

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
Proposed general increase in rates for gas service	:	NO. 07-0241
PEOPLES GAS LIGHT AND COKE COMPANY	:	
Proposed general increase in rates for gas service	:	NO. 07-0242 (Consolidated)

Rebuttal Testimony and Schedules of

**Dr. Alan Rosenberg**

On Behalf of

**Illinois Industrial Energy Consumers  
Constellation NewEnergy - Gas Division, LLC  
and  
Vanguard Energy Services, LLC**

August 21, 2007  
Project 8808/8809



BRUBAKER & ASSOCIATES, INC.  
ST. LOUIS, MO 63141-2000

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**Rebuttal Testimony of Alan Rosenberg**

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A My name is Dr. Alan Rosenberg. My business address is 1215 Fern Ridge Parkway,  
3 Suite 208; St. Louis, Missouri 63141.

4 Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

5 A I am appearing on behalf of the Illinois Industrial Energy Consumers (IIEC),  
6 Constellation NewEnergy - Gas Division, LLC (CNE-Gas) and Vanguard Energy  
7 Services, LLC (VES). IIEC companies, as well as CNE-Gas and VES, are customers  
8 of North Shore Gas Company (North Shore or NSG) and Peoples Gas Light and  
9 Coke Company (Peoples or PGLC) (collectively, the Companies or PGLC/NSG). In  
10 addition, CNE-Gas and VES provide service to end-use customers on the distribution  
11 systems of NSG and PGLC.

12 Q DID YOU PREVIOUSLY PRESENT DIRECT TESTIMONY IN THIS PROCEEDING?

13 A Yes.

14 **Introduction**

15 **Q WHAT IS THE SUBJECT MATTER OF YOUR REBUTTAL TESTIMONY?**

16 A My rebuttal testimony responds to several points discussed in the rebuttal testimony  
17 of Thomas Zack on behalf of the Companies that address my recommended  
18 unbundled storage service and the Companies' proposed restrictions on the  
19 utilization of storage under the present rate structure.

20 **Q IN YOUR DIRECT TESTIMONY YOU ACCEPTED MR. ZACK'S RATE DESIGN**  
21 **OBJECTIVES AND ADDED THREE OF YOUR OWN. PLEASE RESTATE THE**  
22 **OBJECTIVES YOU ADDED.**

23 These additional objectives are:

- 24 • Allowing transportation customers to select (and pay for) only those services  
25 that they may require.
- 26 • Allowing transportation customers (and/or their suppliers on behalf of the  
27 transportation customers) access to services that the Company is able to  
28 provide on an equal footing with sales customers.
- 29 • Charging cost-based rates for those services chosen by the transportation  
30 customers.

31 **Q HAVE THE COMPANIES INDICATED ANY DISAGREEMENT WITH THESE**  
32 **ADDITIONAL OBJECTIVES?**

33 A No. Neither Mr. Zack nor any other Company witness has taken issue with these  
34 objectives.

35 **IIEC/CNE/VES Proposed USB Storage**

36 **Q** **BASED ON HIS REBUTTAL TESTIMONY, DOES IT APPEAR THAT MR. ZACK**  
37 **UNDERSTANDS YOUR UNBUNDLING PROPOSAL?**

38 **A** No. A great deal of his rebuttal testimony addresses a parade of horrors centered  
39 around what happens if each and every transportation customer uses its maximum  
40 storage allocation and they do so at the same time. This is totally unrealistic for a  
41 number of reasons. First, under my proposed unbundled storage service, customers  
42 would only be allowed to subscribe to an amount of storage up to the maximum  
43 amount that I calculated in my direct testimony. Therefore, the maximum Unbundled  
44 Storage Bank (USB) that is relevant is the sum of the actually subscribed amounts,  
45 not the sum of each individual transportation customer's maximum allowed  
46 subscription. Clearly, not all transportation customers will subscribe to unbundled  
47 storage and not all of those that do will subscribe to their maximum amount.  
48 Therefore, Mr. Zack's anecdotes about the impact of unbundled storage on the  
49 Manlove storage field based on all transportation customers subscribing to their  
50 maximum storage and doing so all at the same time are merely red herrings.

51 **Q** **WHY DO YOU THINK IT IS CLEAR THAT NOT ALL TRANSPORTATION**  
52 **CUSTOMERS WILL SUBSCRIBE TO UNBUNDLED STORAGE SERVICE AND**  
53 **THOSE THAT DO WILL NOT DO SO UP TO THE MAXIMUM AMOUNT?**

54 **A** Past experience demonstrates transportation customers will not all subscribe to  
55 unbundled storage service and those that do subscribe will not do so to the maximum  
56 amount permitted.

57 **Q WHAT IS YOUR BASIS FOR THIS CONCLUSION?**

58 A In a discussion totally contradictory of his oversubscription fears, Mr. Zack observes  
59 that storage has been available to transportation customers under Rider TB but it has  
60 rarely been used. As discussed below, this is, in large part, due to the terms and  
61 pricing of the Rider TB storage option but it does give us an indication that not all  
62 transportation customers are going to sign up for any storage available at any price.  
63 In short, it appears that Mr. Zack is arguing that transportation customers don't want  
64 unbundled storage service but he fears that if it is offered they will subscribe for the  
65 maximum amount.

66 **Q MR. ZACK CLAIMS THAT INTERVENOR PROPOSALS INVOLVING THE**  
67 **COMPANIES' TRANSPORTATION PROGRAMS SUCH AS YOURS "WOULD**  
68 **PERPETUATE THE COST SUBSIDIES THAT ARE DETRIMENTAL TO SALES**  
69 **CUSTOMERS. . . ." DO YOU AGREE?**

70 A Certainly not. First, Mr. Zack has provided absolutely no evidence showing that  
71 transportation customers receive a subsidy from sales customers. Indeed, the cost of  
72 service evidence appears to indicate that it is the residential classes that are primarily  
73 sales customers that are receiving a subsidy. For example, Peoples' cost of service  
74 study presented by Mr. Amen shows the system average rate of return is 4.9%. The  
75 residential class rate of return is -1.7% for non-heating and 3.2% for heating  
76 customers. The rate of return for the large volume demand class is 7.6%. (Peoples  
77 Exhibit RJA 1.1). The results are similar for North Shore (North Shore Exhibit  
78 RJA 1.1). Mr. Zack also introduces a concept of "volume subsidies" which he does  
79 not define but argues are present in some of his examples. I will discuss those  
80 examples in more detail later in this testimony.

81           Second, Mr. Zack's concept of subsidies seems to imply is that if sales  
82 customers are asked to share with transportation customers benefits that sales  
83 customers enjoy in their entirety today, the amount of the benefit sales customers are  
84 asked to share is considered a "subsidy" by Mr. Zack. This is not a correct definition  
85 of a subsidy. When transportation customers were allowed to find their own gas  
86 supplies they were forced to give up certain benefits (such as storage) that they  
87 enjoyed when they were sales customers. Although this wasn't fair, it was better than  
88 relying on the Companies to purchase their gas supplies. Now that transportation  
89 customers are asking for the opportunity to buy back -- at full cost -- those lost  
90 benefits, it is not reasonable to suggest that doing so would result in a subsidy.

91           In fact, in response to IIEC Data Request 3.02, Mr. Zack seems to  
92 acknowledge that, as long as the rights to storage are fairly allocated between the  
93 Companies' sales and transportation customers, and as long as the transportation  
94 customers are paying a cost based rate for these rights, as they would under my  
95 recommended rate USB, cross-subsidization does not exist.

96   **Q       WHY THEN DOES MR. ZACK SPEAK IN TERMS OF SUBSIDIES?**

97   A       Mr. Zack is making an implicit assumption that if transportation customers can use  
98 their gas more economically by efficiently utilizing storage, then, ipso facto, the sales  
99 customers must be made worse off. There is absolutely no support for that argument.  
100 Indeed, the Companies insist that sales customers are better off because PGLC  
101 offers Hub services, even though the subscribers to that Hub service feel that they  
102 get a benefit as well. It is not a zero sum game. Indeed, in response to IIEC Data  
103 Request 3.02 even Mr. Zack seems to concede that as long as the total cost of gas

104 for the Chicago area is reduced, the public interest is well served, even if it means  
105 allocating storage to transportation customers.

106 **Q MR. ZACK STATES AT PAGE 14 OF HIS REBUTTAL TESTIMONY THAT**  
107 **CUSTOMERS CAN PURCHASE AN ALLOWABLE BANK (AB) OF STORAGE**  
108 **UNDER PRESENT RATES WITHOUT THE NEED TO PURCHASE STANDBY. DO**  
109 **YOU AGREE?**

110 A It is true that SC-2 customers can and, in fact, must do so. It is not truly “unbundled”  
111 however, in that they cannot take service under SC-2 without paying for Manlove  
112 storage. This clearly illustrates that the service I am proposing can be provided by  
113 the Companies. As to the availability under S.C. No. 3 or 4 for customers to sign up  
114 for zero standby service and select a Daily Storage Quantity and a Maximum  
115 Allowable Capacity under Rider TB, this is very different from the cost-based,  
116 unbundled storage option that I am proposing.

117 **Q DOES YOUR USB SERVICE ALLOW CUSTOMERS TO RESERVE AN**  
118 **UNBUNDLED PIECE OF THE MANLOVE STORAGE FIELD?**

119 A Yes, it does.

120 **Q DOES THE PRESENT OPTION ALLOW CUSTOMERS TO RESERVE AN**  
121 **UNBUNDLED PIECE OF THE MANLOVE STORAGE FIELD?**

122 A No, it does not. The present option allows transportation customers to reserve a  
123 portion of the combined storage resources of the Companies including pipeline  
124 storage that includes facilities that transportation customers have no interest in  
125 reserving. The reservations of pipeline storage and no-notice services are useful to

126 the Companies in order to manage their gas supply needs. Transportation customers  
127 do not require the additional contractual rights inherent in these services beyond  
128 basic storage service.

129 **Q WHAT DO YOU MEAN BY UNBUNDLED?**

130 A Unbundling is the opposite of bundling, so let me explain the term “bundling.”  
131 Bundling refers to the situation where a consumer is forced to purchase one good or  
132 service, which the consumer may or may not want or need or cannot afford, as a  
133 prerequisite to purchase another service which the consumer does require. Of  
134 course, bundling is anticompetitive and can only be done when the provider is a  
135 monopoly service provider.

136 **Q CAN PEOPLES OFFER UNBUNDLED BASE RATE STORAGE SERVICE?**

137 A Yes. Mr. Zack acknowledged that in response to IIEC Data Request 3.08c.  
138 However, the Companies simply do not want to offer such service, at least to SC 3  
139 and SC 4 customers, although it does provide that service to its SC 2 customers as  
140 well as to North Shore customers. (In fact, for SC 2 customers, it not only provides  
141 the service, it forces SC 2 customers to take Manlove storage.)

142 **Q ON PAGE 18 OF HIS REBUTTAL TESTIMONY, MR. ZACK STATES THAT**  
143 **OPERATING REQUIREMENTS WOULD NEED TO BE DEVELOPED AND ADDED**  
144 **TO THE TARIFFS TO ACCOMMODATE USB SERVICE. IS THAT LOGICAL?**

145 A No. In the first place, while the service differs because it relies exclusively on  
146 Manlove field, I am not proposing that Peoples operate Manlove any differently from  
147 the way it currently operates. Second, Mr. Zack acknowledges (on page 15 of his

148 rebuttal) that USB service “would differ very little from the currently available base  
149 rate component of the AB.” Again, Mr. Zack is raising objections based on unrealistic  
150 or inaccurate assumptions. For example, he states that a determination would have  
151 to be made regarding whether the other ratepayers paying for storage would have  
152 first call on the base rate storage. This is not true. For example, Peoples extends  
153 unbundled Manlove storage service to North Shore, yet it does not have “first call”  
154 over North Shore.

155 **Q DOES MR. ZACK OFFER AN OPINION AS TO WHY CUSTOMERS HAVE NOT**  
156 **AVAILED THEMSELVES OF THE STORAGE OPTION (WITHOUT BACKUP) NOW**  
157 **AVAILABLE?**

158 **A** No. Moreover, in response to Data Request No. IIEC 3.11, the Companies simply  
159 state that “Mr. Zack does not know why there are currently no S.C. No. 3 North Shore  
160 customers who have selected Rider SST with 0% standby service.” Also, in  
161 response to Data Request No. IIEC 3.09, the Companies refer to collaborative  
162 meetings with transportation customers prior to filing the rate cases. The response  
163 states that “Neither Rider TB nor the DSQ option under Rider TB came up during the  
164 collaborative meetings.” Apparently, the Companies did not ask their customers why  
165 this option was not more popular.

166 Q AT PAGE 17 OF HIS REBUTTAL TESTIMONY, MR. ZACK STATES THAT  
167 CONFINING YOUR PROPOSED USB SERVICE TO THE MANLOVE STORAGE  
168 FIELD SHOULD LIMIT THE OPERATING PARAMETERS OF THAT SERVICE TO  
169 THOSE THAT PERTAIN TO MANLOVE. IS HE CORRECT?

170 A Not entirely. However, first I would note that my proposal for withdrawal rights on  
171 critical days was aligned with the physical characteristics of Manlove. However, to  
172 pretend that every transportation customer imbalance must be treated as physically  
173 being injected or withdrawn from Manlove is not only unnecessary, it could be  
174 counterproductive. Doing so would artificially limit the benefits to the Company's  
175 sales customers. The important fact is that I designed my recommended rates  
176 reflecting only the parameters of the Manlove storage field. I did not take into  
177 account economies that the Companies could realize by providing the service from its  
178 entire system. The Companies will probably be able to provide the service more  
179 economically by utilizing other parts of their system as well as Manlove. If they are  
180 able to do so the savings would accrue to sales customers because the Company  
181 would receive revenues from transportation customers based on the stand-alone  
182 costs of Manlove but incur lower costs based on the economic operation of the entire  
183 system.

184 Q BUT CONCERNING THE OPERATING PARAMETERS THEMSELVES, IS  
185 MR. ZACK CORRECT WHEN HE STATES AT PAGE 17, LINES 378 – 380 OF HIS  
186 REBUTTAL TESTIMONY THAT “DR. ROSENBERG POSTULATES DAILY  
187 INJECTION AND WITHDRAWAL RIGHTS VASTLY EXCEEDING THE  
188 CAPABILITIES OF MANLOVE, WHICH WOULD NECESSARILY MEAN THAT  
189 SALES CUSTOMERS WOULD SUBSIDIZE THE SERVICE.”?

190 A No. Again, Mr. Zack is assuming every transportation customer subscribes for the  
191 maximum USB storage. He is also assuming that each and every transportation  
192 customer utilizes its maximum storage rights on the same day. Neither of these  
193 assumptions is realistic.

194 The unreasonableness of the first assumption can be seen when we consider  
195 the fact that the present alternative has been essentially unused. While I believe that  
196 my proposal provides transportation customers a more meaningful alternative that  
197 some will avail themselves of, different customers have different needs and many will  
198 not be interested in unbundled storage.

199 The second assumption would not happen unless each and every customer  
200 has the same expectations concerning future gas prices. In that event, customers  
201 would tend to inject more into storage on days the gas price is “low.” In fact, each  
202 customer will have a different concept of when the gas price is “low” depending on  
203 their concept of the market.

204 Both assumptions seem to be derived from a concept of a transportation  
205 customer as being more interested in making money on swings in gas prices than at  
206 producing a product. A customer’s primary interest is in having gas available to  
207 ensure its own production.

208 Q **HAVE YOU REVIEWED MR. ZACK'S EXHIBIT TZ-2.01?**

209 A Yes. In that Exhibit, Mr. Zack calculates the savings an unbundled storage customer  
210 would experience if it injected 10,000 Dth into storage on the 10 days of the month  
211 with the lowest gas prices and withdrew that same amount of gas from storage on the  
212 10 days of the month with the highest gas prices. Again, Mr. Zack's implicit  
213 unrealistic assumptions lead to the erroneous conclusion he draws from his example.  
214 Here he assumes that customers buy all their gas on a daily basis and know in  
215 advance the relative prices of gas for each day of the month.

216 Q **DO CUSTOMERS TYPICALLY PURCHASE THEIR GAS ON A DAILY BASIS?**

217 A No. They purchase most, if not all, of their gas on a monthly basis. This is also true  
218 of the Companies' purchasing practices. In its response to Data Request No. IIEC  
219 3.06, the Companies state that Peoples buys 84% of its gas at a monthly first-of-  
220 month price.

221 Q **HOW WOULD A CUSTOMER KNOW WHICH DAYS OF THE MONTH WILL BE**  
222 **THE HIGHEST COST AND LOWEST COST?**

223 A It would not be possible to know this until after the fact but, nevertheless, Mr. Zack  
224 assumes that customers are able to predict daily gas prices with certainty.

225 Q **WHAT IS THE RESULT OF MR. ZACK'S CALCULATION?**

226 A Armed with a perfect forecast of the future, Mr. Zack's customer would have saved  
227 about \$1.5 million a year. Interestingly, at page 26, lines 565 – 569 of his rebuttal  
228 testimony, Mr. Zack characterizes this savings as potential harm to sales customers.

229 **Q DOES THIS SAVINGS REPRESENT HARM TO SALES CUSTOMERS?**

230 A Certainly not. Every dollar saved by transportation customers does not represent an  
231 additional cost to sales customers. Transportation customers are entitled to any  
232 savings that they are able to attain through use of their pro rata allocation of storage  
233 capacity. Mr. Zack's argument is like saying that savings attained by transportation  
234 customers because they are able to purchase their gas at lower prices than the  
235 Companies is harmful to sales customers. It appears that this is the reasoning that  
236 leads Mr. Zack to conclude that transportation customers are being subsidized by  
237 sales customers when, in fact, the opposite is the case as indicated by the cost of  
238 service results described earlier in this testimony.

239 **Q DOES ACTUAL DATA SUGGEST THAT TRANSPORTATION CUSTOMERS USE**  
240 **STORAGE IN ORDER TO PROFIT FROM PRICE ARBITRAGE AS SUGGESTED**  
241 **BY MR. ZACK?**

242 A No, they do not. The storage activity of daily metered customers is summarized on  
243 Schedule 1. This Schedule is developed by determining the net injections or  
244 withdrawals of daily metered customers on a daily basis. This data is provided in  
245 Mr. Zack's workpapers in support of Peoples Exhibit 1.2. For each day, we  
246 determined cost of net injections or value of net withdrawals by multiplying the  
247 relevant terms by the daily price for that day. The daily prices are provided by the  
248 Companies in their response to IIEC Data Request 3-30.

249 This Schedule shows that customers tended to have net injections during non-  
250 winter months and net withdrawals during winter months. Over the course of the  
251 year, slightly more was injected than withdrawn and, as a result, the total cost of  
252 injections was slightly greater than the value of withdrawals.

253           There is absolutely no evidence in the actual data that suggests that  
254 customers try to use storage for arbitrage as Mr. Zack suggests. For example, if  
255 customers were behaving as Mr. Zack has postulated they would have been  
256 withdrawing gas in September and October and injecting in November. In fact, they  
257 did just the opposite.

258           The data from the daily metered customers also shows that customers don't  
259 typically inject or withdraw an amount equal to or greater than their MDQ. During the  
260 12-month period May 1, 2005 through April 30, 2006 daily net injections or  
261 withdrawals (treating each as a positive number) never exceeded 30% of the MDQ  
262 and averaged only 6.6% of the MDQ.

263   **Q     MR. ZACK IS CRITICAL OF YOUR USE OF A STORAGE DIVERSITY FACTOR**  
264   **(SDF) TO DETERMINE THE MAXIMUM AMOUNT OF USB STORAGE CAPACITY**  
265   **AVAILABLE TO TRANSPORTATION CUSTOMERS. SPECIFICALLY, HE CLAIMS**  
266   **THAT IT COULD LEAD TO AN OVER-SUBSCRIPTION OF THE PHYSICAL**  
267   **STORAGE. DO YOU AGREE?**

268   **A**   No. The amount of storage capacity available to transportation customers under my  
269 proposal is approximately the same as the transportation proportion of total  
270 throughput on the system. The combined transportation customers' MDQs for  
271 Peoples and North Shore is stated as 660,000 Dth at page 29, line 644 of Mr. Zack's  
272 rebuttal testimony. Multiplying this by the 19.8 days I propose to determine a  
273 customer's maximum allowance results in approximately 13.1 BCF of storage  
274 available for transportation. This represents approximately 37.7% of the 34.7 BCF of  
275 Manlove storage capacity. This is less than the 40% of system deliveries that are for  
276 transportation customers referred to by Mr. Zack at page 32, line 711 of his rebuttal

277 testimony. Thus, there is no over-subscription problem even if all customers sign up  
278 for the maximum amount of storage.

279 **Q MR. ZACK IS CRITICAL OF THE CHARGES YOU RECOMMENDED FOR THE**  
280 **USB SERVICE. DO YOU HAVE ANY COMMENTS CONCERNING HIS**  
281 **ARGUMENTS?**

282 A Yes. His arguments concerning the costs of Manlove storage to North Shore as  
283 compared to Peoples and the need for injection/withdrawal charges require further  
284 consideration.

285 With respect to the Manlove field storage, he points out that North Shore's  
286 rights to that storage and charges are spelled out in a contract between the affiliates  
287 and that as a result of these contract rates, there are certain differences in the  
288 accounting treatment of the costs that North Shore pays for storage. It is my  
289 understanding that the purpose of the contract and the operation of the storage field  
290 attempts to equalize the benefits of both North Shore and Peoples customers.  
291 Therefore, there should be no reason that North Shore and Peoples customers  
292 should pay different charges for the use of the capacity of the Manlove storage field  
293 on an unbundled basis. For this reason, I withdraw my separately calculated rates for  
294 North Shore customers and recommend that my rates for Peoples be applied to all  
295 Peoples and North Shore USB customers.

296 **Q SHOULDN'T THE RATES REFLECT THE COMBINED STORAGE CAPACITY AND**  
297 **USAGE OF BOTH COMPANIES IN ORDER TO PROVIDE AN EQUALIZED RATE?**

298 A That would be the most efficient way to design a combined rate and should be utilized  
299 in future cases. For now, however, since Peoples' share of the combined capacity

300 appears to be approximately 95%, using only Peoples' figures as reflected in Exhibit  
301 IIEC/CNE/VES Jt. Exhibit 1, Schedule 2 – PGLC to establish rates would not  
302 introduce any significant bias.

303 **Q DO YOU AGREE THAT THE USB RATE SHOULD CONTAIN CHARGES FOR**  
304 **INJECTIONS AND WITHDRAWALS?**

305 A Yes. I'm aware that many utilities include separate charges for injections and  
306 withdrawals.

307 **Q WHY DIDN'T YOU INCLUDE SEPARATE CHARGES FOR INJECTIONS AND**  
308 **WITHDRAWALS IN YOUR PROPOSED RATES FOR USB STORAGE?**

309 A First, I patterned my storage rate design after the format that this Commission  
310 approved for Nicor. Nicor does not have those charges separated out. Moreover,  
311 Peoples does not record its costs in a manner that would allow such separation. In  
312 its response to Data Request No. IIEC 3.27, Peoples states:

313 Peoples Gas has not segregated the cost of injecting gas into and  
314 withdrawing gas from Manlove. The revenue requirement for storage  
315 related costs, in total and by service classification, can be found in  
316 Peoples Gas Schedule E-6. The related costs supporting these  
317 revenue requirements can also be found in Peoples Gas' Schedule  
318 E-6.

319 In the course of my review on this issue, I determined that I had inadvertently  
320 neglected to include the compressor O&M for injections and withdrawals as part of  
321 the total costs. Schedule 2 of my rebuttal exhibit shows a corrected calculation.

322 Q DO YOU HAVE ANY OTHER COMMENTS CONCERNING MR. ZACK'S CRITICISM  
323 OF YOUR RECOMMENDED RATE?

324 A Yes. Mr. Zack argues that the total capacity to consider for the purpose of calculating  
325 the rates should not include the amount that Peoples has sold to third-party  
326 customers under its Hub service. I totally disagree. Peoples made a choice to sell  
327 capacity that it apparently decided it didn't need to a third party and credits the  
328 revenues to the gas charge. Pure transportation customers do not benefit from this  
329 arrangement at all.

330 If one accepts Mr. Zack's reasoning, then the per unit cost of storage to  
331 Peoples' customers went up significantly when it sold a portion of its capacity. If  
332 Mr. Zack's logic is followed, every time that it sells a portion of its storage under its  
333 Hub service the per unit cost to its customers will increase. This is totally  
334 unreasonable. Presumably, Peoples considers the per unit costs based on the entire  
335 capacity when evaluating bids for third-party storage and it is important to do the  
336 same when establishing unbundled rates for its own customers who have paid for this  
337 investment in their rates.

338 **Companies' Proposed Changes to Present Storage Options**

339 Q DID YOU PROVIDE A DESCRIPTION AND DISCUSSION OF THE PROPOSED  
340 OPERATIONAL CHANGES TO THE EXISTING STORAGE OPTIONS IN YOUR  
341 DIRECT TESTIMONY?

342 A Yes, and the concerns I express in my direct testimony continue. In this rebuttal  
343 testimony, I will limit my discussion to issues raised in Mr. Zack's rebuttal to my direct  
344 testimony.

345 Q IN YOUR DIRECT TESTIMONY, YOU TESTIFIED THAT THE COMPANIES'  
346 PROPOSED ALLOWABLE BANK INJECTION AND WITHDRAWAL FORMULAS  
347 ARE TOO COMPLICATED TO GIVE CUSTOMERS CLEAR GUIDELINES. DID  
348 THE COMPANIES RESPOND TO THIS CRITICISM?

349 A Not in a meaningful fashion. Mr. Zack argues that "whether the formulas are complex  
350 is immaterial." (Zack Rebuttal, page 24, line 520). He goes on to state that:

351 The Utilities are not proposing that customers and suppliers work with  
352 the formulas every day. The Utilities will use the formulas to calculate  
353 the percentages and quantities that the customers and suppliers will  
354 use. These calculations will be publicly available. The customers and  
355 suppliers will know their applicable percentages and quantities.

356 In other words, he is telling customers not to worry, just trust the Companies to take  
357 care of them.

358 That is not a reasonable concept of rate design. Rates that are not  
359 understandable by customers (without relying on the Company for translations) do  
360 not provide reasonable signals for customers to follow. Terms and conditions of a  
361 tariff should be guides to customer behavior, not merely a basis for limiting customer  
362 options and, presumably, the assessment of penalties on customers unable to  
363 comply.

364 Q YOU PREPARED SCHEDULES 3 AND 4 IN YOUR DIRECT TESTIMONY TO  
365 DEMONSTRATE THAT SALES CUSTOMERS WOULD BE BETTER OFF IF  
366 TRANSPORTATION CUSTOMERS DID NOT ALMOST FILL THEIR BANKS AT  
367 THE BEGINNING OF THE SEASON AND ALMOST EMPTY THEIR BANKS AT  
368 THE END OF THE SEASON (I.E., FOLLOW THE SAME CYCLING PATTERN AS  
369 THE UTILITIES DID) AS MR. ZACK PROPOSES THAN THEY WOULD IF THE  
370 TRANSPORTATION CUSTOMERS DID NOT CYCLE THEIR GAS AT ALL. DID  
371 MR. ZACK NEGATE YOUR DEMONSTRATION?

372 A No. In fact, he replicated my schedules in his Exhibit TZ -2.03, pages 1 and 2, using  
373 actual Chicago first-of-month prices. These two pages actually confirm what I  
374 demonstrated in my Schedules.

375 Q WHAT DOES PAGE 3 OF THAT EXHIBIT SHOW?

376 A It shows that it is certainly possible to manufacture scenarios where transportation  
377 customers benefit from storage proportionately more than sales customers. In the  
378 first place, that is not very surprising considering that storage serves a peak shaving  
379 function as well as a hedging function. I would also note that Page 3 is rather  
380 contrived in that Mr. Zack imagines a case where the transportation customers empty  
381 their entire storage bank in a single month (November), fill their bank 40% in  
382 December, empty it out completely the next month, and then fill it up back to their  
383 starting level the subsequent month. I have never, in my experience, encountered a  
384 customer that operates in a manner even remotely similar to this. In fact, Mr. Zack's  
385 case is not possible as the Companies have a one-third withdrawal limitation on  
386 storage gas in the winter. Therefore, a customer is only allowed to withdraw one-third  
387 of its entire bank capacity per month. A customer is unable to completely drain its

388 storage bank if it is greater than one-third full at the beginning of the month. A  
389 customer's withdrawal of more than one-third of its bank will initiate a penalty to the  
390 customer assessed by the Companies and the Companies will also fill the customer's  
391 storage bank with companion gas to the extent that it exceeded the one-third  
392 withdrawal. The Companies then charge the customer for the companion gas at a  
393 published monthly rate.

394 **Q WHAT DOES PAGE 4 OF HIS EXHIBIT TZ-2.03 SHOW?**

395 A It shows that again, under some hypothetical situations, transportation customers can  
396 save money by utilizing storage, but that is exactly the point of storage. It does not  
397 mean that transportation customers are being subsidized.

398 **Q HAS MR. ZACK PRESENTED ANY EVIDENCE, USING ACTUAL USAGE AND**  
399 **NOMINATIONS, THAT WOULD DEMONSTRATE THAT SALES CUSTOMERS**  
400 **HAVE BEEN UNDULY OR UNREASONABLY HARMED AS A RESULT OF**  
401 **TRANSPORTATION CUSTOMERS' BEHAVIOR?**

402 A No, although he certainly had all the facts and figures about the Companies' storage  
403 operations at his disposal, he was apparently unable to do so.

404 Q AT PAGES 24 AND 25 OF HIS REBUTTAL TESTIMONY, MR. ZACK ADDRESSES  
405 YOUR PROPOSED ALTERNATIVE TO HIS PROPOSED WITHDRAWAL AND  
406 INJECTION LIMITS. SPECIFICALLY, HE ARGUES THAT UNDER YOUR  
407 PROPOSAL, WITHDRAWALS COULD EXCEED THE CAPABILITIES OF THE  
408 SYSTEM. CAN YOU RESPOND TO THAT ARGUMENT?

409 A Yes. First, my alternative proposed limits impose more limitations on customer  
410 injections and withdrawals than exist under present rates and Mr. Zack has provided  
411 no evidence of harm that has occurred under present rates. Second, an important  
412 aspect of my alternative is that it allows customers to make injections while the  
413 Company is withdrawing and make withdrawals while the Company is injecting gas.  
414 Both of these are beneficial to the system and lower costs to sales customers. For  
415 example, if a customer withdraws gas this allows the Company to increase its storage  
416 without the need to “move” any gas into storage. These displacements are  
417 essentially prohibited under the Company’s proposals.

418 Q IN SUMMARY, DO YOU FEEL ANY RESTRICTIONS ARE NECESSARY TO THE  
419 OPERATION OF YOUR PROPOSED USB SERVICE OR YOUR PROPOSED  
420 ALTERNATIVE TO THE COMPANIES’ CHANGES TO THE AB PROPOSALS?

421 A No. Mr. Zack has not provided any concrete demonstration of probable harm to sales  
422 customers or inability of the Companies to efficiently implement my proposals. He  
423 has provided hypothetical examples based on unrealistic assumptions even where  
424 actual data could have been used. The Companies simply don’t want to provide an  
425 unbundled storage service and want to impose unrealistic restrictions on existing  
426 services.

427 Q PLEASE CONSIDER THE COMPANIES' ARGUMENTS THAT UNDER YOUR  
428 PROPOSAL FOR USB SERVICE THE CAPACITY OF MANLOVE FIELD COULD  
429 BE OVER SUBSCRIBED. IF THE COMMISSION WANTS TO BE VERY  
430 CAUTIOUS ON THE ISSUE WOULD IT BE POSSIBLE TO PUT A LIMIT ON THE  
431 TOTAL AMOUNT OF STORAGE AVAILABLE TO TRANSPORTATION  
432 CUSTOMERS?

433 A Yes. However, rather than impose an artificial limit on the amount available to  
434 individual customers, I would recommend putting a limit on the total amount that is  
435 available to the USB service. That amount could be available on a first-come,  
436 first-served basis. This limit could be relaxed over time as the Commission becomes  
437 comfortable that the program is working smoothly.

438 Q PLEASE CONSIDER THE COMPANIES' ARGUMENTS THAT THEY WOULD NOT  
439 BE ABLE TO HANDLE ALL THE INJECTIONS AND WITHDRAWALS OF  
440 CUSTOMERS WITHOUT FURTHER RESTRICTIONS. PLEASE COMMENT.

441 A Mr. Zack wants to impose draconian restrictions on transportation customers' use of  
442 storage, while at the same time denying those customers tools to manage their gas --  
443 such as intraday nominations -- that are available to the Companies. Moreover, his  
444 proposals -- or objections to my proposals -- are predicated on hypothetical  
445 constructs, instead of empirical evidence or even reasonable analysis.

446 I would hope the Commission in this proceeding hearkens to the approach  
447 that it expressed in a recent Nicor case:

448 Currently, Transportation customers can nominate up to two times  
449 their MDCQ. Nicor proposes to reduce that to one times the  
450 customer's MDCQ during the winter season. Staff supports Nicor's  
451 proposal while IIEC, CNE, Vanguard and RGS oppose it.

452 The Commission rejects Nicor's proposed change. **To the extent**  
453 **possible, the Commission would prefer to increase rather than**  
454 **reduce the flexibility of customers, whether Transportation**  
455 **customers or Customer Select customers.** Nicor has been  
456 operating under the existing maximum daily nomination for many  
457 years. While the Commission can understand Nicor's argument that  
458 storage injections in winter are inconsistent with Nicor's objectives to  
459 fully cycle its storage fields, winter injections also seem fully consistent  
460 with Nicor's objective of maintaining sufficient gas in storage to meet  
461 late winter demands for significant storage withdrawals.

462 **The record contains no analysis that demonstrates**  
463 **Transportation customers intentionally interfere with Nicor's**  
464 **efforts to cycle its storage fields or that the activities of**  
465 **Transportation customers have ever actually interfered with**  
466 **Nicor's efforts to cycle its storage fields. In the absence of**  
467 **additional empirical evidence or a more compelling argument, the**  
468 **Commission has no choice but to reject Nicor's proposed**  
469 **change.**

470 (ICC Order 04-0779, emphasis added.)

471 Likewise, since Mr. Zack has not presented a single instance of transportation  
472 customers interfering with the Companies' operation of storage or harming sales  
473 customers, his restrictions should also be rejected. However, even if we err on the  
474 side of caution, it appears that a two-time MDQ injection limit is adequate.

475 **Q DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?**

476 **A** Yes, it does.

**PEOPLES GAS LIGHT AND COKE COMPANY**

**Monthly Value of Transportation Customers' Daily Net Injections/Withdrawals  
Valued at the Daily Chicago City Gate Price  
April 2005 through March 2006**

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<u>Line</u>	<u>Month</u>	<u>Net Injections/ (Withdrawals) Therms<sup>1</sup></u> (1)	<u>Amount<sup>1</sup></u> (2)	<u>Average Price \$/Dth<sup>2</sup></u> (3)
1	Apr-05	6,982,897	\$ 4,983,361	\$ 7.09
2	May-05	5,589,429	\$ 3,391,105	\$ 6.45
3	Jun-05	2,073,210	\$ 1,451,668	\$ 7.08
4	Jul-05	(314,167)	\$ (273,348)	\$ 7.40
5	Aug-05	3,264,814	\$ 2,940,830	\$ 9.01
6	Sep-05	2,335,948	\$ 2,480,922	\$ 11.01
7	Oct-05	2,967,447	\$ 3,368,618	\$ 12.20
8	Nov-05	(2,104,501)	\$ (3,122,782)	\$ 8.89
9	Dec-05	(6,294,145)	\$ (9,761,836)	\$ 12.62
10	Jan-06	3,998,438	\$ 3,667,711	\$ 8.44
11	Feb-06	(10,960,298)	\$ (8,098,121)	\$ 7.41
12	Mar-06	125,727	\$ 20,929	\$ 6.38
13	Total	7,664,799	\$ 1,049,057	

Note: Daily net inj/wd \* daily city gate price summed by month.

Sources: <sup>1</sup>Worksheet labeled PGLRidersto2005\_06 support for Peoples Exhibit 1.2.

<sup>2</sup>PGLC response to NS-PGL IIEC 3-30.

**Peoples Gas Light and Coke Company**

**Calculation of Storage Charge**

<b><u>Line</u></b>	<b><u>Description</u></b>	<b><u>Total</u></b> (1)	<b><u>Peoples</u></b> (2)
1	Manlove Field Capacity (Dth)	36,510,010	34,730,957
	Storage Related Revenue Requirement at Equal ROR		
2	Demand Related		\$ 27,688,581
3	Compressor O&M		<u>\$ 4,985,000</u>
4	Total Revenue Requirement		\$ 32,673,581
5	Storage Charge - per year per Dth		\$ 0.9408
6	Per month per therm		\$ 0.0078
7	Adjustment for Storage Diversity Factor		90%
8	Adjusted Storage Charge per month per therm		\$ 0.0071