermore, within the month, prices are changing daily  
265 and intra-day.

266 All of this means that the Utilities' prices (*e.g.*, the Standby Commodity Charge)  
267 are not necessarily reflective of the instantaneous current market. Rider FST suppliers  
268 can rely on standby supply and purchase the gas intended for utility customers when it is

269 to their financial advantage, that is, cheaper than the market. This practice causes the  
270 Utilities to stand ready to purchase more gas for their sales customers, at the higher daily  
271 price. Conversely, when the Utilities' price is higher than the market, the Rider FST  
272 supplier can purchase gas in the open market, and deliver much more gas than its  
273 customers would be consuming. For example, a Rider FST customer's Maximum Daily  
274 Quantity ("MDQ"), the amount it can deliver on any day, may be 50 times greater than  
275 the customer's usage on a summer day. Such large over-deliveries may force the Utilities  
276 to sell gas at a lower market price or inject it into storage when they had not planned to  
277 do so. In either scenario, the Rider FST supplier or its transportation customer can gain  
278 at the expense of the Utilities' sales customers. This is simply not fair to the Utilities'  
279 sales customers because the supplier is taking advantage of rights that greatly exceed  
280 what is available to the sales customers.

281 Q. The Multiut and CNE witnesses question your expectation that most current Rider FST  
282 customers will switch to Rider CFY. (Multiut Ex. 1.0, pp. 7-8; CNE-Gas Ex. 1.0,  
283 pp. 30-31) Does their testimony change your opinion about customer switching?

284 A. While it does not change my opinion, it does not matter. The Utilities expect that  
285 individual customer preferences exist for specific attributes of one alternative or the other  
286 of CFY or Rider SST. Each FST customer will choose to take service under the rider that  
287 it decides best fits its needs. However, the annual consumption of most current Rider  
288 FST customers approximates the annual consumption of current CFY customers more  
289 than they do those of current SST customers, and, therefore, the Utilities expect that most  
290 Rider FST customers will opt for CFY.

291 Q. The Multiut witnesses describe how the Utilities charge for Rider FST service. (Multiut  
292 Ex. 1.0, p. 3) Is this description accurate?

293 A. No. Multiut states that for the Utilities' standby service the Utilities charge "\$0.9850 per  
294 therm as a standby commodity charge and \$0.0928 per therm as a standby demand  
295 charge." First, this implies that the charges are fixed rates, when, in fact, they change  
296 each month with each Gas Charge filing. Second, the statement implies that the Standby  
297 Commodity Charge is simply for the Utilities standing by to provide service. That is not  
298 the case. In fact, the Standby Commodity Charge is what the customer pays for the gas  
299 that it actually purchases from the Utilities.

300 **B. Unbundled Storage Bank ("USB")**

301 Q. IIEC/CNE/VES witness Dr. Rosenberg proposes that the Utilities offer what he called an  
302 unbundled storage service, *i.e.*, his proposed USB service. Dr. Rosenberg states that,  
303 under the Utilities' present and proposed tariffs, a customer must purchase standby  
304 service in order to get an Allowable Bank ("AB"). (IIEC/CNE/VES Jt. Ex. 1, p. 4) Is he  
305 correct?

306 A. No. AB is broadly available without the need to purchase standby service. Current  
307 Service Classification ("S.C.") No. 2 transportation customers already receive base rate  
308 storage AB days even if they choose to be SST customers and choose zero standby. For  
309 S.C. No. 3 or 4 zero standby transportation customers, since 1995, the Utilities' Rider TB  
310 has provided for a Daily Storage Quantity and a Maximum Allowable Capacity annually  
311 selectable by the customer. For the last six years, North Shore had no Rider TB  
312 customers. For contract years starting May 2002, 2003, and 2004, only one of Peoples  
313 Gas' transportation customers chose the Daily Storage Quantity option under Rider TB.

314 For contract years starting May 2005, May 2006 and May 2007, Peoples Gas has not had  
315 a single customer choose the Daily Storage Quantity option under Rider TB.

316 Q. Dr. Rosenberg proposes that USB be supported by Manlove. (IIEC/CNE/VES Jt. Ex. 1,  
317 p. 5) Do the Utilities provide any storage that is supported by Manlove?

318 A. Yes. As stated above, Manlove already supports Rider SST and Rider TB storage  
319 service. In addition, Manlove supports storage to Rider CFY customers. Manlove also  
320 supports service to Peoples Gas' sales customers and, pursuant to a contract, to North  
321 Shore's sales customers. Finally, Manlove supports FERC-jurisdictional Hub services to  
322 third party customers. All revenues from the Hub services are credited to the Gas  
323 Charge, providing benefits to both sales and transportation customers.

324 Q. Do you agree with Dr. Rosenberg's conclusion that, "for all intent and practical  
325 purposes," Peoples Gas and North Shore both own storage? (IIEC/CNE/VES Jt. Ex. 1,  
326 p. 5)

327 A. No. North Shore purchases a storage service from Peoples Gas just as Peoples Gas and  
328 North Shore purchase storage services from Natural Gas Pipeline Company of America  
329 ("NGPL") and ANR Pipeline Company ("ANR"). North Shore's rights are determined  
330 by a Commission-approved contract. From North Shore's perspective, the Peoples Gas  
331 service is no different than, for example, the NGPL service. North Shore has contractual  
332 rights and responsibilities, rather than the responsibilities of operating a storage field.

333 Q. How would the USB differ from the currently available base rate storage?

334 A. It would differ very little from the currently available base rate component of the AB, but  
335 it would differ significantly from the proposed AB. Dr. Rosenberg envisions a service

336 with no limits on daily injections and withdrawals except on critical days, monthly total  
337 injection limits of 20% of total bank for May through October, and monthly total  
338 withdrawal restrictions of 35% of total bank for December, 40% for January, and 25% for  
339 February. This would provide unlimited injections for November through April, which is  
340 the time period that the Utilities' storage services have the greatest restrictions on storage  
341 injections. This would also permit unlimited withdrawals from March through  
342 November, which is the time period that the Utilities' storage services have the greatest  
343 restrictions on storage withdrawals. The Utilities' proposed base rate portion of the AB  
344 service matches the inventory, daily injection, and daily withdrawal capabilities of the  
345 base rate storage with the service rights granted to the storage subscriber. USB would  
346 provide the storage subscriber with daily and monthly rights, or options, that the base rate  
347 storage cannot provide. In addition, Dr. Rosenberg's proposed Storage Diversity Factor  
348 ("SDF") would make it possible for USB subscribers to pay less than the base rate cost of  
349 storage. Those excessive daily and monthly rights proposed by Dr. Rosenberg would be  
350 provided at a cost paid by USB non-subscribers (the Utilities' sales customers).  
351 Importantly, Dr. Rosenberg's monthly limits ignore daily restrictions within which the  
352 Utilities must operate, allowing for huge daily fluctuations in transportation deliveries at  
353 the expense of sales customers.

354 Q. Dr. Rosenberg stated that Peoples Gas already offers an unbundled storage service, and  
355 he cites a transaction with Merrill Lynch. (IIEC/CNE/VES Jt. Ex. 1, p. 6) Is the Merrill  
356 Lynch transaction analogous to the USB proposal?

357 A. Not at all. The Merrill Lynch transaction was a capacity release transaction of a portion  
358 of a purchased storage service. Peoples Gas does not own a storage field in which it is

359 providing rights to Merrill Lynch. The release provided a credit to the Gas Charge in an  
360 equivalent amount of the cost paid for the released storage. In fact, the release was  
361 available to the entire market, including all of the Utilities' transportation suppliers. Had  
362 any of them seen value in purchasing that storage, they could have bid on the released  
363 capacity, but none of them did so. By contrast, as shown in Exhibit TZ-2.02 (described  
364 more fully below), the USB proposal provides potential volume and cost subsidies to  
365 transportation customers at the expense of sales customers.

366 Q. Dr. Rosenberg states that the USB "could have quite different operating parameters"  
367 from the AB. (IIEC/CNE/VES Jt. Ex. 1, p. 7) Would the USB require different  
368 "operating parameters"?

369 A. Yes. The Utilities currently use their entire transportation, storage, and supply portfolio  
370 to provide service to the transportation and sales customers. Dr. Rosenberg's USB  
371 proposal would rely only on base rate storage for the USB portion. This would  
372 necessarily limit the USB operating parameters to those of the base rate asset specifically  
373 relied on by Dr. Rosenberg. Therefore, withdrawals would only be available when  
374 Manlove is operating on withdrawals (generally early December through early March),  
375 and injections would be available during the injection period of most of March through  
376 the end of November or early December. In addition to these general limits, daily  
377 injection or withdrawal limits would apply to maintain the operational integrity and  
378 deliverability of this aquifer field. Dr. Rosenberg postulates daily injection and  
379 withdrawal rights vastly exceeding the capabilities of Manlove, which would necessarily  
380 mean that the sales customers would subsidize the service.

381 Q. Is a single AB that includes gas charge and base rate storage preferable to having two  
382 banks, a gas charge bank and a base rate bank?

383 A. Absolutely. The Utilities currently use their entire transportation, storage, and supply  
384 portfolio to provide service to the transportation customers. The Utilities manage their  
385 storage services as an integrated portfolio, and they account for their storage top gas in a  
386 single LIFO pool. The LIFO pool accounting affects the Gas Charge cost for sales  
387 customers and all transportation customers that purchase standby commodity gas.  
388 Artificially separating the two banks when the Utilities manage them in a portfolio  
389 approach is unnecessary and could easily cause operational inefficiencies. Moreover,  
390 many customers' base rates include base rate storage costs and these customers receive  
391 the benefit of base rate storage as part of their service, whether sales or transportation.

392 Q. If the Utilities offered the USB, would that require other changes to the proposed  
393 transportation tariffs?

394 A. Yes. First, operating requirements for the USB would need to be developed and added to  
395 the tariffs. Second, the tariffs would need to address how the determination of the base  
396 rate days of storage would be affected. For example, a determination would have to be  
397 made regarding whether the other ratepayers paying for storage through their base rates  
398 have first call on the base rate storage or whether the USB subscribers do. If USB  
399 subscribers take priority, that would reduce the amount of base rate storage available for  
400 everyone else's AB. At a minimum, the AB calculations would need to be changed.  
401 Third, because Dr. Rosenberg appears to envision the USB as a subscription service, the  
402 process for subscribing to the service needs to be determined. If the base rate storage

403 days are set in this proceeding and customers subscribe for less USB than is available, it  
404 is unclear how, if at all, this affects the base rate storage available to other customers.

405 Q. If the Utilities offered the USB supported by Manlove, are there any administrative issues  
406 that the Utilities would need to address?

407 A. Yes. In addition to the AB calculation issues, order of delivery and billing issues would  
408 need to be addressed. In general, Dr. Rosenberg has not addressed how the USB storage  
409 is coordinated with the base rate storage that is available to S.C. No. 2 customers who  
410 pay for storage in their bundled rates.

411 Q. If the Utilities offered the USB, would this affect the other transportation programs,  
412 including Riders CFY and AGG?

413 A. Yes. The USB would remove some of their base rate storage and decrease the AB days  
414 for the customers who do not subscribe to USB. Reserving the transportation customers'  
415 full MDQ for daily injections or withdrawals all year would leave no flexibility for other  
416 transportation programs, including CFY. (See the total system capability lines in  
417 Exhibits TZ-1.2 and TZ-1.9.) For example, Peoples Gas' current transportation customer  
418 MDQs exceed 660,000 dth. Peoples Gas' total storage injection capability is less than  
419 that even during summer months, yet Dr. Rosenberg proposes that USB customers  
420 receive full rights every day that is not a critical day. If sufficient transportation  
421 customers signed up for USB, and the Utilities had to provide their full MDQ for  
422 injections or withdrawals every day, and the transportation customer gas still received the  
423 preferential treatment of being first through the meter every day, then on warm weather  
424 or low-cost injection days, the Utilities would be making full injections to storage and  
425 having to sell transportation customer gas off-system with sales customers absorbing any

426 losses, while providing for withdrawals any day the transportation customers or their  
427 suppliers wish, even if that meant purchasing gas for the sales customers at potentially  
428 high daily prices.

429 Q. Do you agree with Dr. Rosenberg's calculation of the number of days of USB that would  
430 be available? (IIEC/CNE/VES Jt. Ex. 1, pp. 8-10)

431 A. No. Peoples Gas is not able to over-subscribe its physical storage. Let's assume Peoples  
432 Gas had adopted his proposal in 2003 when the value for his proposed SDF was 75%  
433 (IIEC/CNE/VES Jt. Ex. 1, p.12). Let's also assume for the sake of argument that the  
434 Utilities did not have to provide the full amount of storage because of transportation  
435 customers' storage diversity. Operating under these assumptions, the Utilities would  
436 have been in trouble just three years later, when the coincidental peak use shot up from  
437 75% to 91%. For example, if Peoples Gas had 1 Bcf of storage available, and if Peoples  
438 Gas used Dr. Rosenberg's 75% SDF for 2003, Peoples Gas would have been obligated to  
439 sell up to 1.333 Bcf ( $1.333 = 1 / 0.75$ ) of capacity. In 2006, when the transportation  
440 customers' SDF was 91%, they could have filled 1.213 Bcf ( $1.213 = 1.333 \times 0.91$ ) of  
441 capacity, effectively misappropriating .213 Bcf from sales customers. These adverse  
442 results would have been an inevitable consequence of Dr. Rosenberg's USB proposal  
443 with the SDF. The same thing could happen if Dr. Rosenberg's USB service with SDF is  
444 adopted today and the transportation customers or their suppliers decide to fully use their  
445 storage service.

446 Q. Are there other concerns with Dr. Rosenberg's SDF? (IIEC/CNE/VES Jt. Ex. 1,  
447 pp. 10-11)

448 A. Yes. As shown in Exhibit TZ-2.02 the SDF would provide transportation customers with  
449 more storage capacity at lower average cost than what is available for sales customers.  
450 The exhibit shows that the SDF creates discriminatory pricing as well as volume and  
451 price subsidies benefiting transportation customers at sales customers' expense. For  
452 these reasons, the SDF should be rejected.

453 Q. Is the concept of the SDF sound?

454 A. No. Dr. Rosenberg makes a serious conceptual error in attempting to define an SDF  
455 because storage activity can be discretionary based on price arbitrage and not necessarily  
456 linked to the underlying demand of the customer. As such, there is nothing that would  
457 prevent the SDF from reaching nearly 100%. By contrast, the Utilities' Diversity Factors  
458 are based on actual historical daily consumption data, which change based on how much  
459 the customer actually uses every day. The consumption data are not subject to the  
460 customer's supplier purchasing extra gas on low-priced days to fill up a storage bank if  
461 and when they think it is advantageous.

462 Q. Do you agree with Dr. Rosenberg's calculation of the SDF? (IIEC/CNE/VES Jt. Ex. 1,  
463 pp. 11-12)

464 A. No. The effect of the SDF is analogous to an airline overbooking factor, and it should  
465 not be considered. As explained above, the SDF could easily lead to customers using  
466 storage that exceeds their allocation. Besides, the data he cites supporting his calculation  
467 increased from 75% in 2003 to 91% in 2006. This growth could just as easily be from  
468 increasing discretionary storage activity due to price arbitrage instead of Dr. Rosenberg's  
469 presumption that it is from the transportation customers becoming 16% less diverse in

470 three years. Since the percent increased every year, and it is likely to be at least partly  
471 based on discretionary price arbitrage, there is nothing to stop it from reaching 100%.

472 Q. Dr. Rosenberg calculates a charge for the USB. Do you agree with the calculation?  
473 (IIEC/CNE/VES Jt. Ex. 1, p. 15)

474 A. No. Besides the inappropriate use of the SDF to create volume and price subsidies, he  
475 understated the costs. First, North Shore paid Peoples Gas \$1,777,997 in fiscal 2006 for  
476 use of Manlove. These costs, recovered through North Shore's Gas Charge, are in  
477 addition to the \$543,469 of base rate costs used by Dr. Rosenberg. Dr. Rosenberg  
478 incorrectly assumed that base rate storage has only base rate costs for North Shore.  
479 Second, Dr. Rosenberg's proposed rates for the Utilities do not include any costs for  
480 transporting gas to be injected from an interstate pipeline to Manlove or getting  
481 withdrawn gas from Manlove to the Chicago citygate. Third, Dr. Rosenberg's proposed  
482 rates for the Utilities do not include any costs for injecting the gas into or withdrawing  
483 the gas from Manlove. Fourth, the Peoples Gas costs that Dr. Rosenberg used are based  
484 on Peoples Gas' share of Manlove, which is approximately 24.8 Bcf. It is inappropriate  
485 to divide costs for 24.8 Bcf (Peoples Gas' portion of Manlove used to serve end use  
486 customers) by 34.7 Bcf, which is the total capacity of Manlove minus North Shore's  
487 contract amount, as Dr. Rosenberg does. This understates the capacity cost.

488 Q. Please describe Exhibit TZ-2.02.

489 A. Exhibit TZ-2.02 shows an example of how a total program involving 2 Bcf of available  
490 storage capacity at an assumed cost of \$1 per dth of capacity (to keep the math simple)  
491 would be divided between Dr. Rosenberg's USB customers and sales customers under  
492 varying potential values for Dr. Rosenberg's proposed SDF. The SDF in these examples

493 is used the same way that Dr. Rosenberg uses the SDF in his Exhibit 1, Schedules 1 and  
494 2. The difference between the pages is whether over-subscribing of the total program  
495 available quantity is allowed.

496 Page 1 shows the volume and cost subsidies created by using Dr. Rosenberg's  
497 proposed SDF if there is no over-subscribing of total program storage allowed. For  
498 simplicity, the column headed "No SDF" is an initial starting point showing that the USB  
499 customers and sales customers each get half of the available program capacity (1 Bcf),  
500 each pay the same rates (\$1/dth), and each cover half of the annual storage cost (\$1  
501 million). Since over-subscribing the available storage is not allowed, the sales customers  
502 receive a lower amount of storage but still pay \$1 million for it, so their average rate  
503 would exceed \$1/dth.

504 Page 2 shows the volume and cost subsidies created by using Dr. Rosenberg's  
505 proposed SDF if over-subscribing of total program storage is allowed. Since over-  
506 subscribing the available storage is allowed, the sales customers keep 1 Bcf of storage  
507 under each scenario at an annual rate of \$1/dth and an annual cost of \$1 million, but the 2  
508 Bcf of total available storage is over-subscribed.

509 **C. Use of Storage - Injection, Withdrawal and Cycling Requirements**

510 Q. Please comment on Dr. Rosenberg's assertion that the proposed bank injection and  
511 withdrawal formulas are too complicated. (IIEC/CNE/VES Jt. Ex. 1, pp. 16, 19)

512 A. The Utilities' proposals simply extend the current base rates and gas charge AB  
513 calculation for inventory to the daily injection and daily withdrawal rights that  
514 accompany the same storage services as the inventory. The three go together. All three  
515 (inventory, daily injections, and daily withdrawals) are specified in the Utilities' pipeline

516 storage service contracts, and all three should be allocated fairly among the Utilities’  
517 customers on a non-discriminatory basis. The Commission has already approved the  
518 formulas for allocating inventory, and the Utilities are simply proposing to apply the  
519 same concepts to the daily injection and withdrawal rights.

520 In any event, whether the formulas are complex is immaterial. The Utilities are  
521 not proposing that customers and suppliers work with the formulas every day. The  
522 Utilities will use the formulas to calculate the percentages and quantities that the  
523 customers and their suppliers will use. These calculations will be publicly available. The  
524 customers and suppliers will know their applicable percentages and quantities.

525 Q. Dr. Rosenberg proposes alternative withdrawal limits. (IIEC/CNE/VES Jt. Ex. 1,  
526 pp. 17-18) Is his proposal adequate?

527 A. No. Dr. Rosenberg fails to specify which assets or purchase adjustments will be used to  
528 grant the daily withdrawal capabilities he proposes that exceed the capabilities of the base  
529 rate storage. Specifically, these comprise any withdrawals during Manlove’s injection  
530 period (typically early in March through early in December), and monthly withdrawal  
531 targets other than the field operations schedule. Specific practices would need to be  
532 established for how the daily and monthly withdrawal rights granted by Dr. Rosenberg’s  
533 proposal would be physically accomplished. In addition, his proposed USB rates recover  
534 only a portion of the applicable base rate costs; thus, a cost recovery mechanism that  
535 includes the asset and operations costs required to provide the daily withdrawal rights  
536 granted by Dr. Rosenberg, but not available from the base rate asset, would need to be  
537 developed and incorporated into Dr. Rosenberg’s proposal.

538 Q. Dr. Rosenberg proposes alternative injection limits. (IIEC/CNE/VES Jt. Ex. 1,  
539 pp. 19-20) Is his proposal adequate?

540 A. No, for basically the same reasons the withdrawal limits fall short. Specifically, the  
541 problems are permitting injections during Manlove's withdrawal period (typically early  
542 in December through early in March) and monthly injection targets other than the field  
543 operations schedule. Specific practices would need to be established for how the daily  
544 injection rights granted by Dr. Rosenberg's proposal would be physically accomplished.  
545 Also, since his proposed USB rates would recover only a portion of the applicable base  
546 rate costs because of the proposed SDF, a cost recovery mechanism that includes the  
547 asset and operations costs required to provide the daily injection rights granted by Dr.  
548 Rosenberg, but not available from the base rate asset, would need to be developed and  
549 incorporated into Dr. Rosenberg's proposal.

550 Q. With respect to the Utilities' proposed cycling requirements, Dr. Rosenberg states that  
551 "the Companies have not followed their own strictures." (IIEC/CNE/VES Jt. Ex. 1,  
552 p. 21) Is he correct?

553 A. No. Exhibit TZ-1.1 shows monthly inventory balances from all of the Utilities'  
554 respective storage services from which the cycling requirements were developed.  
555 Dr. Rosenberg's calculation from Exhibit TZ-1.1 retains only the storage inventories that  
556 make his point. The Utilities account for all top gas inventory together using a pooled  
557 method. The cycling requirements were based on that pooled approach. Taking into  
558 account only some storage services is not representative of the Utilities' total storage top  
559 gas portfolio.

560 Q. Dr. Rosenberg opines that the failure of transportation customers to cycle their bank on  
561 the same schedule as sales customers is more likely to benefit than harm sales customers.  
562 (IIEC/CNE/VES Jt. Ex. 1, pp. 21, 23-24) Please comment.

563 A. It is certainly possible to invent scenarios under which sales customers would benefit  
564 from differing cycling schedules. Whether those scenarios are realistic or more probable  
565 than the scenarios that are detrimental to sales customers is highly questionable. An  
566 example of a scenario that represents a contrasting view is reflected in Exhibit TZ-2.01,  
567 which demonstrates the potential harm that full MDQ daily injections and withdrawals by  
568 transportation customers or their suppliers could cause the sales customers, even if the  
569 end of month transportation customer bank volume is unchanged. The essential point,  
570 however, is that allowing full MDQ daily injection and withdrawal rights, when those  
571 rights are not supported by underlying assets, provides the means and potential for daily  
572 price arbitrage.

573 Q. What do Dr. Rosenberg's Schedules 3 and 4 show?

574 A. Dr. Rosenberg's Schedules 3 and 4 show that storage has value, even when considering  
575 only monthly pricing. They also show that when transportation customers cycle their  
576 storage in the same manner as the total system, they receive value for that cycling.

577 Q. Please describe Exhibit TZ-2.03.

578 A. Exhibit TZ-2.03, consisting of four pages, provides four variations on Dr. Rosenberg's  
579 Schedules 3 and 4. Without necessarily agreeing with the specific Storage Balance End  
580 of Month, Physical Withdrawal/Injection, Transportation Bank, or Transport Imbalance  
581 volumes and assumptions shown in Dr. Rosenberg's Schedules 3 and 4, they can be used  
582 as a starting point for comparison with the four scenarios presented on Exhibit TZ-2.03.

583 All four variations use actual Chicago First-of- Month (FOM) prices for April 2005  
584 through March 2006 as published by Natural Gas Intelligence. The differences between  
585 the “Sales Costs” (marked as column (G)) shown on the four pages are due to the way  
586 that transportation customers use their ABs. Negative values for the Sales Costs  
587 represent savings for sales customers. Positive values for Sales Costs represent extra  
588 costs for sales customers, or subsidies that the sales customers are providing to the  
589 transportation customers.

590 Page 1 represents Dr. Rosenberg’s Schedule 4 where the transportation customers  
591 choose to keep their month ending AB constant each month. As with Dr. Rosenberg’s  
592 Schedule 4, the entire summer/winter spread benefit passes to the sales customers. Using  
593 the actual FOM prices reduces the total benefit from the \$32,530 on Dr. Rosenberg’s  
594 Schedule 4 by \$7,752, or about 24%, to \$24,778.

595 Page 2 represents Dr. Rosenberg’s Schedule 3 where transportation customers  
596 pattern their month ending AB activity after the total system storage activity. As with Dr.  
597 Rosenberg’s Schedule 3, the transportation customers now share in the benefits of the  
598 total summer/winter price spread. Using the actual FOM prices reduces the total benefit  
599 from the \$24,390 on Dr. Rosenberg’s Schedule 3 by \$5,808, or about 24% to \$18,582.

600 Page 3 shows the value of the monthly optionality embedded in a storage program  
601 envisioned by Dr. Rosenberg with full-MDQ daily injection and withdrawal limits, 20%  
602 of AB monthly injection limits for May through October and December through March  
603 withdrawal limits of 35%, 40%, and 25%, respectively. This also uses the same  
604 beginning, maximum, and ending AB balances that Dr. Rosenberg used in his Schedule 3  
605 (10,000 dth beginning and ending, and 18,129 dth maximum AB). Instead of sales

606 customers receiving a benefit of \$18,582 when transportation customers follow the total  
607 system storage activity, the sales customers will now be subsidizing the transportation  
608 customers by \$87,892.

609 Page 4 shows value of the monthly optionality embedded in the storage program  
610 proposed by the Utilities, using the same MDIQ and MDWQ as calculated for an SST  
611 customer with 100% SSP, based on the total transportation customer MDQs (excluding  
612 CFY customers) of 660,000 dth, and the 70% minimum end-of-November inventory.  
613 This example also uses the same beginning, maximum, and ending AB balances that Dr.  
614 Rosenberg used in his Schedule 3 (10,000 dth beginning and ending, and 18,129 dth  
615 maximum AB). Instead of sales customers receiving a benefit of \$18,582 when  
616 transportation customers follow the total system storage activity, the sales customers will  
617 now be subsidizing the transportation customers by \$34,337. This is \$53,555, or about  
618 61%, lower than the \$87,892 result shown on Page 3 based on Dr. Rosenberg's storage  
619 proposal.

620 Q. Please summarize why the proposals of Dr. Rosenberg and others to permit the  
621 transportation customers to inject or withdraw their entire MDQ any day of the year,  
622 except perhaps on critical days, would be inappropriate (IIEC/CNE/VES Jt. Ex. 1,  
623 pp. 17, 19)

624 A. To permit transportation customers such broad rights would be highly problematic for  
625 several reasons. First and foremost, the Utilities' proposal is based on the operational  
626 reality that the total of all system storage daily injections is considerably less than the  
627 transportation customers' combined MDQs, so it would be impossible for the Utilities to  
628 physically inject the full MDQ from transportation customers on any given day.

629 Likewise there are many days outside of the withdrawal period that the total withdrawal  
630 rights from all system storage sources combined are much lower than the combined  
631 MDQs of all transportation customers. Second, since the transportation customer gas is  
632 first through the meter every day, allowing them to have more than their *pro rata* share of  
633 injection rights any day of the year necessarily means that the sales customers have less  
634 than their *pro rata* share of daily injection rights available on whichever days the  
635 transportation customers use their full injection rights. To the extent that transportation  
636 customers can over-deliver on some days, which may be low gas cost days, and under-  
637 deliver on other days, which may be relatively higher cost days, the combination of using  
638 greater than their *pro rata* share of daily injection and withdrawal rights, coupled with the  
639 transportation gas being first through the meter, provides the potential for cost and  
640 volume subsidies to the transportation customers at the expense of the sales customers.

641 Q. What are the total of the combined transportation customer MDQs for Peoples Gas and  
642 North Shore?

643 A. As of June, 2007, Peoples Gas' transportation customers (excluding CFY customers) had  
644 combined MDQs of over 660,000 dth. The quantity for North Shore was over  
645 99,000 dth.

646 Q. Please describe Exhibit TZ-2.04.

647 A. This Exhibit shows, for each utility, a graph of actual Manlove Field daily storage  
648 activity against current transportation customer MDQs, which would represent the  
649 maximum daily injection and withdrawal activity that some parties are seeking.  
650 Withdrawals are shown as positive and injections are shown as negative.

651 Q. What is the maximum total system daily injection capability?

652 A. Peoples Gas' maximum storage daily injection capability is 388,603 dth/day. For North  
653 Shore, it is 120,637 dth/day.

654 Q. Please describe the Utilities' daily total system sendout volumes in the summer.

655 A. There are several days in the summer when Peoples Gas' total system sendout is 150,000  
656 dth or less. For North Shore, the comparable figure is 35,000 dth or less.

657 Q. If total sendout is 150,000 dth or less and the maximum total system daily injection  
658 capability for the summer is 388,603 dth, how could Peoples Gas operationally absorb  
659 over 660,000 dth of transportation customer supply in the summer?

660 A. After using transportation customer supply to satisfy total system demand of 150,000 dth,  
661 there would be a 510,000 dth supply overage remaining. If the maximum daily injections  
662 for all storage fields were available on that day, 388,603 dth could be injected provided  
663 that at least 137,640 dth was delivered on NGPL Gulf Coast transportation, 41,600 dth  
664 was delivered using NGPL Midcontinent transportation, and 137,363 dth was delivered  
665 using Northern Border Pipeline Company transportation. The remaining 121,397 dth  
666 would need to be sold off-system, potentially at a loss that would have to be absorbed by  
667 the sales customers. If that day was also a relatively low gas cost day, the sales  
668 customers would be deprived of their *pro rata* share of storage injections and the  
669 accompanying low gas cost purchases.

670 Q. Do Dr. Rosenberg and others propose any limitations on transportation customers  
671 injecting their full MDQ every day?

672 A. Dr. Rosenberg proposed only that daily injections could be limited on a Critical Supply  
673 Surplus Day. The Utilities believe that adoption of their proposals to provide  
674 transportation customers with their *pro rata* share of daily injection and withdrawal rights  
675 would be preferable to calling several Critical Days every year.

676 Q. Have you quantified the potential subsidies to the transportation customers on an annual  
677 basis resulting from their possessing greater than their *pro rata* share of daily injection  
678 and withdrawal rights and also having preferential treatment of their daily supply always  
679 being first through the meter?

680 A. Yes. Exhibit TZ-2.01 shows the potential subsidy from using just 10,000 dth per day of  
681 injection and withdrawal rights, ten days of injection and withdrawal each month, no  
682 change in end-of-month AB, and actual daily Chicago citygate prices using seasonal time  
683 periods similar to Dr. Rosenberg's Schedules 3 and 4. Exhibit TZ-2.01 covers two years,  
684 and shows just over \$1.6 million of potential subsidies for 2006 and almost \$1.5 million  
685 of potential subsidies in 2007. These subsidies were created by daily price arbitrage  
686 within each month, injecting on ten days at the average of ten relatively low cost days  
687 each month and withdrawing on ten days at the average price of ten relatively high cost  
688 days each month. There was no storage activity assumed for the remaining days of each  
689 month. Since Exhibit TZ-2.01 assumes that the transportation customers' AB balance  
690 would remain constant at each month end, similar to Dr. Rosenberg's Schedule 4, these  
691 potential subsidies to the transportation customers would be offset somewhat by the  
692 benefits from the winter/summer price differential remaining with the sales customers.

693 Q. Exhibit TZ-2.01 uses 10,000 dth/day for daily injections and withdrawals on ten days of  
694 each month, but it has been proposed that the transportation customers be granted their

695 full MDQ of daily injections and withdrawals for every day each month. What would the  
696 comparable potential subsidies be if the transportation customers were allowed to inject  
697 or withdraw their full MDQ any day of the year?

698 A. For Peoples Gas, the transportation customers have a combined MDQ of over 660,000  
699 dth, which is at least 66 times the amounts shown in Exhibit TZ-2.01, or just over \$106  
700 million for 2006 and about \$99 million for 2007, for a total of over \$205 million. This  
701 assumes that both of those time periods had the same transportation customer MDQ as  
702 June 2007, and also assumes that they are exercising their full rights only about two-  
703 thirds of the time by withdrawing ten days per month and injecting ten days per month.  
704 For North Shore, the transportation customers have combined MDQs of over 99,000 dth,  
705 which is roughly 9.9 times the amounts shown in Exhibit TZ-2.01, or about \$16 million  
706 for 2006 and about \$15 million for 2007, for a total of about \$31 million.

707 Q. Dr. Rosenberg suggests that the cycling requirement is unnecessary because Peoples Gas  
708 has been operating Manlove without difficulty without the restriction. (IIEC/CNE/VES  
709 Jt. Ex. 1, p. 21) Why does Peoples Gas need a cycling restriction?

710 A. Transportation customer deliveries represent a large percentage of annual gas supply  
711 delivered to Peoples Gas' system – over 40% for fiscal 2006 based on actual  
712 consumption. The North Shore data are similar. As the Peoples Gas Diversity Factor  
713 studies show, the transportation customers as a group have demand profiles that are about  
714 90% similar to the total system load. (The North Shore factor is somewhat lower.) Since  
715 the Utilities face cycling requirements under some of their storage services, it is  
716 reasonable to expect the customers controlling over 40% of the annual gas supply to

717 manage their storage to come close to the Utilities' target storage operations at the end of  
718 two out of twelve months in the year.

719 Q. Are the dates to which the cycling requirements apply selected for the convenience of the  
720 sales customers, as Dr. Rosenberg states? (IIEC/CNE/VES Jt. Ex. 1, p. 22)

721 A. No. Dr. Rosenberg offered no support for his contention, which apparently assumes that  
722 transportation customers do not have a heating component to their load, and, as such, do  
723 not need storage for the cold of winter. The end of November limit is to ensure that there  
724 is adequate storage inventory before the start of the coldest winter months of December,  
725 January, and February. The end of March limit is based on the end of the traditional  
726 withdrawal season, is after the coldest winter weather is over, and matches when ANR  
727 computes cycling penalties for its FSS service. By the end of March, Manlove has been  
728 turned around for injection, and purchased storage services are reducing the available  
729 maximum daily withdrawal in preparation for the injection season. These cycling  
730 requirements are based on storage contract provisions, operational realities of colder  
731 weather increasing consumption, and preserving the availability of storage for providing  
732 physical supply during the traditionally coldest months.

733 Q. Why should transportation customers have to abide by the same schedule as the Utilities,  
734 as long as they periodically cycle their banks? (IIEC/CNE/VES Jt. Ex. 1, p. 22)

735 A. The Utilities are merely proposing that the customers who represent over 40% of the  
736 Utilities' annual throughput meet month-end storage targets for two out of twelve months  
737 in the year. As discussed previously, these two monthly targets have operational and  
738 contractual bases and in no way require fully cycling storage banks every year.

739 Furthermore, the parameters proposed are at the extreme ends (in favor of transportation  
740 customers) of the Utilities' historical storage balances.

741 Q. The Multiut witnesses state that the cycling requirements "do not appear appropriate."  
742 (Multiut Ex. 1.0, p. 9) Does your response to the issues raised by Dr. Rosenberg also  
743 address this claim?

744 A. Yes. The month end targets are part of allocating accountability for proper system  
745 operations among the customers using the system. Like total system load, total  
746 transportation customer load increases with cold weather and there should be storage  
747 available to service those increased requirements.

748 Q. The Multiut witnesses state that they have concerns about the AB proposal and cite the  
749 Excess Bank and the Critical Surplus Day unauthorized overrun charge. (Multiut Ex. 1.0,  
750 p. 8) Are these charges related to the new AB proposals?

751 A. No. These charges are applicable to both the current and the proposed AB.

752 Q. Do the Excess Bank and Critical Surplus Day unauthorized overrun charges continue to  
753 be appropriate?

754 A. Yes. They serve to help limit discretionary storage activity and price arbitrage behavior  
755 that exceed the customer's contract rights. Interstate pipelines have comparable charges  
756 to manage the use of their services. Transportation suppliers should not continue to fill  
757 their AB after it is full. The Excess Bank charge exists to deter injection operations in  
758 excess of the total AB capacity. Critical Supply Surplus Day unauthorized overrun  
759 charges seek to keep transportation customer supply equal to their consumption on days  
760 where there is a critical excess of supply coming into the Utilities' systems. The Critical

761 Supply Shortage Day charges for non-delivery when the total system is short are  
762 appropriate. The Critical Supply Surplus Day penalties are just as appropriate for days  
763 where the system is out-of-balance in the other direction. In either case, if the suppliers  
764 provide the amounts that their customers are consuming, within their *pro rata* share of  
765 storage asset injection or withdrawal, they will not incur either type of Critical Day  
766 charge.

767 **D. Rider P - Pooling**

768 Q. The VES and CNE witnesses want the cap on the Rider P pool size to be raised or  
769 eliminated. (Vanguard Ex. 1, p. 6; Vanguard Ex. 2, p. 5; CNE-Gas Ex. 1.0, p. 19) Why  
770 do the Utilities have a pool size limit?

771 A. Limiting the Rider P pool size is necessary for administrative and billing system reasons.  
772 The current billing system maintains strict controls over the aggregation relationship  
773 between individual customer accounts and the aggregation entity (pool account). This  
774 system feature ensures that billing and billing adjustments to individual accounts are  
775 appropriately reflected at the aggregation level (pool account). The same system features  
776 require that all sub-accounts be billed before the pool bills. If one sub-account cannot be  
777 billed as a result of a billing exception, the pool cannot bill. Billing exceptions are  
778 identified by the billing system and require manual review and resolution. Allowing  
779 more accounts to be part of a pool will increase the time needed to review and resolve  
780 billing exceptions and bill a supplier pool.

781 Q. What concerns do you have with raising the cap to 300 accounts or eliminating the cap  
782 completely?

783 A. As described above, the rigid relationship between a pool and its sub-accounts is system  
784 resource intensive and, more importantly, it requires relatively significant manual  
785 intervention, particularly when the pool is composed of daily-read accounts. The  
786 Utilities' proposed pool size increase to 200, from 150, accounts is based on their  
787 experience in processing billing, billing exceptions, and billing adjustments to accounts  
788 in the largest daily-metered pools. Pool memberships of over 200 or 300 accounts would  
789 take longer to process by the billing system, but, more importantly, it would take the  
790 Utilities' employees longer to review and resolve billing exceptions. The Utilities'  
791 experience also has taught that the likelihood of billing adjustments to a pool account  
792 increases as the number of sub-accounts increases. It should be noted that most  
793 suppliers' pools do not approach the current limit of 150 accounts. At North Shore, with  
794 26 supplier pools, the median pool size is 31 and the average pool size has 50 accounts.  
795 At Peoples Gas, with 67 supplier pools, the median pool size is 58 while the average pool  
796 has 71 accounts (*see* Exhibit TZ 2.05). The combination of system and administrative  
797 constraints makes eliminating the pool cap very impractical.

798 Q. The CNE witnesses want the Utilities to implement what they call "super pooling."  
799 (CNE-Gas Ex. 1.0, pp. 20-23) What is super pooling?

800 A. As the Utilities understand it, super pooling would consist of aggregating the inventory  
801 balances of suppliers' pools and determining, in aggregate, if the supplier's pools meet  
802 the minimum and maximum bank balances proposed.

803 Q. Are there obstacles to the Utilities implementing super pooling?

804 A. Yes. Based on the understanding described above, the Utilities would need to make  
805 significant modifications to the billing system. Also, in order to operationally implement

806 super pooling, the proponents of this proposal would need to define the specific  
807 parameters which would apply to any such mechanism and the details concerning what  
808 steps would need to be taken by the pooling party and the Utilities when the super  
809 pooling targets are not met. For example, if the Utilities allow super pooling for purposes  
810 of meeting the November and March inventory requirements, would all of a supplier's  
811 Rider P pools automatically be part of a super pool? If not, how and when would the  
812 supplier designate which Rider P pools would be included in a super pool? If the super  
813 pool does not meet an inventory target, to which Rider P pool or pools do the Utilities  
814 allocate the purchase or sale of gas? Would "super pooling" require the Utilities to create  
815 another billing entity -- the "super pool"? If so, that would significantly complicate a  
816 system that already includes various layers of interrelated billing entities: (a) individual  
817 customer accounts; (b) stand alone contracts that may include multiple customer  
818 accounts; and (c) Rider P pools, which include a group of customer contracts that may  
819 each include multiple customers. Based in the lack of definition for this proposal and the  
820 considerable administrative obstacles, the Utilities do not agree to implement super  
821 pooling.

822 Q. Do these same concerns apply if super pooling is applied to tariff requirements other than  
823 cycling?

824 A. Yes, and the difficulty and complexity would increase greatly. The cycling requirement  
825 is a twice per year exercise. Other proposed requirements are in effect every day. As  
826 suppliers add and lose customers, billing for a newly created billing entity would be more  
827 complicated.

828 Q. The proposed super pooling would include what CNE called “stand alone” accounts and  
829 not just accounts grouped under a Rider P pool. (CNE-Gas Ex. 1.0, p. 20) What is a  
830 stand alone account?

831 A. A stand alone (contract) account is a customer who does not choose to be aggregated into  
832 a supplier pool. The contract can include one account or the customer can aggregate two  
833 or more accounts. Gas deliveries are accounted for at the aggregate (contract) level. In  
834 addition, the stand alone contract aggregates consumption from all customer accounts in  
835 the contract. Any daily imbalances are accounted for at the aggregation (contract) level  
836 as injections or withdrawals from the customer’s AB.

837 Q. Are there distinct issues associated with stand alone customers that do not apply to Rider  
838 P pools?

839 Yes there are. In a stand alone contract scenario, the customer owns the gas bank  
840 account, while a customer who transferred its contract to a supplier pool has given up  
841 control of its gas bank account to the supplier. The second issue with stand alone  
842 contracts is that customers who choose to take transportation service can also choose  
843 multiple suppliers. Under Rider P, a customer must commit to a single supplier for a  
844 contract term. A stand alone customer is free to switch suppliers during a contract year  
845 and may buy gas from more than one supplier in the same month or even on the same  
846 day. The Utilities would have no basis for assigning a stand alone contract to a super  
847 pool. The problems described earlier become even more complex if stand alone contracts  
848 were to be included as part of super pooling and the minimum or maximum levels  
849 required have not been met. For example, assume that a supplier has three pools and two  
850 stand alone contracts. Peoples Gas aggregates the storage inventories and determines that

851 the super pool is below the minimum November 1 storage target. Who does Peoples Gas  
852 bill for the deficiency? Should the supplier and the stand alone customers be billed for  
853 the deficiency? Stand alone customers who may not have caused the storage deficiency  
854 will certainly argue that they should not be billed for a deficiency they did not cause and  
855 for the activity of a pool they did not choose to join.

856 Q. Do your comments on “super pooling” apply equally to VES’s proposals to aggregate a  
857 supplier’s entire portfolio for certain purposes? (Vanguard Ex. 1, pp. 3-5; Vanguard  
858 Ex. 2, pp. 3-5)

859 A. Yes, they do. While VES’s mathematical explanation appears simple, it fails to  
860 recognize the practical administrative issues and ignores the customer issues outlined  
861 above.

862 Q. The CNE witnesses proposed that the Utilities permit customers with different selected  
863 standby percentages to be in the same pool. (CNE-Gas Ex. 1.0, p. 15) Do the Utilities  
864 accept this proposal?

865 A. No. The Utilities have not been approached by suppliers or seen any evidence that it is a  
866 needed service. Suppliers tend to select the same SSP for all of their Rider SST pools,  
867 *i.e.*, a supplier may have several pools, each with the same SSP. It should be noted that  
868 suppliers have requested and the Utilities have agreed to allow customers to switch the  
869 level of standby service -- when switching suppliers -- to match the SSP of the new  
870 supplier’s pool. The Utilities have also agreed to allow customers to go from one  
871 supplier pool to another.

872 Q. If the Commission required the Utilities to permit pools with different SSPs, how would  
873 the Utilities propose to implement such a requirement?

874 A. Extensive programming changes would be required to handle different SSPs in the same  
875 pool. If required, the Utilities propose that implementation be as follows: (1) the pool  
876 MDQ would be the summation of the underlying customer (contract) MDQs; and (2) the  
877 Pool Selected Standby Percentage (“SSP”) would be the weighted average of the  
878 customers’ (contract) SSPs. The following scenario illustrates how the proposal would  
879 operate with these two clarifications. Pool A consists of 2 customer contracts. One  
880 customer contract consists of 10 customer accounts and has elected 20% SSP. The MDQ  
881 of each sub-account is 10. The second contract has 5 accounts and has elected 10% SSP.  
882 The MDQ for each account is 80. Thus the pool MDQ is 500 or  $(10 \text{ accounts} \times 10) + (5$   
883  $\text{accounts} \times 80)$ . The weighted average SSP would be calculated as follows:  $[(20\% \times$   
884  $100) + (10\% \times 400)]$  divided by 500. In this example the pool SSP would be 12%, thus  
885 the pool Selected Standby Quantity (“SSQ”) would be 60. All daily and month balancing  
886 parameters that use SSP or SSQ (such as AB, MDWQ, and MDIQ) would use the  
887 calculated pool SSP and SSQ values.

888 **E. Operational Issues - Intra-Day Nominations; Delivery Restrictions**

889 Q. The CNE witnesses want the Utilities to allow intra-day nominations and not just the  
890 intra-day allocations that the Utilities are proposing. (CNE-Gas Ex. 1.0, pp. 8-14) What  
891 are intra-day nominations?

892 A. An intra-day nomination is a nomination exercised by a shipper, confirmed by the  
893 pipeline and then the LDC, after the original timely nomination is completed and  
894 confirmed for the next flowing Gas Day. The intra-day nomination must be made and

895 confirmed by all parties some time before the end of the Gas Day to which the  
896 nomination applies. As the CNE witnesses describe, interstate pipelines are required to  
897 offer three such nomination opportunities.

898 Q. The CNE witnesses describe the intra-day nominations that they propose as industry  
899 standards. (CNE-Gas Ex. 1.0, pp. 8-9) Were the standards that they describe developed  
900 for LDCs?

901 A. No, the standards that the CNE witnesses describe were developed by the North  
902 American Energy Standards Board (“NAESB”) and its predecessor the Gas Industry  
903 Standards Board and adopted by the Federal Energy Regulatory Commission (“FERC”).  
904 These FERC-adopted nomination cycles are commonly referred to as NAESB  
905 Nomination and Scheduling Standards. They include four cycles of which two (the  
906 Timely Nomination Cycle and Evening Nomination Cycle) are due prior to the Gas Day  
907 and the remaining two are due during the Gas Day (Intraday 1 and Intraday 2). The  
908 FERC required the interstate pipelines to offer the NAESB standards, but state public  
909 utility commissions and LDCs are not required to adopt any of them.

910 Q. Is it “contrary to industry standards” for an LDC not to provide intra-day nomination  
911 rights? (CNE-Gas Ex. 1.0, p. 9)

912 A. No, it is not contrary to “industry standards” for an LDC not to provide intra-day  
913 nomination rights. Many LDCs, including all of the major Illinois utilities, do not follow  
914 NAESB Nomination and Scheduling Standards.

915 Q. The CNE witnesses suggest that the Utilities require nominations for the entire weekend  
916 to be made on Friday. (CNE-Gas Ex. 1.0, p. 10) Is that correct?

917 A. No. The Utilities do not require suppliers to nominate on Friday for the entire weekend.  
918 The Utilities have staff available to process and confirm nominations every day,  
919 including non-business days.

920 Q. Why do the Utilities accept intra-day nominations that are for system supply? (CNE-Gas  
921 Ex. 1.0, p. 10)

922 A. The Utilities are required to balance their systems to accommodate transportation  
923 customer deliveries that are first through the meter and their own purchased supply with  
924 storage activity. The Utilities each will use its leased storage services from interstate  
925 pipelines as well as, for Peoples Gas, its company-owned storage to balance the total  
926 system after receiving the transportation volumes nominated to the system and the latest  
927 sendout forecast. The transportation customers' nomination deadline is identical to the  
928 timely nomination deadline applicable to the Utilities' nominations. If the Utilities did  
929 not allow intra-day nominations for system supply, they could not respond to  
930 transportation customers' deliveries or weather events and take necessary actions to  
931 balance the system.

932 Q. The Utilities also allow some customers to make intra-day nominations. If the Utilities  
933 allow some intra-day nominations, why not allow them for all transportation customers?

934 A. The Utilities allow intra-day nominations for only a small number of individually  
935 negotiated contracts. Some of these contracts permit intra-day nominations but, as  
936 negotiated agreements, are balanced with terms and conditions associated with deliveries  
937 of customer-owned gas that are more restrictive than the generally applicable tariff  
938 requirements. For example, some contract requirements include timely notification and

939 updates of estimated and actual usage and deliveries and charges for failing to provide  
940 accurate or timely information.

941 Q. The Multiut witnesses state that Multiut has been adversely affected by delivery  
942 restrictions. (Multiut Ex. 1.0, pp. 4-5) Why do the Utilities impose delivery restrictions?

943 A. The Utilities impose delivery restrictions when customer deliveries are disproportionate  
944 to customer requirements. As I explained above, transportation customers' delivery  
945 rights greatly exceed their requirements on many days of the year. As I also explained,  
946 transportation customers' gas is the first through the meter. In order to balance their  
947 systems and balance the needs of transportation and sales customers, the Utilities must  
948 control the quantity of gas being delivered.

949 Q. Do the Utilities expect that the proposals in these cases will reduce the frequency with  
950 which the Utilities need to impose restrictions?

951 A. Yes. The proposals to shape the transportation customers' AB use to something closer to  
952 what applies to the Utilities, along with the discontinuance of Rider FST, should  
953 somewhat alleviate the extent to which daily deliveries are disproportionate to daily  
954 requirements plus or minus some amount to fill or withdraw from the customers' ABs.

955 **F. Other Large Volume Transportation Issues – Accounting**  
956 **for Trading And Storage Activity; Administrative Charges;**  
957 **Billing Demand Determination**

958 Q. VES described certain circumstances under which it believes the Utilities improperly  
959 account for trading and storage activity. (Vanguard Ex. 1, pp. 6-9; Vanguard Ex. 2,  
960 pp. 6-9) Please address this testimony.

961 A. In VES's Responses to Request Nos. 2.06 and 2.07 of the Utilities' Second Set of Data  
962 Requests, VES admitted that it has not been financially harmed by the practices it  
963 described. The Utilities have used the current methodology for accounting for imbalance  
964 trades and transfer of gas bank account ("GBA") balances since 2000. (The GBA is the  
965 AB plus the Excess Bank or Imbalance Account.) The methodology was adopted to  
966 address some practical administrative issues and does not in any way harm customers or  
967 suppliers. The GBA transfer or the imbalance trade is recognized in the recipient's GBA  
968 on the date the transaction is executed. It is recognized for the transferor when the pool is  
969 billed, which would generally be between the 8th and 10th of the month. At billing time,  
970 from an administrative perspective, the Utilities have the most certainty as to the  
971 quantities that are to be transferred and if they will be transferred. For imbalance trades,  
972 the trade window does not close until a few days into the month. For GBA transfers,  
973 between the time a supplier submits a request to assign a contract to its pool and the time  
974 the supplier pool is billed, a number of things can happen that can change the quantity to  
975 be transferred or negate the transfer. For example, it is not unusual for suppliers to  
976 contact the utility to rescind a request for a pool assignment. The Utilities, working in  
977 good faith with suppliers, do honor late requests to reverse additions of contracts to pools  
978 before supplier pools are billed. It is also not unusual for the Utilities to discover and  
979 correct a metering error prior to billing. Both of these situations can change the quantity  
980 of gas to be transferred and even reduce the quantity to zero.

981 Q. Are there any changes that the Utilities need to make with respect to the situations  
982 described by VES?

983 A. No changes are required because neither customers nor suppliers have been harmed by  
984 the current practice. It should be noted that only when the supplier pool is operating at  
985 the extremes of the GBA (close to full or empty), can the timing of accounting for the  
986 additional gas have a temporary negative effect on the daily balancing of the pool. (Pool  
987 GBAs tend to be much larger than individual contract (customer) GBAs.) As such, the  
988 addition of a relatively small amount of gas on day 1 *versus* day 8 does not affect the  
989 pool's daily rights.

990 Q. VES states that certain administrative charges should be set exactly at cost and not  
991 rounded. (Vanguard Ex. 1, p. 18; Vanguard Ex. 2, p. 15) Do the Utilities agree to VES's  
992 proposals?

993 A. The Utilities do not object to VES's proposal that the Rider SST charge should be \$23.16  
994 for Peoples Gas and \$21.48 for North Shore, the Rider P charge should be \$17.55 for  
995 Peoples Gas and \$12.61 for North Shore, and the Rider SVT charge should be \$1.25 for  
996 Peoples Gas and \$1.37 for North Shore.

997 Q. Do these changes have any other rate design effect?

998 A. Eliminating the rounding and setting the charges at cost will result in a reduction in total  
999 transportation administrative revenue. This will result in minor increases to distribution  
1000 charges proposed by the Utilities to offset the reduction.

1001 Q. The CNE witnesses proposed a modification in the determination of "Billing Demand."  
1002 (CNE-Gas Ex. 1.0, pp. 24-26) What is Billing Demand?

1003 A. Billing Demand is the historically highest peak day demand. Its purpose is to set the  
1004 peak day capacity in therms that needs to be set aside for the customer and then allocate  
1005 costs according to the customer's peak day usage.

1006 Q. Do the Utilities agree that CNE's proposed change to how the Billing Demand is  
1007 calculated is appropriate?

1008 A. The Utilities disagree that the Billing Demand should be defined as the arithmetic  
1009 average of a customer's highest five daily demands in therms from December to February  
1010 of the most recent 12 month period. This is contrary to the function of the Billing  
1011 Demand, which is to identify the peak usage. The Utilities are willing to adopt language  
1012 based on the Wisconsin Public Service tariff included as CNE-G Ex. 1.9.

1013 Q. What language do the Utilities propose?

1014 A. If the Commission agrees that the Billing Demand definition should be modified, the  
1015 Utilities propose that the following language be added at the end of the last paragraph in  
1016 the section entitled "Billing Demand" in Service Classification No. 4 for Peoples Gas and  
1017 Service Classification No. 3 for North Shore:

1018 ;provided, further, the Company may, in its sole discretion, permit the customer to  
1019 exclude from the calculation up to ten Gas Days during any December through  
1020 February period, subject to each of the conditions listed below.

- 1021 1. The customer submits its request in writing, including by electronic  
1022 means, and the Company receives this request by 9:00 a.m. Central Time  
1023 at least two business days prior to the affected Gas Day(s). The Company  
1024 will grant or deny, in writing, including by electronic means, any  
1025 requested waiver prior to the start of the affected Gas Day(s).
- 1026 2. The request to exclude Gas Day(s) is due to infrequent, unusual and short  
1027 duration customer loads, such as the testing and/or maintenance of  
1028 equipment, or short-term production requirements.
- 1029 3. The Company expects no adverse impacts to other customers.

1030 4. The customer shall be subject to any constraints, curtailments, or other  
1031 limitations of service, as well as any associated penalties, and charges  
1032 during Gas Day(s) covered by a request that the Company grants.

1033 **III. SMALL VOLUME TRANSPORTATION PROGRAM**  
1034 **(CHOICES FOR YOU<sup>sm</sup> OR “CFY”)**

1035 Q. What issues will you address in connection with the Utilities’ small volume  
1036 transportation program?

1037 A. I will address proposals to change the way CFY suppliers use storage allocated to the  
1038 program, the delivery tolerances, customer enrollment issues, Rider SBO and the  
1039 Utilities’ electronic bulletin board, PEGASys<sup>TM</sup>.

1040 **A. Storage Rights and Aggregation Rights**

1041 Q. RGS witness Mr. Crist states that on-system storage costs are recovered equally from all  
1042 residential and commercial customers. (RGS Ex. 1.0, pp. 10-11) Is this an accurate  
1043 description of how the Utilities recover on-system storage costs?

1044 A. No. Ms. Grace addresses this in her Rebuttal Testimony.

1045 Q. Mr. Crist states that purchased storage costs are recovered through the Non-Commodity  
1046 Gas Charge, for sales customers, or through the ABGC for CFY customers. (RGS Ex.  
1047 1.0, p. 11) What is the ABGC?

1048 A. The ABGC (Aggregation Balancing Gas Charge) is a non-commodity related gas cost  
1049 recovery mechanism applied to all therms delivered or estimated to be delivered by the  
1050 Utilities to customers served under Rider SVT. It is a monthly charge that recovers the  
1051 cost of providing storage and daily balancing service to CFY customers. The ABGC  
1052 charge is based on certain firm storage and transportation services that the Utilities  
1053 purchase. The ABGC, like all gas cost charges, is in the Utilities’ Rider 2, Gas Charge.

1054 The Utilities calculate this charge each month so that it includes the services and  
1055 associated costs currently under contract to support the services provided to customers.  
1056 The ABGC is distinct from the Non-Commodity Gas Charge (“NCGC”), which is one  
1057 component of the Gas Charge that applies to sales customers’ purchases of gas from the  
1058 Utilities. The NCGC, as the name implies, includes all non-commodity costs and not just  
1059 those associated with storage and balancing.

1060 Q. Mr. Crist proposed a specific allocation of storage rights to CFY. (RGS Ex. 1.0, pp. 15,  
1061 21.) Please comment on his allocation.

1062 A. First, CFY customers have no daily metering, so some of the problems with Mr. Crist’s  
1063 proposal are largely the problems that exist with the current Rider FST program. Second,  
1064 he developed his percentages by using peak day (*i.e.*, the maximum) data,  
1065 notwithstanding that maximum capabilities do not exist throughout the winter or  
1066 throughout the summer. Third, he used data from a single warm year, 2006, to develop  
1067 his percentages. Fourth, he refers to the need to “attenuate daily and monthly injection  
1068 and withdrawal rights” (page 15), but provides no substance for what this means or if he  
1069 has a proposal.

1070 Q. Please comment on Mr. Crist’s suggestion that Hub customers receive storage at the  
1071 expense of CFY customers. (RGS Ex. 1.0, p. 18)

1072 A. Hub customers’ rights are subordinate to CFY customers, as well as all other firm, on-  
1073 system customers whether the on-system customer is a sales or transportation customer.  
1074 Decisions on the services that are made available to Hub customers are made after the  
1075 decisions on how to serve all on-system customers are made, and the timing of this

1076 decision process is the same whether the decisions affect the next gas day, the next  
1077 planning month, or the seasonal and annual planning process.

1078 Q. As an alternative, Mr. Crist suggested that pipeline capacity could be assigned to  
1079 suppliers. (RGS Ex. 1.0, p. 22) Is this proposal feasible?

1080 A. The FERC rules do not permit capacity assignment. If Mr. Crist is referring to capacity  
1081 release, that process would be burdensome for suppliers and the Utilities. This process  
1082 would require participation in one or more interstate pipeline capacity release programs.  
1083 Releases generally are subject to posting and bidding. The administrative burden of  
1084 releasing relatively small amounts of capacity to suppliers for customer pools that change  
1085 monthly would be considerable. Moreover, recall rights are a weak remedy for  
1086 addressing a supplier's failure to deliver gas. By the time the Utilities discover that gas is  
1087 not being delivered, they have missed the timely nomination deadline. Recalling the  
1088 capacity, procuring gas and making an intra-day nomination is not a reliable way to serve  
1089 customers. It is the Utilities' experience that the market for intra-day gas is more thinly  
1090 traded than the day ahead market, and purchasing gas after an intra-day recall could be  
1091 relatively difficult and costly.

1092 Q. Under the Utilities' proposal, do CFY suppliers receive the rights associated with the  
1093 ABGC?

1094 A. Yes. As explained earlier, the ABGC recovers costs associated with the balancing and  
1095 storage service available to CFY customers and suppliers. It is inevitable, under any  
1096 transportation program, that deliveries and requirements will vary on a daily basis.  
1097 Under CFY, the Utilities assume responsibility for daily balancing by determining an  
1098 RDDQ and not requiring daily metering. In addition, CFY customers benefit from an

1099 allocation of storage capacity that is filled in the injection season and withdrawn in the  
1100 withdrawal season. There are adjustments for weather in this determination. CFY  
1101 customers and suppliers receive the balancing and storage rights for which they pay.

1102           Regarding seasonal storage rights, CFY customers receive significant value from  
1103 purchasing gas in the summer to be withdrawn in the winter. As a matter of fact, Exhibit  
1104 TZ-2.06, page 1 of 2, illustrates that when using recent futures values and the injection  
1105 and withdrawal privileges granted to Peoples Gas CFY customers, the summer/winter  
1106 price differential is \$1.33. For a typical 25% load factor customer, that equates to a \$0.36  
1107 value per Dth (or 3.6¢ per therm) consumed. That value in itself is greater than Peoples  
1108 Gas' 12 months ended July 2007 average ABGC rate per therm of 3.46¢ therm.  
1109 Furthermore, this intrinsic seasonal storage value is only a portion of the benefits  
1110 provided through the ABGC.

1111           Also, the Utilities provide significant balancing to CFY customers. Daily and  
1112 monthly balancing as well as allowed tolerances provide even more benefits. Even if  
1113 their were no tolerances allowed, the Utilities would still be balancing for the differences  
1114 between the required deliveries and the pool's actual consumption. The Utilities are  
1115 estimating the pools' consumption, but that is not the gas delivered to the customers  
1116 through their meters that day. Without daily metering, it is impossible to know the  
1117 difference. Based on the Utilities' experience, it is reasonable to assume that those  
1118 average daily differences would exceed 5%.

1119 Q. Mr. Crist states that, with respect to storage rights, there needs to be a mechanism that  
1120 accounts for customer migration. (RGS Ex. 1.0, p. 20) Do the Utilities' proposals take  
1121 customer migration into account?

1122 A. Yes. It should be noted that, currently, during the injection season, as suppliers gain or  
1123 lose new customers, the storage targets are recalculated based on the pool enrollment  
1124 prior to the start of a new month. This increases or decreases the supplier's storage rights  
1125 as pool enrollment changes. In addition, the Utilities are proposing a "storage true-up"  
1126 mechanism that further adjusts storage during the injection season. This mechanism  
1127 would provide the CFY supplier with a customer's full storage rights at the time the  
1128 suppliers enroll customers.

1129 Q. Why are there no adjustments for migration during the withdrawal season?

1130 A. The CFY program is designed such that withdrawals occur in a measured way over the  
1131 course of the winter, with appropriate adjustments for weather. Consequently, the  
1132 quantity of inventory entering the winter is the quantity that the Utilities need to  
1133 withdraw over the course of the entire winter. If a pool gains or loses customers during  
1134 the winter, it would not be practical to allow adjustments to inventory because this could  
1135 entail winter injections or purchases and sales of gas by the Utilities to adjust the  
1136 inventory balance.

1137 Q. Mr. Crist asserts that working capital related to system gas costs is improperly charged to  
1138 CFY customers. (RGS Ex. 1.0, pp. 34-35) Do the Utilities have a proposal to address  
1139 this concern?

1140 A. The current CFY customer Aggregation Charge includes a credit from working capital.  
1141 If the Commission orders a credit in this case, the Utilities propose to use a similar  
1142 methodology as the one used in Docket Nos. 01-0469 and 01-0470 to offset the per  
1143 customer Aggregation Charge. Given that the level of gas costs and other factors

1144 pertinent to that calculation are in dispute in this case, the amount of the credit cannot be  
1145 determined with certainty at this time.

1146 Q. Please comment on Mr. Crist's proposed elimination of the Aggregation Charge. (RGS  
1147 Ex. 1.0, p. 36)

1148 A. While the Utilities agree that customers should receive a credit to the Aggregation  
1149 Charge for working capital, the charge should not be eliminated. The Utilities need to  
1150 recover costs associated with program administration, supplier and customer care, and  
1151 customer education, as well as maintaining and enhancing the systems used to administer  
1152 the program. These costs are appropriately recovered through the Aggregation Charge.

1153 **B. Month-End Delivery Tolerance**

1154 Q. Mr. Crist proposes that the month-end delivery tolerance should be eliminated. (RGS  
1155 Ex. 1.0, pp. 24-25) Please describe the month-end tolerance.

1156 A. The current month-end tolerance is 2% of the Monthly Adjusted Deliveries. If the sum of  
1157 the Daily Adjusted Deliveries for a pool is outside those bounds, the monthly volume  
1158 outside the tolerance is assessed a charge for being out of balance for the month. The  
1159 Utilities propose to increase the tolerance to 5% and thus provide additional flexibility to  
1160 CFY suppliers. The month-end tolerance is proposed at plus or minus 5% of the sum of  
1161 that month's RDDQs.

1162 Q. Is the month-end tolerance duplicative of the daily delivery tolerance, as Mr. Crist  
1163 contends? (RGS Ex. 1.0, pp. 24-25)

1164 A. No it is not. It is possible for a customer or its supplier to be within, but on the same side  
1165 of, the daily delivery tolerance every day of the month, but still exceed the monthly

1166 tolerance. For example, using the existing 10% daily delivery tolerance, which the  
1167 Utilities are not proposing to change, the supplier could be 9% long (*i.e.*, deliveries  
1168 greater than the RDDQ) every day of the month and be within the daily delivery  
1169 tolerance, but would also be 9% long for the month, outside of the monthly tolerance and  
1170 in a cash-out situation. Since the RDDQs are calculated to include the storage rights for  
1171 which the customers are paying, this would increase the customer's storage balance by  
1172 9% over what it should have. Moreover, if all the suppliers took action in the same  
1173 direction it could put the Utilities in an imbalance position with the interstate pipelines  
1174 they take service from, resulting in imbalance charges to the Utilities from the pipelines.  
1175 While my example was for a supplier over-delivering every day, it is also certainly  
1176 possible that a supplier could have a mix of over- and under-deliveries during the month,  
1177 all within the daily delivery tolerance, and still fall outside the monthly tolerance.

1178 Q. Mr. Crist states that storage rights are not allocated equally among sales service  
1179 customers and CFY customers. (RGS Ex. 1.0, p. 11) What storage rights do CFY  
1180 customers and suppliers receive?

1181 A. CFY customers and suppliers receive all base rate and gas charge storage days. For the  
1182 current contract period, beginning April 1, 2007, Peoples Gas customers receive 29 days  
1183 of storage and North Shore customers receive 27 days of storage. Under the Utilities'  
1184 proposal, CFY customers would have an automatic 10% daily delivery tolerance and 5%  
1185 monthly tolerance on top of their daily and monthly storage allocation. In essence, this  
1186 provides an additional 10% of RDDQ of daily injections or withdrawals. Since the  
1187 suppliers know the RDDQ before they need to nominate the supply, it is at their complete  
1188 discretion whether to over-deliver or under-deliver by up to 10% on any day. They are

1189 also, as proposed by the Utilities, allowed to over- or under-deliver by a cumulative 5%  
1190 for the month. Certain monthly imbalance volumes are allowed to be carried forward up  
1191 to two months before cashing out. This daily, monthly and carry forward flexibility is in  
1192 addition to the daily and monthly storage activity included in the RDDQ calculation. In  
1193 this way, the CFY suppliers are able to gain the benefits of seasonal and day-to-day price  
1194 variations. By contrast, the Utilities' service to sales customers must meet interstate  
1195 pipeline requirements and some of those requirements include smaller tolerances and no  
1196 imbalance carry-forward; for example, the applicable NGPL delivery tolerances are 5%  
1197 daily and 2% monthly. In addition, the Utilities' daily and monthly storage injection and  
1198 withdrawal rights may be limited below what the pipeline allows because the  
1199 transportation customers' gas is always first through the meter.

1200 The Utilities must provide additional balancing for weather changes and forecast  
1201 error. Unlike the large volume transportation programs with a daily metering  
1202 requirement to determine actual daily consumption, the Utilities take the responsibility  
1203 for forecasting daily CFY volumes correctly. The CFY supplier does not bear the  
1204 forecasting risk. In addition, the newly proposed storage true-up provision transfers  
1205 appropriate storage gas to and from the Utilities and the CFY supplier. This allows both  
1206 parties to have the appropriate amount of storage gas operationally for their respective  
1207 customers.

1208 **C. Customer Enrollment; Customer Data Issues; Minimum Stay Requirement**

1209 Q. Mr. Crist wants the Utilities to provide customer lists with names and addresses of  
1210 Service Classification No. 1 customers. (RGS Ex. 1.0, pp. 25-28) Do the Utilities agree  
1211 to provide such lists?

1212 A. The Utilities agree to provide residential customer lists in the manner prescribed by the  
1213 Commission in these cases. If the Utilities are not permitted to charge CFY suppliers for  
1214 the costs of providing such lists, then the Utilities' agreement is on the condition that  
1215 there should be a limit on the frequency with which suppliers can request a list. The  
1216 Utilities propose that suppliers be limited to one customer list every six months.  
1217 However, customers on the CFY "do not call" list will not be included in these customer  
1218 lists.

1219 Q. Specifically, what will the Utilities provide?

1220 A. The Utilities propose to provide customer lists with the following information:  
1221 (a) customer name, (b) service address, and (c) billing address.

1222 Q. Mr. Crist supports the Utilities' proposal to require only an account number to enroll a  
1223 customer in CFY. (RGS Ex. 1.0, pp. 37-38) Do you have any comments?

1224 A. This change became effective on June 10, 2007. Peoples Gas and North Shore each filed  
1225 with the Commission proposed tariff changes to comply with the Commission's order in  
1226 Docket No. 06-0540. The filing addressed the following: (a) elimination of the  
1227 requirement for a meter number to enroll a customer in the CFY program, and  
1228 (b) requiring only an account number to electronically enroll a customer in the CFY  
1229 program.

1230 Q. Mr. Crist wants the Utilities to provide customer payment histories to suppliers and  
1231 claims that customer consent "typically" allows suppliers to obtain payment histories.  
1232 (RGS Ex. 1.0, pp. 38-40). Do the Utilities have concerns about providing customer  
1233 payment histories?

1234 A. The Utilities believe that customer payment history is sensitive information that  
1235 customers may not necessarily wish suppliers to see. While CFY customers may often  
1236 grant their suppliers broad agency rights, such rights may not unambiguously include  
1237 access to payment history. It would be impractical for the Utilities to review every CFY  
1238 customer agreement with every supplier to verify that the relevant authorization for  
1239 disclosure of payment history exists.

1240 Q. Under what circumstances would the Utilities agree to provide customer payment  
1241 histories?

1242 A. The Utilities would provide customer payment histories if the Commission authorizes  
1243 such disclosure in these rate cases and if the Commission requires that the CFY suppliers  
1244 requesting the information warrant and represent that they have the requisite authority to  
1245 obtain the information, and to indemnify and hold the Utilities harmless from any  
1246 customer damage claim if the CFY supplier does not have the requisite authority, or if the  
1247 customer revokes the requisite authority. Furthermore, the Utilities propose to make this  
1248 information available to suppliers on the day the customer is “active and flowing” in the  
1249 supplier pool. This means that if a customer enrollment is submitted and accepted on  
1250 June 15, and the customer bills and becomes active in the supplier pool on June 24, the  
1251 supplier will have access to the customer’s payment history on or after June 24.

1252 The Utilities propose the following tariff language to implement this proposal. First,  
1253 there would be a new subsection in Section D of Rider CFY:

1254 **Customer Information**

1255 The customer may agree to allow a CFY Supplier to receive its payment history,  
1256 including information about past due amounts, from the Company. The customer  
1257 agrees that, if the CFY Supplier meets the applicable requirements of Rider AGG

1258                   pertaining to receiving customer information, the Company shall provide such  
1259                   information to the CFY Supplier.

1260                   Second, there would be a new provision, subsection 5, added to the description of the  
1261                   contract in Section F of Rider AGG:

1262                   (5) the process by which the CFY Supplier shall request and receive customer  
1263                   payment history and customer past due amounts, which process shall (i) require  
1264                   the CFY Supplier to indemnify and hold the Company harmless from any  
1265                   customer damage claim if the CFY supplier does not have the requisite authority,  
1266                   or if the customer revokes the requisite authority, to receive such information, (ii)  
1267                   make such information available on and after the date on which the customer is  
1268                   receiving supply as part of the Pool, and (iii) limit the period for which  
1269                   information is provided to the lesser of the period of time that the customer has  
1270                   been receiving service from the Company or twelve months.

1271    Q.       Rider CFY currently includes a minimum stay requirement, and the Utilities have  
1272                   proposed to retain it. Mr. Crist proposed the elimination of this requirement. (RGS Ex.  
1273                   1.0, p. 41) What is the minimum stay requirement?

1274    A.       When CFY customers terminate service with a CFY supplier, they return to bundled  
1275                   service and must enroll with a different CFY supplier within 60 days of the termination  
1276                   date or remain with the Utilities for a total of 12 months.

1277    Q.       Why do the Utilities have such a requirement?

1278    A.       The minimum stay requirement provides reasonable certainty to their gas supply planning  
1279                   process. It also prevents customers from switching back and forth between CFY  
1280                   suppliers and the Utilities to take advantage of temporary price fluctuations. Just like  
1281                   CFY suppliers, who may insert minimum term provisions in their service contracts, the  
1282                   Utilities need some assurance that customers are not going to leave and return to sales  
1283                   service at frequent and unpredictable intervals.

1284 Q. Is Mr. Crist's proposal to limit switches to twice per year a reasonable alternative? (RGS  
1285 Ex. 1.0, p. 41)

1286 A. No. Allowing customers to switch between the Utilities and a CFY supplier twice per  
1287 year would be little different than having no limits at all. There is still substantial  
1288 opportunity for arbitrage and disruption of the supply planning process.

1289 Q. Mr. Crist proposed eliminating the 120-day meter read requirement. (RGS Ex. 1.0,  
1290 p. 42). What is this requirement?

1291 A. At the time a CFY supplier submits an enrollment request for a customer, the Utilities  
1292 hold the enrollment request if a customer's meter has not been read in over 120 days. If a  
1293 valid meter reading is obtained within 30 days of the enrollment request, the enrollment  
1294 request is accepted. If not, the enrollment request is rejected.

1295 Q. Do the Utilities agree to switch the customer based on an estimated reading as proposed  
1296 by RGS? (RGS Ex. 1.0, p. 42)

1297 A. Yes. The Utilities are willing to withdraw the requirement although they expect that  
1298 removing such requirement may result in increased billing issues for CFY suppliers and  
1299 the Utilities.

1300 **D. Rider SBO - Billing Credit; Order of Payments; NSF Checks**

1301 Q. The NAE witness states that the Utilities should provide a credit to suppliers who issue  
1302 bills under Rider SBO. (NAE Ex. 1.0, pp. 8-9) What is Rider SBO?

1303 A. Rider SBO is a billing option under which CFY suppliers issue a combined bill which  
1304 includes its own charges and the Utilities' charges.

1305 Q. Is it appropriate for the Utilities to issue a bill credit?

1306 A. No. The Utilities still need to perform every function necessary to produce a bill, except  
1307 printing and mailing the bill. However, as to printing, they will incur costs associated  
1308 with producing bill images for their customer service representatives to view and  
1309 reference when responding to customer inquiries. As to mailing costs, the Utilities will  
1310 still need to mail periodic communications to their customers.

1311 Q. Ms. Pishevar states that the way the Utilities would apply partial payments under Rider  
1312 SBO is inconsistent with how it does so under the Utilities' consolidated billing service.  
1313 (NAE Ex. 1.0, pp. 12-17) What is the Utilities' consolidated billing service ("LDC  
1314 Billing Option")?

1315 A. The LDC Billing Option is a CFY supplier billing option under which the Utilities issue a  
1316 consolidated bill that contains the utility charges and, on a separate page, the CFY  
1317 supplier charges.

1318 Q. What is the origin of the order of payments in Rider SBO?

1319 A. The order of payments in Rider SBO resulted from the Commission's order in Docket  
1320 Nos. 01-0469 and 01-0470.

1321 Q. Why is the LDC Billing Option handled differently?

1322 A. The Commissions' order in Docket Nos. 01-0469 and 01-0470 did not address order of  
1323 payments. The Utilities developed the current payment allocation, which is designed to  
1324 ensure that a customer's service is not discontinued because there are outstanding utility  
1325 charges.

1326 Q. Do the Utilities agree to use the Rider SBO order of payments for the LDC Billing  
1327 Option?

1328 A. Yes, both billing options should have the same order of payment methodologies.  
1329 Adopting the Rider SBO order of payments for the LDC billing option is a reasonable  
1330 approach.

1331 Q. Ms. Pischevar states that the way the Utilities treat non-sufficient funds (“NSF”) checks  
1332 under the LDC Billing Option differs from what it would do under Rider SBO. (NAE  
1333 Ex. 1.0, pp. 17-20). Is she correct?

1334 A. No. The Utilities proposed to handle NSF payments consistently between both billing  
1335 options. The party issuing the bill -- whether it is the utility under the LDC Billing  
1336 Option or the supplier under Rider SBO -- bears the risk associated with an NSF check.  
1337 If the Utilities were to adopt NAE’s proposal of handling NSF payments, the Utilities  
1338 would assume all the risk under both options and suppliers (SBO or LDC) would have no  
1339 risk.

1340 **E. PEGASys™ and Customer Information**

1341 Q. You testified that the Utilities plan to improve PEGASys™. The witnesses for RGS and  
1342 NAE state that the improvements should be implemented within 30 days of final orders in  
1343 these proceedings. (RGS Ex. 1.0, p. 40; NAE Ex. 1.0, p. 22) What is PEGASys™?

1344 A. PEGASys™ is an electronic system accessible to transportation suppliers to manage such  
1345 diverse business processes as scheduling gas deliveries to both Peoples Gas and North  
1346 Shore; viewing, exporting and importing a variety of data such as contract/pool balancing  
1347 information; making imbalance trades of gas volumes; and monitoring daily meter usage.  
1348 For CFY suppliers, the system is the required mechanism through which enrollment and  
1349 exchange of billing and usage data occurs. Reporting functionality is extensive and can  
1350 be viewed in aggregate or in detail.

1351 Q. Do the Utilities' proposed changes address Mr. Crist's criticism of the data management  
1352 system? (RGS Ex. 1.0, p. 40)

1353 A. Yes. The Utilities propose to enhance the mechanism by which CFY suppliers interact  
1354 with the Utilities to process: (1) account enrollments, amendments and terminations;  
1355 (2) billing charges and adjustments; and (3) LIHEAP (Low Income Heating Energy  
1356 Assistance Program) grants. They also plan to provide a means to extract existing and  
1357 new reporting data. This new process should allow CFY Suppliers to process data in an  
1358 unattended mode, *i.e.*, without having to log into PEGASys<sup>TM</sup> and request the data  
1359 manually. As part of the enhancements, the Utilities will establish a communication  
1360 infrastructure with suppliers to send and receive data in a secure manner (communication  
1361 protocol, encryption method, authentication, folder structure, *etc.*). The Utilities also  
1362 plan to enhance certain existing PEGASys<sup>TM</sup> reports used by internal or external clients.  
1363 Once the new processes are adopted and suppliers have updated the processes and  
1364 systems, the Utilities plan to remove the functionality (screens/report/ledgers) from  
1365 PEGASys<sup>TM</sup> to avoid having to maintain two separate data exchange systems.

1366 Q. What is the Utilities' proposed timing for implementing changes?

1367 A. The Utilities are reviewing the changes that they are agreeing to make and anticipating  
1368 other programming changes that may be required by the Commission's orders in these  
1369 cases. I note that the Utilities proposed to implement most features of the new  
1370 transportation riders on August 1, 2008. Consequently, at this time, the Utilities expect  
1371 implementation of the PEGASys<sup>TM</sup> improvements to occur between March and August  
1372 2008.

1373 Q. Why are the Utilities unwilling to commit to implement changes within 30 days of the  
1374 final orders?

1375 A. The Utilities do not know which proposals the Commission will approve, reject or  
1376 modify. It would not be prudent to expend programming resources until there is some  
1377 certainty as to which proposals are not likely to change. The Utilities' first priority must  
1378 be to ensure implementation and billing under the proposed rate structure for the sales  
1379 and transportation services. It is anticipated that work on PEGASys<sup>TM</sup> enhancements will  
1380 start shortly after final orders are issued in this case and would take between four and six  
1381 months to implement.

1382 Q. The CNE witnesses proposed that PEGASys<sup>TM</sup> data include the following information:  
1383 customer's service classification and rider; customer's MDQ; customer's SSP; and the  
1384 customer's AB. (CNE-Gas Ex. 1.0, p. 24) Is any of this information currently available  
1385 on PEGASys<sup>TM</sup>?

1386 A. Yes. However suppliers cannot view or access this information until after the customer is  
1387 "active and flowing" with the supplier. This means, for example, that if a customer  
1388 enrollment request is processed by the Utilities on July 15 for an effective date of  
1389 August 1, the supplier cannot view the above information until after August 1. The  
1390 Utilities would consider making the above information accessible to suppliers once the  
1391 Utilities have accepted and processed the enrollment request. As an alternative, the  
1392 Utilities would consider providing the above information as part of the two tiers of  
1393 customer information to suppliers that it has proposed to offer. Specifically, the above  
1394 information would be provided as part of the second tier.

1395 Q. NAE wants the customer information available under Tier 2 of the Utilities' proposal to  
1396 include past due amounts. (NAE Ex. 1.0, pp. 22-24) Are the Utilities willing to include  
1397 this information?

1398 A. As with payment history information, the Utilities believe that information on "past due  
1399 amounts" is sensitive and customers may not necessarily wish the Utilities to disclose the  
1400 information. In addition, it would be impractical for the Utilities to review and verify  
1401 that every customer's supplier's authorization agreement provisions extend to "past due  
1402 amounts." The Utilities are willing to provide past due amounts in the same manner and  
1403 upon the same conditions that I discussed in relation to the provision of payment history.  
1404 The Utilities propose that the tariff language proposed above in connection with customer  
1405 payment histories be added to address the past due amounts.

1406 **F. Tariff Corrections and Clarifications**

1407 Q. Are there any changes or corrections to the proposed transportation tariffs?

1408 A. Yes. In addition to the tariff language proposed elsewhere in my testimony to address  
1409 specific intervenor proposals, the Utilities also propose the following corrections and  
1410 clarifications.

1411 First, for the Utilities, Rider SST, Section F, includes a monthly limitation on  
1412 withdrawals from the AB, but it is not clear what happens if the monthly limit is  
1413 exceeded. The implication from Section E, which defines the daily order of deliveries to  
1414 the customer, is that gas taken in excess of the lesser of one-third or inventory limitation  
1415 would be purchased under the companion classification up to the SSQ. However, the  
1416 Utilities propose to make that clear by adding the following sentence to the end of the  
1417 past paragraph in Section F: "For quantities that would be in excess of this limitation, the

1418 customer shall purchase gas under the Companion Classification in a quantity not to  
1419 exceed the product of the SSQ times the number of days in the month minus standby  
1420 service gas purchased during the month and any remaining quantity shall be  
1421 Unauthorized Use.”

1422 Second, for Peoples Gas, the Rider TB calculation of the Imbalance Coincidence  
1423 Factor should be limited to data associated with S.C. No. 4 customers. Only S.C. No. 4  
1424 customers are eligible for Rider TB, and only their data should be used. Consequently,  
1425 Peoples Gas proposes to add in Rider TB, Section A, Imbalance Coincidence Factor, a  
1426 new sentence before the last sentence of the definition: “For purposes of determining the  
1427 ICF, the Company shall use only Service Classification No. 4 customer’s data.”

1428 Third, if the Commission approves Peoples Gas’ proposal to consolidate S.C.  
1429 Nos. 3 and 4, then the Daily Demand Measurement Device Charge will not be assessed  
1430 under Rider LST-T because daily metering is an incident of service under S.C. No. 4.  
1431 However, the language pertaining to the customer’s obligations relating to telephone  
1432 wiring need to be maintained. Accordingly, Peoples Gas proposes to delete the charge  
1433 from Section B of Rider LST-T and add the non-charge language to Section J of  
1434 Rider LST-T.

1435 Fourth, the Utilities propose to clarify the disposition of Imbalance Account  
1436 amounts in Rider SST, Section H. The Utilities propose that the first sentence of  
1437 Section H state: “At the end of the month, the amount in the customer’s IA shall first be  
1438 injected into the AB up to the lesser of (a) the portion of the monthly MDIQ (the MDIQ  
1439 multiplied by the number of days in the month) minus injections, or (b) the maximum AB

1440 quantity.” The addition of the MDIQ concept at month-end is consistent with how the  
1441 MDIQ operates on a daily basis.

1442 Fifth, Rider SST, Section K, addresses customers who do not yet have daily  
1443 metering installed. There is a minimum AB requirement and a gas purchase obligation if  
1444 the minimum AB is not met. The Utilities proposed that the purchase price be 110% of  
1445 the greater of the Gas Charge or the Average Monthly Index Price (“AMIP”). For  
1446 simplicity, the Utilities propose that the price simply be 110% of the AMIP.

1447 Sixth, the imbalance trading provision in Rider TB, Section H, could result in  
1448 customers trading gas beyond the amount of their imbalance. The function of a trade for  
1449 these customers should be to reduce or eliminate the imbalance and not to create another  
1450 imbalance. For example, a customer should not be able to trade negative imbalance gas  
1451 such that it is in a positive imbalance situation. The Utilities propose that the following  
1452 be added to the second paragraph of Section H: “or increase the amount of the  
1453 imbalance.” A comparable change in Rider P, Section G, would be appropriate.

#### 1454 **IV. MANLOVE FIELD AND INTERSTATE HUB SERVICES**

##### 1455 **A. Interstate Hub Services**

1456 Q. Each of Staff witnesses Anderson, Lounsberry and Rearden testifies about Peoples Gas’  
1457 Hub. What is the Hub?

1458 A. The Hub is two types of FERC-jurisdictional services. First, the Hub includes the  
1459 transportation and storage services provided by Peoples Gas pursuant to a FERC  
1460 Operating Statement. Second, it includes other interstate services provided pursuant to  
1461 FERC’s rules authorizing sales for resale at negotiated rates.

1462 Q. When did Peoples Gas begin offering Hub services?

1463 A. Peoples Gas received a Hinshaw Blanket Certificate in March, 1998 and the initial  
1464 Operating Statement, which included only transportation services, was approved by the  
1465 FERC in March, 1998. The FERC approved the filing with storage and parking and  
1466 loaning services in March, 1999. Service began immediately following the receipt of the  
1467 Operating Statement approval.

1468 Q. Why does Peoples Gas offer Hub services?

1469 A. Peoples Gas offers Hub services as a means to more efficiently utilize the existing  
1470 Manlove and Mahomet pipeline assets and to provide customer benefits. Hub services  
1471 provide customer benefits in three ways: (1) through credits to the Gas Charge; (2) by  
1472 extending the Manlove decline point, which Mr. Puracchio addresses in his Rebuttal  
1473 Testimony; and (3) by increasing market liquidity at the Chicago city-gate.

1474 Q. How are rates for the Hub services set?

1475 A. The Hub rates associated with the services provided under the Operating Statement are  
1476 developed and set according to the FERC rules. The most recent rates were set through  
1477 FERC Docket No. PR07-1-000 and approved by the FERC in March, 2007. The rates for  
1478 other Hub services are set through negotiations with the counterparties.

1479 Q. How are revenues generated by Hub services treated?

1480 A. All Hub revenues are returned, through the Gas Charge process, to customers as a credit  
1481 against gas costs.

1482 Q. Has 8 Bcf of capacity been available to the Hub since its inception?

1483 A. No, although Table 1 of Mr. Anderson’s testimony (Staff Ex. 10.0, p. 17) appears to  
1484 assume this is the case. In fact, as Exhibit TLP-2.8 shows, the capacity available for Hub  
1485 services did not surpass 8 Bcf until 2002. Growth over that period was gradual.

1486 **B. Allocation of Base Gas and Gas Charge Assets**

1487 Q. Please comment on Mr. Anderson’s contention that the expansion of Manlove to provide  
1488 Hub services resulted in the use of Gas Charge assets and existing rate base assets at rates  
1489 not set by the Commission. (Staff Ex. 10.0, pp. 9, 34)

1490 A. The expansion of Manlove did not involve the use of Gas Charge assets or the use of  
1491 assets in which costs were being recovered through base rates. The Hub does not use Gas  
1492 Charge assets to support its services. The storage expansion for the Hub began years  
1493 after Peoples Gas’ last rate case. As Ms. Grace states in her Rebuttal Testimony, none of  
1494 the incremental costs associated with the Hub storage services were included in the base  
1495 rates that Peoples Gas has charged its customers. All incremental expenses associated  
1496 with the Hub were absorbed by Peoples Gas.

1497 Q. Mr. Anderson states that Peoples Gas is not allocating to the Hub the proper share of  
1498 maintenance gas and that Peoples Gas has failed to allocate any base gas to the Hub.  
1499 (Staff Ex. 10.0, pp. 9, 14) Similarly, Staff witness Mr. Lounsberry questioned how more  
1500 Manlove capacity was allocated to the Hub without additional costs being allocated to the  
1501 Hub. (Staff Ex. 11.0, p. 22) Is there a difference between base gas and maintenance gas?

1502 A. As Mr. Puracchio explains in his Rebuttal Testimony, Peoples Gas no longer  
1503 distinguishes between maintenance gas and base gas (also called “cushion gas”).

1504 Q. Does the Hub rate design include Manlove’s base gas requirements?

1505 A. Yes. Cushion gas requirements were included in the cost of service study used to support  
1506 the Hub filing before the FERC. These costs were then used to develop the rates for Hub  
1507 services under the Operating Statement.

1508 Q. Does Peoples Gas allocate costs to the Hub?

1509 A. The Hub is Peoples Gas. All the costs and revenues associated with the Hub and the base  
1510 rate assets that support the Hub are accounted for above the line. Peoples Gas' FERC  
1511 cost of service includes the Manlove and Mahomet costs. It is not apparent how the  
1512 exercise of allocating costs to the Hub would affect the FERC or Illinois rates. If Peoples  
1513 Gas were authorized to account for Hub revenues below the line, then such an allocation  
1514 would substantively affect rates. However, Peoples Gas has never accounted for Hub  
1515 revenues in that manner.

1516 Q. Mr. Anderson states that if maintenance gas costs are not shared proportionately, then it  
1517 becomes easier for one party to subsidize another party's use of Manlove. (Staff Ex.  
1518 10.0, p. 27; *also see* Staff Ex. 10.0, p.9) Are Peoples Gas' end use customers subsidizing  
1519 Hub customer or *vice versa*?

1520 A. In Peoples Gas' view, Hub customers are subsidizing end use customers. First, all  
1521 revenues generated by Hub services, both Operating Statement and otherwise, are  
1522 credited through the Gas Charge. Second, to date the fuel costs associated with Hub  
1523 services storage operations at Manlove, a base rate item, have been borne by Peoples Gas  
1524 with no compensation from end use customers.

1525 Q. Mr. Anderson states that, if the Hub is assigned peak day capacity, it should be allocated  
1526 a share of peak day costs. (Staff Ex. 10.0, p. 31) Does the Hub currently have any peak  
1527 day rights?

1528 A. No. As stated in the response to the data request cited by Mr. Anderson (ENG 2.13),  
1529 third parties had a small amount of peak day deliverability from 1999-2006. Peoples Gas  
1530 is no longer marketing services supported by this peak day deliverability and will not  
1531 have those obligations after the order in this case. If the order in this case states that  
1532 Peoples Gas should not sell firm Hub services, Peoples Gas will use that peak capacity to  
1533 serve its end use customers.

1534 **C. Hub Costs and Revenues**

1535 Q. Staff witness Dr. Rearden concluded that it was imprudent for Peoples Gas to offer Hub  
1536 services because the annual costs are ultimately higher than the revenues. (Staff Ex. 12.0,  
1537 pp. 4-5) Do you agree?

1538 A. No, absolutely not. First, since the Hub came into existence all of its expenses, including,  
1539 and consisting primarily of, over \$7 million of incremental compressor fuel costs have  
1540 been borne by Peoples Gas. None of those costs were paid by Peoples Gas' customers.

1541 Second, Peoples Gas has credited (or will be crediting following an order in its  
1542 fiscal 2005 gas cost reconciliation case) to the Gas Charge over \$20 million in 2005 and  
1543 2006 alone for the gross revenues from the Hub. In addition, as part of the resolution of  
1544 Peoples Gas' fiscal years 2001-2004 Gas Charge cases, the Commission determined that  
1545 issues concerning the treatment of Hub revenues for those years were properly included  
1546 in the refund that the Commission ordered.

1547 Third, it needs to be understood that the Hub is not, and never has been, a separate  
1548 entity. It is part of Peoples Gas. The Hub clearly provides more benefits (both financial  
1549 and otherwise) than costs. In each of 2005 and 2006, which period includes the entire  
1550 test year, Hub revenues have exceeded \$10 million. They also are expected to exceed  
1551 that amount in 2007. Expenses allocated to the Hub, consisting primarily of their  
1552 incremental share of compressor fuel costs, have been just over \$2 million per year.

1553 Fourth, Hub activity increases liquidity at Peoples Gas' city-gate specifically and  
1554 more generally in the Chicago area market. In particular, all the gas supporting Hub  
1555 activity must come to one of the Peoples Gas' city-gate locations to be a Hub transaction.  
1556 This increases the amount of gas delivered to Peoples Gas on a daily basis. This provides  
1557 all customers access to a greater amount of gas than would otherwise be available if there  
1558 was no Hub activity.

1559 Fifth, Mr. Puracchio describes the operational benefits of the Hub operation in his  
1560 Rebuttal Testimony.

1561 Sixth, the vast majority of Hub services offered are interruptible in nature. As  
1562 such the Hub customers have very little, if any, ability to affect transportation customer  
1563 decisions on when to bring gas in, take gas out, or store gas with Peoples Gas. Peoples  
1564 Gas retains the right to limit the delivery of all Hub customers' gas to the Peoples Gas  
1565 system. As noted above, after February 2008, the Hub will have no firm peak day  
1566 commitments.

1567 Finally, since the only incremental capital cost attributable to the Hub is cushion  
1568 gas, far less than \$8 million of operating income would still make the Hub profitable and  
1569 beneficial to Peoples Gas' customers. Hub revenues exceed any reasonable revenue

1570 requirement calculation. Exhibit TZ-2.07 provides an estimated revenue requirement for  
1571 the Hub, along with the actual revenues generated. The calculation takes into account the  
1572 incremental cushion gas provided by Mr. Puracchio in his Rebuttal Testimony, as well as  
1573 other operating expenses. For example, in fiscal 2006 (the test year), the estimated  
1574 annual revenue requirement for the Hub services was \$3.3 million. With its \$10 million  
1575 in revenues (all credited to the Gas Charge), the Hub services exceeded this revenue  
1576 requirement by \$6.7 million. To eliminate the Hub and the associated credits to the Gas  
1577 Charge, as Dr. Rearden proposed (Staff Ex. 12.0, p. 29), would be harmful to customers.

1578 Full recovery of all cushion gas in rate base to support the ongoing Gas Charge  
1579 and operational benefits to our customers is warranted.

1580 Q. Has Peoples Gas purchased additional transportation or storage in order to provide Hub  
1581 service?

1582 A. No. The transportation and storage services that Peoples Gas purchases are those  
1583 required to meet its end use customers' requirements.

1584 Q. Is it appropriate for Staff to preclude Peoples Gas' recovery of any Hub costs while  
1585 ignoring the benefits of the Hub revenues being credited against the Gas Charge?

1586 A. No. There's absolutely no justification for denying Peoples Gas the recovery of Hub costs  
1587 while simultaneously permitting its customers to benefit from the Hub revenues derived  
1588 as a consequence of those costs.

1589 V. **STORAGE ISSUES UNRELATED TO INTERSTATE SERVICES**

1590 Q. Staff witness Mr. Lounsberry states that the quantity of gas for which Peoples Gas  
1591 requested a working capital allowance is much higher than what it has historically

1592 maintained in storage. (Staff Ex. 11.0, pp. 7-11) He requested that Peoples Gas confirm  
1593 and demonstrate that the increase in purchased storage capacity in 2003 is the reason for  
1594 the increase relative to years prior to fiscal year 2004. (Staff Ex. 11.0, pp. 11-12) Please  
1595 respond to this concern.

1596 A. In 2003, Peoples Gas began directly using already available NGPL NSS storage capacity.  
1597 Previously, it had used this capacity to facilitate a series of asset management  
1598 agreements. These agreements utilized portions of Peoples Gas' NGPL NSS capacity.  
1599 Peoples Gas had entered into these agreements with the intention of optimizing capacity  
1600 while still being able to maintain the peak day deliverability and no-notice services  
1601 available within the NGPL NSS storage service. During 2002 the last of these  
1602 agreements was first suspended and then terminated and unwound; in the spring of 2003,  
1603 Peoples Gas began injecting gas into its NGPL NSS capacity to support service to its  
1604 customers.

1605 Q. Mr. Lounsberry states that Peoples Gas needs to explain why it increased its amounts of  
1606 purchased storage capacity. (Staff Ex. 11.0, p. 12) Please comment on this statement.

1607 A. As the last of the asset management agreements using portions of Peoples Gas' NGPL  
1608 NSS capacity was being unwound and because of the increased price volatility in the  
1609 natural gas market, Peoples Gas determined that increasing NGPL's NSS storage service  
1610 seasonality was a necessary component of its storage portfolio since storage is a natural  
1611 summer/winter hedge. As such Peoples Gas determined that using the NGPL NSS  
1612 storage service in the same manner as other leased storage services protected ratepayers  
1613 from a late winter pricing spike, such as what happened in March 2003 as well as being  
1614 able to absorb quantities of gas during a warm winter scenario like 2006. While Peoples

1615 Gas increased its storage capacity utilization, it reduced its firm transportation capacity  
1616 obligation.

1617 Q. Why does a utility use leased storage services?

1618 A. From an operational standpoint leased storage services have always been an important  
1619 part of Peoples Gas' portfolio irrespective of the summer/winter price differential.  
1620 Leased storage services fulfill peak day, seasonal and operational requirements while  
1621 helping to mitigate price volatility for customers. Operational requirements include  
1622 balancing the system on a daily basis. All of Peoples Gas' leased storage services  
1623 provide some level of no-notice balancing services. Some or all of these no-notice  
1624 balancing services are utilized every day of the year. These no-notice services have peak  
1625 day and seasonal deliverability that are crucial elements of Peoples Gas' supply,  
1626 transportation, and storage portfolio. This is true even though, as Mr. Lounsberry  
1627 testifies, Peoples Gas' overall level of gas being delivered to customers has declined  
1628 (Staff Ex. 11.0, lines 152-161, 219-221). Peoples Gas' peak day obligation is largely  
1629 unchanged and the daily balancing requirements (due mostly to weather variations) still  
1630 remain. During the time periods covered by the NGPL NSS asset management  
1631 agreements, Peoples Gas retained these no-notice services as well as the full peak day  
1632 withdrawal rights. Manlove provides some, but not all, of the benefits of the pipeline  
1633 services. In particular, the year-round no-notice and longer withdrawal seasons  
1634 associated with pipeline services are necessary attributes for Peoples Gas to serve its  
1635 customers.

1636 Q. For Peoples Gas, Mr. Lounsberry recommended a cost disallowance related to 4 Bcf of  
1637 inventory associated with what he said was the difference between the test year and the  
1638 prior two years. (Staff Ex. 11.0, p.12) Please address Mr. Lounsberry's concerns.

1639 A. Mr. Lounsberry's concern comes from the fact that there was about 4 Bcf more of gas in  
1640 inventory at the end of the test year than the previous year. This increase comes from the  
1641 fact that 2006 was the fifth warmest on record since O'Hare Field became the official  
1642 weather station in 1959. January 2006, specifically, was the warmest January on record  
1643 over the same time period. The increases that Mr. Lounsberry observed are not a result  
1644 of Peoples Gas acquiring additional storage or using the storage inefficiently. Instead,  
1645 the differences were largely driven by warmer weather, which affected how Peoples Gas  
1646 used storage to meet requirements. Also, at least 2.6 Bcf of the 4 Bcf is attributable to  
1647 January storage banking activity by large volume transportation customers.

1648 Q. What was the January 2006 AB activity for Peoples Gas' large volume transportation  
1649 customers?

1650 A. In January 2006, Peoples Gas' large volume transportation customers injected over 1.3  
1651 Bcf into their ABs.

1652 Q. In January 2006, what was the total storage activity for Peoples Gas?

1653 A. In January 2006, Peoples Gas had a net withdrawal of over 6.7 Bcf.

1654 Q. What would Peoples Gas have expected for transportation customer AB activity in  
1655 January 2006?

1656 A. For Peoples Gas, since the December AB activity was about a 1.36 Bcf net withdrawal,  
1657 and the February activity was almost a 1.5 Bcf withdrawal, the Utility would expect a

1658 1.3 Bcf to 1.5 Bcf withdrawal in January also. This, coupled with the unexpected net  
1659 injection, raised January ending total company inventory levels by 2.6 to 2.8 Bcf.

1660 Q. Staff witness Mr. Lounsberry states that the quantity of gas for which North Shore  
1661 requested a working capital allowance is higher than what it has historically maintained  
1662 in storage. (Staff Ex. 11.0, pp. 24-26) He recommended a cost disallowance related to  
1663 approximately 900 MMcf of inventory. (Staff Ex. 11.0, p. 26) Please address Mr.  
1664 Lounsberry's concerns.

1665 A. Mr. Lounsberry's concern comes from the fact that there was about 900 MMcf more of  
1666 gas in inventory at the end of the test year than the previous year. This occurred largely  
1667 because of the warmer than normal weather that I described above in connection with a  
1668 similar concern that Mr. Lounsberry raised with respect to Peoples Gas' inventory. Also,  
1669 as with Peoples Gas, a large portion of the difference, up to 312 MMcf, is attributable to  
1670 January storage banking activity by large volume transportation customers.

1671 Q. What was the January 2006 AB activity for North Shore's large volume transportation  
1672 customers?

1673 A. In January 2006, North Shore's large volume transportation customers injected just over  
1674 149 MMcf into their ABs.

1675 Q. In January 2006, what was the total storage activity for North Shore?

1676 A. In January 2006, North Shore had a net withdrawal of just over 1.36 Bcf.

1677 Q. What would North Shore have expected for transportation customer Allowable Bank  
1678 activity in January 2006?

1679 A. For North Shore, since the December AB activity was about a 4 MMcf net withdrawal,  
1680 and the February activity was almost a 163 MMcf withdrawal, North Shore would expect  
1681 a 4 MMcf to 163 MMcf withdrawal in January also. This, coupled with the unexpected  
1682 net injection, raised January ending total North Shore inventory levels by 153 to 312  
1683 MMcf.

1684 Q. Mr. Lounsberry states that the Peoples Gas inventory data in the response to Staff data  
1685 request ENG 1.53 were inconsistent with Workpaper WPB-8.1.1. (Staff Ex. 11.0, p. 14)  
1686 Please address his testimony.

1687 A. The information is not inconsistent; rather, the data request response presents different  
1688 information. The information presented in one of the attachments to the response to ENG  
1689 1.53 and used by Mr. Lounsberry in his Exhibit 11.4P, includes the effect of LIFO  
1690 accounting. LIFO accounting rules require that as Peoples Gas moves to a net  
1691 withdrawal position, a liability be created to address the cost differential between current  
1692 costs and LIFO layer costs. This explains why the months of September 2005, October  
1693 2005, November 2005 and September 2006 are consistent in these documents – the net  
1694 withdrawal position usually occurs in December and it takes most of the summer to re-  
1695 inject. This is an accounting allocation and does not reflect the cost of the inventory,  
1696 which is the basis for the working capital allowance. Schedule F-9 and Schedule B-8.1  
1697 represent the actual cost of the inventory. The data request response (ENG 1.53) and  
1698 Workpaper WPB-8.1.1 present the correct information requested.

1699 Q. Mr. Lounsberry states that there was a discrepancy between the data in North Shore's  
1700 response to Staff data request ENG 3.36 and the information in Schedule B-8.1. (Staff  
1701 Ex. 11.0, p. 27) Please address the discrepancy.

1702 A. As with a similar point raised in connection with Peoples Gas, the information is not  
1703 inconsistent; rather, the data request response presents different information. The  
1704 information presented in one of the attachments to the response to ENG 3.36 and used by  
1705 Mr. Lounsberry in his Exhibit 11.4N includes the effect of LIFO accounting, which is  
1706 described above in connection with Peoples Gas. The data request response and  
1707 Workpaper WPB-8.1.1 present the correct information requested.

1708 Q. Mr. Lounsberry states that there were discrepancies between data provided in Peoples  
1709 Gas' responses to data requests ENG 1.53 and CNE 1.32 and Schedule F-9. (Staff  
1710 Ex. 1.0, pp. 15-16) Please address his testimony.

1711 A. There are no discrepancies; the information requested in the data requests differs from the  
1712 information required for the Schedule. Schedule F-9 shows rounded average monthly  
1713 balances. The response to CNE 1.32 shows actual month-end balances, not rounded  
1714 average monthly balances. If one averages and rounds the actual balances from the  
1715 response to CNE 1.32, the result equals Schedule F-9. There is a slight mathematical  
1716 variance inherent in that calculation. One can not take thirteen rounded averages and  
1717 compare it to thirteen actuals. The responses to both data requests and the Schedule  
1718 present the correct information requested. (As discussed below, there was an error in the  
1719 response to CNE 1.32 that pertains to the ANR storage service.)

1720 Q. Mr. Lounsberry states that there were discrepancies between data provided in North  
1721 Shore's responses to data requests ENG 3.36 and CNE 1.31 and Schedule F-9. (Staff  
1722 Ex. 11.0, pp. 28-29) Please address the inconsistencies.

1723 A. As with the Peoples Gas question, there are no discrepancies; the information in the data  
1724 requests differs from the information required for the Schedule. Schedule F-9 shows

1725 rounded average monthly balances. The response to CNE 1.31 shows actual month-end  
1726 balances, not rounded average monthly balances.

1727 Q. Mr. Lounsberry states that there were months in which Peoples Gas' inventory exceeded  
1728 the maximum inventory levels for the storage service. (Staff Ex. 11.0, pp. 17-18) Is this  
1729 correct?

1730 A. No. Mr. Lounsberry identified two instances where he believes this has occurred. The  
1731 first instance was with Peoples Gas' Manlove. Peoples Gas' Manlove is an aquifer  
1732 storage field. As such, the total capacity is not specifically known. Manlove is not a gas  
1733 tank or a warehouse, where the maximum capacity can be specifically measured. The  
1734 characteristics of an aquifer storage field allow for varying degrees of capacity. The  
1735 response to CUB-City data request 1.11 was meant to show cycling capacity. Currently,  
1736 Peoples Gas cycles 36.5 Bcf per year in and out of Manlove. Of this 36.5 Bcf, Peoples  
1737 Gas uses approximately 24.8 Bcf in its plan for customers. North Shore's plan uses  
1738 1.5 Bcf. (In the past Peoples Gas has used 25.5 Bcf in its planning.) However, near the  
1739 end of the injection season Peoples Gas does carry more than 24.8 Bcf of inventory on its  
1740 books. From time to time Peoples Gas will commission engineering studies to determine  
1741 a more precise estimate of the allocation between top gas or working gas and cushion gas,  
1742 both recoverable and non-recoverable. In between these studies the amounts of each will  
1743 vary. Again, these numbers are not meant to be precise reflections of top gas or working  
1744 gas. Rather, these represent planned amounts. The characteristics of the field will dictate  
1745 exactly how much could be cycled, if necessary, to meet requirements. There were no  
1746 adverse consequences to customers from this activity.

1747           The second instance was with the leased storage service from ANR. The  
1748 information relied upon by Mr. Lounsberry came from the response to data request  
1749 CNE 1.32. However, the ANR capacity data within the CNE 1.32 response was  
1750 incorrect. The response to CNE 1.32 will be revised to reflect that the ANR capacity was  
1751 actually increased in April 2004. Peoples Gas did not exceed contractual limits and, thus,  
1752 there were no adverse consequences.

1753 Q. Mr. Lounsberry states that there was one month in which North Shores' inventory  
1754 exceeded the maximum inventory levels for its Manlove storage service. (Staff Ex. 11.0,  
1755 pp. 30-31) Is this correct?

1756 A. No. The amount of capacity stated within the referenced data request response to  
1757 CUB-City 1.11 was the planned cycling capacity. North Shore has the right to  
1758 approximately 1.8 Bcf of capacity and near the end of the injection season may carry an  
1759 inventory balance on the books at or near this amount. North Shore did not exceed  
1760 contractual limits and, thus, there were no adverse consequences.

1761 Q. Mr. Lounsberry questioned Peoples Gas' use of two of its purchased storage services.  
1762 (Staff Ex. 11.0, pp. 19-20) Please comment.

1763 A. As stated earlier, the reasons for the increase in storage inventory and the low usage rates  
1764 in 2006 were weather related. 2006 was the fifth warmest year on record at O'Hare and  
1765 January 2006, typically the month with the largest withdrawal quantities, was the  
1766 warmest ever on record. In addition, transportation customers injected 1.3 Bcf into the  
1767 Utilities' storage instead of withdrawing between 1.3 and 1.5 Bcf during that month.  
1768 (This transportation storage activity does not include CFY customer activity.)  
1769 Consequently, Peoples Gas did not meet its normal storage withdrawal requirements.

1770           The two services questioned by Mr. Lounsberry are the two most flexible storage  
1771 services that Peoples Gas purchases. Peoples Gas' storage portfolio consists of three  
1772 purchased services, each of which have different, complementary characteristics and help  
1773 Peoples Gas meet peak day and seasonal requirements and they provide operational  
1774 benefits. ANR's FSS and NGPL's DSS are both 50-day storage services. ANR's FSS  
1775 has no monthly restrictions while NGPL's DSS has monthly and seasonal restrictions as  
1776 well as a restriction based on monitoring rolling fifteen-day periods. NGPL's NSS is a  
1777 75-day storage service that complements Peoples Gas' Manlove and its pipeline services.  
1778 NSS has no monthly or seasonal withdrawal restrictions (other than its inventory based  
1779 withdrawal parameter) and has late season withdrawal capability in March when  
1780 Manlove is on injection, DSS is at 75% withdrawal capability and ANR's FSS is at 90%  
1781 withdrawal capability, assuming its inventory is below 20% and greater than 15%. There  
1782 are no cycling requirements with NGPL's NSS service and only a small fuel charge  
1783 related to not fully cycling ANR storage. Peoples Gas' Manlove and its NGPL DSS  
1784 storage have much stricter cycling requirements with the potential for significant  
1785 monetary penalties. Consequently, leaving inventory in the NSS and ANR services was  
1786 the most reasonable way to address the effect that unusually warm weather had on  
1787 Peoples Gas' operations.

1788 Q. Mr. Lounsberry states that Peoples Gas has reduced the portion of Manlove that it uses  
1789 for end use customers. (Staff Ex. 11.0, pp. 21-22) Is this correct?

1790 A. No. As stated above, Manlove's capacity is not specifically quantifiable. The amount of  
1791 capacity stated within the data request response (CUB-City 1.11) referenced by

1792 Mr. Lounsberry was the planned cycling capacity. The amounts reflect an allocation  
1793 used for planning purposes and not a reduction of top gas.

1794 Q. Mr. Lounsberry states that Peoples Gas should explain how it allocated Manlove capacity  
1795 to itself and others. (Staff Ex. 11.0, p. 22) Please comment.

1796 A. Peoples Gas has a Commission-approved storage service agreement with North Shore.  
1797 North Shore is the only other company to which Peoples Gas has allocated Manlove  
1798 storage capacity. Approximately 10.2 Bcf is available for Hub services. Peoples Gas  
1799 determined this quantity after considering Manlove's total capacity and North Shore's  
1800 and its requirements.

1801 Q. Mr. Lounsberry states that Peoples Gas should explain a capacity release transaction  
1802 under which it released certain NSS capacity that it purchases from NGPL. (Staff  
1803 Ex. 11.0, p. 23) What is a capacity release?

1804 A. A capacity release is a transaction under which a party (called a "releasing shipper") with  
1805 a pipeline storage or transportation contract allows another party to contract with the  
1806 pipeline to use that capacity, with the releasing shipper receiving a credit for the  
1807 reservation charges paid by the third party. FERC rules govern how capacity can be  
1808 released to a third party. The releasing shipper determines for how long it is willing to  
1809 relinquish the capacity and may include recall rights that permit it to take back the  
1810 capacity before the end of the release term.

1811 Q. Why did Peoples Gas release the NSS capacity?

1812 A. Peoples Gas released the NSS capacity because it currently does not have the  
1813 transportation capacity needed to bring this gas to customers. NSS is a valuable service

1814 because of its no-notice rights and relatively lenient injection, withdrawal and cycling  
1815 requirements. Peoples Gas continually assesses the economic value of the NSS service  
1816 and will continue to seek ways to economically acquire the necessary transportation  
1817 associated with the NSS storage service when it is economic and available. By releasing  
1818 this capacity instead of allowing the contract to expire, Peoples Gas was able to retain the  
1819 rights to this service at a lower rate than that which is applicable to the acquisition of new  
1820 NSS capacity.

1821 Q. Did the 4.8 Bcf of NSS capacity release have any impact on test year working inventory  
1822 levels?

1823 A. No. The capacity had been previously released and was never included in Peoples Gas'  
1824 portfolio. This capacity was also not reflected in the response to CNE 1.32. The  
1825 response to CNE 1.32 reflected the capacity included in the gas supply portfolio that is  
1826 used to support ratepayer activities.

1827 **VI. GAS PRICES**

1828 Q. Mr. Effron proposed several adjustments based on a different gas price than what Peoples  
1829 Gas and North Shore used in developing schedules and rates. (GCI Ex. 1.0, pp. 19-20,  
1830 24, 30, 32) Please comment on Mr. Effron's proposed gas price.

1831 A. Mr. Effron proposes that the Utilities use "the average prices of gas for the twelve months  
1832 ended March 31, 2007 in the responses to AG 2.32 (NS) and AG 2.38 (PGL)." The  
1833 average prices for that twelve month period is \$8.12/MMBtu for Peoples Gas and  
1834 \$8.00/MMBtu for North Shore. Mr. Effron argues that "on Exhibit LTB-1.1, the price of  
1835 gas in the test year reached a peak that far exceeded the prices in any other year."

1836            However, Mr. Effron's proposal includes the month of October 2006, in which the price  
1837            of gas was extremely low compared to recent history and when compared to the Utilities'  
1838            projected Gas Charge. In particular, the projected average Gas Charge is \$8.78 per  
1839            MMBtu for Peoples Gas and is \$9.15 per MMBtu for North Shore. This is \$0.66 per  
1840            MMBtu and \$1.15 per MMBtu higher than Mr. Effron's proposal for Peoples Gas and  
1841            North Shore, respectively. Mr. Fiorella and Ms. Kallas use these prices in their testimony  
1842            and exhibits for certain adjustments.

1843    Q.        Does this conclude your Rebuttal Testimony?

1844    A.        Yes.