

Rebuttal Testimony

of

David Rearden

Policy Program

Energy Division

Illinois Commerce Commission

Rate Case

**Proposed General Increase in Gas Rates**

**North Shore Gas Company**

**The Peoples Gas Light and Coke Company**

**Docket Nos. 07-0241 and 07-0242 Consolidated**

August 22, 2007

1 **Q: Please state your name and business address.**

2 A: My name is David Rearden, and my business address is 527 East Capitol  
3 Avenue, Springfield, Illinois 62701.

4 **Q. Are you the same David Rearden who previously testified in this**  
5 **proceeding?**

6 A. Yes, I am.

7 **Q: What is the purpose of your rebuttal testimony.**

8 A: I will respond to The Peoples Gas Light and Coke Company's ("Peoples Gas")  
9 and North Shore Gas Company's ("North Shore") (individually, the "Company"  
10 and collectively, the "Companies") witness Tom Zack's rebuttal testimony  
11 concerning the transportation program and Peoples Gas' Hub. In the course of  
12 my remarks, I will consider the direct testimony of various Intervenor witnesses  
13 (collectively, the "marketers"). I will also reply to Environmental Law and Policy  
14 Center's ("ELPC") witness Charles Kubert's remarks about the Enhanced  
15 Efficiency Program ("EEP").

16 **Q: Please summarize your rebuttal testimony?**

17 A: I will summarize my testimony based on the different issues I will address:

18 **Transportation Issues**

19 With respect to transportation issues, I conclude that the Companies' proposed  
20 transportation tariffs do not provide sufficient access to the Companies' storage.  
21 In fact, by eliminating Rider FST (Full Standby Transportation Service), the  
22 Companies have taken a step backward in providing access to their storage

23 assets. I propose that Rider SST (Selected Standby Transportation Service) be  
24 modified to provide a storage access level similar to Rider FST.

25 **The Hub**

26 With respect to the Hub, Staff continues to propose a disallowance based upon  
27 the costs related to the Hub. In Mr. Zack's rebuttal, he provides an incremental  
28 cost study of the Hub versus its revenues. He finds that the Hub has provided a  
29 net benefit to ratepayers since it began providing service. Staff believes that this  
30 study is not on point. Staff continues to believe that the decision to expand  
31 Manlove Field to offer Hub services was imprudent. And Staff remains  
32 concerned that significant additional costs will be incurred in the future as  
33 Peoples Gas is required to inject significant additional amounts of base gas  
34 (injections that are not withdrawn) into Manlove Field in order to maintain the  
35 field's deliverability. Given the significant costs that loom in the future, the Hub  
36 cannot benefit ratepayers at current revenue levels.

37 **EEP—Energy Efficiency Program**

38 With respect to the EEP, I respond to Mr. Kubert's rebuttal testimony (ELPC Ex.  
39 Kubert Direct). Mr. Kubert asserts that the EEP will benefit ratepayers because  
40 there is currently underinvestment in efficiency and the program will provide an  
41 economic stimulus and lower gas prices. I refute these contentions. I continue  
42 to recommend that the proposed EEP be rejected; but if the Commission  
43 approves the EEP, I agree with the Companies' witness Rukis, who advocates a

44 limit of \$7.5 million on the EEP. (North Shore/Peoples Gas Ex. IR-2.0, p. 3) The  
45 program also has serious governance issues that have not been addressed as I  
46 noted in my direct testimony. I also recommend that the Commission clearly  
47 state that it holds the Companies responsible for administration of and spending  
48 levels of any EEP.

## 49 **Transportation issues**

50 **Q: What transportation issues do you address?**

51 A: I address storage usage parameters, some customer pooling issues, data issues,  
52 Purchase of Receivables (“POR”), and billing issues.

53 **Q: What seems to be the most contested and important issue between the**  
54 **marketers and the Companies?**

55 A: Marketers and marketer groups demand better access to storage services than  
56 the Companies propose in their tariffs. On the other hand, the Companies argue  
57 that the marketers previously had too much control over their storage services.  
58 The Companies are, therefore, trying to reduce marketers’ freedom to use  
59 storage.

60 **Q: Please outline the basic constraints that the Commission faces when**  
61 **designing a transportation program.**

62 A: The Companies use flowing gas, leased transportation and storage services and  
63 Manlove Field to provide storage and balancing services to marketers, Hub

64 customers and its bundled sales service customers. The Companies must  
65 allocate usage of the assets between the three customer groups in an equitable  
66 and efficient manner while recognizing each customer group's individual load  
67 profile, demands and economic incentives. This is a complex and difficult task.

68 **Q: Are there any simple and obvious ways to allocate the Companies'**  
69 **resources among the three customer groups?**

70 A: No. The groups consist of customers buying gas and services according to  
71 tariffs. If the Companies give one group some right to use limited system  
72 resources, then that right is not available to the other groups.

73 **Q: How do the Companies propose to modify Riders FST and SST?**

74 A: The Companies seek to end Rider FST and alter the parameters of Rider SST.  
75 Rider FST customers must either move to SST or Choices for You ("CFY") under  
76 the Companies' proposal. Further, the Companies propose to restrict SST  
77 customers' injection and withdrawal rights from their current structure. The need  
78 for a demand meter for SST customers (which is not required for FST customers)  
79 is unchanged from the current tariff.

80 **Q: What is the limit on injections and withdrawals under Rider FST?**

81 A: Under Rider FST, customers can withdraw from or inject into their Allowable  
82 Bank up to their full Maximum Daily Quantity ("MDQ") on a given day.<sup>1</sup> (Peoples  
83 Gas Ex. TZ-1.0, pp. 33-34; North Shore Ex. TZ-1.0, pp. 32-33)

84 **Q: What is the limit on injections and withdrawals under the existing SST?**

85 A: Under Rider SST, customers can inject up to their MDQ on non-Critical days.  
86 Only for Supply Shortage Days are there daily limits on the withdrawals that  
87 customers can make. These limits are based on the amount of gas that a  
88 customer can bank and the standby percentage selected by the customer. The  
89 limits are constant over all months. Injections are restricted during Supply  
90 Surplus Days, in which case the limit is the selected backup percentage times  
91 the MDQ. Schedule E-2, p. 138

92 **Q: What are the limits on injections and withdrawals proposed in the new**  
93 **SST?**

94 A: Under the proposed Rider SST, injection and withdrawal rights are specified in  
95 formulas that are more limiting.<sup>2</sup> The rather complex formula for injection rights  
96 in Rider SST depends on parameters that appear to vary by month. These  
97 parameters determine the maximum daily injection quantity attributable to base  
98 rate and gas charge storage by month. Similarly for withdrawals, a formula limits  
99 withdrawals using monthly parameters based upon base rate and gas charge  
100 storage. As shown in North Shore Ex. TZ 1.12 and Peoples Gas Ex. TZ 1.12,

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<sup>1</sup> A transportation customer's MDQ cannot be less than peak demand, although the utility and customer can agree to a larger value.

<sup>2</sup> The formulas are discussed more in depth below.

101 these parameters generate a profile that attempts to track the utilities' storage  
102 usage. According to Mr. Zack's direct, customers must "...comply with a more  
103 defined seasonal shaping of injection, withdrawal and inventory balance  
104 parameters..." to meet the limitations that the Company itself faces. (Peoples  
105 Gas Ex. TZ-1.0, p. 20, lines 450-456; North Shore Ex. TZ-1.0, p. 19, lines 423-  
106 439)

107 **Q: What principle does Peoples Gas and North Shore Gas follow when**  
108 **allocating transportation customers access to the system?**

109 A: The Companies propose to "shape" access to the system to conform with how  
110 they use the system for sales service. Broadly speaking, the Companies  
111 proposal appears to make transportation customers inject gas into storage when  
112 the Companies are injecting gas into storage, and withdraw gas from storage  
113 when the Companies are withdrawing gas from storage. That way, according to  
114 Mr. Zack, transportation customers "mirror" the Companies' ability to supply sales  
115 service customers. For example, the Companies seek to prevent transportation  
116 customers from withdrawing large amounts of gas when the Companies are  
117 trying to inject gas and vice versa. Also, the parameters in the Companies'  
118 formulas further restrict withdrawals during withdrawal season and injections  
119 during injection season. (Peoples Gas Ex. TZ-1.0, p. 38-39; North Shore Ex. TZ-  
120 1.0, pp. 37-38)

121 **Q: According to the Companies, why is it important to limit injections and**  
122 **withdrawals under the new Rider SST?**

123 A: In Mr. Zack's Direct Testimony, he asserts that "transportation customers have  
124 operated outside the storage limitations necessary for the Company's system to  
125 operate effectively" (Peoples Gas Ex. TZ-1.0, p. 18, lines 407-409; North Shore  
126 Ex. TZ-1.0, p. 17, lines 380-382), and uses his Ex. TZ 1.2. to demonstrate the  
127 variability in transport customers' deliveries. According to Mr. Zack, the  
128 Companies must adjust to the transporters' deliveries with the assets that it has,  
129 but they do not have control over the volumes that transport customers or their  
130 marketers want to inject or withdraw from their storage accounts. (Peoples Gas  
131 Ex. TZ-1.0, p. 19, lines 424-432; North Shore Ex. TZ-1.0, pp. 17-18, lines 397-  
132 405) Also, according to Mr. Zack, another benefit from the Companies' proposal  
133 is that it should minimize how often the Companies need to impose restrictions  
134 on transportation customers. (Peoples Gas Ex. TZ-1.0, p. 20, lines 450-456;  
135 North Shore Ex. TZ-1.0, p. 19, lines 423-429)

136 **Q: What harm do the Companies foresee from granting too much freedom to**  
137 **transportation customers?**

138 A: In order to keep the system in balance, the Companies react to activities by  
139 marketers and transportation customers. Mr. Zack asserts that the  
140 "...Company[ies] must adjust [their] other operations, such as planned storage  
141 injections and withdrawals. These are system resources which could otherwise  
142 be used for retail sales customers. This can potentially create an inappropriate

143 cross subsidization, and could cause the Company[ies] to incur increased costs.”  
144 (Peoples Gas Ex. TZ-1.0, p. 17, lines 392-395; North Shore Ex. TZ-1.0, p. 16,  
145 lines 365-368) When, for example, transportation customers withdraw large  
146 volumes from storage when the Companies are injecting, then the Companies  
147 are obliged to acquire additional supply to meet their storage needs. If the prices  
148 that the utilities pay are high, that may raise gas costs for bundled customers.  
149 Further, the Companies could be forced to impose restrictions on transportation  
150 customers in order to balance its system. That, according to Mr. Zack, causes  
151 “...considerable disruption in the marketplace.” (Peoples Gas Ex. TZ-1.0, p. 18,  
152 lines 399-400; North Shore Ex. TZ-1.0, p. 16, lines 372-373)

153 **Q: Do the marketers dispute that bundled sales customers cross-subsidize**  
154 **them?**

155 A: Yes. Dr. Rosenberg, a witness for the Illinois Industrial Energy Consumers  
156 (“IIEC”), Constellation New Energy – Gas Division, LLC (“CNE”) and Vanguard  
157 Energy Services, LLC (“VES”), provides examples that show that storage activity  
158 that does not mirror the Companies’ storage usage can be neutral or beneficial to  
159 the Companies’ sales customers. (IIEC/CNE/VES Jt. Ex. 1, pp. 23-24) In general,  
160 if marketers withdraw gas from storage during injection season, the Companies  
161 might be able to inject larger volumes of gas into storage and that may lower  
162 costs. Or, during withdrawal season, transporters injecting gas into storage may  
163 reduce the likelihood that the utilities need to purchase spot gas at higher cost.  
164 (*Id.*, Schedules 3 and 4)

165 **Q: How does Mr. Zack respond to Dr. Rosenberg's point?**

166 A: Mr. Zack, in his rebuttal testimony, describes some scenarios in which a cross-  
167 subsidy occurs. And he calculates the cross-subsidy amount to bundled  
168 customers in those scenarios. (North Shore/Peoples Gas Ex. TZ-2.0, pp. 26-28)

169 **Q: How do you respond to the Company proposal to impose more stringent**  
170 **limits on storage injections and withdrawals by transportation customers?**

171 A: I oppose the Companies' proposal. The Companies have not made their case.  
172 Mr. Zack does not demonstrate that transportation customers are cross-  
173 subsidized by sales service customers. The Companies' proposal is too  
174 restrictive and is inconsistent with giving customers choice. Additionally, the  
175 Companies have adequate tools to make their transportation and sales offerings  
176 work effectively without imposing more customer restrictions.

177 **Q: Please explain your concern about the cross-subsidization issue.**

178 A: At a mathematical level, it is possible that sales service customers can subsidize  
179 transporters at times under some conditions. However, Mr. Zack appears to  
180 want to extend this point to further conclude that sales service customers always  
181 subsidize transporters under current rules. Mr. Zack does not provide sufficient  
182 empirical proof that this is true, and he does not estimate aggregate transfers  
183 from sales customers to transportation customers. Further, the Companies have  
184 provided transportation services to customers for almost twenty-five years while  
185 providing reliable service over that period. The Companies need to document  
186 their claims before enacting such a major change in their services.

187 **Q. Why is the Companies' proposal too restrictive and inconsistent with**  
188 **customer choice?**

189 **A.** This methodology limits how much gas SST customers can inject into and  
190 withdraw from storage below current levels. One purpose of transportation  
191 programs is to give customers more choices about how they buy gas. When  
192 SST customers are forced to use assets just the same as the Companies use  
193 them, then transportation customers have little additional operational flexibility  
194 than if they had remained sales service customers

195 In addition, the proposed method is more complex, because Peoples Gas adds  
196 four more pieces of information to Rider SST that transporters must track. The  
197 four pieces are BRDIP, BRDWP, GCDIP and GCDWP.<sup>3</sup> And the four pieces of  
198 information are not even present in the tariff. These percentages limit  
199 transportation customers' storage usage were only provided in a data request.  
200 This makes it more difficult for transportation customers to plan their purchases.  
201 (Companies response to DR VES 6.01, Attachment)

202 **Q. What gives the Companies the ability to make their sales and**  
203 **transportation offerings work together?**

204 **A.** I am referring in particular to the ability of the Companies to call Critical Days.

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<sup>3</sup> The Companies define these parameters as Base Rate Day Injection Percentage ("BRDIP"), Base Rate Day Withdrawal Percentage ("BRDWP"), Gas Charge Days Injection Percentage ("GCDIP") and Gas Charge Days Withdrawal Percentage ("GCDWP"). They serve to limit the daily amount that can be injected or withdrawn from the Allowable Bank by some percentage determined by the Companies. I propose to eliminate these defined terms.

205 **Q: What is a Critical Day?**

206 A: A Critical Day is a day for which too much or too little gas is coming in to the  
207 Companies' systems. It can be called when upstream resources fail, upstream  
208 suppliers call their equivalent of a Critical Day, or if the Companies' systems are  
209 at or near their maximum capacity. A Critical Day is either a Supply Surplus Day  
210 (if the Companies anticipate supply above demand) or a Supply Shortage Day (if  
211 the Companies anticipate demand above supply).

212 **Q: How does a Critical Day currently affect how transportation customers can**  
213 **use storage under Riders FST and SST?**

214 A: As it stands, on non-critical days, customers withdraw up to their MDQ.  
215 However, on Critical Surplus Days in Rider SST, injections into the bank are  
216 currently restricted to below MDQ, and on Critical Shortage Days, withdrawals  
217 from the bank are restricted below MDQ.<sup>4</sup> For Rider FST, there are no tariff  
218 restrictions directly caused by a Critical Day.

219 **Q: Does the ability of the Companies to declare Critical Days prevent**  
220 **transportation customers from raising sales customers' costs?**

221 A: Yes. On Critical Days, the restrictions prevent transportation customers from  
222 using more than their *pro rata* amount of storage. In summary, on Critical  
223 Surplus Days, the Companies can ensure that they do not have to deal with too

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<sup>4</sup> The exact restriction on injections is the Selected Standby Quantity ("SSQ"), which is the Selected Standby Percentage ("SSP") times the MDQ. The SSP is the amount of standby service selected by the customer. The restriction on withdrawals is a function of the percentage of the bank that is base rate and gas charge and the SSP.

224 much gas, and on Critical Shortage Days, they can ensure that they have  
225 enough gas to meet customers' demands. Critical Days are an effective tool to  
226 keep the Companies' systems in balance. As a result, the Companies have not  
227 demonstrated why these options are not sufficient nor have they demonstrated  
228 the need for additional controls.

229 **Q: Do you agree with the Companies that transportation customers and their**  
230 **marketers should be encouraged to cycle their storage through tariff**  
231 **changes?**

232 **A:** Yes. Several of the Companies' leased storage agreements feature analogous  
233 restrictions in their tariffs. Requiring the cycling provision means that Staff's  
234 proposal that rejects the Companies' strong monthly restrictions on transportation  
235 customers storage usage but has a cycling requirement is a fair compromise  
236 between what the Companies want to do and the marketers desire for no  
237 additional restrictions at all.

238 **Q: Does Dr. Rosenberg's propose a storage service in addition to the**  
239 **Companies standby services?**

240 **A:** Yes. Dr. Rosenberg recommends that an unbundled storage service called  
241 Unbundled Storage Bank ("USB") be offered that is distinct from standby service.  
242 The unbundled storage bank would depend just upon the capabilities and costs  
243 of Manlove Field. He calculates the total number of days of allowable bank  
244 based upon coincident peak and total Manlove Field capacity. He also allows for

245 a diversity factor that measures how coincident storage usage by marketers is  
246 coincident with the system storage usage. Cost per unit is simply total cost  
247 divided by total capacity. Rosenberg Direct, pp. 4-15

248 **Q: How did the Companies respond to Dr. Rosenberg's plan?**

249 A: Mr. Zack recommended that the Commission reject it. (North Shore/Peoples Gas  
250 Ex. TZ-2.0, p.14) Mr. Zack gave a number of reasons. He contended that it over-  
251 estimated the availability of Manlove Field (*Id.*, p. 20) and under-estimated the  
252 costs. (*Id.*, p. 22) He also noted that the Companies' proposed storage services  
253 for transportation customers are based upon both Manlove Field and the leased  
254 storage services. (North Shore/Peoples Gas Ex. TZ-2.0, p.18.)

255 **Q: What is your recommendation with respect to Dr. Rosenberg's plan for a**  
256 **USB based only on Manlove Field?**

257 A: I recommend that the Commission reject the USB. The storage available to  
258 transport customers should reflect the availability of all storage resources that the  
259 Companies own or lease, not just the storage that has the lowest cost. The  
260 Companies operate their system as a whole. They supply the gas consumed by  
261 customers with deliveries from interstate pipelines, storage services and Manlove  
262 Field. It is not equitable to allocate the lowest cost storage asset to one group  
263 before others. While the USB would certainly benefit transportation customers, it  
264 achieves that benefit by a direct allocation of Manlove Field to transport

265 customers. That necessarily implies that the other customer groups must pay  
266 rates that reflect higher cost resources.

267 **Q: Do marketers oppose this change in the tariffs?**

268 A: Yes, marketers are very much opposed to the increased restrictions on their  
269 access to storage that the Companies are proposing. In particular, many  
270 marketers oppose the proposal to eliminate Rider FST.<sup>5</sup> Vanguard Energy  
271 Services witness Mr. Anderson argues that FST is particularly popular and the  
272 Companies could instead modify the existing tariffs to make them conform to the  
273 needs of the Companies. (Vanguard Ex. 1, Direct Testimony of Neil Anderson,  
274 pp. 10-15) CNE-Gas witnesses Oroni and Rozumialski focus on the increased  
275 cost to customers from ending Rider FST. The source for the additional costs is  
276 the requirement that SST customers have a demand meter and a phone line.  
277 (CNE-Gas Ex. 1.0, Direct Testimony of Oroni and Rozumialski, pp. 27-31)

278 **Q: Do you oppose the elimination of Rider FST?**

279 A: No, but Staff's reasoning is different than the Companies. I favor eliminating  
280 Rider FST based on my proposed modifications to Rider SST that retain some of  
281 the benefits of Rider FST.

282 **Q: How do you react to the proposed Rider SST?**

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<sup>5</sup> One consequence of the elimination of FST is that FST customers that do not have a demand meter now cannot move to SST unless a demand meter is installed.

283 A: I recommend that the requirement for a demand meter be eliminated. I also  
284 recommend that the restrictions on storage usage be simplified by eliminating  
285 various restrictions proposed by the Companies. Alternatively, I propose to  
286 retain the existing formulae limiting injections and withdrawals. However, Staff  
287 agrees with the Companies that SST should be amended by adding end of  
288 season restrictions on storage balances. These restrictions force transport  
289 customers of Peoples Gas and North Shore to fill their allowable banks to 70%  
290 and 85%, respectively by the end of November and to draw down the allowable  
291 bank to 35% and 24%, respectively by the end of March. (Peoples Gas Ex. TZ  
292 1.0, p. 42; North Shore Ex. TZ-1.0, pp. 40-41)

293 **Q: Why do you recommend eliminating the demand meter requirement?**

294 A: Absence of a demand meter should not preclude a customer from being able to  
295 flexibly use storage. A demand meter's cost is significant. For an FST customer  
296 moving to SST, costs increase by more than \$300 per year, according to Oroni  
297 and Rozumialski. Additionally, the testimony claims that including the phone line  
298 brings this cost closer to \$1000 per year. (CNE-Gas Ex. 1.0, p. 28) This is an  
299 important factor for smaller customers.

300 Besides being a significant cost deterrent to smaller customers taking SST, the  
301 meter is not needed from a system standpoint. The Companies could estimate  
302 usage for small transportation customers when they determine delivery levels for  
303 that customer, just as they do now. Also, the difference between the estimated

304 daily usage and customer deliveries can be used as storage activity, just as is  
305 done now.

306 **Q: Who replies to the Companies' proposed amendments to the tariffs for**  
307 **Choices for You™ Transportation Service ("Rider CFY" or "CFY") and**  
308 **Aggregation Service ("Rider AGG" or "AGG")?**

309 A: The Retail Gas Suppliers ("RGS") witness Mr. James Crist, and Nicor Advanced  
310 Energy ("NAE") witness Ms. Lisa Pishevar discuss these topics. I will discuss a  
311 number of CFY issues. The issues are access to storage, delivery tolerances,  
312 customer information, customer pooling and purchase of receivables.

313 **Q: Does Mr. Crist believe that CFY customers are given a fair allocation of**  
314 **Peoples Gas and North Shore Gas' storage?**

315 A: No. He states that the proposed tariffs fail to provide customers with the level of  
316 access to storage that they pay for. He states that, "...Choices For You  
317 customers are deprived of a significant amount of the daily and monthly injection  
318 and withdrawal rights associated with the storage costs recovered from Choices  
319 For You customers." (RGS Ex. 1.0, p. 11, lines 12-14) He further opines that,  
320 "...suppliers are prevented from varying the amount of gas withdrawn from and  
321 injected into storage on a month-to-month basis even though such flexibility is  
322 afforded by the storage assets that Choices For You customers ultimately pay  
323 for." (*Id.*, p. 11, lines 18-21)

324 **Q: How much gas is the supplier for a CFY customer supposed to deliver to**  
325 **the utility each day?**

326 A: The Companies establish a Required Daily Delivery Quantity (“RDDQ”) for each  
327 customer. Suppliers can currently bring in 5% more or less gas relative to the  
328 RDDQ before the utility assesses a penalty. That is, marketers have a 5%  
329 tolerance around the RDDQ. The Companies agree to raise this tolerance to  
330 10% in the proposed tariffs.

331 **Q: How much gas is the supplier for a CFY customer supposed to deliver to**  
332 **the utility each month?**

333 A: The Companies establish a Required Monthly Delivery Quantity (“RMDQ”) for  
334 each customer, which is the sum of the RDDQ over the days in the month.  
335 Suppliers currently have a 2% monthly tolerance above and below RMDQ,  
336 before the utility assesses a penalty. The Companies agree to raise this  
337 tolerance to 5% in the proposed tariffs.

338 **Q: Does RGS propose to eliminate the monthly tolerance?**

339 A: Yes. Mr. Crist states that the “...month-end tolerance is duplicative, unnecessary  
340 and costly to suppliers.” (*Id.*, p. 24, lines 12-13)

341 **Q: Does Staff agree that the monthly tolerance be eliminated?**

342 A: No. In the absence of a separate monthly tolerance, the daily tolerance becomes  
343 the monthly tolerance. That is, the effect of this proposal is to increase the

344 tolerance for each RMDQ to 10%. Staff believes that that it makes it difficult for  
345 the utility to plan its purchases and storage injections and withdrawals.

346 **Q: What customer information are the Companies proposing to provide to**  
347 **marketers?**

348 A: In his rebuttal, Mr. Zack states that the Companies will provide a customer list  
349 with service and billing addresses. (North Shore/Peoples Gas Ex. TZ-2.0, p. 55)

350 **Q: Do the marketers want the Companies to provide more information?**

351 A: Yes. RGS witness Crist indicates the Companies should provide customer's bill  
352 payment history. He argues that "Peoples should be directed to provide bill  
353 payment history when authorized to do so by the customer." (RGS Ex. 1.0, p. 39)

354 **Q: Do the Companies oppose providing that information?**

355 A: Not entirely. Mr. Zack doubts that customers necessarily want marketers to see  
356 this information. He also notes that checking to see if an agreement between a  
357 customer and his or her marketer authorizes release of customer payment  
358 history is an administrative burden. However, Mr. Zack outlines the conditions  
359 under which the Companies agree to provide bill payment history. These  
360 conditions include Commission authorization that suppliers "warrant and  
361 represent" that they have customer permission, and that suppliers hold the  
362 Companies harmless from customers' damage claims. And that the information  
363 is provided after the supplier has begun serving the customer. Mr. Zack

364 proposes tariff language to implement his proposal. (North Shore/People Gas  
365 Ex. TZ-2.0, pp. 56-57)

366 **Q: Do you oppose the Companies' agreement to provide customer lists and**  
367 **customers' payment information to marketers?**

368 A: Yes, absent explicit customer approval.

369 **Q: Why do you make this recommendation?**

370 A: Sensitive personal and financial information like this should not be distributed to  
371 non-utility entities. The information belongs to the customer and not the  
372 marketers. The Companies gather this information from customers in their  
373 capacity as utilities and as a monopoly provider of gas delivery services. While  
374 Staff understands why marketers place a high value on such information, Staff  
375 believes that the Commission should refrain from approving a program that  
376 disseminates financial information of its utility customers to non-utility marketers,  
377 absent explicit customer approval. Additionally, Peoples Gas and North Shore  
378 Gas are placed in an uncomfortable position as a gatekeeper for the  
379 information—forcing them to possibly interpret contracts between the customer  
380 and its marketer. This is not a utility function. Finally, Staff believes that the  
381 Commission should be concerned that the information is not sold or used for any  
382 non-utility purpose. It is not clear what prevents marketers from reselling the  
383 information to other parties.

384 **Q: What is a customer pool and why is it beneficial to suppliers and**  
385 **customers?**

386 A: A customer pool is an aggregation of one supplier's transportation customers for  
387 the purposes of balancing. There is Rider P for pooling SST customers and  
388 Rider AGG for pooling CFY customers. Pooling makes it easier for suppliers to  
389 balance supply and demand. If one of its customers is long (the marketer has  
390 brought in more supply than consumption) and another customer is short (supply  
391 is less than consumption), then the supplier can use the excess supply from one  
392 customer to balance out the shortage from the other. To the extent that a group  
393 of customers are balanced **as a group**, they do not require utility balancing. The  
394 pools provide economies to marketers that can result in lower prices for their  
395 customers.

396 **Q: Why does Mr. Zack object to raising the pool size limit above 200**  
397 **customers?**

398 A: Mr. Zack states that pools should be limited "...for administrative and billing  
399 system reasons." (North Shore/Peoples Gas Ex. TZ-2.0, p. 35, line 771) He  
400 notes that the pool cannot bill until all the sub-accounts are billed. A billing  
401 exception needs manual intervention, which delays the pool's bill. According to  
402 Mr. Zack, allowing larger pools raises the probability that a given pool's billing will  
403 be subject to manual intervention and delayed pool bills. Mr. Zack proposes a  
404 pool limit of 200, which, in his judgment, will not have the deleterious effects that  
405 he foresees for pool sizes over 200. Also, Mr. Zack points out that few pools

406 approach the current limit of 150. (North Shore/Peoples Gas Ex. TZ-2.0, pp. 35-  
407 36)

408 **Q: Are these reasons persuasive?**

409 A: No. The charges for pooling service should account for all the costs to provide  
410 the services. It's not clear from Mr. Zack's testimony why costs for pools above  
411 200 would be so much higher than for pools below that level. Indeed, large pools  
412 may reduce the number of rebills by reducing the number of pools to be rebilled.  
413 Mr. Zack does not present the number of re-bills or how long they delay pool bills  
414 or the subsequent costs that those delays impose on customers. In the end,  
415 tracking a pool's activity is an accounting function, and it should not be expensive  
416 to aggregate customers.

417 **Q: What is 'super-pooling'?**

418 A: According to witnesses John M. Oroni and Lisa A. Rozumialski for Constellation  
419 NewEnergy-Gas Division ("CNEG"), "At the most basic level, Super Pooling is  
420 simply pooling all of the pools and individual standalone customers that are  
421 under common management." (CNEG Ex. 1.0, p. 20)

422 **Q: Do the Companies support super-pooling?**

423 A: No. The Companies oppose super pooling for a number of reasons. Mr. Zack  
424 states that, "...the Utilities would need to make significant modifications to the  
425 billing system." (North Shore/Peoples Gas Ex. TZ-2.0, p. 36) According to Mr.  
426 Zack, there are also significant details in the proposal that need to be clarified,

427 including how to allocate imbalances and imbalance charges between pools and  
428 customers if a 'super pool' were out of balance. (*Id.*, pp. 36-37)

429 **Q: Do you support super-pooling?**

430 A: Not at this time. It appears that there are tariff and operational issues associated  
431 with super-pooling that are unresolved. However, it is not clear why super-  
432 pooling could not be implemented in the future. Computers enable tracking large  
433 amounts of information and make it nearly costless. The impediments to super  
434 pooling are not particularly high.

435 **Q: What is the Supplier Billing Option Service ("SBO")?**

436 A: It is a rider that governs when the supplier sends one bill for both the utility and  
437 supplier charges.

438 **Q: What issue does Nicor-Advanced Energy raise?**

439 A: Nicor Advanced Energy ("NAE") witness Pishevar argues that suppliers that use  
440 SBO should receive a billing credit in return for saving the Companies money,  
441 and to avoid double billing transportation customers. (NAE Ex. 1.0, pp. 8-9)

442 **Q: Do the Companies agree?**

443 A: No, the Companies' witness Zack argues that it is not appropriate to pay  
444 suppliers a credit, because there are no avoided costs, except for printing and  
445 mailing a bill. And those costs are not entirely avoided, since the Companies

446 may have to send their own periodic communications directly to customers.  
447 (North Shore/Peoples Gas Ex. TZ-2.0, pp. 58-59)

448 **Q: What is Staff's position?**

449 A: Staff agrees with NAE that suppliers opting for SBO should receive a credit at  
450 least equal to the paper and postage costs. The Companies certainly avoid  
451 those costs. Since these costs are recovered from rates elsewhere in the tariffs,  
452 a credit is appropriate.

453 **Q: What is Purchase of Receivables?**

454 A: Under Purchase of Receivables ("POR"), the utility becomes responsible for  
455 paying marketer's charges to customers (the receivables) and is responsible for  
456 collecting these charges from the customer. The utility purchases these  
457 receivables from the marketers at a discount to cover its collection costs and to  
458 cover the risk it takes that the bills are not collected.

459 **Q: Why do the marketers want the Companies to initiate a POR program?**

460 A: The marketers argue that the utility has better methods to induce payment. If the  
461 customer does not pay the bill, the utility can shut the customer off. Marketers do  
462 not have that ability. By leveraging off of the utility's ability to more economically  
463 recover arrearages, the utility and marketer can make a mutually beneficial trade.

464 **Q: What is Staff's position?**

465 A: Staff does not agree that the Companies should initiate a POR program. There  
466 are a number of difficulties that are associated with this proposal. For example,  
467 the proper discount rate relative to the degree of risk that the utility assumes  
468 affects the utility's regulated costs. And it may make the utility business more  
469 risky. Additionally, Staff has concerns about the legitimacy of holding utility  
470 service hostage to payment of a bill for a competitive service.

## 471 **The Hub**

472 **Q: Please review the position that Staff took with respect to the Hub. in its**  
473 **direct testimony.**

474 A: During the course of litigation in ICC Docket No. 01-0707, Staff was never able to  
475 determine the identity of the individual or individuals that made the decision to  
476 start the Hub. Staff also never discovered what individual or individuals decided  
477 that it was a good idea to expand Manlove Field. These two decisions placed a  
478 substantial amount of assets that were dedicated to ratepayers at risk, with no  
479 detailed, analytical study that Staff could find. Still, in this docket, Peoples Gas  
480 maintains that it is not at risk for substantial costs, and it argues instead that  
481 Manlove Field's characteristics permit the Company to expand it with relatively  
482 little costs. (North Shore/Peoples Gas Ex. TLP-2.0, pp. 7-9) Staff believes these  
483 assertions are incorrect.

484 **Q: What did you recommend in your direct testimony with respect to Manlove**  
485 **Field and the Hub?**

486 A: I recommended that the Commission disallow the additions to base gas since the  
487 last rate case. If followed, that would subtract about \$35 million from rate base  
488 and about \$2.5 million in operating expenses. (ICC Staff Ex. 12.0, p. 30).

489 **Q: Please restate your argument.**

490 A: I found that, even in the best case, Peoples Gas should have concluded that the  
491 Hub would fail to provide ratepayers a net benefit. That is, Peoples Gas should  
492 not have begun the Hub, since it should have expected, had it done an adequate  
493 analysis, that revenues would ultimately increase less than total costs. I  
494 calculated that, even without considering taxes and using a cost for base gas that  
495 is historically low, the cost to expand Manlove Field along with incremental  
496 operating expenses were greater than revenues were ever likely to be.

497 **Q: Please outline your study's method.**

498 A: Peoples Gas set aside approximately 8 BCF (8 MMDth) of Manlove Field's total  
499 capacity for the Hub (ICC Docket No. 01-0707, Final Order dated March 28,  
500 2006, p.76). That capacity provided the physical capability for Peoples Gas to  
501 execute Hub transactions.<sup>6</sup> According to Staff witness Dennis Anderson,  
502 however, the additional capacity requires more base gas if Manlove Field is to  
503 retain its ability to deliver gas to all customers. Mr. Anderson specifically argues  
504 that base gas must be added in proportion to the historical ratio in the field. In  
505 particular, Mr. Anderson notes that since the working inventory to base gas ratio

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<sup>6</sup> As discussed in my Direct Testimony, Hub transactions consist of firm and interruptible storage and transportation, parks and loans and seasonal storage.

506 was approximately 22.5% before the field was expanded, it should be expected  
507 that same approximate ratio will hold after expansion. Peoples Gas set aside 8  
508 MMDth of capacity at Manlove Field, so this logic implies that the Company must  
509 invest in approximately 36 MMDth of base gas in order to maintain the field's  
510 deliverability.

511 Relying on Mr. Anderson's analysis, my study calculated the annualized cost to  
512 add 36 MMDth to base gas along with annual operating expenses. I then  
513 compared these costs to a projection of Hub revenues based on historical data.  
514 Even without estimating taxes and using a relatively low cost for base gas,  
515 annualized costs were higher than revenues.

516 **Q: How did Peoples Gas respond?**

517 A: Mr. Zack replied in his rebuttal testimony that the expenses to operate the Hub  
518 total only about \$7 million over the life of the Hub. In addition, he argues that  
519 when considering the historical base gas additions actually made, "...far less  
520 than \$8 million of operating income would still make the Hub profitable and  
521 beneficial to Peoples Gas' customers." (North Shore/Peoples Gas Ex. TZ 2.0, p.  
522 70, lines 158-1569) Mr. Zack estimates the cost of additions to base gas to  
523 Manlove Field. He estimates that the Hub provides at least \$10 million in  
524 revenue at a cost of \$3.3 million. (North Shore/Peoples Gas Ex. TZ-2.07)

525 **Q: Does Peoples Gas dispute the need for substantial additions to base gas in**  
526 **the future?**

527 A: Yes. In disputing the conclusions that Mr. Anderson reached in his Direct  
528 Testimony, Peoples Gas witness Mr. Puracchio, in his Rebuttal Testimony,  
529 asserted that the performance of the field over the past 10 years represented its  
530 current capabilities and that Staff witness Dennis Anderson's contention that  
531 base gas must precipitately rise is misguided and unduly pessimistic. (North  
532 Shore/Peoples Gas Ex. TLP-2.0, pp. 69-71)

533 **Q. How does Mr. Anderson respond?**

534 A. Mr. Anderson, in his Rebuttal Testimony, disputes all of Mr. Puracchio's points.  
535 He continues to maintain that the nature of aquifer reservoirs is such that  
536 Peoples Gas should not expect that it is finished adding substantial amounts of  
537 base gas to support the Hub's working inventory. In other words, the increase to  
538 working inventory due to the Hub represents a 40% increase to the gas cycled  
539 through Manlove Field. It must be supported by an approximately 40% increase  
540 in base gas.

541 **Q: How do you respond to the cost study in Mr. Zack's Rebuttal Testimony?**

542 A: First, the analyses by Mr. Zack in his rebuttal testimony and myself in my direct  
543 testimony both implicitly assume that Hub revenues depend upon Manlove  
544 Field's expansion. This assumption is not necessarily correct. Mr. Zack states in  
545 his rebuttal, "...the vast majority of Hub services are interruptible in nature."  
546 (Zack Rebuttal, p. 70, line 1561) That is, most Hub revenues are derived from  
547 interruptible services. These services do not necessarily require expansion of

548 Manlove field and its associated costs. For example, a Hub service redelivering  
549 gas from one interstate pipeline to another at different points on Mahomet  
550 Pipeline through displacement does not require any system storage at all.  
551 Similarly, Peoples Gas can park gas on the Companies' systems by reducing  
552 system deliveries on one day while increasing them on another without involving  
553 any storage activity at all. To the extent that revenues do not derive from the  
554 field's expansion, they should not be counted as an expansion benefit. In other  
555 words, both my study and Mr. Zack's study over-estimate the Manlove Field  
556 expansion benefits. In order to more accurately identify the benefits from  
557 increasing Manlove Field's capacity, the Company in its surrebuttal testimony  
558 should identify revenues from the Hub transactions that were possible only  
559 because of the field expansion.

560 However, even if it we assume that all Hub revenues were derived from the  
561 storage expansion, I find that Mr. Zack misses Staff's point. There are three  
562 reasons why the Commission should conclude that Hub costs were imprudently  
563 incurred. One, the costs do not represent the full opportunity cost of Manlove  
564 Field's expansion. In particular, Peoples has not examined the value that the  
565 extra capacity provides to ratepayers as a physical hedge and for peak day  
566 deliverability. There is no analysis demonstrating that potential additional Hub  
567 revenues are adequate compensation for the foregone gas cost reductions that  
568 ratepayers might have otherwise received. Two, Peoples Gas has misallocated  
569 the Hub in the past when it put Hub customers first in line to receive delivery

570 during peak days. If it misallocates Hub capacity again, then ratepayer costs  
571 may increase when Hub deliveries are enabled by expensive spot market  
572 purchases allocated to sales or transportation customers. Three, Staff concluded  
573 that Manlove Field needs extensive additions to its base gas, even if it has not  
574 yet occurred. As a corollary, additional base gas may be required to maintain  
575 pressure in the field regardless of whether the field's increased capacity is  
576 maintained. That is, if Peoples Gas lowers the field's capacity back to pre-Hub  
577 levels, Peoples Gas may still be liable for additional base gas costs.

578 **Q: Please elaborate on the first point.**

579 A: The Hub generates value because it grants Hub customers access to the  
580 physical assets of Peoples Gas. The Company can use the assets to generate  
581 revenues from Hub customers, or it can use the assets to decrease gas costs to  
582 ratepayers. Peoples Gas has not studied whether ratepayers are better off from  
583 the Hub earning revenues or from the Hub providing utility services directly to  
584 ratepayers. It is certainly not clear that the former exceeds the latter. Further,  
585 increasing Manlove Field's assignment to ratepayer services might enable the  
586 Companies to reduce its commitment to, its requirement to rely on, leased  
587 storage and/or transportation services. The potential to reduce gas costs by  
588 using all of Manlove Field's capacity for ratepayers and thereby to reduce leased  
589 storage services is an opportunity cost that the Company has simply not  
590 investigated.

591 **Q: Please elaborate on the second point.**

592 A: The Commission found that Peoples Gas misused Manlove Field during fiscal  
593 year 2001. (See Final Order in Docket No. 01-0707, pp. 90-94) That means that  
594 even if annual revenues exceed the annualized base gas cost, ratepayers could  
595 be worse off if Peoples Gas allocates too much peak day deliverability to the  
596 Hub. When demand for gas is high, Peoples Gas may have to choose between  
597 delivering stored gas to ratepayers or Hub customers. Peoples Gas might  
598 support that deliverability by restricting Manlove Field's use for ratepayers and  
599 buying gas on the spot market to balance its system. When the system is  
600 constrained, there is upward pressure on price. That could raise gas costs to  
601 ratepayers.

602 **Q: How much of Manlove Field's deliverability has Peoples Gas assigned to**  
603 **the Hub?**

604 A: That figure has varied over time. During the pendency of Docket No. 01-0707,  
605 Peoples Gas denied that it had assigned any peak day deliverability to Hub  
606 customers. But in response to Staff Data Request ENG 2.13 in this docket, the  
607 Company stated that from 1999 through 2006, it had allocated 23,899 dth per  
608 day to Hub services, which North Shore Gas had relinquished. Then again in  
609 his rebuttal testimony in this docket, Mr. Zack now asserts that that assignment  
610 will be withdrawn after the rate case: "Peoples Gas is no longer marketing  
611 services supported by this peak day deliverability and will not have those

612 obligations after the order in this case.” (North Shore/Peoples Gas Ex. TZ-2.0, p.  
613 69)

614 **Q: Does Peoples Gas’ revocation of deliverability assignment assuage your**  
615 **fears?**

616 A: No. This just returns the Hub’s situation back to the conditions that existed  
617 during fiscal year 2001. There are no more safeguards against Hub over-  
618 subscription than there were then. Staff is not aware of any safeguard that can  
619 prevent, beforehand, the Hub from being used in a way that raises gas costs.

620 **Q: Please elaborate on the third point.**

621 A: Peoples is trying to include 7.9 MMDth of base gas, valued at about \$35 million,  
622 into its rate base. The Company allocates 10.2 MMDth to the Hub out of  
623 Manlove Field’s total capacity of 36.5 MMDth. Staff has estimated that Peoples  
624 must inject about 45.3 MMDth of base gas into the field to support its assumed,  
625 expanded working inventory. (ICC Staff Ex. 10.0, pp. 21-22) Staff thus concludes  
626 that Peoples needs to inject an additional 37.4 MMDth (= 45.3 – 7.9) of base gas.  
627 Current gas prices to the Chicago citygate are around \$8 per Dth. That means  
628 that Peoples Gas is likely to seek recovery of approximately \$300 million more of  
629 base gas in the next few years.

630 **Q: Did you analyze implications of the fact that Peoples Gas is likely to seek**  
631 **recovery of approximately \$300 million more in base gas in the next few**  
632 **years?**

633 A: Yes. While the study that I conducted in my Direct Testimony studied the  
634 decision to start the Hub, I now present a study to examine the decision to  
635 continue the Hub in light of future possible liabilities. The studies' results are  
636 shown in ICC Staff Ex. 24.1 and 24.2 attached to my testimony.

637 **Q: Please discuss ICC Staff Ex. 24.1.**

638 A: This exhibit examines the decision by Peoples Gas to continue providing Hub  
639 services. The costs that are likely to be incurred are the incremental base gas  
640 that Peoples Gas is likely to need to add to Manlove Field that it used for  
641 providing Hub services. I study this cost at three different gas costs: \$4, \$6 and  
642 \$8. I look at the cost to provide the base gas all at one time. For all three gas  
643 costs, the Hub is a net economic detriment to ratepayers.<sup>7</sup>

644 **Q: Did you discuss the effect on ratepayers' costs from the incremental base**  
645 **gas in your direct testimony?**

646 A: Yes. I discussed the effects on the costs paid by ratepayers resulting from adding  
647 additional base gas to the field. I showed that ratepayers cross-subsidize Hub  
648 customers when FERC bases Hub rates on embedded costs for all of Manlove  
649 Field base gas and the incremental base gas costs more than what is in the  
650 historical amount. Staff Ex. 24.1 is a vivid illustration of this effect. The base gas  
651 that Peoples Gas is likely to need to add costs far higher than the existing base  
652 gas. Yet, Hub customers will pay rates no higher than the costs needed to

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<sup>7</sup> Note that, in this study as in the study in my Direct Testimony, there is no consideration for taxes.

653 recover the average cost of their allocated amount of base gas. If instead, FERC  
654 established rates based only upon the incremental cost of base gas beginning in  
655 1998, the FERC rates would be substantially higher, and might make the Hub  
656 less attractive to ratepayers and unprofitable.

657 **Q: Please explain the results in ICC Staff Ex. 24.2.**

658 A: In this exhibit, I analyze the cost for additional base gas if the base gas is  
659 accounted for as a current expense. That is, if additional base gas is treated as  
660 'maintenance gas', my analysis looks at what the costs would be the costs to  
661 Peoples Gas? The results agree with Mr. Zack's findings. At the percentage that  
662 Peoples Gas currently uses (3.5%), the Hub is easily a net benefit to ratepayers.  
663 We can thus conclude that if Peoples Gas can maintain Manlove Field's  
664 deliverability by continually adding 3.5% of injections into base gas, the Hub  
665 benefits ratepayers.

666 However, Staff believes that there is a strong possibility that 3.5% is too low.  
667 Peoples Gas chooses the percentage each year. If deliverability fades at that  
668 figure, Peoples Gas may need to boost that percentage. Ex. 24.2 shows that if  
669 the percentage is 7%, the annual cost is well over \$13 million, which makes the  
670 Hub uneconomic. This means that if Peoples Gas must inject gas at a faster rate  
671 than at the rate it is currently injecting, the Hub would be a detriment to  
672 ratepayers, since the rate of investment would exceed the revenues generated.

673 **Q. If, in fact, net revenues were positive, does this necessarily imply that**  
674 **Peoples Gas should continue to operate the Hub?**

675 **A.** No. Even if the Hub were providing positive net revenues, using the expanded  
676 field to provide Hub services is not necessarily the best use for the additional  
677 capacity. Given the relatively small revenues that the Hub can generate relative  
678 to the cost of additional base gas that Peoples Gas may have to purchase to  
679 facilitate those Hub services, it remains a good possibility that using the extra  
680 field capacity for Illinois customers rather than for Hub customers may be a  
681 superior alternative. However, Peoples Gas has not studied this obvious  
682 question, and so is unable to make a well-reasoned decision about it.

683 **Q: What are your recommendations?**

684 **A:** I continue to recommend that the Commission disallow the additions to base gas  
685 since the last rate case from rate base. Further, I recommend that the  
686 Commission state at this time that the decision to expand the deliverability of  
687 Manlove Field was imprudent, and the base gas expansion to facilitate it  
688 represents an imprudent cost. I recommend that the Commission order the  
689 Company to stop providing Hub services.

690 **Q: Why do you recommend that the Commission order that Peoples Gas**  
691 **cease providing Hub services?**

692 **A:** I discuss above the costs that Peoples Gas may seek to impose upon ratepayers  
693 in the coming years and show that those costs are higher than revenues.

694 Further, I demonstrate that those costs are supported by ratepayers. In addition,  
695 I show that the way in which Peoples Gas manages Manlove Field may impose  
696 even more costs onto ratepayers. That is, as seen in Docket No. 01-0707, if the  
697 utility grants primary access to Manlove Field to Hub customers, then in order to  
698 balance its system, the Company will have to enter into transactions whose costs  
699 are recovered in the PGA from system supply customers. That could raise PGA  
700 gas costs even more.

701 **Q: Please refer to Mr. Zack's rebuttal at page 69, lines 1529-1531. He states**  
702 **that the Company no longer schedules services that call on peak day**  
703 **deliverability. Does that reduce the risk that ratepayers must cross-**  
704 **subsidize Hub services?**

705 A: No. There are two reasons why Staff is skeptical, and that the Company's  
706 statement does not adequately protect ratepayers. First, in the past, Peoples  
707 Gas did not interrupt Hub services during periods when the capacity could be  
708 used for ratepayers. That is, a service that does not 'depend' on deliverability  
709 may in fact require Manlove Field usage during peak times. If that time comes,  
710 the Company has to decide whether to interrupt or not. There have been times  
711 in the past when the Company did not interrupt. Second, allocating Manlove  
712 Field usage between three groups of customers (ratepayers, transport customers  
713 and Hub customers) is an extremely complex task and it is not easy to detect the  
714 extent to which a given transaction relies on peak day deliverability. It is a much  
715 cleaner protection for Peoples Gas' system supply customers to simply desist

716 from Hub transactions. Therefore, I recommend that Peoples Gas discontinue its  
717 hub service offerings.

718 **EEP**

719 **Q: Did Peoples Gas respond to your testimony about the EEP?**

720 A: No.

721 **Q: Did any intervenors oppose an energy efficiency program?**

722 A: No.

723 **Q: Does Environmental Law and Policy (“ELPC”) witness Mr. Kubert support**  
724 **the EEP?**

725 A: Yes. He approves of the program and expresses support for its governance  
726 structure.

727 **Q: Why does Mr. Kubert support the program?**

728 A: He gives three reasons why the Commission should support the program. One,  
729 he assert that there is chronic underinvestment in energy efficiency. Two, there  
730 is an economic development effect from reduced gas expenditures. And three,  
731 lower energy consumption lowers gas prices.

732 **Q: Please elaborate on the first reason.**

733 A: At lines 53-58, he states, “Despite high natural gas costs, homeowners and  
734 businesses continue to under-invest in energy efficiency. ...Ratepayer-supported  
735 energy efficiency programs help to overcome many of these barriers by providing

736 financial incentives, technical assistance and education to residential and  
737 commercial customers, retailers, distributors and contractors.” (ELPC Ex. Kubert  
738 Direct, lines 53-58)

739 **Q: Is there chronic underinvestment?**

740 A: It is impossible to determine whether there is underinvestment, overinvestment or  
741 just the right amount of investment, since Mr. Kubert does not define or explain  
742 what he believes is the optimal level of investment. He does not even present  
743 what the current level of investment is in his testimony. And, if there is  
744 underinvestment, other ways to correct market failure may make ratepayers  
745 better off. While Mr. Kubert cites the rise in gas prices as a reason for needing  
746 increased efficiency investment, he does not acknowledge the powerful incentive  
747 that higher prices themselves provide to induce more efficiency investment.

748 **Q: What is another reason Mr. Kubert supports the program?**

749 A: He seems to believe that there is an economic development effect from reducing  
750 gas bills. “When ratepayer dollars are spent on energy efficiency programs,  
751 those dollars go to pay for local vendors and workers who sell and install the  
752 energy efficiency equipment, rather than flowing out of state to purchase more  
753 gas. In addition, long-term customer savings from lower utility bills are redirected  
754 elsewhere into the state’s economy. As a result, energy efficiency programs  
755 produce net economic benefits in terms of total employment and payroll within

756 the state.” (ELPC Ex. Kubert Direct, lines 70-75) And he produces an economic  
757 study to detail this result.

758 **Q: Is there an economic development effect from efficiency investment?**

759 A: Yes. But it is very unclear whether the development effect is greater compared  
760 to lower utility bills that result from not funding the EEP. Certainly, households  
761 may finance efficiency investment with lower utility bills, or spend it on other  
762 needs or save it. Economic theory generally holds that households are better off  
763 when they decide for themselves how to spend their money. Mr. Kubert  
764 proposes that the utility and the Commission decide for households how they  
765 should spend their money..

766 **Q: What’s another reason?**

767 A: He asserts that reduced demand results in lower prices. “Energy efficiency  
768 programs help to reduce total demand for natural gas, which has the effect of putting  
769 downward pressure on natural gas market prices, which, in turn, benefits all  
770 ratepayers.” (*Id.*, lines 94-96)

771 **Q: Do you agree that a conservation program in Chicago can lower gas prices  
772 in Chicago?**

773 A: No. The effect that the EEP can have on the Chicago citygate price is nil. Gas is  
774 priced in a national market. The size of the program relative to the gas market is  
775 an infinitesimal percentage of total market demand in the United States and the

776 effect that even a highly successful EEP could have on that market demand  
777 would be even smaller.

778 **Q: What does Company witness Rukis state in rebuttal to Kubert?**

779 A: The witness is primarily concerned that the program not be funded above \$7.5  
780 million per year.

781 **Q: Do you agree with Company witness Rukis?**

782 A: Yes. Staff agrees that the EEP funding should be no more than \$7.5 million per  
783 year. However, in any event, Staff believes that the Commission should make  
784 clear in its Order, if it approves the EEP plan, that it holds the Companies  
785 responsible for the prudent choice of programs and efficient implementation of  
786 those programs. The Companies will be ultimately responsible for any EEP  
787 expenditures authorized.

788 **Q: Does this conclude your rebuttal testimony?**

789 A: Yes.

Annual Hub costs  
Additional base gas  
added now

Ratio between Working gas and base gas 1998 22.50%	Ratio between Working gas and base gas 1998 22.50%	Ratio between Working gas and base gas 1998 22.50%
Hub capacity at Manlove Field 1999 (BCF) 10.2	Hub capacity at Manlove Field 1999 (BCF) 10.2	Hub capacity at Manlove Field 1999 (BCF) 10.2
Base gas required to support capacity 2006 (MMDTH) 45.3	Base gas required to support capacity 2006 (MMDTH) 45.3	Base gas required to support capacity 2006 (MMDTH) 45.3
Base gas already added (MMDTH) 7.9	Base gas already added (MMDTH) 7.9	Base gas already added (MMDTH) 7.9
Net base gas to be added 37.4	Net base gas to be added 37.4	Net base gas to be added 37.4
LIFO gas costs for Peoples Gas, FY2006 (\$/DTH) \$    8.00	LIFO gas costs for Peoples Gas, FY2006 (\$/DTH) \$    6.00	LIFO gas costs for Peoples Gas, FY2006 (\$/DTH) \$    4.00
Cost of base gas required to support Hub 2006 (\$ million) \$   362.67	Cost of base gas required to support Hub 2006 (\$ million) \$   272.00	Cost of base gas required to support Hub 2006 (\$ million) \$   181.33
Rate of return in rate case 7.48%	Rate of return in rate case 7.48%	Rate of return in rate case 7.48%
Return on Hub base gas, (\$m) \$   27.13	Return on Hub base gas, (\$m) \$   20.35	Return on Hub base gas, (\$m) \$   13.56
Depreciation expense per year, 75 year straightline (\$m) \$    4.84	Depreciation expense per year, 75 year straightline (\$m) \$    3.63	Depreciation expense per year, 75 year straightline (\$m) \$    2.42
Annual base gas costs (\$m) \$   31.96	Annual base gas costs (\$m) \$   23.97	Annual base gas costs (\$m) \$   15.98

## Annual costs at 3.5% and 7% maintenance gas

ICC Staff Exhibit 24.2

### Annual Hub costs at 3.5% maintenance gas

Hub capacity at Manlove Field 1999 (MMDth)  
10.2

Maintenance gas percentage  
3.50%

Total maintenance gas, MMDth  
0.714

Cost of maintenance gas  
\$8.00

Total cost of maintenance gas (\$ million)  
\$5.71

Operating expenses, \$ million  
\$2.00

Maintenance gas plus operating expenses, \$ million \$7.71
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### Annual Hub costs at 7% maintenance gas

Hub capacity at Manlove Field 1999 (MMDth)  
10.2

Maintenance gas percentage  
7.00%

Total maintenance gas, MMDth  
1.428

Cost of maintenance gas  
\$ 8.00

Total cost of maintenance gas (\$ million)  
\$11.42

Operating expenses, \$ million  
\$ 2.00

Maintenance gas plus operating expenses, \$ million \$13.42
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