

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

North Shore Gas Company	:	07-0241
Proposed general increase in natural gas rates. (tariffs filed March 9, 2007)	:	
The Peoples Gas Light and Coke Company	:	07-0242
Proposed general increase in natural gas rates. (tariffs filed on March 9, 2007)	:	Consol.

Rebuttal Testimony of

Neil Anderson

On Behalf of

Vanguard Energy Services, L.L.C.

August 21, 2007

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**Rebuttal Testimony of Neil Anderson
The Peoples Gas Light and Coke Company**

1 **Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

2 A: My rebuttal testimony covers the following subject areas:

- 3 ▪ Changes to Pegasys;
- 4 ▪ Aggregation of a marketer's customers for determining the minimum and
5 maximum storage fills by November 30, and March 31;
- 6 ▪ Increasing the number of accounts in each pool;
- 7 ▪ Accounting for trades, rebills and storage activity;
- 8 ▪ Rider FST.

9 **CHANGES TO PEGASYS**

10 **Q: WHAT WAS THE RESPONSE BY THE COMPANIES TO THE REQUEST TO**
11 **ADD CUSTOMER ACCOUNT INFORMATION (SERVICE CLASS, RIDER,**
12 **MDQ, SSP, AB) TO THE HISTORICAL USAGE REPORT?**

13 A: Mr. Zack stated that the Companies would consider adding the information.
14 However, if the Companies did add the information then it would only be

15 available to a supplier once the Companies accepted and processed the
16 enrollment request. (Peoples Gas Exhibit TZ 2.0 lines 1390 - 1391)

17 **Q: WHEN DOES A SUPPLIER INITIALLY NEED THE CUSTOMER SPECIFIC**
18 **INFORMATION?**

19 A: The customer specific information is needed when a supplier retrieves the
20 customer's consumption history.

21 **Q: WOULD THE COMPANIES BENEFIT BY ADDING THE ADDITIONAL**
22 **INFORMATION TO THE CONSUMPTION HISTORY REQUEST?**

23 A: Absolutely. The gas transportation department of the Companies could focus
24 their limited resources on more productive matters than having to field
25 numerous phone calls each month from suppliers requesting the above
26 customer specific information.

27 **Q: WHY WOULD THE GAS TRANSPORTATION REPRESENTATIVES OF THE**
28 **COMPANIES BE FIELDING PHONE CALLS FROM SUPPLIERS IF THE**
29 **COMPANIES MAKE THIS CUSTOMER SPECIFIC INFORMATION**
30 **AVAILABLE TO SUPPLIER ON PEGASYS?**

31 A: Because this information is needed to complete the necessary contractual
32 paperwork to submit to the Companies by the 15th of each month. Suppliers
33 may also use the information for a variety of internal reasons.

34 **Q: DO ANY OTHER ILLINOIS UTILITIES PROVIDE SIMILAR ACCOUNT**
35 **INFORMATION WHEN A SUPPLIER REQUESTS A USAGE HISTORY FOR**
36 **AN ACCOUNT?**

37 A: Yes, Nicor Gas has for decades provided a variety of information associated
38 with the account including, but not limited to: customer name, customer

39 address, service address, Maximum Daily Contract Quantity (“MDCQ”) which
40 is similar to the Companies MDQ, monthly Maximum Daily Nominations
41 (“MDN”) if available, rate class, rider and usage history. Usage history
42 includes billing cycle to date, billing cycle from date, date billed, gas
43 consumption for the billing cycle, number of days in the billing cycle and
44 heating degree days for the billing cycle.

45 **Q: DOES NICOR GAS WAIT UNTIL THE SUPPLIERS ENROLLMENT**
46 **PAPERWORK IS PROCESSED?**

47 A: No. Nicor Gas provides the account information and usage history in one
48 request.

49 **Q: WHAT OTHER CHANGES WOULD YOU PROPOSE FOR PEGASYS?**

50 A: It has come to Vanguard’s attention based on the Data Request Response
51 VES 6.06 that improvements need to be made to better capture and store the
52 daily hub injections and withdrawals by counterparties. Currently, the
53 Companies are unable to provide accurate electronic records of hub
54 transactions. This lack of clarity does not permit full disclosure with regard to
55 gas being nominated to and from the Companies’ assets. I find this lack of
56 transparency troubling at best.

57 **AGGREGATION OF A MARKETER’S CUSTOMERS FOR DETERMINING THE**
58 **MINIMUM AND MAXIMUM STORAGE FILLS BY NOVEMBER 30, AND MARCH**
59 **31.**

60 **Q: HOW WOULD YOU RESPOND TO MR. ZACK’S QUESTION (ON PAGE 37**
61 **OF HIS REBUTTAL TESTIMONY): WOULD ALL OF A SUPPLIER’S RIDER**
62 **P POOL AUTOMATICALLY BE PART OF A SUPER POOL?**

63 A: Yes. All of the pools of a supplier would be aggregated together to determine
64 if the minimum and maximum storage requirements were met. Why does this
65 concept make sense? The logical initial response is that the supplier is a
66 customer to the Companies when a pool is formed. The supplier has credit
67 obligations that it enters into with the Companies at the formation of the pools
68 and revisits each subsequent year. Therefore, the sum of the supplier pools is
69 a proper reflection of whether the “customer” achieved the minimum or
70 maximum storage fill. It is imperative that all of the supplier pools be
71 aggregated together as suppliers will be permitted to add accounts to their
72 pools throughout the year regardless of whether the account formerly came
73 from another supplier’s pool or from general service.

74 The aggregation of the pools would not require the Companies to create
75 another identity, the super pool. Also, Vanguard is not proposing that the
76 Companies utilize this aggregation of pools concept beyond the purpose of
77 meeting the minimum and maximum storage fills.

78 **Q: WHAT ABOUT STAND ALONE ACCOUNTS?**

79 A: Vanguard is willing to exclude stand alone accounts from the aggregation of all
80 of the supplier’s pools when determining the minimum and maximum storage
81 fills. However, Vanguard’s preference is to include the stand alone accounts.
82 The Companies state that a stand alone account can take service from
83 multiple suppliers. Supply from multiple suppliers causes the theory of adding
84 them to the aggregation of all of the supplier’s pools to be troublesome.

85 **Q: HAS THE ILLINOIS COMMERCE COMMISSION APPROVED THE**
86 **CONCEPT OF AGGREGATING SUPPLIER POOLS?**

87 A: Yes, the Commission approved the concept in the most recent Nicor Gas rate
88 case.

89 **INCREASING THE NUMBER OF ACCOUNTS IN EACH POOL.**

90 **Q: ON PAGE 36 OF HIS REBUTTAL TESTIMONY, MR. ZACK STATES THAT**
91 **THE LIKELIHOOD OF BILLING ADJUSTMENTS TO A POOL ACCOUNT**
92 **INCREASES AS THE NUMBER OF SUB-ACCOUNTS INCREASES. IS**
93 **THAT LOGICAL?**

94 A: Yes. It makes sense that adding more accounts to a pool could cause the
95 pool to have more billing adjustments. However, the total number of billing
96 adjustments to be processed by the Companies' staff does not increase. The
97 same number of billing adjustments, in aggregate, is likely to occur if there
98 were no accounts in pools. Increasing the number of accounts per pool does
99 not add billing adjustments for the Companies' staff to process on a monthly
100 basis. If it did, the Companies would surely not voluntarily increase the
101 number of accounts per pool.

102 Increasing the pool size from 150 to 300 accounts is reasonable. The
103 Companies have invested monies to update their systems since the last rate
104 case, as indicated by the response to Data Request VES 7.04, and the
105 Companies' staff has more experience working with pooled accounts than
106 when the concept was first approved in the Companies rate case.

107 **ACCOUNTING FOR TRADES, REBILLS, AND STORAGE ACTIVITY.**

108 **Q: HAVE THE COMPANIES PROPERLY ACCOUNTED FOR STORAGE GAS**
109 **TRADES AND REBILLS IN THE PAST?**

110 A: Yes, prior to the year 2000.

111 Q: WHY DID THE COMPANIES DECIDE TO CHANGE AND THUS NO
112 LONGER PROVIDE AN ACCURATE ACCOUNTING FOR STORAGE GAS
113 TRADES, THE ADDITION OF NEW ACCOUNTS INTO SUPPLIERS POOLS
114 AND ACCOUNT REBILLS?

115 A: The Companies decided to address some administrative issues they have.
116 This raises the concern that the Companies will decide to change matters in
117 the future just because they have an administrative issue. The Companies
118 also state that their change is an acceptable practice because no one is
119 harmed. Failure to harm should not be considered encouragement for the
120 Company to continue to embrace the improper reporting of storage gas
121 volumes. Accuracy is what the Companies should be striving for when
122 reporting data to customers and suppliers. The failure of the Companies to
123 address their internal administrative issues concerning this matter causes all
124 affected parties to find work around solutions for themselves. Now the
125 administrative burden is placed on every supplier every month when an
126 imbalance trade, account rebill, or an account is added to a supplier's pool. It
127 is now the supplier who must track down the storage traded or storage added
128 gas to each pool. The current methodology the Companies are using is
129 incorrect and should be discontinued.

130 If a single customer with gas in bank of 10,000 therms is added to a supplier's
131 pool effective October 1, how is possible that the Companies can believe that
132 they are accurately depicting the storage bank of supplier's pool by adding the
133 gas to the pool on or around October 9th? The single account had 10,000
134 therms at the end of September. As a result, the beginning gas in bank of the

135 supplier should reflect the fact that the customer was added to the pool and
136 thus the 10,000 therms *must* be in the supplier's pool storage bank balance
137 effective prior to the beginning of gas day October 1. Any other storage bank
138 value is incorrect.

139 **RIDER FST.**

140 **Q: ON PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. ZACK STATES THAT**
141 **THE LARGER ISSUE WITH FST IS THAT DAILY METERING IS NEEDED**
142 **TO BETTER ALIGN USAGE WITH DAILY INJECTION AND WITHDRAWAL**
143 **RIGHTS. DO YOU BELIEVE THAT TO BE CORRECT?**

144 A: No. Rider FST accounts do not need to be read daily to function within the
145 operational bounds of the Companies' systems. Mr. Zack continues to portray
146 Rider FST as an evil villain of the Companies' systems. Schedule VES 1
147 (attached) is based upon the information received from Data Response VES
148 7.05. It indicates that the annual consumption for all Rider FST accounts
149 behind Peoples Gas is 116,542,426 therms. The total system delivery for
150 Peoples Gas per Mr. Amen's Exhibit RJA-1.5 is 1,740,954,670 therms.
151 Therefore, the Rider FST accounts only comprise 6.694% of the total system
152 delivery for Peoples Gas.

153 Mr. Zack's initial concern in his Direct Testimony was centered on the Rider
154 FST's ability to inject their Maximum Daily Quantity ("MDQ") every day of the
155 year. Vanguard proposed to better align the rights of the Rider FST accounts
156 to the Companies' systems by implementing a daily cap on the deliveries of
157 the Rider FST accounts. The cap would provide the necessary delivery
158 mechanism to meet the customer's anticipated monthly consumption plus an

159 injection into storage of twenty percent of the storage capacity per month.
160 Therefore, it would take a Rider FST account four months to fill their storage
161 bank.

162 Mr. Zack then turned his attention to the lack of summer season withdrawal
163 constraints on the Rider FST accounts. Again, his doom's day theory that the
164 Rider FST accounts may not be delivered to -- and therefore exceed -- the
165 Companies' summer season withdrawal parameters. In Vanguard's opinion,
166 the vast majority of Rider FST accounts are managed by suppliers that strive
167 to deliver transportation gas to meet the needs of their customers. Therefore,
168 Mr. Zack's issue with an excessive summer season withdrawal is nothing
169 more than a theory. He devises this theory based upon every Rider FST
170 account not taking delivery during a summer day, not reality. Schedule VES 1
171 (attached) indicates the aggregate of all average Rider FSTs, based upon a
172 simple average of monthly consumption divided by the number of days in the
173 month, to be 9,445.03 dth for the month of August in the test year. This value
174 only holds true if each and every supplier that manages Rider FST accounts
175 does not deliver one molecule to their Rider FST accounts. Mr. Zack does not
176 fully factor into his analysis that the Companies may have some type of
177 storage cycling requirement whereby the accounts may need to be at a stated
178 inventory level during the year. This storage cycling requirement will
179 encourage suppliers to meet the thresholds established or be faced with
180 receiving Company-supplied gas to fill the customer's storage to an
181 appropriate level.

182 Mr. Zack then moves to the winter season and the lack of withdrawal
183 constraints on the Rider FST accounts. Mr. Zack fails to mention that the
184 Companies have tariff language in place that allows the transportation
185 accounts to withdraw only one third of their storage bank capacity. There is no
186 need to establish a daily withdrawal parameter.

187 Mr. Zack states that it is no longer fair for the sales customers to bear a
188 disproportionate share of the costs of balancing the system. Although I have
189 not read any conclusive arguments that clearly depict Rider FST accounts
190 alone have indeed caused the Companies' physical assets to be out of
191 balance to the extent that other customer classes have been incurred
192 additional costs. Yet at the same time transportation customers as a whole
193 have been subsidizing residential customers for decades. If you apply the test
194 year subsidy in Peoples Gas Exhibit RJA 1.6 of Mr. Amen over the past eleven
195 years, you arrive at an underpayment of the residential customers of \$188
196 million. One would have to go back to the prior rate cases to appreciate the
197 full magnitude that the commercial and industrial customers have had to bear.
198 What then is the response of the Companies when the rate subsidy is brought
199 to the forefront - one word - gradualism.

200 What then should be done with Rider FST? Gradualism. The rate should be
201 modified to better align itself with the physical assets of the Companies. A
202 Maximum Daily Nomination ("MDN") should be developed based upon
203 Vanguard's initial proposal.

204 Mr. Zack raises a concern over Vanguard's proposed formula that would use
205 the prior year's consumption as an estimate of the current year's consumption.

206 His concern is that there can be significant differences between actual
207 consumption in a future period and the prior year's actual consumption,
208 especially if the weather is different. Vanguard's proposed addition to the
209 Rider FST accounts is to only allow a 20% injection of storage capacity per
210 month over the summer months. I fail to see how the summer season weather
211 deviation will play a large factor in determining the amount of gas that is
212 injected into the accounts in the summer season.

213 Mr. Zack states that a telephone line is not a burdensome requirement. Mr.
214 Zack is not in a position to speak for every business to make that statement. It
215 is up to each customer to decide based upon the facts at each location as to
216 the relative burden of installing a phone line. Is there an incremental expense
217 to install and maintain a phone line? Most certainly there is a cost to initially
218 run a phone line to the gas meter unless the customer, who rarely does, has a
219 knowledgeable technician on staff to run the phone line. The maintenance
220 issue with phone lines comes with telephone line age, phone equipment
221 changes, or vandalism.

222 Rider FST is a tariff program that needs to be modified not discarded. Rider
223 FST can coexist with SVT and SST. By making slight modifications to Rider
224 FST the Companies will not be creating redundant rates, but rather offering
225 choices that can benefit all customer classes.

226 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

227 **A** Yes, it does.