STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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

Surrebuttal Testimony of

THOMAS E. ZACK

Vice President - The Integrys Gas Group
On Behalf of

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

September 5, 2007

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I. INTRODUCTION AND BACKGROUND

A. Witness Identification

Q. Please state your name.

A. Thomas E. Zack.

Q. Are you the same Thomas E. Zack who submitted Direct and Rebuttal Testimony on behalf of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (each, a "Utility" and together, "the Utilities") in this consolidated Docket?

A. Yes.

B. Purposes of Testimony

Q. What are the purposes of your Surrebuttal Testimony in this proceeding?

A. The purposes of my Surrebuttal Testimony are to respond to all or part of the rebuttal testimony of Illinois Commerce Commission Staff ("Staff") witnesses Dennis L. Anderson, Eric Lounsberry and David Rearden; Citizens Utility Board and City of Chicago ("CUB-City") witness Jerome D. Mierzwa; Vanguard Energy Services, L.L.C. ("VES" or "Vanguard") witness Neil Anderson; Retail Gas Suppliers ("RGS") witness James L. Crist; Constellation NewEnergy - Gas Division, LLC ("CNE" or "CNE-Gas") panel witnesses John M. Oroni and Lisa Rozumialski; Multiut Corporation ("Multiut") panel witnesses Nachshon Draiman and Raquel Lavenda; Nicor Advanced Energy L.L.C. ("NAE") witness Lisa Pishevar; and Illinois Industrial Energy Consumers ("IIEC")/CNE/VES witness Alan Rosenberg.

C. Summary of Conclusions

Q. Please summarize the conclusions of your Surrebuttal Testimony.

A. In brief, the conclusions of my Surrebuttal Testimony are as follows:

(1) While the Utilities continue to believe that their proposed large volume transportation tariffs, including the proposed elimination of Rider FST, are appropriate, the Utilities are proposing an alternative Rider FST in the interests of ameliorating the impact on large volume transportation customers of the proposed elimination of Rider FST;

(2) In lieu of their original proposal to incorporate daily injection and withdrawal limits under Rider SST, the Utilities now propose nomination limits similar to those in their alternative Rider FST, and the same cycling requirements;

(3) The Utilities are willing to implement Super Pooling, but only as long as it is used solely for purposes of satisfying cycling requirements and only if "stand alone" contracts are excluded;

(4) The Utilities continue to propose that the Rider P pool size cap be increased from 150 to 200 accounts;

(5) The Utilities continue to oppose being required to permit intra-day nominations;.

(6) The proposed Unbundled Storage Bank ("USB") remains flawed, and it should be rejected;

(7) Choices for You ("CFY") customers and suppliers receive the benefits of storage and the benefits of that storage are commensurate with the costs they pay;

(8) The monthly delivery tolerance for CFY supplier deliveries is an appropriate complement to the daily delivery tolerance;

(9) The Utilities are willing to provide a credit per customer for CFY suppliers billing under Rider SBO. However, the Utilities' proposed changes to the LDC Billing Option order of payments to make it identical to that under Rider SBO is appropriate, and the Utilities' proposal to continue their existing practices regarding NSF customer checks remains appropriate;

(10) The Utilities are willing to relax, but not eliminate, the minimum stay requirement;

(11) The Utilities are willing to increase the amount of customer information made available to CFY suppliers, subject to Commission direction with respect to certain particulars. They also propose to continue to enhance their PEGASys™ system, but they should not be ordered to do so according to a disruptive time table; and

(12) Providing Hub services to third parties generates demonstrable benefits to Peoples Gas' ratepayers, and it should be able to continue to provide those services.

D. <u>Itemized Attachments to Surrebuttal Testimony</u>

Q. Are their any attachments to your Surrebuttal Testimony?

A. Yes, I am sponsoring the following seven exhibits to my Surrebuttal Testimony:

(1) North Shore/ Peoples Gas Ex. TZ – 3.1: Transportation Programs Fiscal 2006 Administrative Costs..

(2) North Shore/ Peoples Gas Ex. TZ – 3.2: Revised Rider FST.

(3) North Shore/ Peoples Gas Ex. TZ – 3.3: Revised Rider SST.

(4) North Shore/ Peoples Gas Ex. TZ – 3.4: Savings from Reduced Storage Inventory Based on Test Year Fiscal 2006.

(5) North Shore/ Peoples Gas Ex. TZ – 3.5: Utilities' Response to RGS Data Request 6.14.

(6) North Shore/ Peoples Gas Ex. TZ – 3.6: Revenue from Manlove Expansion Fiscal Year 2006.

(7) North Shore/ Peoples Gas Ex. TZ – 3.7: Annual Hub Costs at 3.5% and 7% Maintenance Gas.

II. LARGE VOLUME TRANSPORTATION PROGRAM

A. Rider FST

Q. The Multiut witnesses continue to support retaining Rider FST (Multiut Ex. 2.0, pp. 3-4). The CNE witnesses urge the Commission to require the Utilities to continue to offer Rider FST, and they cite the VES testimony in which Mr. Anderson proposed modifications to Rider FST as an alternative to its elimination (CNE-Gas Ex. 2.0, pp. 17-19). The VES witness argues that Rider FST, rather than being eliminated, should be modified to better align itself with the Utilities' physical assets (Vanguard Ex. 3, pp. 7-9). Do the Utilities have a proposal based on VES witness Anderson's suggestions?

A. The Utilities continue to believe that their proposed large volume transportation tariffs, including the proposed elimination of Rider FST, are appropriate for the reasons stated in my Direct and Rebuttal testimonies. However, in the interest of ameliorating the impact of eliminating Rider FST on large volume transportation customers, the Utilities propose an alternative Rider FST.

Q. What is the basis for the alternative proposal?

A. The alternative proposal ("Alternative Rider FST") reflects the recommendations of two participants. On page 9, lines 200-203, of his Rebuttal Testimony, VES witness

Anderson states, “The rate should be modified to better align itself with the physical assets of the Companies. A Maximum Daily Nomination (“MDN”) should be developed based upon Vanguard’s initial proposal.” That initial proposal was a modification whereby the Utilities would place certain delivery limits on the Rider FST customers during the injection season. Specifically, Mr. Anderson’s proposal would allow for daily deliveries up to an amount equal to estimated consumption (based on the prior year) plus 20% of the customer’s Allowable Bank (“AB”) converted to an average daily amount.

Dr. Rearden, while proposing to move Rider FST customers to Rider SST, supported the Utilities’ proposed end of season restrictions on storage balances (ICC Staff Ex. 24.0, p. 15). Together, these provisions are a step in the right direction toward a more equitable transportation program.

Q. Please describe the Utilities’ Alternative Rider FST.

A. The Utilities propose to retain the currently applicable Rider FST, with some modification. The major substantive change to the current FST tariff is to incorporate Vanguard’s proposed concept of capping daily summer nominations. The Utilities also propose to extend those nomination caps to the winter period, when the Utilities’ injection rights are even more limited. The daily nomination cap will be the customer’s average daily use in the comparable month of the prior year plus 0.67% (20% divided by 30) of the customer’s AB. The Utilities have also incorporated the cycling requirement parameters supported by Commission Staff witness Rearden and apparently acceptable to Vanguard (Vanguard Ex. 3, p. 8, lines 175-181).

Q. Are there other proposed changes to Rider FST?

A. Yes. There are proposed changes to Rider FST to conform to basic definitions and terms in Rider SST that should be common to all the large volume transportation riders. For example, the Utilities could include the Diversity Factor proposal in their Alternative Rider FST. Alternative Rider FST also includes the administrative charge proposed by the Utilities. Exhibit TZ-3.1 shows the cost data supporting the charge along with the impact of adding back Rider FST on the other transportation administrative charges. Finally, Alternative Rider FST reflects editorial changes for consistency with the other riders. For example, the definitions are placed in alphabetical order, the imbalance trading language is revised, some of the general terms and conditions language is revised to mirror, where appropriate, what is in proposed Rider SST and Factor TS is deleted.

Q. Have the Utilities prepared an Alternative Rider FST tariff?

A. Yes. Exhibit TZ-3.2 is a pro forma Alternative Rider FST tariff for Peoples Gas. Alternative Rider FST will continue to be named Rider FST for continuity and Exhibit TZ-3.2 is a mark up of the current Rider FST incorporating the revisions which result in Alternative Rider FST. A substantially similar tariff would be devised for North Shore if Alternative Rider FST is approved. In addition, a transition rider, FST-T, would be created that, like Riders SST-T and LST-T, is substantially identical to the existing Rider FST with only changes necessary to accommodate service for the period leading up to August 1, 2008.

Q. The CNE and VES witnesses continue to express concerns about the costs of telephone lines associated with Rider SST's daily metering requirement (CNE-Gas Ex. 2.0, p. 20; Vanguard Ex. 3, p. 10). Does the Alternative Rider FST require daily metering?

A. No. The Alternative Rider FST, the current Rider similar to FST, has a daily nomination cap that does not require daily metering at the customer location.

Q. Staff witness Dr. Rearden did not oppose the Utilities' proposal to eliminate Rider FST, but this was based on his proposed modifications to Rider SST (ICC Staff Ex. 24.0, p. 14). Why is Alternative Rider FST preferable to eliminating the rider and modifying Rider SST in the manner described by Dr. Rearden?

A. First, the current Riders SST and LST support transportation for relatively large transportation customers that require daily metering. On average, using test year data, Peoples Gas' Rider SST customers consumed 81,898 therms per year, while the Rider LST customers consumed, on average, 1,280,602 therms per year. In contrast, Peoples Gas' existing Rider FST customers consumed 25,915 therms per year. For North Shore, the average yearly consumptions for Rider FST customers was 15,474 therms, 114,555 therms for Rider SST customers and 4,659,180 therms for Rider LST customers.. While daily metering would be appropriate for all customers taking service under the large volume service, it is especially important for the Utilities to have daily reads for the larger Riders SST and LST customers to track activity in order to facilitate their management of their systems.

Second, the daily metered and monthly metered customers should be kept on separate tariffs because the specifications of their service are significantly different. For example, Dr. Rearden stated that calling Critical Days was a key way for the Utilities to manage their systems. Daily metering is key to enforcing Critical Day requirements.

Q. Is there any other testimony regarding Rider FST that you wish to address?

A. Yes. Although Alternative Rider FST addresses concerns about eliminating the rider, I will discuss certain misstatements. First, the Multiut witnesses assert that the prevalence of automated meter reading ("AMR") on the Utilities' systems addresses the meter reading issues that I raised (Multiut Ex. 2.0, pp. 4-5). AMR, unlike the daily demand measurement devices required for Rider SST, does not provide readings to the Utilities over telephone lines. A specially equipped van must drive through the meter reading route and electronically collect the AMR readings. The Utilities obtain AMR readings for transportation customers on the same schedule as sales customers. Second, the Multiut witnesses stated that the Utilities use hedging to keep prices low (Multiut Ex. 2.0, p. 3). The Utilities use hedging to mitigate gas price volatility. Third, the Multiut witnesses stated that, when a Rider FST customer buys Utility gas, it pays the same price as the sales customers (Multiut Ex. 2.0, p. 3). In fact,, a transportation customer pays a Standby Demand Charge for the right to buy Utility gas and, when it buys Utility gas, the price is the Standby Commodity Charge, which is not identical to the Gas Charge that sales customers pay.

B. Rider SST Injection and Withdrawal Requirements

Q. As stated above, Dr. Rearden accepted the Utilities' proposal to eliminate Rider FST based on his proposed modifications to Rider SST. One proposal was to eliminate the daily metering requirement (ICC Staff Ex. 24.0, p. 15, line 283). Should the daily metering requirement be eliminated from Rider SST?

A. No, for the reasons I discussed above, the daily metering requirements must be retained.

Q. Dr. Rearden opposed the proposed Rider SST injection and withdrawal terms (ICC Staff Ex. 24.0, pp. 10, 15). Dr. Rosenberg also opposed these terms (IIEC/CNE/VES Ex. 2, pp. 21-22). Do the Utilities agree to eliminate the proposed daily injection and withdrawal quantities?

A. Yes. While the Utilities believe their original proposal was equitable, the Utilities now offer an alternative to their original proposal. The alternative incorporates similar injection limitations as proposed in the form of nomination limits for the Alternative Rider FST and the same cycling requirements. The new Rider SST proposal would limit monthly injections to 20% of AB converted to a daily injection limit. The limit would be in effect year round. In the case of Rider SST, no prior year's consumption estimate is necessary because these customers' consumption is metered daily. For example, in a 30 day month, the proposed rule would allow a customer to inject up to 0.67% (20% divided by 30) of its AB on any day. This limit would be the equivalent of allowing the AB to be filled 2.4 times (20% times 12) in a year. Rather than limiting deliveries, as is proposed for Alternative Rider FST, the Rider SST injection limit would be enforced as part of the order of deliveries. Thus, a customer could accommodate changes in its expected usage through higher or lower deliveries to meet its daily usage needs and still inject into the AB. While VES's proposal envisions injection limitations for only April through October, it is even more important to limit injections in the winter when injection rights are even more restrictive. By establishing this straight forward limit, the Utilities hope to mitigate the need for calling Critical Days as advocated by Dr. Rearden.

Q. Are the proposed changes to Rider SST tied to the Utilities' Alternative Rider FST?

A. Yes. The Utilities' original proposal was to place all large volume transportation customers on the same rider that would take into account the assets supporting the service and, within the rider, the customers could select varying levels of service. In response to

Staff and intervenor concerns, the Utilities have proposed alternatives that would retain the critical goals of their original proposals while keeping the current structure of a class of daily metered (Rider SST) and a class of monthly metered (Rider FST) customers. The new Rider FST and Rider SST proposals would, to a greater extent than exists today, take into account the assets supporting the services and have comparable limits. Both riders would have identical end of season storage inventory requirements and both riders would have similar daily limits designed to manage AB activity. For daily metered customers, the limits would apply to AB injections and for the monthly metered customers, the limits would apply to daily deliveries.

Q. Do the Utilities propose to retain the existing daily and monthly injection and withdrawal provisions in Rider SST, as proposed by Dr. Rearden (ICC Staff Ex. 24.0, p. 15, lines 285-286)?

A. Yes, the Utilities propose to retain most of the existing provisions and, as described above, in lieu of their originally proposed daily injection and withdrawal limits, add a form of the daily injection limit proposed by VES for Alternative Rider FST.

Q. Have the Utilities prepared a revised Rider SST tariff to reflect the proposed new changes?

A. Yes, Exhibit TZ-3.3 reflects the changes described above.

Q. Dr. Rearden stated that calling Critical Days gives the Utilities the ability to make their sales and transportation programs work together (ICC Staff Ex. 24.0, pp. 10-11). Do the Utilities agree that calling Critical Days is a sufficient tool for balancing the interests of sales and transportation customers?

A. No. As Dr. Rearden himself points out (ICC Staff Ex. 24.0, p. 11), Critical Days have no impact on Rider FST customers, and this is because they are not daily metered. Rider FST customers represent 18% of all annual transportation volumes (including Rider AGG deliveries) for Peoples Gas and 17% for North Shore. Dr. Rearden's proposal to eliminate the requirement for daily metering leaves it unclear how Critical Days would serve as a system management tool.

Even for daily metered customers, calling Critical Days as the only tool available to manage the system is neither sufficient, nor appropriate. The Utilities need to manage their system operations each day throughout the year, so the Utilities need the kinds of controls that the Utilities are seeking throughout the year. In order to ensure fair and balanced access to the gas supply assets in the Utilities' gas supply portfolios, the Utilities must be able to direct transportation customer deliveries in both critical and non-critical situations.

Q. Dr. Rearden also stated that the Utilities' ability to call Critical Days prevents transportation customers from raising sales customers' gas costs (ICC Staff Ex. 24.0, pp. 11-12). Do you agree?

A. No. The times and circumstances where activities by transportation customers can raise sales customers' gas costs can occur at any time. Under Rider FST, suppliers deliver gas based on their own pricing opportunities (see Multiut Ex. 1.0, pp. 4-5) and are not impacted by Critical Days. Their use of these options can take those opportunities away from the Utilities and, thus, their sales customers.

Q. The CNE witnesses recommended that, if the Commission accepts the proposed cycling requirements, it adopt the same targets for each Utility (CNE-Gas Ex. 2.0, p. 4). Is that a reasonable proposal?

A. No. CNE incorrectly states that Peoples Gas' and North Shore's "underlying assets are the same" (CNE-Gas Ex. 2.0, p. 4, line 63). This is not the case, as each Utility is a separate entity and each has its own unique operational characteristics and gas supply portfolios. For example, Peoples Gas' storage portfolio currently includes its Manlove Field, one service from ANR Pipeline Company ("ANR") and two services from Natural Gas Pipeline Company of America ("NGPL"). Manlove Field represents 43% of Peoples Gas' total storage capacity and 44% of Peoples Gas' peak day. On the other hand, North Shore's storage portfolio includes a service purchased from each of Peoples Gas, ANR and NGPL. The Manlove service represents just 16% of North Shore's total storage capacity and 15% of North Shore's peak day. To establish North Shore's targets based on Peoples Gas' assets would be tantamount to basing them on Nicor Gas Company's ("Nicor") or any other random utility's assets.

Q. The CNE witnesses stated that having a cycling requirement that includes both end of season injection and withdrawal targets subjects the customer to conflicting goals (CNE-Gas Ex. 2.0, p. 5). Are the injection and withdrawal targets in conflict?

A. No. The proposal targets are balanced and appropriate because they reflect how the Companies themselves operate. That was not the case with the targets that Nicor wanted to impose on its transportation customers in its last rate case. In fact, the Utilities' proposals are based on the most liberal (in favor of the suppliers) actual storage inventory levels that each Utility has experienced in the last six years. The end of season injection and withdrawal targets work together to create the "cycling" requirement that is really the core of this issue

Q. The CNE witnesses stated that the suppliers may not have adequate information to comply with a target on a specific date and propose that there be a thirty-day window within which to meet the targets (CNE-Gas Ex. 2.0, p. 5). Do the Utilities agree to this proposal?

A. No. The transportation customers already have the tools needed to meet this requirement at a point in time. CNE's proposal is the equivalent of a bank's checking account customer saying it is not responsible if it overdraws its account because it has not yet received its monthly bank statement. The customers or their agents (the suppliers) know how much gas they have delivered because they have made the nominations. They also know what they have consumed because the meter is on their premises. The customer knows what its balance is going into a month, and it has a reasonably good idea of what it should be on any given day given its daily activity. Customers and suppliers have the entire injection season to gradually fill their assigned AB capacity. For this reason, the Utilities disagree that customers would be scrambling to meet the minimum AB requirement (CNE-Gas Ex 2.0, lines 257-269) during the last two days of November and that not having access to the last few daily reads will cause customers to miss the storage target.

Q. Dr. Rosenberg disagreed with what your Exhibit TEZ-2.03 shows (IIEC/CNE/VES Ex. 2, p. 19). What was the purpose of that exhibit?

A. Exhibit TZ-2.03 provides four variations on Dr. Rosenberg's Schedules 3 and 4 that show the <u>potential</u> subsidies from sales customers to transportation customers based on possible transportation customer monthly storage activity. Without necessarily agreeing with the specific volumes and assumptions shown in Dr. Rosenberg's Schedules 3 and 4, they can be used as a starting point for comparison with the four scenarios presented in Exhibit TZ-2.03. I agree that a valid use of storage can be to save money, and every dollar saved by transportation customers is not a subsidy by the sales customers. However, the exhibit shows that the rights available to transporters, which significantly exceed the rights available to the Utilities to manage their systems for sales customers, can benefit transportation customers beyond what that benefit would be with a more equitable allocation of rights. Dr. Rosenberg objects that the example on page 3 of Exhibit TZ 2.03 shows withdrawals in November in excess of what the Utilities allow. As explained in my Rebuttal Testimony, and mentioned above, page 3 of Exhibit 2.03 is based on the daily and monthly storage rights suggested by Dr. Rosenberg in his Direct Testimony, where he did not specify a November storage restriction.

C. <u>Rider SST Super Pooling</u>

Q. Several witnesses address Super Pooling. Are the Utilities willing to implement Super Pooling?

A. Yes. The Utilities are agreeable to implement Super Pooling with specific limitations only so long as Super Pooling is used solely for purposes of determining if the transportation customers meet the two cycling requirements and individual (what some witnesses called "stand alone") contracts are excluded, as discussed in my Rebuttal Testimony. The Utilities can accommodate this concept without significant billing system programming and without establishing a separate billing entity. Super Pooling, with the foregoing described limitations would reflect a reasonable balance between the interests of the sales customers and the interests of the transportation customers.

Q. The CNE witnesses disagree that Super Pooling would be difficult to implement (CNE-Gas Ex. 2.0, pp. 6-8) and, in particular, stated that it was unnecessary to change the billing system or establish a separate billing entity to implement Super Pooling (CNE-Gas Ex. 2.0, pp. 7, 9). Why would Super Pools be difficult to administer and implement?

A. The Utilities would have to create yet another new billing entity to implement it.

Q. Why would the Utilities need to create a new billing entity?

A. The creation of "Super Pools" would be similar to the creation of Pools. With the introduction of Rider P in their last rate cases, the Utilities created the Pool entity to balance and bill. They did this because, in the Pool environment, allocation of contract charges down to the individual contract level was not appropriate as a Pool is a grouping of different customers. Since the Utilities balance from the top level down and do not allocate charges down, each time a Super Pool was elected, the Utility would need to create an entity in order to balance it and bill it.

Q. What do you mean by the term "billing entity"?

A. A "billing entity" is a pool account, a contract account or a customer's account. One or more of these entities is responsible for charges under the large volume transportation program and one or more of these entities may receive a bill from the Utilities. Even if an entity does not receive a bill, the billing system may show charges for that entity that are ultimately reflected on the bill for a related entity. For example, a pool is a billing entity. A pool is made up of contracts that customers transferred to a supplier to aggregate into a pool. A contract is made up of one or more accounts that are associated with the same customer.

Q. Why is this complicated?

A. The current relationships – *i.e.*, the way the different billing entities (pool contract, account) interact in the system as described in the preceding answer -- are very tightly integrated in order to support the information gathering and billing requirements of both the Utilities and the suppliers. Any introduction of a new billing entity requires a major structural change and widespread modifications to all processing. All of the existing processes – Contract Management, Balancing/Reconciling and Billing need to be "taught" what to do with the new entity and how to distinguish it from the other entities. As part of such an effort, rigorous and protracted testing would need to take place in order to ensure that the new functionality is working properly and to make sure that the processing that predated this major structural change has not been adversely affected. If required to implement the limited Super Pooling for the two times a year cycling requirements, the Utilities expect to implement an *ad hoc* process that will run tangentially to their existing processing and, therefore, will not require the changes described above.

Q. The CNE witnesses suggest how to handle the situation where a Super Pool does not meet an inventory target (CNE-Gas Ex. 2.0, pp. 8-9). Is this proposal acceptable?

A. Yes, the proposal by CNE is acceptable.

Q. The CNE witnesses stated that stand alone customers would benefit the most from Super Pooling. In response to your concerns, the CNE witnesses proposed that any stand alone customer who purchases gas from more than one supplier during a month would be excluded from Super Pools for the month. CNE-Gas Ex. 2.0, pp. 12-13. Does CNE's proposal change your opinion about including stand alone accounts in super pools?

A. No. CNE's proposal creates too much complexity. As discussed above, Pools are tightly integrated and there are rules in force and validations that occur to ensure that for any given month the relationships between related entities are as the suppliers/customers have requested. CNE's proposal would now require the Utilities to also identify and automatically "set up" additional relationships and combinations. Aside from the accounting and billing complexities I have discussed, this would create potential complaints about relationships that the Utilities derived.

Q. Do you have any comment on the CNE witnesses' assertion that any implementation of Super Pooling should not result in double billing (CNE-Gas Ex. 2.0, p. 14).

A. My testimony did not intend to suggest double billing in any way. The issue I have addressed is the allocation of purchases (or cash-outs) between suppliers and stand alone customers resulting from not meeting the storage cycling targets. In the normal course of business, suppliers make decisions on the amount of daily deliveries to customer contracts and suppliers' pools. Stand alone customers may not be directly involved in the decisions involving delivery volumes. The Utilities are not, and do not want to be, part of the relationship. Yet, if the allocation of costs is pro rated between suppliers and stand alone customers, the Utilities believe there is considerable potential for billing disputes. For example, stand alone customers who feel that the Super Pool supplier did not adequately inform or consult with them on decisions related to their inclusion in a Pool may challenge the Utilities' billing for "make-up" gas. The Utilities would have no way of resolving a dispute that may arise from lack of communication between stand alone customers and their suppliers.

Q. In at least three instances (CNE-Gas Ex. 2.0, lines 173-174, 202-204 and 308-310), the CNE witnesses suggest that obstacles to Super Pooling could be worked out by the Utilities and the suppliers outside of this proceeding. Do you think it would be feasible for the Commission to order Super Pooling before the details are resolved?

A. No, it is not feasible for the Commission to order the Utilities to implement a process as complicated as Super Pooling, but leave the details to be worked out later. The Utilities have a specific proposal in this proceeding. The Utilities are willing to accept the concept of Super Pooling for the cycling requirement determination, and this seems to the Utilities to be the suppliers' overriding concern.

D. <u>Rider P Pool Cap Size</u>

Q. The CNE witnesses continue to support removing the cap on Rider P pool size (CNE-Gas Ex. 2.0, pp. 28-32), which the Utilities have proposed to increase from 150 to 200 accounts. VES supports increasing the pool size to 300 accounts (Vanguard Ex. 3, p. 5). Dr. Rearden stated that it is not clear why the pool size cap is needed (ICC Staff Ex. 24.0, p. 21). Why do the Utilities think their increased pool cap is reasonable?

A. The Utilities are strongly against unlimited pool sizes due to the potential adverse impact on the billing process. The proposals to eliminate the cap may stem from a lack of first-hand, practical knowledge about how the billing system functions. The Utilities' proposal to increase, but not eliminate, the Pool size cap is based on their experience billing large Pools. As a way to illustrate the issue, the current tariff does not have limits on the number of accounts that a customer may aggregate under a single (stand alone) contract. Up until about three years ago, one of the Utilities' customers had gradually built the number of accounts aggregated under a single SST contract to 450 accounts. Billing and billing adjustments of this contract required considerable system and staff resources that normally resulted in this contract being billed later than most other contracts and Pools. Understandably, the customer was not satisfied with this situation. After productive discussions, the customer agreed to break up the contract into contracts that do not have more than 200 accounts each.

E. Intraday Nominations and Delivery Restrictions

Q. The CNE witnesses stated that the Commission should require the Utilities to allow intra-day nominations (CNE-Gas Ex. 2.0, pp. 23-24). Do the Utilities agree?

A. No. CNE supports its proposal by saying that it would then be able to adjust to weather as the Utilities do. However, CNE does not have the same obligations as the Utilities do. In the end, the Utilities are the supplier of last resort and must meet demand with supply, despite a dynamic demand profile. Furthermore, CNE implies that it would always make intra-day changes in the same direction as the Utilities needs are changing. (See CNE-Gas Ex. 2.0, p. 23, lines 487-490). In fact, CNE could do the complete opposite, driven by economic factors. For example, when the weather turns unexpectedly warmer, and prices run down, CNE could increase its deliveries, potentially putting the Utilities into penalty situations with their storage providers. Suppliers have already testified that they make their purchase decisions based on price (Multiut Ex. 1.0, pp. 4-5).

The Utilities believe that the Commission should support initiatives that provide equitable sharing of the supply assets by all customers provided that such initiatives do not jeopardize the Utilities' obligation to provide safe and reliable natural gas service.

Q. The CNE witnesses stated that the Utilities have "the capability and systems to support intraday nominations" (CNE-Gas Ex. 2.0, p. 23). Is that correct?

A. As indicated in my Rebuttal Testimony (pages 42-43), Peoples Gas currently allows intra-day nominations on a very limited basis and with significant restrictions. To expand that capability to thousands of transportation customers representing about 40% of the Utilities' annual throughput is a significant step given the service implications described above and potential system costs to handle so many suppliers and customers. Moreover, the introduction of such a dramatic operational change would have a negative impact on the Utilities' ability to continue to provide safe and reliable service to all customers including its sales customers. It is beneficial to the Utilities and their sales customers to have greater certainty about the level of transportation customer deliveries and how their storage banks are being used.

Q. The CNE witnesses and the Multiut witnesses express concerns about delivery restrictions (CNE-Gas Ex. 2.0, pp. 24-27; Multiut Ex. 2.0, p. 5). Please comment.

A. CNE suggested that restrictions tied to the prior day's usage would be preferable. This is not practical. Nominations must be made the day prior to flowing gas, before the current day's actuals are known, or even completed. Rider FST customers are not daily metered so the usage on any one day is not known and the prior day's usage is certainly not known. Rider SST customers who are daily metered have a natural one-day lag before usage is even available. This constraint along with the time needed to collect meter readings and put them through various system processes and interfaces so that suppliers can access them, extends the lag by an additional day.

F. Unbundled Storage Bank ("USB")

Q. Dr. Rosenberg questions your use of the term "subsidy" in connection with the Utilities' proposals and, more particularly, the Utilities' opposition to his proposed unbundled storage bank ("USB") (IIEC/CNE/VES Ex. 2, pp. 4-5). Please explain how you are using the term "subsidy" in your testimony.

A. The term subsidy refers to one group using more than its pro-rata share of system rights for, in this case, storage daily injections and withdrawals. My Rebuttal Testimony was an extension of Dr. Rosenberg's Schedules 3 and 4 in his Direct Testimony in which I used the term "Implied Sales Purchases" to show what the sales customers would have to do to accommodate the storage activity requested by Dr. Rosenberg.

Q. Dr. Rosenberg states that, according to Peoples Gas' cost of service studies, the residential classes are receiving a subsidy. Please comment.

A. Dr. Rosenberg appears to equate sales customers with residential customers. In fact, most of the Utilities' transportation customers are residential customers. Moreover, as the Utilities' witness Ms. Grace testifies, while Peoples Gas is proposing to set its Service Classification. No. 1 rates below cost, its large volume Service Classification No. 4 rates would be set at cost. She also testifies that all of North Shore's service classifications would continue to be set at cost under North Shore's proposals. The concept of "volume subsidies" that Dr. Rosenberg questioned was clearly illustrated in Exhibit TZ-2.02 where his proposal to use a "Storage Diversity Factor" would allow transportation customers to subscribe to more storage rights than sales customers, and potentially more storage rights than are available from the asset that would purportedly support his proposed USB service.

Q. Dr. Rosenberg stated that customers cannot subscribe to an unbundled piece of Manlove Field storage (IIEC/CNE/VES Ex. 2, pp. 6-7). Is that correct and, if so, why is that the case?

A. Yes, it is correct that customers cannot subscribe to an unbundled piece of Manlove. The Utilities offer storage rights (the AB and the Rider TB rights for Peoples Gas) based on the entire portfolio. This means customers are not tied to the specific injection and withdrawal requirements of a given service or, in the case of the USB, physical asset. For the reasons stated in my Rebuttal Testimony (pages 14-23), the general lack of injection, withdrawal and cycling requirements in Dr. Rosenberg's proposal led me to conclude that he does not want USB customers to live within the operational limitations of Manlove Field.

Q. Dr. Rosenberg stated that you agreed that the USB would differ little from the currently available base rate storage (IIEC/CNE/VES Ex. 2, pp. 7-8). If that is correct, why not offer the USB?

A. They are similar in many respects, but there are critical differences.

- Pricing. The USB customers, as proposed, would pay for only a portion of Manlove Field's base rates. This necessarily means that non-USB customers (primarily sales customers) would bear the remaining cost burden reflected in Manlove Field's base rates. The Storage Diversity Factor ("SDF"), if adopted, would make the USB even less expensive for USB customers, while granting them higher USB capacities.

- Service: Activity for the base rates portion of the AB is governed by certain provisions of the Rider SST tariff. Dr. Rosenberg proposes to only limit USB activity on Critical Days (IIEC/CNE/VES Ex. 1, p. 17 and p. 19).
- Order of Deliveries: The base rates portion of the AB is part of a consolidated base rate and gas charge bank, so injections and withdrawals are not distinguished as being base rate first and gas charge second or some other order of deliveries. Dr. Rosenberg proposed an order of deliveries for the USB that places the USB first in and last out (IIEC/CNE/VES Ex. 1, p. 8).

Q. Dr. Rosenberg stated that your opposition to the USB proposal is based on unrealistic assumptions about subscription to and use of the proposed USB (IIEC/CNE/VES Ex. 2, pp. 10-11). Please comment.

A. Depending on the extent to which customers take USB service, the extent to which the SDF is in error (and, as I explained in my Rebuttal Testimony (p. 22, lines 472-508), the concept underlying this factor is flawed) and other variables such as price and system requirements, the actual magnitude of harm will vary. I admit that it is possible that there would be no harm under certain scenarios. However, for the reasons I explained in my Rebuttal Testimony, the USB gives overly broad rights at a below cost rate. If the sales customer and the transportation customer are both contributing to the annual cost of the storage portfolio, they should share equitably in the capacity, injection, and withdrawal rights of the portfolio to the extent that their payments contribute to procuring those rights.

Q. One of Dr. Rosenberg's specific criticisms is that your exhibits assume customers make purchasing decisions on a daily basis when, according to Dr. Rosenberg, most customers purchase gas on a monthly basis and do not use storage for arbitrage (IIEC/CNE/VES Ex. 2, p. 11-13). Do you agree with his conclusions?

A. No. Testimony in this case from suppliers indicates just the opposite. In their Direct Testimony (Multiut Ex. 1.0, p. 4, lines 82-84), the Multiut witnesses stated, "On any given day, gas can come from either North Shore and Peoples or from Multiut's purchase on the spot market. The decision is totally dependent upon price. For example, if Multiut purchases gas from North Shore and Peoples on one day but the next day spot prices are better for the end use customer, then Multiut will nominate spot gas for the next day." RGS is requesting more control over storage to allow the CFY Suppliers to alter their daily deliveries from estimated consumption more frequently and to a greater degree. It seems reasonable to conclude that the reason for wanting these daily changes is for arbitrage. The CNE witnesses want to take the daily changes a step farther and allow intra-day nominations, thus allowing suppliers to take advantage of price opportunities not only daily, but within the day. That hardly implies flat purchases throughout the month.

Q. Dr. Rosenberg also said in his Rebuttal Testimony (lines 253-257) that "there is absolutely no evidence in the actual data that suggests that customers try to use storage for arbitrage as Mr. Zack suggests. For example, if customers were behaving as Mr. Zack has postulated they would have been withdrawing gas in September and October and injecting in November. In fact, they did just the opposite." Please comment.

A. Dr. Rosenberg's example in fact buttresses my point. Transportation customers were injecting in September and October most likely because, while the Chicago daily prices averaged \$11.01/Dth and \$12.20/Dth respectively in those months, the winter (November through March) forward prices averaged $12.78 during September and $13.67 during October. Suppliers could have locked in that difference.

Q. Dr. Rosenberg disagreed with your testimony that his proposed SDF could result in the oversubscription of the USB (IIEC/CNE/VES Ex. 2, p. 13). Does his analysis change your conclusion?

A. No. While an actual oversubscription by transportation customers may or may not happen, that does not alter the fact that they should not be provided more services than they are paying for and at a rate lower than other customers are paying. The numerical examples in Exhibit TZ-2.2 are based on Dr. Rosenberg's Schedules 1 and 2 that show the SDF being multiplied by the unit cost of the storage to reduce the price to transportation customers. This provides transportation customers with preferential rates and makes the sales customers pick up the shortfall. The SDF is also being divided into the storage volume available to increase the volume available to transportation customers, so they not only pay less, but get more, while the sales customers have to pay more and get less.

III. SMALL VOLUME TRANSPORTATION PROGRAM

A. Rider AGG Storage

Q. RGS witness Mr. Crist stated that he disagreed with your response to his proposal for allocating storage rights differently to Choices For You℠ ("CFY") suppliers (RGS Ex. 2.0, pp. 5-8). He stated that CFY suppliers are in the "opposite situation" from Rider FST customers because CFY suppliers receive lesser rights than what they are entitled to by paying the Aggregation Balancing Gas Charge ("ABGC") (RGS Ex. 2.0, p. 6). Please comment.

A. First, CFY suppliers receive the benefits of storage by being allowed to inject gas in the summer and withdraw in the winter. That price advantage is greater than $1.00/dth as indicated in Exhibit TZ-2.06. Second, even after adjusting for storage injections and withdrawals and assuming they deliver their estimated consumption, the CFY suppliers do not deliver the exact amount of gas their customers are consuming. The Utilities must use all of their gas supply assets to accommodate variances in consumption. Third, the CFY suppliers are allowed to vary their deliveries by up to 10% on a daily basis from the Utilities' Required Daily Delivery Quantity ("RDDQ"). They can do so, with the understanding that by the end of the month, they must be within 5% (as proposed by the Utilities) of the monthly sum of RDDQs. This is substantially similar to the conditions under which the Utilities must operate their systems, in that the Utilities can vary storage injections and withdrawals daily but need to eventually be within limits of their operating plan, including applicable pipeline tariff requirements, in order to reliably meet future needs. It is not acceptable, as RGS would allow, to deplete all storage balances before the coldest month of the year. For Peoples Gas, the RGS proposal would allow 2.2% of the supplier's bank to be withdrawn every day beginning November 1 (and 2.0% when below 50% at the end of a month), so 100% [(30 x 2.2%) + (17 x 2.0%)] could be withdrawn in 47 days (by the end of December 17th) (RGS Ex. 2.1, definition of "Daily Storage Withdrawal Capacity").

Q. Mr. Crist proposed substantial changes to the Utilities' proposed Rider AGG (RGS Ex. 2.1). Please comment on his proposed Rider AGG.

A. RGS' proposed rider presents the Utilities with many problems. Mr. Crist suggested that he closely followed the Nicor proposal (RGS Ex. 2.0, p. 8), but it is clear that he took some liberties when they were advantageous to him. For example, his proposed "Storage Quantity Target Levels" for the winter months provide wider ranges than what are in Nicor's rider. The daily withdrawal percentage that I referenced in my previous response is greater than Nicor's. The Utilities do not support Mr. Crist's storage allocation proposals for the reasons I stated in my Rebuttal Testimony. Even were the Utilities to substantially re-design Rider AGG in the manner sought by Mr. Crist, his proposed Rider AGG is not a viable starting point.

Q. Mr. Crist stated that the CFY suppliers' storage needs can be met entirely from Manlove Field. If it could not be met with Manlove Field, then off-system storage could be released to the CFY suppliers. (RGS Ex. 2.0, p. 9) Do the Utilities meet the CFY suppliers' storage needs entirely through Manlove Field?

A. They do not. As I stated above, the Utilities must use their entire portfolios to balance CFY and all other customers. Since withdrawals from Manlove Field only occur early December through early March, and injections the rest of the year, it is highly doubtful that CFY Supplier's storage needs, either as provided by the Utilities or as proposed by Mr. Crist, match that profile. Since Mr. Crist has requested withdrawals from November through March and injections from April through October in his proposed Rider AGG tariff, it is clear that Manlove Field alone will not support his needs.

Q. Could the Utilities provide storage service to the CFY Suppliers solely through Manlove Field?

A. Only if the storage service for the CFY Suppliers substantially changed to match what Manlove Field can physically support. This is the same issue raised by Dr. Rosenberg's USB proposal. The Utilities provide storage to all customers through a combined portfolio of storage services. This portfolio includes Manlove Field and the leased storage assets. All of these assets are used in combinations that can and do change from day to day as the availability of each individual asset changes. Unbundling this portfolio, or allocating a larger portion of one specific asset to one specific class of customers, would limit the ability for the portfolio to provide the broad range of coverage to all customers it currently provides and it would limit the ability of the Utilities to respond to the changing requirements for the remaining customers.

Q. Mr. Crist stated that many utilities conduct capacity release programs every day, and it is not burdensome (RGS Ex. 2.0, p. 9). Why do the Utilities believe that capacity release would be a burdensome way to allocate storage to CFY suppliers?

A. Capacity release is an administratively active process that requires a number of things to happen in a very short time. These items include identifying the asset to be released, determining if the release will be in the form of a pre-arranged transaction, determining if it must be posted for bidding, and going through the individual pipeline posting and awarding process. For a biddable release for a term of less than one year, the entire process can occur in one afternoon. With respect to recalling any released capacity, the needed capacity must be identified and then the recall process with the pipeline must happen. Both of these steps take time, usually resulting in a delay of at least one day from the time the asset is identified to the time it changes hands for nominations. Finally, as to storage allocations, each storage release reduces the overall capacity available to the Utility for use in the portfolio.

Q. Mr. Crist disagreed that the Utilities' proposal adequately addresses customer migration as it affects storage, and he proposed tariff language to implement his proposal (RGS Ex. 2.0, pp. 11-12). Please comment on his proposal.

A. The Utilities, as I explained in my Direct and Rebuttal Testimonies, provide for customer migration during the injection season. I explained why they do not propose to do so in the withdrawal season. Mr. Crist proposes a convoluted replacement for the Utilities' proposal which he includes in his Rider AGG Section H, "Storage Purchase in Place/Cash-Out" (RGS Ex. 2.1). The proposal requires determining when a supplier's "capacity level" has increased or decreased "significantly" due to changes in "customers' annual volumes." The supplier "may" purchase or sell gas or the Utilities "may" require the supplier to purchase or sell gas. The proposal includes undefined terms and vague conditions for when purchases and sales may occur. The Utilities do not agree to expand their proposal for addressing customer migration to the winter months, nor do they agree to Mr. Crist's alternative.

Q. Mr. Crist stated that the monthly delivery tolerance should be eliminated because it may mean that CFY suppliers cannot use their full daily tolerance (RGS Ex. 2.0, p. 14). What is the purpose of the tolerance?

A. The tolerance is intended to keep CFY storage balances within a reasonable proximity to the relative storage balances supporting them. The daily tolerance provides flexibility to the CFY supplier such that deliveries that do not exactly match RDDQ, which includes consumption plus planned storage activity, do not incur a penalty. The monthly tolerance is used to limit the ability of CFY suppliers in order to prevent the daily tolerance from causing a large imbalance as a result of it being used every, or almost every, day in the same direction to produce a large quantity that must be carried over or cashed out.

Q. Is the monthly tolerance a "duplicative penalty" (RGS Ex. 2.0, p. 14)?

A. No. As Dr. Rearden recognized (ICC Staff Ex. 24.0, pp. 17-18, lines 342-345), Mr. Crist is essentially proposing to make the daily and monthly tolerances identical, which makes the Utilities' planning more difficult. The monthly tolerance, which the Utilities have proposed to increase from 2% to 5%, simply restricts CFY suppliers from utilizing their 10% daily tolerance every or nearly every day in the month in the same direction. So, if there are periods when the supplier wants to bring in 10% more than its RDDQ, it can do so, but the supplier would still have to make its total monthly deliveries be within 5% of the total RDDQs. For example, in a 30 day month, for simplicity, assume a supplier's RDDQ were 10,000 therms per day, for total monthly expected deliveries of 300,000 therms. This means its monthly tolerance ranges from 285,000 to 315,000 therms. It could deliver 11,000 therms per day for 22 days and 9,000 therms for the other 8 days and still be within its monthly tolerance. [(11,000 x 22) + (9,000 x 8)] = 314,000 (1,000 therms below its maximum). This supplier used its maximum delivery tolerance every day, 73% of the days in the same direction, and it still met the monthly tolerance. The foregoing example illustrates the considerable flexibility accorded by the Utilities' tolerance proposals.

Q. Mr. Crist stated that, as you agreed, the Utilities should calculate a credit for the working capital associated with CFY storage (RGS Ex. 2.0, pp. 21-22). Have the Utilities calculated a credit?

A. Yes. Exhibit TZ-3.4 shows the calculation of the credit. The Utilities propose to provide the credit as a direct reduction of the monthly Rider AGG Aggregation Charge per customer. Note that one component of the calculation is the rate of return approved in this case. The Utilities used their proposed return, but, assuming the credit is approved, the compliance filing in this case would use the actual return that the Commission allows. With this credit and the revised Aggregation Charge, the charge actually becomes a credit of $.0.83 for Peoples Gas ($1.43 less $2.26) and the North Shore charge is reduced to $0.03 ($1.51 less $1.48). Mr. Crist proposed that if the credit exceeded the Monthly Aggregation Charge, that the remaining amounts should be credited to the ABGC. The Utilities disagree with that proposal, because the ABGC is a gas cost and the credit is related to base rate costs. If the ultimate credit for working capital exceeds the Monthly Aggregation Charge, then, the Utilities propose that it simply become a credit on the bill.

B. Choices For You^sm Customer Billing

Q. NAE witness Ms. Pishevar stated that CFY suppliers billing under Rider SBO should receive a credit per customer of at least 33¢ per customer (NAE Ex. 2.0, pp. 4-6). Dr. Rearden agrees that there should be a credit at least equal to paper and postage costs (ICC Ex. 24.0, pp. 22-23). Do the Utilities agree to provide a credit?

A. Yes. The Utilities agree to provide a 33¢ credit per customer (per month) for CFY suppliers billing under Rider SBO. Rider SBO would be modified accordingly if the Commission approves this change.

Q. Do you have any comments concerning Ms. Pishevar's and Mr. Crist's criticisms of the Utilities' proposed change to the LDC Billing Option order of payments to make it identical to Rider SBO?

A. Yes. I would first note that in addition to complaining that the proposal makes suppliers "worse off", Ms. Pishevar also stated that CFY suppliers should be treated equally no matter how they bill customers. The Utilities' proposals treat them equally, and it is reasonable to apply the method approved by the Commission for Rider SBO to the LDC Billing Option. Both Ms. Pishevar and Mr. Crist seem to ignore the fact that the LDC Billing Option and Rider SBO are, as their names imply, options. Transportation customers do not have to take either option, and they could bill their services independently without concern for how the utility would post the payments.

Q. Ms. Pishevar stated that the Utilities do not treat suppliers equally with respect to NSF checks (NAE Ex. 2.0, pp. 9-10). Is she correct?

A. No. The entity issuing the bill bears the full risk of an NSF check. Under the LDC Billing Option, if the Utilities receive a check that does not clear, the Utilities do not demand that the CFY supplier return the payment made to them. Under Rider SBO, if the CFY supplier receives a check that does not clear, the supplier should not be able to demand that the Utilities return the payment to the supplier. In both cases, the billing party does not get paid but the other party is paid. Of course, suppliers are not required to use either billing service and may issue a bill that covers only their own service, and the Utilities would issue bills for their services. Again, the billing party bears the risk of an NSF check.

C. <u>Minimum Stay Requirement</u>

Q. Mr. Crist stated that the minimum stay requirement should be eliminated or the period during which a customer can sign up with another supplier should be extended to 180 days (RGS Ex. 2.0, pp. 26-27). Do the Utilities propose any changes to the minimum stay requirement?

A. Yes. While the Utilities maintain the concerns stated in my previous testimony regarding customer switching, they are willing to be more generous and extend the existing 60 days to 90 days. Customers will have three months to obtain the services of an alternative gas supplier, while at the same time providing the Utilities some level of protection against regular switching and the uncertainty of not knowing how long a customer will remain on system supply, which Mr. Crist's 180-day proposal does not.

D. PEGASys™ and Customer Information

Q. Several witnesses stated that certain customer information should be available when the supplier has customer authorization and not only after customer enrollment. The requested information is service classification, rider, Maximum Daily Quantity ("MDQ"), Selected Standby Percentage ("SSP") and AB. Vanguard Ex. 3, pp. 1-3; RGS Ex. 2.0, p. 24; CNE-Gas Ex. 2.0, p. 33. Would the Utilities agree to make this information available when the supplier has become the customer's agent?

A. Yes, if approved by the Commission, the Utilities agree to provide this information after accepting the enrollment request. This means that suppliers will have access to this information at the time of enrollment, but before the customer is "active and flowing" in the supplier pool.

Q. Mr. Crist stated that the residential customer list that the Utilities proposed to provide should show whether the customer is a Service Classification No. 1N or 1H customer (RGS Ex. 2.0, p. 15). Do the Utilities agree to include this information?

A. Yes, subject to my testimony below about Dr. Rearden's proposal that providing customer lists is dependent upon explicit customer approval.

Q. Two witnesses commented on the Utilities' proposed tariff language to make customer payment history and past due amounts available to suppliers (RGS Ex. 2.0, pp. 22-24; NAE Ex. 2.0, pp. 11-12). Please comment on these witnesses' proposals. Dr. Rearden stated that he opposed the Utilities' proposal to provide customer lists and payment information to CFY Suppliers "absent explicit customer approval" (ICC Staff Ex. 24.0, p. 19). Please comment.

A. To clarify, the Utilities have made four proposals related to customer information. Both RGS First, the Utilities proposed to provide customer lists, excluding customers on the Utilities' "do not call" lists, to CFY Suppliers without customer consent but pursuant to a contract with the Utilities. Second, they proposed to provide more detailed customer information to CFY Suppliers in two tiers. The first tier would not include any customer-specific information and would not require customer consent. The second tier would include customer-specific information but would require customer consent. One evidence of consent would be in the form of the supplier having some piece of customer information (such as an account number) that would allow it to gain access to the data base with the information. The third proposal is that, if directed by the Commission in these proceedings, the Utilities would provide payment histories to a CFY Supplier if the supplier, among other things, warrants that it has that customer's consent to obtain that customer's payment history from the Utilities. The fourth proposal is that, if directed by the Commission in these proceedings, the Utilities would provide a customer's past due amounts to a CFY supplier if the supplier, among other things, warrants that it has that customer's consent to obtain that customer's past due amounts data from the Utilities.

If the Commission adopts Dr. Rearden's proposal, the Utilities request clarification about what constitutes "explicit customer approval" and its applicability to each of the four types of customer information described above so that they can appropriately implement any direction.

Q. Do you have any other comments on Dr. Rearden's proposal to require "explicit customer approval" for CFY Suppliers to receive certain customer information?

A. Yes. I would note that depending on the specific of what is ultimately defined as customer approval, it could significantly affect how and when suppliers receive information. Suppliers have indicated that they want access to this information when the customer is enrolled and before it is active in the supplier's Pool (RGS Ex. 2.0, p. 23, lines 23-26). For example, if the approval is in the form of a piece of paper with a customer signature, this would mean the Utilities must receive the document and match it to the electronic enrollment files for a customer. By making part of the process manual, suppliers will not have access to this information immediately after an enrollment request has been accepted. Instead, the Utilities will have to wait for the paper authorization to arrive. The paper authorization would then need to be manually verified against an accepted enrollment request and only after this verification, could the data be made available. From experience, the Utilities know that this manual process would be time-consuming and at risk for errors. The Utilities are not proposing what "explicit customer approval" must entail, but want to point out that the form this approval takes is very important.

Q. Two witnesses questioned the Utilities' proposed timing for implementing changes to its electronic bulletin board system, PEGASys™ (RGS Ex. 2.0, pp. 25-26; NAE Ex. 2.0, pp. 10-11). Please comment.

A. The Utilities are committed to enhancing the procedural and system interactions with suppliers. They also want to give suppliers an opportunity to understand planned enhancements and provide additional input. Later this year, the Utilities plan to explain to interested suppliers the details of the planned enhancements. Exhibit TZ-3.5, a copy of the Utilities' data response to RGS 6.14, describes some of these plans. This sequence of events will allow the Utilities to finalize IT requirements and provide suppliers with a more realistic time frame for implementation. It is the Utilities' intention to implement these enhancements before August 2008, perhaps as early as June 2008. It should be noted that earlier this year, the Utilities modified PEGASys™ to eliminate the meter number requirement for enrollment purposes and to retrieve 24-month usage histories. They also eliminated the minimum pool size requirement.

IV. BASE RATE STORAGE INVENTORY

Q. Mr. Lounsberry expresses concerns that Peoples Gas does not know the seasonal volume that it will withdraw from Manlove Field until after the injection season ends (ICC Staff Ex. 23.0, p. 11). What is your opinion of Mr. Lounsberry's concern?

A. In my Rebuttal Testimony (lines 1730-1746) I explained how the Manlove field capacity is allocated among Peoples Gas, North Shore, and the Hub. This allocation is based on plans for field use made prior to the start of the injection season. The nuance I explained in my Rebuttal Testimony was that the final quantity available to Peoples Gas was dependent on the actual injections into Manlove Field. Further, any decision to go slightly over/under the targeted injection or withdrawal quantity, would be made in consultation with the Manlove Field staff to ensure both the short term and long term operational integrity of the field.

Q. Mr. Lounsberry stated that you failed to explain how Peoples Gas injected a quantity of gas into Manlove Field that exceeded its prior seasonal volume assumption by almost 4 Bcf (ICC Staff Ex. 23.0, p. 11). Please comment.

A. The Company did not do so. Peoples Gas injected 26.3 Bcf during the 2005 injection season and 25.5 Bcf in the 2006 injection season. However, the book balances at the end of the respective injection seasons were 30.2 Bcf and 30.3 Bcf. For several years, Peoples Gas has maintained a book inventory amount higher than the actual amount cycled each year. As I stated at page 78 of my Rebuttal Testimony (page 78), Peoples Gas periodically commissions engineering studies to determine a more precise estimate of the allocation between top gas or working gas and cushion gas, both recoverable and non-recoverable. One such study commissioned in 1998, along with an IRS ruling, led to the reclassification of more than 11 Bcf of top gas. Regardless of the classification, top gas or cushion gas, the amounts are appropriately includable in rate base.

Q. Mr. Lounsberry stated that you failed to explain what Peoples Gas did with "the almost 5 Bcf of gas that Peoples Gas showed it placed into its Manlove inventory, but that exceeded its planned withdrawals from Manlove for the following winter season" (ICC Staff Ex. 23.0, pp. 11-12). Please comment.

A. Peoples Gas did not "place" an extra 5 Bcf into inventory during this period. It did nothing with the 5 Bcf referred to. It is still in the ground. As explained above, Peoples Gas has maintained a book inventory amount higher than the actual amount cycled each year for several years. The additional inventory, or some portion of it, will eventually be reclassified from top gas to cushion gas.

Q. Mr. Lounsberry recommended that Peoples Gas develop procedures to document how the allocation among Peoples Gas, North Shore and the Hub takes place and submit it to the Commission Staff within sixty days of a final order in this case (ICC Staff Ex. 23.0, p. 14). Does Peoples Gas agree?

A. Peoples Gas agrees to document such procedures but would propose to do so within 120 days of the order in this case given the number of rate case and other regulatory related matters to be addressed.

V. PEOPLES GAS' INTERSTATE HUB SERVICES

Q. Dr. Rearden recommends the Company identify revenues from Hub transactions that were only possible due to the Manlove expansion (ICC Staff Ex. 24.0, p. 28). Please comment.

A. During the test year three forms of service were provided that could not have been provided without the benefit of a Manlove Field expansion. They are: parking and loaning service, interruptible storage service, and exchange service. These three services provided over 88% of total Hub revenues. Clearly, the vast majority of Hub revenue was derived from Manlove Field expansion related services. (See Exhibit TZ 3.6)

Q. Dr. Rearden's first reason for finding that Hub costs are imprudently incurred is that he believes the costs you used in your analysis do not represent the full opportunity cost of Manlove Field's expansion (ICC Staff Ex. 24.0, pp. 28-29). Please comment.

A. Peoples Gas has considered what would happen, or how the existing Peoples Gas portfolio would have to be altered to incorporate the Hub storage capacity. Three options exist that represent the opportunity costs associated with the Hub. They are: (1) eliminate the additional Manlove capacity in its entirety, returning field operations to an approximately 26 Bcf annual cycle; (2) use some, or all, of the 10.2 Bcf of Hub capacity for customers without reducing any leased storage; and (3) use some, or all, of the 10.2 Bcf of Hub capacity for customers and reduce, as possible and economic, leased storage. Each of these options has its own costs and benefits.

Q. Please explain the costs and benefits of the first option – allow the field to return to a 26 Bcf cycle.

A. On the cost side, eliminating Hub services will also eliminate any Gas Charge revenue credits currently expected to be generated, approximately $10 million each year. Second, reducing the amount of gas injected each year, and as such to be cycled each year, would cause the decline curve, or the point after which maximum deliverability from Manlove Field is reduced, to migrate back to late-January from early-February where it is today. Mr. Puracchio discussed this on pages 13-14 of his Rebuttal Testimony. This would likely cause Peoples Gas to purchase additional call gas to protect customers in January. Third, any added liquidity to the Peoples Gas market created by Hub activity will be lost. On the benefit side, the field will require less annual cushion gas injections, since the amount of gas to be cycled will be less. (I am not suggesting that the percentage would change, only that the total quantity would decline.) Assuming cushion gas injections at the rate of 3.5% of all gas injected and $8/dth, this savings would be over $2.85 million dollars per year.

Q. Have you quantified the overall impact of the second and third options?

A. On a preliminary basis, Peoples Gas attempted to value using the entire 10.2 Bcf for customers without reducing any leased storage. On a rough basis, and using the August 23, 2007 forward curve for gas prices, incremental costs to ratepayers compared with continuing to provide Hub services would be approximately $12 million ($10 million in Hub revenue credits and $2 million in additional return on average inventory carrying cost for gas in storage), while savings would be approximately $9 million (from increased summer/winter differential gas purchases).

With respect to using the up to 10.2 Bcf of Hub capacity for customers and reducing, as possible and economic, leased storage, the costs and savings are harder to quantify. In particular, while the costs would reflect the loss of the $10 million in Hub revenue credits, both the added costs for additional gas in storage and the savings related to increased summer/winter differential gas purchases would fall, but it is not clear if these gas purchase reductions would be less than, equal to, or greater than the savings from reduced costs for leased storage. Further, under both scenarios the need for and costs associated with any additional "peaking" needs, such as weather call gas or seasonal call gas, have not been identified. Also, trading Manlove Field storage for leased storage is not even close to an apples to apples trade. Hub injections and withdrawals are tied to a schedule that is acceptable to Peoples Gas, and are almost entirely interruptible because the 10.2 Bcf of capacity has only about 23,000 Dth/day of peak firm withdrawal capability. On the other hand, leased storage services provide much more injection and withdrawal flexibility, including withdrawals in November, March, and April, (providing withdrawal capability when Manlove Field is injecting). Leased storages also provide limited injections during the withdrawal period and limited withdrawals during the injection period, which Manlove Field does not. Furthermore, with Hub gas, everything injected must be withdrawn. If the use of that 10.2 Bcf differed in any way there could be adverse consequences.

Q. Dr. Rearden's second reason for finding that Hub costs are imprudently incurred is that he believes Peoples Gas has "misallocated the Hub" in the past when it put Hub customers first in line to receive deliveries (ICC Staff Ex. 24.0, pp. 28, 30-31). Please comment.

A. Dr. Rearden has pointed to a concern that was raised in regard to operations in 2001. Manlove Field operations and allocation of the capacity on a seasonal and peak day basis are made, and have been made in recent years, such that the Hub is third in line for access to Manlove Field behind Peoples Gas' and North Shore's customers, including the needs of transportation customers.

Q. Dr. Rearden's third reason for finding that Hub costs are imprudently incurred is that Staff concluded that Manlove Field needs extensive base gas additions that have not yet occurred (ICC Staff Ex. 24.0, pp. 29, 31-33). Please comment.

A. Mr. Puracchio addressed Mr. Anderson's and Dr. Rearden's testimony regarding the sufficiency of base gas to support Manlove Field's expansion in his Rebuttal Testimony and his Surrebuttal Testimony.

Q. Dr. Rearden responds to Peoples Gas' analysis which showed that the Hub is a net benefit to customers with an exhibit in which he questions if Peoples Gas' cushion gas assumptions are appropriate and he presents an alternative with a different cushion gas assumption (ICC Staff Ex. 24.0, p. 33 and Ex. 24.2). Please comment.

A. The conclusion Dr. Rearden reaches when he uses his 3.5% assumption is that the Hub's maintenance gas plus other operating expenses would total $7.71 million and he states, "We can conclude that if Peoples Gas can maintain Manlove Field's deliverability by continually adding 3.5% of injections into base gas, the Hub benefits ratepayers." (Exhibit 24.0, page 33, lines 663-665). He goes on to conclude that if maintenance gas were at 7%, "the Hub would be a detriment to ratepayers" (Exhibit 24.0, page 33, lines 671-672). Dr. Rearden's Exhibit 24.2 appears to contain a mathematical error in the Total maintenance gas, MMDth line. If I adjust this exhibit by correcting the error, it appears the annual Hub costs at 3.5% maintenance gas are only $4.76 million and even at 7% maintenance gas the costs are only $7.34 million (lower than his erroneous $7.71 million that he said would benefit ratepayers). With these revised costs, and assuming the continued revenues of $10 million, the Hub would show a net benefit to customers of $3 million to $5 million. I have attached Ex. TZ 3.7 which reflects this point.

Q. Dr. Rearden recommends that the Commission disallow the base gas additions to rate base since the last rate case (ICC Staff Ex. 24.0, p. 34). Please comment.

A. As noted in Mr. Puracchio's Rebuttal Testimony (Ex. TLP-2.0, lines 259-270) and in his Surrebuttal Testimony, even if the Hub had not existed the field would still have needed to have base gas additions. Dr. Rearden proposed to disallow the entire base gas additions, including those needed to maintain the field for ratepayers. Mr. Puracchio showed that the majority of base gas additions were not for the Hub (Ex. TLP-2.8). Accordingly, disallowing all the costs would be even more inappropriate.

Q. Dr. Rearden recommends that the Commission order Peoples Gas to stop providing Hub services (ICC Staff Ex. 24.0, pp. 34-36). Does Peoples Gas believe that this is an appropriate recommendation?

A. No. Peoples Gas believes the customer benefits provided by the Hub have exceeded, and are expected to continue to exceed, the costs of providing these services. Therefore, Peoples Gas continues to believe that it should continue to provide Hub services for the benefit of its customers. However, if the Commission decides otherwise, Peoples Gas should be entitled to a brief transition period over which Hub services would be phased out and the underlying gas supply portfolio modified.

Q. Please describe Peoples Gas' transition period proposal and the issues that would need to be addressed during that time.

A. Currently, Peoples Gas has Hub contracts for services that extend into February and March, 2008, and one contract that extends into April 2009, albeit with firm rights that are limited to non-peak periods and extend only through the summer of 2008. Hub customers rely upon those services and the related contracts. The transition period would allow time for these existing agreements (including interruptible agreements), to terminate according to their terms. Further, Peoples Gas will need time to file with and receive approval from the FERC to terminate its existing blanket certificate and Operating Statement. Lastly, and most importantly, time will be needed to develop, analyze and implement any portfolio changes that need to be made. It is not a simple process of “assigning” the existing Hub capacity to customers and “eliminating” an equivalent amount of leased storage or some combination of those two options, as Mr. Mierzwa suggested in CUB-City Ex. 3.0, p. 6, lines 149-156. The entire summer and winter operating regime needs to be examined. This must be done in light of the results of this rate case and the contractual obligations within the existing portfolio.

Q. How long is Peoples Gas proposing this transition take?

A. At a minimum this process should take approximately a year to eighteen months after the Commission issues an order in this case. This time period would allow Peoples Gas time to develop options, have discussions with service providers, and put in place a modified portfolio for supply, transportation, and storage.

Q. CUB-City witness Mr. Mierzwa offered testimony for the stated purpose of ensuring that “all factors relevant to Peoples Gas’ use of Manlove (for system supply and Hub services) are presented to the Commission for consideration” (CUB-City Ex. 3.0, p. 5, lines 109-111). Is it accurate to state that Peoples Gas uses Manlove Field only for system supply and Hub services?

A. No. First, Manlove Field supports a service to North Shore that is provided under a Commission-approved contract. Second, Manlove Field also supports certain bank and balancing services that are available to large and small volume transportation customers and suppliers.

Q. Mr. Mierzwa stated that, if Manlove Field were used for system supply, Peoples Gas could potentially reduce gas costs by $12.24 million by taking advantage of seasonal price differentials (CUB-City Ex. 3.0, p. 6). Please comment on Mr. Mierzwa's analysis.

A. As discussed above in response to the questions raised by Dr. Rearden, Peoples Gas has a different view of the potential savings. Also, Mr. Mierzwa excludes from his calculation the increase in costs to ratepayers due to the return on average inventory costs of the additional 10.2 Bcf of inventory, and certain operating costs that are currently assigned to the Hub that will continue even if Hub revenues are no longer generated and flowed through the Gas Charge. The revenue requirement on average inventory alone could be $5 million of costs to customers because using the 10.2 Bcf on Manlove inventory for them would require Peoples Gas to inject this much inventory. The Hub uses gas provided by third parties. For example, using 5.1 Bcf (10.2 Bcf x 50%) as an average annual inventory at an average cost of $8/dth equals $40.8 million of average inventory costs. Applying the revenue requirement factor of 12.16% shown in Exhibit TZ 2.07 provides an estimate of $4.96 million of increased ratepayer costs due to return in average inventory. Mr. Mierzwa's estimated benefit of $12.24 million, less the $4.96 million revenue requirement on average inventory provides a net ratepayer benefit of $7.28 million, which is $3.22 million less than the $10.5 million Mr. Mierzwa quotes as the Hub benefits to ratepayers.

Q. Mr. Mierzwa stated that displacing purchased storage services with Manlove could save $10.5 million in gas costs (CUB-City Ex. 3.0, p. 6). Please comment on Mr. Mierzwa's analysis.

A. As discussed above in response to the questions raised by Dr. Rearden, Peoples Gas has a different view of the potential savings. The principal problem with this estimate is that it assumes a one-for-one replacement of purchased service with Manlove service, and that is not an accurate assumption.

Q. Mr. Mierzwa stated that, in Peoples Gas' fiscal 2005 gas charge reconciliation case, Peoples Gas did not demonstrate the reasonableness of "the amount of Manlove storage it assigns to system supply" (CUB-City Ex. 3.0, p. 7). Do you agree that Peoples Gas failed to show the reasonableness of its use of Manlove Field?

A. No. Peoples Gas presented extensive evidence in that proceeding supporting its use of Manlove Field. The Commission has not yet issued an order in that case.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes.