

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

North Shore Gas Company)	
)	
Proposed General Increase In Rates For Gas Service)	Docket No. 07-0241
)	
The Peoples Gas Light and Coke Company)	Docket No. 07-0242
)	
)	(cons.)
)	
Proposed General Increase In Rates For Gas Service)	
)	

**INITIAL BRIEF OF
CONSTELLATION NEWENERGY-GAS DIVISION, LLC**

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INITIAL BRIEF OF CNE-GAS

Constellation NewEnergy – Gas Division, LLC (“CNE-Gas”) hereby submits to the Illinois Commerce Commission (“Commission”) its Initial Brief in the above-captioned consolidated proceeding regarding the proposed general rate increase submitted by Peoples Gas Light and Coke Company (“PGL”) and North Shore Gas Company (“NS”) (jointly referred to as “Peoples”).

I. **INTRODUCTION**

A. Summary

Constellation NewEnergy-Gas Division, LLC (“CNE-Gas”) is a natural gas marketing company that is a wholly owned subsidiary of Constellation Energy Group, Inc. CNE-Gas provides natural gas commodity and related services to many large volume commercial and industrial end-users who receive their distribution service from PLS and NS. (CNE-Gas Exhibit 1.0, lines 11-40) CNE-Gas presented the direct and rebuttal panel testimony of John M. Oroni, Regional Sales Director with CNE-Gas, and Lisa A. Rozumialski, Manager of Gas Operations for CNE-Gas. (CNE-Gas Exhibits 1.0 and 2.0)¹

Mr. Oroni and Ms. Rozumialski presented testimony on the following issues:

- Peoples’ proposal to implement cycling requirements for a transportation customer’s storage gas inventory and the associated target levels for storage gas inventory (70% or greater by November 30 and 35% or less by March 31 for PGL; 85% or greater by November 30 and 24% or less by March 31 for NS);

¹ CNE-Gas also co-sponsored with the Illinois Industrial Energy Consumers (“IIEC”) and Vanguard Energy Services, LLC (“VES”) the testimony of Dr. Alan Rosenberg, IIEC/CNE/VES Joint Exhibits 1 and 2. Dr. Rosenberg’s joint testimony addressed: Peoples’ proposed cycling requirements; Peoples’ proposal to limit the ability of transportation customers to inject and withdraw from storage by transportation customers; and the value of unbundling Peoples’ storage assets for transportation customers

- Various proposals to effectively mitigate the adverse impacts of additional storage requirements while continuing to allow Peoples' to achieve its objectives;
- CNE-Gas' proposal that Peoples adopt the standard industry practice of allowing intraday nominations, as do other Illinois local gas distribution utilities and affiliates of Peoples located in other states;
- The restructuring of Peoples' current transportation riders, including the initially proposed elimination of Rider FST;
- The availability of certain customer information through PEGASys;²
- The implementation of additional tariff language that provides a limited waiver for the determination of billing demand;
- The need to modify Peoples' current practice of limiting subsequent day delivery to prior day volumes during delivery restriction periods;
- The equity in removing uncollectible commodity-related costs from transportation customer recovery; and
- The adverse impact of Peoples' requested rate increases on Illinois transportation customers.

Mr. Oroni and Ms. Rozumialski testified to the need for the adoption of the following recommendations, in part to temper the negative impacts of Peoples' proposal:

- Elimination of a cap on the number of accounts within a group or pool;
- Allowance of Super Pools;
- Allowance of transportation customers with different Selected Standby Percentages to be in the same Rider P Customer Group; and
- Measures to make storage cycling more reasonable, including the use of common targets for both PGL and NS, a 30-day compliance window and limiting targets to injection or withdrawal, but not both.

² PEGASys is Peoples' online customer data system.

X.
TRANSPORTATION ISSUES³

A. Overview

**THE COMMISSION SHOULD MODIFY PEOPLES'
PROPOSAL TO SIGNIFICANTLY LIMIT THE ABILITY OF
TRANSPORTATION CUSTOMERS TO PROPERLY MANAGE RISK**

The Commission must modify Peoples' proposals that significantly restrict the flexibility of transportation customers to utilize Peoples' storage service and assets and to limit customers' ability to continue to employ certain risk management tools. CNE-Gas respectfully requests that the Commission requires the following adjustment to Peoples' proposals:

1. **Accept Peoples' Alternative Rider FST, absent the proposed storage cycling requirements.** Alternative Rider FST, proposed in Mr. Zack's surrebuttal testimony offers a compromise that preserves customer choice and avoids the negative consequences associated with complete elimination of this Rider. As demonstrated by CNE-Gas, the November 30 and March 31 cycling targets from Section E of the proposed Rider FST tariff should be removed. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 27-29, 76-155; Tr. 785-786; CNE-Gas Exhibit 2.0, lines 86-89; IIEC/CNE/VES Joint Exhibit 1, lines 1-136, page 21)
2. **Require Peoples to revise Rider SST by removing the proposed storage cycling requirements and replacing the proposed daily injection limits with either the Maximum Daily Nomination from alterative Rider FST or the Maximum Daily Quantity from current tariffs.** Peoples' proposed revised Rider SST would significantly decrease customer flexibility and increase costs. (Tr. 785, 787) The revised Rider SST daily injection limits are inferior to both the proposed limits for Rider FST and Peoples' current tariffs. Normal imbalances on any given day due to weather fluctuations may actually be larger than the allowed storage injection for the day. (Tr. 787-788)
3. **Reject Peoples' proposed storage cycling requirements and associated target levels for transportation customers.** Peoples has not sufficiently demonstrated any changes in the operation of either PGL's or NS's systems since its last rate case that would justify its proposed restrictive and unnecessary storage cycling

³ As required by the ALJs, CNE-Gas' brief follows the common briefing outline. CNE-Gas takes no position on issues addressed elsewhere in the outline. Sections II-IX and XII of the briefing outline are omitted.

measures. For many years, Peoples has demonstrated the ability to cycle its storage field without the existence of the cycling requirements it now wishes to impose on transportation customers. (IIEC/CNE/VES Joint Exhibit 1, lines 1-6, page 21) Requiring transportation customers to cycle on the same schedule as sales service may actually harm sales customers. (IIEC/CNE/VES Joint Exhibit 1, lines 7-13, page 21)

4. **If the Commission finds that some level of cycling requirements are just and reasonable, direct Peoples to implement more moderate target levels.** Historically Peoples has only met a level of 70% for PGL or 85% for NS by November and 35% for PGL and 24% of NS by March in the aggregate, not by individual customer or pool. (Tr. 599-600; North Shore Exhibit TZ 1.1; Peoples Gas Exhibit TZ 1.1) More moderate target levels are reasonable given the absence of any operational emergency, or even need, presented by Peoples justifying the proposed cycling requirements. It is reasonable for Peoples to use cycling target levels that are analogous to those imposed upon Peoples through leased storage contacts. (CNEG Zack Cross Exhibit 3) In the Northern Illinois Gas Company ("Nicor") rate case in Docket No. 04-0779 the Commission found it reasonable to implement only a fall injection target, but not a spring withdrawal target. (CNE-Gas Exhibit 2.0, lines 75-85)
5. **If the Commission finds that some level of cycling requirements are just and reasonable, direct Peoples to implement common targets and prohibit NS from imposing target requirements that are more restrictive than PGL.** As demonstrated by CNE-Gas, a target level of requiring storage to be more than 50% full by November, similar to the requirements of Natural Gas Pipeline Company of America's ("NGPL") Rate Schedule NSS, would meet a goal of moderation. Likewise, a target level requirement that storage must be less than 50 percent by March, similar to NGPL Rate Schedule DSS, would be more moderate than the target levels proposed by Peoples. (CNEG Zack Cross Exhibits 2 and 3)
6. **If the Commission finds that some level of cycling requirements are just and reasonable, consider whether a period of time for compliance, such as a 30-day period, is a more appropriate compliance measure than specifically enumerated dates.** (CNE-Gas Exhibit 2.0, lines 90-98) As Dr. Rosenberg states, while aquifer storage fields must be filled and emptied periodically, storage fields cannot read a calendar or a specific date. (IIEC/CNE/VES Joint Exhibit 1, lines 4-7, page 22; CNE-Gas Exhibit 2.0, lines 90-98) A 30-day compliance window is analogous to how Peoples must comply with some of its pipeline service. (CNEG Rearden Cross Exhibit 5)
7. **Require that Peoples implement an Unbundled Storage Bank Service ("USB").** The proposed USB Service is described by Dr. Rosenberg in IIEC/CNE/VES Joint Exhibits 1 and 2.
8. **Direct Peoples to remove any restriction that limits group size under Rider P.** The marketplace should determine the appropriate group size rather than Peoples

own administrative ease. As long as Peoples recovers its costs, which there has been no suggestion in this proceeding that it does not fully recover such costs, Peoples should be neutral as to the number of customers a supplier includes in any single pool. (CNE-Gas Exhibit 1.0, lines 408-409; CNE-Gas Exhibit 2.0, lines 631-639)

9. **Require that Peoples implement Super Pooling.** Transportation customers should be provided this additional tool to enable them to better utilize their storage and to mitigate the impact of high penalties and charges. If the Commission authorizes cycling, Super Pooling is essential in order to mitigate a supplier's reduced ability to manage their storage assets. Nothing about Super Pooling diminishes Peoples ability to achieve its objective or results in any adverse impact to the utility. (CNE-Gas Exhibit 1.0, lines 443-459; CNE-Gas Exhibit 2.0, lines 140-312)
10. **Direct Peoples to permit customers with different Selected Standby Percentages to be included in the same pool or group.** Rather than per utility restriction, customers should determine whether this choice and added flexibility are desired by the market. There is nothing in the record that suggests that Peoples does not already recover the administrative costs required to do this, nor that the utility does not have the capability to effect this change. (CNE-Gas Exhibit 1.0, lines 311-340, 357-380)
11. **Direct Peoples to allow intraday nominations.** Intraday nominations, to varying degrees, are standard practice throughout the North American natural gas industry. Intraday nominations are beneficial in order to adjust for unexpected events such as weather or production changes, or even pipeline or utility service disruptions. (CNE-Gas Exhibit 1.0, lines 165-287; CNE-Gas Exhibit 2.0, lines 453-504) While Peoples allows intraday nominations on a select basis, Peoples should be required to universally permit intraday nominations for all transportation customers who represent over 40% of Peoples annual throughput, particularly given Peoples' proposed storage restrictions. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 735-737) Peoples itself is allowed to make intraday adjustments. The rates paid by transportation customers include the cost of leased storage services; these leased storage services enable Peoples to make intraday nominations. (Tr. 584, 586, 593, 602)
12. **Direct Peoples to modify its delivery restriction requirements.** Current rules during a delivery restriction are counterproductive in that they result in transporter behavior that is less beneficial than other potential outcomes. Peoples should rectify this paradox by implementing delivery restriction rules that correlate more closely to actual usage and industry norms. (CNE-Gas Exhibit 2.0, lines 509-585)

B. Uncontested Issues
9. Billing Demand Determination

**THE COMMISSION SHOULD ACCEPT PEOPLES’
ADDITIONAL BILLING DEMAND TARIFF LANGUAGE**

In response to an issue raised by CNE-Gas, Peoples proposed additional tariff language be added in the section entitled “Billing Demand” permitting up to a ten day, preauthorized demand calculation waiver due to circumstances such as equipment maintenance and/or testing. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 1013-1032) CNE-Gas accepts this proposal. (CNE-Gas Exhibit 2.0, lines 716-720)

CNE-Gas respectfully requests that the Commission authorize Peoples to amend its tariffs to allow a Billing Demand waiver.

C. Large Volume Transportation Program
1. Rider FST

**THE COMMISSION SHOULD REJECT PEOPLES’
ELIMINATION OF RIDER FST AND ACCEPT PEOPLES’
ALTERNATIVE RIDER FST, SUBJECT TO MODIFICATION**

Initially Peoples proposed to eliminate Rider FST. (North Shore Exhibit TZ 1.0, lines 506-508, 710-811; Peoples Gas Exhibits TZ 1.0, lines 533-535, 736-838) In the interests of ameliorating the impacts on large volume transportation customers, in its surrebuttal testimony Peoples proposed an alternative Rider FST in lieu of complete elimination of this Rider. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 27-29, 76-155) CNE-Gas appreciates Peoples willingness to respond to the concerns of this important customer segment by making appropriate modifications to its initial proposal in order to address customer concerns. (Tr. 785-786) However, while Peoples' alternative Rider FST resolves CNE-Gas' concerns regarding its elimination, CNE-Gas continues to

object to the proposed cycling requirements contained in alternative Rider FST.⁴ (North Shore/Peoples Gas Exhibit TZ 3.2, page 4)

In filing alternative Rider FST, Peoples also modified its original proposal to incorporate daily injection and withdrawal limits under Rider SST similar to those of its alternative Rider FST. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 30-31, 172-220) Although CNE-Gas agrees conceptually with Peoples, CNE-Gas strongly objects to the specific daily injection criteria Peoples proposes for revised Rider SST.⁵ (North Shore/Peoples Gas Exhibit TZ 3.3, page 3) CNE-Gas' arguments against Peoples proposed change to Rider SST are contained in the subsequent section of this brief.

CNE-Gas respectfully requests that the Commission authorize Peoples to implement alternative Rider FST excluding Section E cycling targets for November 30 and March 31.

C.2. Rider SST

THE COMMISSION SHOULD DIRECT PEOPLES TO MODIFY REVISED RIDER SST

Peoples filed a revised Rider SST to include daily nomination limits similar to those of alternative Rider FST. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 30-31, 172-220) Revised Rider SST continues to include cycling requirements for November and March. CNE-Gas objects to the new daily nomination limits and to the proposed cycling requirements of Revised Rider SST.⁶ (Tr. 785, 787)

Peoples proposes to revise the Maximum Daily Injection Quantity (“MDIQ”) for Rider SST so that on any given day the amount of gas that a customer can deliver in

⁴ For CNE-Gas' arguments addressing Peoples' cycling proposal, see section X. C. 4.

⁵ See section X. C. 2. for CNE-Gas' arguments addressing Peoples' Rider SST daily injection criteria.

⁶ See section X. C. 4 for CNE-Gas' argument addressing proposed cycling requirements.

excess of its requirements for that day is limited to 0.67% of the customer's Allowable Bank ("AB"). (North Shore/Peoples Gas Exhibit TZ 3.3, page 3) For any daily imbalance, the difference between the nomination and actual usage must be reconciled within 0.67% of the AB, with any remainder available for injection. Quantities in excess after reconciliation are subject to substantial imbalance account charges.⁷

The revised daily nomination limits significantly diminish the value of Rider SST for transportation customers. (Tr. 787) Currently Rider SST allows a customer to have up to their Maximum Daily Quantity ("MDQ") delivered on any given day. If a customer's MDQ is delivered, this effectively allows the customer to inject any volume in excess of usage for that day into the AB, assuming the volume does not result in the customer exceeding its AB limits. (Tr. 787-788) In contrast, under Revised Rider SST, a customer is limited to delivering its actual usage plus 0.67% of its AB. Since actual usage likely will deviate from the delivered volume, any imbalance must first be reconciled and the remainder may then be injected into storage. If a customer's usage is greater in volume than 0.67% of its AB, then a withdrawal from storage may occur rather than the planned injection. The revised Rider SST greatly decreases the amount of gas that can be delivered to a customer from storage on any given day, thereby severely limiting the ability of transport customers to inject gas into storage. Normal imbalances on any given day may actually be larger than the allowed storage injection for the day. (Tr. 787-788)

The revised Rider SST also adversely impacts a customer when usage is not as high as expected. If a customer anticipates it will use a higher volume, but because of

⁷ The daily Imbalance Account Charge is \$0.10 per therm on a Non-Critical Day. On a Supply Surplus Day the Imbalance Account Charge is \$6.00 per therm.

production or weather changes actual usage is less than expected, the delivered volume could be greater than the sum of actual usage plus 0.67% of the AB. Any therm of gas delivered in excess of 0.67% of the AB plus actual usage would then be subject to an imbalance account charge of \$.10 per therm. (Tr. 788-798) The inability to submit intraday nominations to Peoples in order to adjust for normal production and weather changes only exacerbates the problems of the proposed daily injection limits, as explained in Section X.C.7.a.

The extremely restrictive injection limits imposed by revised Rider SST are illustrated in CNEG Zack Cross Exhibit 1. This Exhibit shows an actual PGL Rider SST customer's usage for one month. As the Exhibit shows, the affect of each weekend on a process load customer results in a withdrawal from storage in order to account for the less predictable and uneven weekend usage rather than a planned injection. (Tr. 787-789) Based upon the MDIQ limits of revised Rider SST, customer injections for a process customer during the weekend are typically required just to account for any imbalance between nomination and actual usage; even then the injection may be insufficient to accommodate all imbalance volumes, thereby resulting in a storage withdrawal rather than an injection. Since holiday usage is likewise less predictable, a similar pattern results whenever a holiday occurs.

As the data in CNEG Zack Cross Exhibit 1 shows, following Week 2 there is a 1.4% net withdrawal from storage due to the impact of weekend usage. The industry norm is to deliver the same amount of gas during each day of a weekend, whereas customer usage varies each day, especially compared to weekday requirements. (Tr. 788) For process users this is due in part to the greater irregularity in production and the

greater variability of shifts over the weekend period. After four full weeks of production, the net impact is only a 4.7% injection into storage for this customer.

Moreover, as the Exhibit is based upon perfect knowledge of daily usage (in other words the volume delivered each day is exactly what will be consumed) the example documents the challenge of achieving the necessary injections even when one ignores the need to account for daily imbalances. However, since daily imbalances must be covered within the customer's MDIQ, the daily injection limits proposed in revised Rider SST may on certain days only accommodate typical imbalances, thereby prohibiting storage injection, and perhaps even resulting in a storage withdrawal. Such restrictive daily limits jeopardize a transportation customer's ability to effectively manage its AB and achieve the proposed November injection target.

For the customer in the Exhibit, after four full weeks of activity the customer is only able to inject the 4.7%, but to do even that required perfect knowledge of its usage on every single day of this four week period. The Exhibit also excluded any holidays. Looking at this another way, during the four complete weeks, the average weekly injection was 1.175% per week. The total injection period lasts 34 full weeks (April 1 through November 30), so at this same average rate of 1.175% per week, over the course of the entire injection period it would be expected that this customer would inject a total of 40%. Again, this assumes perfect knowledge each and every day, no holidays, and the ability to maximize storage injections while avoiding additional charges and penalties. For a PGL customer, assuming it was at 35% on March 31, by the end of November the customer just makes it over the 70% target level assuming perfect knowledge of its usage each day. For a NS customer, as its March 31 starting point is 24%, the 40% injection

leaves it at 64%, significantly short of the proposed 85% target level. When applying the proposed target levels to actual customer usage it is apparent the proposed cycling requirements are impossible to achieve in NS, and even with perfect knowledge are nearly impossible to achieve for PGL.⁸ The proposed daily injection limits are inadequate, especially for achieving the proposed cycling target levels.

CNE-Gas recommends that the daily injection limits for Rider SST either be based upon identical requirements to those for Maximum Daily Nomination ("MDN") as found in alternative Rider FST or that the daily injection limits for Rider SST should remain identical to current tariffs by limiting daily injections to MDQ. (North Shore/Peoples Gas Exhibit TZ 3.2, page 4; Tr. 787-788)

CNE-Gas respectfully requests that the Commission require that Peoples implement a modified Rider SST that not only excludes Section F cycling targets for November 30 and March 31, but also replaces MDIQ with MDN from alternative Rider FST or retains the current tariff structure of limiting daily injections to MDQ.

C.4. Injection, Withdrawal and Cycling Requirements

(a) THE COMMISSION SHOULD ACCEPT PEOPLES' WITHDRAWAL OF ITS INJECTION AND WITHDRAWAL PROPOSAL

Peoples withdrew its original proposal for injection and withdrawal limitations⁹ which were, in surrebuttal testimony, replaced with an alternative Rider SST. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 178-198) CNE-Gas supports Peoples proposed

⁸ Section X.C.4.(c) i. more fully explains the inability to achieve the proposed cycling requirements of revised Rider SST due to these restrictive daily injection limitations.

⁹ Initially Peoples also proposed to implement other storage-related injection and withdrawal requirements such as a Maximum Daily Withdrawal Quantity ("MDWQ") and Maximum Daily Injection Quantity ("MDIQ"). (North Shore Exhibit TZ 1.0, lines 841-854; Peoples Gas Exhibit TZ 1.0, lines 871-884) Proposed Rider SST also included a Base Rate Day Injection Percentage ("BRDIP"), a Base Rate Day Withdrawal Percentage ("BRDWP"), a Gas Charge Days Injection Percentage ("GCDIP"), and a Gas Charge Days Withdrawal Percentage ("GCDWP").

elimination of the originally proposed injection and withdrawal requirements as contained in alternative Rider SST, but CNE-Gas does not support other changes that were simultaneously made to Rider SST as filed in surrebuttal testimony.¹⁰ (Tr. 786-789) Peoples' alternative proposal also retains seasonal cycling requirements for both Riders FST and SST.

**(b) PEOPLES HAS FAILED TO DEMONSTRATE
THE NEED FOR CYCLING REQUIREMENTS**

Peoples' own history in operating its storage field and managing its interstate pipeline storage assets demonstrates that the proposed cycling requirements are operationally unnecessary. For many years Peoples has been able to properly cycle its gas, in the manner and to the levels deemed necessary, to meet its own operational and seasonal requirements without any maximum or minimum storage level requirements imposed on transportation customers. (CNE-Gas Exhibit 2.0, lines 86-89) Peoples has never failed to properly cycle Manlove Field in spite of no cycling requirements for transportation customers. (IIEC/CNE/VES Joint Exhibit 1, lines 1-6, page 21) While it periodically is necessary to fill and empty aquifer storage fields, it is not necessary that transportation customers cycle their storage gas on the same schedule as the sales customers. Dr. Rosenberg demonstrated that it may actually harm sales customers to require transportation service to cycle on the same schedule as sales service. (IIEC/CNE/VES Joint Exhibit 1, lines 7-13, page 21) Forcing transportation customers to use assets in the same manner as Peoples uses them offers transportation customers limited operational flexibility. (ICC Staff Exhibit 24.0, lines 191-194)

¹⁰ CNE-Gas' objections to these changes are discussed in Section X. C. 2.

Peoples' cycling target levels are based upon the historic inventory capacity at the end of November and March for both PGL and NS over the most recent six years. (North Shore Exhibit TZ 1.1; Peoples Gas Exhibit TZ 1.1) The historic month-end inventory capacity is an aggregate of *all* of Peoples customers, both sales and transportation. It is not based upon individual customer performance. Some individual customers had storage balances above historic capacity; others had storage balances below this value. Yet, in this proceeding Peoples seeks to have all transportation customers, even at the individual level, adhere to a target level that Peoples itself was only able to achieve on an aggregate level. (Tr. 599-600)

Based upon the mathematical theorem known as the Law of Large Numbers, it is easier to achieve a single target value based upon numerous observations, such as the aggregate of many individual customers and groups, than it is to reach that same target value based upon a single observation, in other words a single customer. Mathematically one can conclude that it is more reasonable for Peoples to achieve the proposed cycling targets at the aggregate level of all customers, both system and transportation, than it is to expect individual customers or pools to achieve those same targets. Consequently if the entire universe of observations achieves a target of 70% or 85%, it is not comparable or reasonable to expect each individual observation, or customer, to likewise achieve that same value.

In addition to the Company's operating history, Peoples would have the Commission believe that PGL's requirement to be at least 70% full by November 30 and no more than 35% full by March 31 and NS's corresponding 85% by November 30 and 24% by March 31 requirement are soundly supported by the underlying assets of the

utilities. Yet nearly 85% of Peoples total storage assets have fall injection requirements that either are non-specific or less stringent than either a 70% or 85% target. Only service under NGPL Rate Schedule DSS service has a higher fall cycling target of 95%, but compliance for that target is measured during a 30-day window from October 15 to November 15. For spring withdrawal requirements, 80% of Peoples' total storage assets have withdrawal requirements that are less stringent than the 35% and 24% proposed. Only ANR Pipeline Company's Rate Schedule FSS service has a more stringent target of 20% or less by March 31. (Peoples Gas Exhibit TZ 1.0, lines 369-378; CNEG Zack Cross Exhibits 2 and 3)

Peoples has failed to demonstrate the need for and the propriety of the proposed cycling requirements. In the past, the record shows that Peoples has been able to physically cycle its storage fields to operating levels for the heating season and withdrawal levels by spring in preparation for summer injections. Under Peoples' existing tariff provisions, AB allocations to transportation customers enabled them to utilize some of Peoples' storage assets to inject and withdraw their own gas supply. During the past 10 years these two functions have co-existed without harm to Peoples' storage operations or its tariff supply customers, and without the cycling requirements on transportation customers that Peoples now suggests are necessary. (IIEC/CNE/VES Joint Exhibit 1, lines 1-13, page 21) Peoples has not linked the need for these cycling requirements to either maintaining the operational integrity of Manlove Field or allowing Peoples to be able to manage its storage as it sees fit. (IIEC/CNE/VES Joint Exhibit 1, lines 17-23, page 22) Peoples' simply has not met its burden of proof to support this proposal.

Since Peoples was unable to present any factual or operational evidence to support the imposition of cycling requirements on the grounds of “operational necessity,” Peoples resorts to specious arguments regarding the desire to protect captive ratepayers. Peoples witness Zack asserts that the interests of transportation customers are counter to Peoples’ system supply customers; and, therefore, Peoples must protect its customers from higher costs through restricting transportation customers’ use of rate base assets for which they pay. (North Shore Exhibit TZ 1.0, lines 363-368; Peoples Gas Exhibit TZ 1.0, lines 390-395)

However, as illustrated by IIEC/CNE/VES witness Dr. Rosenberg, it is Peoples’ proposed cycling requirements that present the real potential for higher costs to sales customers, not the behavior of transportation customers. (IIEC/CNE/VES Joint Exhibit 1, pages 23-24 and Schedules 3 and 4; IIEC/CNE/VES Joint Exhibit 2, pages 18-19) While Mr. Zack had at his disposal all the facts and figures about Peoples’ storage operations, he did not provide any actual evidence that demonstrates that sales customers have been unduly or unreasonably harmed as a result of transportation customers’ behavior. (IIEC/CNE/VES Joint Exhibit 2, page 19) Transportation customers who are utilizing storage are paying their fair share of storage costs and should be allowed to optimize that usage for their own circumstances. (IIEC/CNE/VES Joint Exhibit 1, page 22)

The Commission should not give weight to Peoples' claimed need for cycling requirements. The fact is for the past 10 years both transportation customers and sales customers have been able to utilize Peoples storage assets without harm to one another.

Peoples presented no studies or analysis that calculated actual financial losses suffered by sales customers due to the injection and withdrawal patterns of transportation customers.

CNE-Gas respectfully requests that the Commission reject Peoples' proposed cycling requirements.

**(c) ALTERNATIVELY, IF THE COMMISSION
APPROVES CYCLING REQUIREMENTS, THE PROPOSED
TARGET LEVELS AND PROVISIONS SHOULD BE MODIFIED**

CNE-Gas does not believe that Peoples has justified the need for cycling requirements. However, if the Commission finds that Peoples has met its burden of proof that some form of cycling requirements are just and reasonable, CNE-Gas recommends that the Commission modify Peoples target levels and/or only impose a fall injection target. In addition, if the Commission finds that Peoples has met its burden of proof that cycling requirements are just and reasonable, compliance must be modified.

**i. THE COMMISSION SHOULD MODIFY PEOPLES'
UNREASONABLE PROPOSED TARGET LEVELS**

Peoples has not shown that it needs every individual PGL transportation customer and all PGL marketer pools to reach a 70% AB balance by November 30 and be no more than 35% full on March 31, nor has it shown that all individual NS transportation customers and every NS marketer pool must be 85% full by November and no more than 24% full on March 31. Peoples' itself has historically only achieved this level of compliance on an aggregate level. (Tr. 599-600) CNE-Gas demonstrated that even at the less onerous 70% and 35% target levels proposed for PGL, for certain customers these targets are impossible to achieve under normal operating conditions without incurring imbalance account charges. For Rider SST customers, these charges are \$0.10

per therm on each Non-Critical Day and increase to \$ 6.00 per therm on a Supply Surplus Day. (North Shore/Peoples Gas Exhibit TZ 3.3, page 5)

To illustrate, CNE-Gas provided a typical PGL process customer's actual usage for a one month period. (CNEG Zack Cross Exhibit 1) Under the proposed cycling rules, a PGL customer's AB may be no more than 35% full on March 31. Because a day or two of customer's usage could represent 10% or more of a customer's storage account capacity and since usage reporting lags by several days, in order to assure compliance with the 35% target, the customer must actually plan to be *lower* than 35%. (CNE-Gas Exhibit 2.0, lines 90-98) Correspondingly, in order to assure compliance with the 70% target, the customer must actually plan to be *higher* than 70%. (CNE-Gas Exhibit 2.0, lines 90-98)

CNEG Zack Cross Exhibit 1 provides one month of actual data for a PGL Rider SST customer. As that Exhibit shows, the affect of each weekend for this process load customer results in a decline in storage in order to account for the less predictable weekend usage. A process load customer, often a manufacturer, uses gas primarily Monday through Friday, with usage often declining on weekends. A process load customer's usage is more dependent upon production, whereas a heat load customer is more sensitive to weather affects. (Tr. 789) Because proposed Rider SST limits customer deliveries to the MDIQ, a process load customer typically needs to inject during the weekend to account for any imbalance between nomination and actual usage. The MDIQ may be insufficient to accommodate all imbalance volumes, often resulting in a storage withdrawal rather than an injection whenever a weekend occurs.

CNEG Zack Cross Exhibit 1 illustrates that, as August 2007 ended on a Friday, a decline in the cumulative 6.7% monthly injection level during the subsequent Saturday and Sunday would typically occur since industry norms prescribe flat daily deliveries over the entire weekend even though actual usage tends to have greater variability during these days. To compensate for the weekend effect, when you look at seven-day complete weeks, it is evident the proposed 70% and 85% storage cycling targets are either impossible to achieve, or may require perfect advance knowledge of usage down to the exact therm in order to be met. (North Shore/Peoples Gas Exhibit TZ 3.3, page 3; CNEG Zack Cross Exhibit 1)

Moreover, the sample month of August does not include any holiday impacts. For a process load user, holidays typically will result in a storage draw down similar to that exhibited for weekends. During the injection period there are several holidays, including Memorial Day, Fourth of July, Labor Day and Thanksgiving, all of which are likely to negatively impact the ability to inject, or in other words actually require a withdrawal when usage is normally dropping, due to how Peoples determines the Rider SST MDIQ. (North Shore/Peoples Gas Exhibit TZ 3.3, page 3; CNEG Zack Cross Exhibit 1)

At hearing Mr. Zack suggested that the customer in the CNEG Zack Cross Exhibit 1 would, assuming storage was 35% full in April, be able to avoid imbalance account charges and still achieve the necessary injections in order to reach 70% full by the November target. (Tr. 605-606) CNE-Gas submits that the assumptions required in order to achieve this target level are totally unrealistic. In order to achieve the 70% injection target, this customer also needs to have all of the following take place:

- b. the additional weekend days are eliminated in April, June, July and September 2007;
- c. Memorial Day, Fourth of July, Labor Day and Thanksgiving do not occur;
- d. no gas ever gets cut by the pipeline (in other words every therm of gas nominated actually gets delivered);
- e. each and every day the amount nominated must exactly match the amount of gas consumed; and
- f. each day the amount injected into the AB is the maximum allowed per tariff.

Moreover, if on any day the amount injected into the AB is even one additional therm, an imbalance account charge would be assessed to the customer. It is virtually impossible to cycle in the manner proposed by Peoples.

If the customer in CNEG Zack Cross Exhibit 1 had been a NS customer instead, having an AB inventory of 24% in April, the same usage and delivery pattern would not have permitted that customer to achieve 85% in November. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 932-940)

If the Commission finds that Peoples has met its burden of proof that cycling requirements are just and reasonable, CNE-Gas suggests that the Commission adopt more moderate target levels. A 50% target level would be sufficient, particularly given the absence of any past or present operational emergency or need presented by Peoples for justification for the proposed cycling requirements. CNE-Gas believes a target level, similar to the one imposed upon Peoples under NGPL Nominated Firm Storage Service ("NSS") contracts requiring storage inventories to be greater than 50% by November, would meet a goal of moderation. Nearly 85% of Peoples total storage assets have fall injection requirements that either are non-specific or the targets are no more stringent than 50% full. (CNEG Zack Cross Exhibits 2 and 3)

For the spring withdrawal target, NGPL Nominated Firm Storage Service contracts require storage inventories to be less than 67% in order to maintain maximum

injection rights and Delivered Storage Service (“DSS”) requires storage inventory balances to be less than 50%. (CNEG Zack Cross Exhibit 3) A target level requiring that storage be less than 50% full by March 31 would likewise meet a goal of moderation. Eighty percent of Peoples storage assets either have no spring withdrawal target or the targets are no more stringent than 50% empty. (CNEG Zack Cross Exhibits 2 and 3)

In the Northern Illinois Gas Company (“Nicor”) Order in Docket No. 04-0779 the Commission recognized the dilemma faced by transportation customers in meeting opposing percent full targets as well as percent empty targets. In that Order the Commission noted that “interveners raised a legitimate concern that combining a withdrawal target with the injection target might be particularly burdensome for Transportation customers.” To alleviate this conflict, the Commission determined a fall injection target was reasonable, but found that a spring withdrawal target was not reasonable. Consequently the Commission rejected Nicor’s proposed spring target level was rejected by the Commission. (CNE-Gas Exhibit 2.0, lines 75-85)

CNE-Gas respectfully requests that the Commission reject Peoples proposed 70% for November 30 and 35% for March 31 for PGL and 85% for November 30 and 24% for March 31 for NS. However, if the Commission deems some level of cycling requirements are just and reasonable, the Commission should direct Peoples to implement more moderate 50% target levels or to implement only a reasonable fall injection target as it did in Nicor.

ii. THE COMMISSION SHOULD IMPLEMENT COMMON TARGETS WITH NS TARGETS NO MORE RESTRICTIVE THAN THOSE OF PGL

The undue complexity of having different cycling target levels for PGL and NS is unwarranted. Although PGL and NS are separate utilities, nearly identical leased storage

assets and the same aquifer field are used to provide customer storage. (CNEG Zack Cross Exhibit 3) The key distinction is that NS transportation customers have a *smaller* AB than do PGL customers. Depending upon Selected Standby Percentage, the AB of NS customers is just 39% to 76% of the size of a comparable PGL customer AB. (Tr. 600-601) The smaller the AB, the more difficult it is to achieve a specific target level. Rather than apply more restrictive target levels than those for PGL, NS customers should be held to less restrictive target levels due to their smaller AB.

According to North Shore/Peoples Gas Exhibit TZ 3.2, Rider FST customer deliveries are limited to the MDN. The MDN is limited to average daily usage for the comparable month of the prior year plus 0.67% of the AB. The smaller the AB, the less able to cover usage imbalances and the less volume available for storage injection resulting in greater difficulty in achieving cycling targets. Not only is the amount available for injection lower for a comparable NS customer, but the November target level proposed is higher making cycling doubly more challenging for NS customers. (North Shore/Peoples Gas Exhibit TZ 3.2, pages 1, 4)

According to North Shore/Peoples Gas Exhibit TZ 3.3, Rider SST customer deliveries are limited to MDIQ. The MDIQ is limited to actual usage plus 0.67% of the AB. The smaller the AB, the less ability to account for any deviation between the customer's usage and nomination resulting in potentially no gas available to inject into storage making it more difficult to achieve cycling targets. Again NS customers are doubly challenged in having not only a higher target level proposed, but being provided a lower storage volume injection by which to achieve the higher cycling target. (North Shore/Peoples Gas Exhibit TZ 3.3, pages 3, 7)

CNE-Gas respectfully requests that, if the Commission implements any cycling target levels, it utilize only common 50% fall injection target values for both PGL and NS and reject any spring withdrawal targets.

iii. THE COMMISSION SHOULD REQUIRE THAT COMPLIANCE NOT BE MEASURED BY A SINGLE SPECIFIED DATE

If the Commission concludes that cycling requirements are reasonable, CNE-Gas suggests that compliance with the target levels be measured over a period of time, such as a 30-day period used by NGPL. Peoples leases storage services from NGPL; these assets enable Peoples to provide storage services to its customers. Some of the NGPL storage services allow Peoples a 30-day window for compliance measurement. (North Shore Exhibit TZ 1.0, lines 344-345; Peoples Gas Exhibit TZ 1.0, lines 372-373) A 30-day compliance window allows customers to achieve the target level as long as their storage account reaches the target on any single day of the 30-day period. Commission staff witness Dr. Rearden believes that a 30-day compliance window for Peoples proposed cycling requirements is analogous to the Delivered Firm Storage Service Peoples secures from NGPL. (CNEG Rearden Cross Exhibit 5)

There are no operational or technical reasons requiring storage to be filled or emptied on a date-certain. As stated by IIEC/CNE/VES witness Dr. Rosenberg, while aquifer storage fields must be filled and emptied periodically, the storage fields cannot read a calendar. (IIEC/CNE/VES Joint Exhibit 1, lines 4-7, page 22) The physical nature of the fields does not require them to be filled by November 30 and emptied by March 31 of each year. Peoples' proposal is even inconsistent with the normal injection period throughout the industry of April 1 through October 31.

Peoples seeks compliance with cycling targets at a single specified point in time, however, the customer or marketer does not have operational data available from Peoples that clearly delineates the volume that is currently in a customer's AB account until days after the fact. This reporting delay complicates the ability of a customer or marketer to achieve a specific percentage-fill at a single point in time, especially as a day or two of customer's usage could represent 10% or more of a customer's storage account capacity. (CNE-Gas Exhibit 2.0, lines 90-98) A lag of several days before receiving daily usage reports makes it virtually impossible to know actual storage levels within 10% accuracy at a particular point in time.

CNE-Gas respectfully requests that the Commission preclude Peoples from measuring compliance with proposed cycling requirements by a single specified date, but instead permit a 30-day compliance window.

C.5. Unbundled Storage Bank ("USB")

CNE-Gas supports the Unbundled Storage Bank proposal offered by IIEC/CNE/VES joint witness Dr. Rosenberg. Briefing on this issue is articulated in the Initial Brief submitted by the IIEC.

C.6. Rider P-Pooling

a. Pool size limits

THE COMMISSION SHOULD DIRECT PEOPLES TO REMOVE THE GROUP SIZE RESTRICTION UNDER RIDER P

CNE-Gas proposes that Peoples completely remove any tariff restriction in Rider P that limits the size of each group to a maximum number of accounts. Peoples proposes to increase the maximum pool size from 150 to 200 accounts. (Peoples Gas Exhibit TZ

1.0, lines 1019-1022 and North Shore Exhibit TZ 1.0, lines 986-989; CNE-Gas Exhibit 1.0, lines 382-414; CNE-Gas Exhibit 2.0, lines 616-685)

Since pooling of transportation accounts first began, the transportation market has matured and it should be up to marketers and their transportation customers to determine what size group is appropriate for their need. Peoples' putative inconvenience is unsupported and irrelevant. (CNE-Gas Exhibit 1.0, lines 408-409; CNE-Gas Exhibit 2.0, lines 631-639) Absent any showing by Peoples that eliminating a 200-account group size limit would increase costs, this restriction should be removed. In the instant proceeding, Peoples has failed to make such a showing. Moreover, there is no evidence that Peoples is not already adequately recovering sufficient pooling costs through existing charges. (ICC Staff Exhibit 24.0, lines 409-416)

Peoples would have the Commission believe that allowing Rider P groups to become larger than 200 accounts would increase the time to review and bill a supplier pool and increase the likelihood of billing adjustments. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 778-780 and lines 788-792) Peoples offered no formal study or analysis that showed that expanding group size would increase costs, increase billing errors or delay billing. All that Peoples could offer was one anecdotal non-pooling example of a single customer that made a contractual modification. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 404-410) Peoples' arguments are red-herrings designed to obscure the fact that Peoples' assertions are hollow and unsubstantiated.

Many other utilities allow group sizes without limits, presumably without error or undue delay.¹¹ Contrary to Peoples assertions, CNE-Gas believes that removal of the cap

¹¹ As presented in CNE-Gas Exhibit 1.0 (lines 392-398), numerous other utilities do not cap the number of accounts in a group: AmerenCIPS and AmerenIP in Illinois; and, also Columbia Gas of Ohio; SEMCO

on group size would actually save Peoples time and money compared to the current level of administrative costs incurred. (CNE-Gas Exhibit 2.0, lines 649-655) Staff witness Dr. Rearden states that it should not be costly to aggregate accounts for pooling, furthermore, existing charges for pooling should account for billing costs. (ICC Staff Exhibit 24.0, lines 409-416)

Peoples suggestion that because the average pool size is less than 150 accounts, there is no interest in larger pools begs the question. Obviously, since larger pools are prohibited, even if there was an interest in larger pools it is impossible that the average pool size would be higher. Pooling data submitted by Peoples actually shows their claims of the adverse impact on the billing process are exaggerated. Analysis indicates that less than a dozen pools are likely candidates for expansion. (CNE-Gas Exhibit 2.0, lines 673-682) Moreover, existing requirements that all customers within the same pool must have the same Selected Standby Percentages also limits current pool size. (CNE-Gas Exhibit 2.0, lines 657-671) Peoples unsubstantiated claims of administrative burden and billing delays that would result from removal of the Rider P group size limit is not sufficient cause to deny the transportation market the substantial benefits it could accrue from removal of the cap. Peoples should be neutral on this decision, only ensuring that PGL and NS recovers their costs for administering the Rider P pools, whatever the actual group size.

Energy Gas Company; Vectren (Indiana Gas; Southeastern Indiana Gas & Electric Company; and Dayton Power and Light); Cincinnati Gas & Electric; Citizens Gas (Indiana); Louisville Gas & Electric; Pacific Gas & Electric; Southern California Gas; Piedmont Natural Gas; and Dominion East Ohio Gas.

b. "Super pooling"

**THE COMMISSION SHOULD ADOPT CNE-GAS' PROPOSAL
REQUIRING PEOPLES TO IMPLEMENT THE USE OF SUPER POOLS**

CNE-Gas proposed that the Commission require Peoples to offer the use of Super Pools as one of the tools for transportation customers and marketers to mitigate the extremely negative rate impacts of Peoples' proposed cycling requirements and target levels. Super Pooling is a rather simple and straight-forward process where the total storage volumes for all customers under the common management of the same marketer are used to determine compliance with certain measures such as the November 30 and March 31 target levels. (CNE-Gas Exhibit 1.0, lines 443-459) Nicor has successfully implemented Super Pooling since 2005. (CNE-Gas Exhibit 2.0, lines 140-148)

Initially Peoples objected to Super Pooling due to billing and administrative concerns. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 803-821) However, in surrebuttal testimony Peoples agreed to implement a portion of CNE-Gas' Super Pooling proposal with two notable exceptions: the exclusion of stand-alone customers and restriction of Super Pooling to cycling targets only. Peoples acknowledged it can accommodate this degree of Super Pooling without significant billing changes. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 308-313)

Based upon issues raised by Peoples, CNE-Gas also modified its initial position on Super Pooling. In rebuttal testimony, CNE-Gas agreed that Super Pooling should exclude any stand-alone accounts that purchase gas supply from more than one supplier in any given month. The result of this rule is that any stand-alone customer in a supplier's Super Pool would have only purchased gas supplies from that supplier during the month when Super Pooling applied. (CNE-Gas Exhibit 2.0, lines 270-312) Stand-

alone customers are the very customers that have the greatest need for Super Pooling. (CNE-Gas Exhibit 2.0, lines 257-269) Peoples acceptance of CNE-Gas' proposal for equitable allocation of charges under Super Pooling addresses certain of Peoples' initial concerns. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 353-355; CNE-Gas Exhibit 2.0, lines 313-353) Peoples concern about potential complaints from stand-alone accounts that are super pooled is unfounded since Super Pooling can only help a stand-alone customer. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 365-367; CNE-Gas Exhibit 2.0, lines 276-283)

CNE-Gas further modified its initial Super Pooling proposal to limit Super Pooling to: 1) compliance with cycling target levels, 2) application of unauthorized use penalties on Critical Days and 3) application of imbalance account charges on Supply Surplus Days. (CNE-Gas Exhibit 2.0, lines 221-231) Peoples objects to application of Super Pooling for the final two circumstances, while Peoples now agrees to implement Super Pooling for the first condition, compliance with cycling target levels. Peoples' position is internally inconsistent. If Peoples is able to implement Super Pooling for cycling compliance because such compliance is only a bi-annual event, Peoples also should be able to apply Super Pooling on Critical Days and Supply Surplus Days since such days are not regular, ongoing circumstances either. (North Shore/Peoples Gas Exhibit TEZ 3.0, lines 348-352)

CNE-Gas' Super Pool proposal, as modified in rebuttal, is merely a tool to allow a marketer with multiple customers and pools to aggregate volumes in order to determine compliance with target cycling levels or permit use of its net imbalance position prior to application of additional charges or penalties. Super Pooling does not diminish Peoples

ability to achieve its cycling objections, nor does it result in any adverse impact to a utility. Based on the 2005 implementation of Super Pooling by Nicor, CNE-Gas submits that Super Pooling assists marketers and their customers in more cost-effectively achieving compliance with utility requirements. (CNE-Gas Exhibit 2.0, lines 140-169) Peoples provides no evidence why Super Pools should not also include single supplier stand-alone accounts and be used for Critical Day and Supply Surplus Day penalties and charges. If a single pool is outside utility limits, it is unnecessary for Peoples to charge a penalty to that supplier if it operates multiple pools, and in aggregate, the sum of all the supplier pools completely complies with Peoples' requirements.

CNE-Gas respectfully requests that the Commission direct Peoples to fully implement Super Pooling including stand-alone accounts who purchase from a single supplier. Super Pooling should be a condition required in order to impose cycling requirements on transportation customers. Even if the Commission rejects Peoples' proposed storage restrictions, the Commission should direct Peoples to implement Super Pooling for determining both unauthorized use penalties on a Critical Day and imbalance account charges on a Supply Surplus Day.

c. Permitting Customers with Different Selected Standby Percentages ("SSP") to be in the Same Pool

THE COMMISSION SHOULD DIRECT PEOPLES TO PERMIT CUSTOMERS WITH DIFFERENT SELECTED STANDBY PERCENTAGES TO BE IN THE SAME POOL

CNE-Gas proposes that suppliers be able to include customers electing different Selected Standby Percentages ("SSP") in the same pool. (CNE-Gas Exhibit 1.0, lines 311-334) Peoples objects to this proposal citing a lack of suppliers requesting this change and that suppliers tend to select the same SSP for all their pools. (North

Shore/Peoples Gas Exhibit TEZ 3.0, lines 862-871) Since Peoples requires that all customers within a pool have the same SSP, instead of having fewer, smaller pools, each with a unique SSP, it is likely a supplier will simply concede to a common SSP for each pool in order to benefit from larger, more diverse pools. Practically speaking, Peoples' current tariff prevents a supplier from having customers with different SSP elections within the same pool. (CNE-Gas Exhibit 2.0, lines 598-604)

Rather than having the utility require common SSP elections for all pool members, CNE-Gas believes the market should dictate what is desired by customers, not unnecessary utility restrictions. (CNE-Gas Exhibit 1.0, lines 311-340) Transportation customers would benefit from this change through greater choice and diversity. (CNE-Gas Exhibit 2.0, lines 589-596) Peoples has not provided any evidence to suggest that existing group charges do not already recover the administrative costs required by such a change. (CNE-Gas Exhibit 1.0, lines 357-380)

Commission staff witness Dr. Rearden agrees that customers with different SSP elections should be permitted to be in the same pool. (CNEG Rearden Cross Exhibit 6) If the Commission requires Peoples to allow customers with different SSPs to be in the same supplier pool, Peoples presented an implementation plan that is acceptable to CNE-Gas. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 872-887; CNE-Gas Exhibit 2.0, lines 605-614)

CNE-Gas respectfully requests that the Commission direct Peoples to allow customers with different SSP to be members of the same supplier pool.

C.7. Operational Issues
a. Intraday Allocations and Intraday Nominations

**THE COMMISSION SHOULD DIRECT
PEOPLES TO ALLOW INTRADAY NOMINATIONS**

CNE-Gas proposed that the Commission require Peoples to include in its tariffs three intraday nomination cycles, Evening, Intraday 1 and Intraday 2, in addition to the Timely Cycle that Peoples currently utilizes. (CNE-Gas Exhibit 1.0, lines 165-287; CNE-Gas Exhibit 2.0, lines 453-504) The additional intraday nomination cycles would provide transportation customers the ability to change nominations when necessary after the Timely Cycle deadline has passed. The need to adjust nominations can arise for numerous unexpected reasons, including weather conditions, changes in a customer's production schedules, or due to a pipeline or utility system disruption. (CNE-Gas Exhibit 2.0, lines 487-497) Mr. Zack agreed that, similar to the utilities, transportation customers may wish to use intraday nominations to avoid imbalances or for other operational reasons. (Tr. 594)

To aid in the adoption of this proposal, CNE-Gas provided suggested tariff language for intraday nominations. (CNE-Gas Exhibit 1.5) This ability would be similar to what Peoples' own internal supply operations personnel can do, who use this capability to help maintain supply stability. (CNE-Gas Exhibit 1.0, lines 209-222; Exhibits 1.3 and 1.4; Exhibit 2.0, lines 465-467) CNE-Gas suggests that Peoples should discontinue its discriminatory treatment of transportation customers and instead provide them the same option for the same reason Peoples desires intraday nominations – to help manage its load requirements when unanticipated changes occur.

Intraday nominations, while not mandated for all LDCs, are the industry standard. The North American Energy Standards Board (“NAESB”), and its predecessor the Gas Industry Standards Board, have developed various standards for the purpose of ensuring smooth and efficient operations between producers, pipelines, local distribution utilities, marketers, and others. NAESB is the industry forum for the development and promotion of standards which will lead to a seamless marketplace, and its process for development and implementation of standards is consensus-driven. Many LDCs, including some in Illinois, have either voluntarily or by mandate implemented some degree of the NAESB intraday standards. Many other gas utilities in the upper Midwest region contiguous to the state of Illinois have implemented the use of intraday nominations.¹² Even Peoples own affiliates offer some type of intraday nomination capability; Peoples’ Wisconsin affiliate, Wisconsin Public Service Corporation, at least offers intraday nomination changes on a best-efforts basis. (CNE-Gas Exhibit 1.6)

Since Peoples does not intend to implement intraday nominations voluntarily, the Commission should mandate such implementation. (CNE-Gas Exhibit 1.0, lines 172-182; Exhibit 2.0, lines 458-471)

Peoples asserts that allowing intraday nominations for transportation customers would jeopardize its ability to provide safe and reliable service. (North Shore/Peoples

¹²As presented in CNE-Gas Exhibit 1.0 (lines 240-253), numerous other utilities allow some type of intraday nomination capability, including MidAmerican Energy Company; AmerenIP; Madison Gas & Electric (Wisconsin); Wisconsin Electric Power-Gas Operations; Wisconsin Gas LLC; Wisconsin Power & Light; Wisconsin Public Service Corporation; CenterPoint Energy Minnegasco; Xcel Energy (Minnesota); Aquila Networks (Minnesota); Alliant Energy (Minnesota); Great Plains Natural Gas Company (Minnesota); Minnesota Energy Resources; Aquila Networks-MGU (Michigan); Consumers Energy Company (Michigan); SEMCO Energy Gas Company (Michigan); Xcel Energy (Michigan); Michigan Gas Utilities; Vectren (Indiana Gas Company, Southeastern Indiana Gas and Electric Company, and Vectren Energy Delivery Ohio); Atmos (Western Kentucky Gas, United Cities Gas-Tennessee); Cincinnati Gas & Electric; Columbia Gas of Ohio; Columbia Gas of Kentucky; Union Light Heat & Power Company (Kentucky); and Louisville Gas & Electric.

Gas Exhibit TEZ 3.0, lines 433-436) However, other than its assertion, Peoples provides no record evidence to support its position. It is doubtful that dozens of other gas utilities would implement the use of intraday nominations if it threatened the same and reliable operation of their systems. It also is doubtful that those same gas utilities would allow intraday nominations if the direct result was an increase in costs. Contrary to Peoples' claims, the ability to adjust for weather events and other usage impacts for the remaining 40% of deliveries should lessen imbalances and costs. (CNE-Gas Exhibit 2.0, lines 490-500)

The record supports a finding that Peoples' proposed tariffs contain at least four provisions that independently control the manner and extent to which transportation customers deliver gas into the Peoples system that would render any assertions regarding threats to safe and reliable operation of Peoples' system moot.

- To assist Peoples in monitoring a customer's deliveries and usage, a transportation customer on Rider SST must have a telephone line installed to which a Daily Demand Measurement Device is installed. (North Shore/Peoples Gas Exhibit TZ 3.3)
- Transportation customers are also required to contractually establish with Peoples a Maximum Daily Quantity ("MDQ") of natural gas. Peoples can refuse to allow a transportation customer an MDQ that it believes to be unreasonably high; Peoples retains the right to change the MDQ at any time. (North Shore/Peoples Gas Exhibits TZ 3.2 and 3.3)
- Peoples is not obligated to accept a transportation customer's gas when nominations do not comply with Peoples' tariff and contractual procedures, and Peoples controls the order of deliveries of gas into its system. (North Shore/Peoples Gas Exhibits TZ 3.2 and 3.3)
- Peoples retains the right to limit the volume of gas delivered when it may cause an adverse effect on its system. (North Shore/Peoples Gas Exhibits TZ 3.2 and 3.3)

The record further establishes that Peoples is allowed to make daily and intraday changes to their pipeline nominations. (Tr. 593) For example, Peoples purchases no notice services from interstate pipelines. (Tr. 584) The rates paid by transportation customers, such as Rider SST, include the cost of Peoples' no notice services. (Tr. 586, 602) Therefore, as transportation rates include the cost of leased storage services, transportation customers also should receive the benefit of those services, namely intraday nomination capability. If Peoples denies transportation customers this valuable attribute of no notice services, the rates paid by transportation customers should not include their cost. CNE-Gas respectfully requests that the Commission direct Peoples to amend its tariffs to allow for intraday nominations.

b. Delivery Restrictions

**THE COMMISSION SHOULD DIRECT PEOPLES TO
MODIFY DELIVERY RESTRICTION REQUIREMENTS**

Peoples' current delivery restriction rules result in actions that are contrary to the needs of the utilities. Currently during a delivery restriction the subsequent day delivery is limited to the prior day volume delivered. During periods when it would be beneficial to the utility for a supplier to reduce its deliveries, and perhaps sell some gas, the supplier will remain at the higher delivery volume and instead inject the unused gas into storage causing additional stress on the system. The supplier must follow such a course of action since, if the supplier were to reduce its delivery down to what it expects may actually be consumed, the supplier is then prevented by current rules from later increasing its deliveries back to more normal volumes (i.e. original baseload volume purchased for the entire month) until after the delivery restriction is lifted. By making a beneficial

reduction in delivery volumes during a delivery, a supplier risks that it will be unable to deliver the volume of gas actually needed for customer consumption on subsequent days of the delivery restriction when usage returns to more normal levels. Moreover, the supplier will be forced to continue to sell gas each day during the restriction even if the supplier no longer wants to sell additional gas. (CNE-Gas Exhibit 2.0, lines 509-585) This paradox occurs because delivery restrictions do not correlate to usage, but rather are tied to prior day deliveries which can range from a fraction of actual usage to multiples of daily usage.

To correct this defect, CNE-Gas proposes several alternatives. Instead of using prior day deliveries as the criteria for limiting subsequent day deliveries, the prior criteria should instead be usage-based plus a storage component. CNE-Gas suggested several alternative usage-based criteria such as average daily use for the month, average daily use for the same month prior year, or customer MDQ. (CNEG Zack Cross Exhibit 4) Further, Peoples could implement a procedure allowing suppliers to negotiate with Peoples on a case-by-case basis in order to effect a limited-time reduction in delivered volume with a guarantee that deliveries on subsequent days could return to the required delivered baseload volume even while a restriction remains in effect. (CNE-Gas Exhibit 2.0, lines 551-555) Mr. Zack testified that Peoples already works out arrangements with customers in this type of situation, although there is nothing in either PGL or NS tariffs that describe this process. (Tr. 553, 598-599) As this practice has not been made available to all suppliers in the past and in order to avoid discriminatory treatment between suppliers, this negotiated process should be defined and available to all suppliers on an equal basis.

CNE-Gas respectfully requests that the Commission direct Peoples to modify delivery restriction rules to limit subsequent day deliveries to a level related to either prior usage or reasonably expected usage, plus a storage component, instead of prior day deliveries or, in the alternative, to authorize a defined process available to all suppliers allowing them to arrange with Peoples to make short-term reductions in their deliveries that do not preclude later upward adjustment during an ongoing delivery restriction.

C.8. Other Large Volume Transportation Issues

e. Receipt of Service Classification, Rider, AB, MDQ, and SSP Information

**THE COMMISSION SHOULD DIRECT PEOPLES’
TO PROVIDE CERTAIN ACCOUNT INFORMATION
ONCE A SUPPLIER BECOMES THE CUSTOMER’S AGENT**

In response to an issue raised by CNE-Gas, Peoples proposes to make the customer’s service classification and rider, MDQ, SSP and AB available once the supplier has become the customer’s agent rather than the current practice of limiting access until after gas is flowing. (North Shore/Peoples Gas Exhibit TZ 2.0, lines 1382-1394; North Shore/Peoples Gas Exhibit TEZ 3.0, lines 727-726) In order to improve decision making, this information should be made available to the supplier once the supplier has proper authorization, even before enrollment. While CNE-Gas desires even earlier access to this information, CNE-Gas supports Peoples’ proposal on this issue as a step in the right direction. (CNE-Gas Exhibit 2.0, lines 699-715)

CNE-Gas respectfully requests that the Commission authorize Peoples to provide this information once the supplier has become the customer’s agent.

XIII.
CONCLUSION

Peoples has proposed a rate increase for its transportation customers while simultaneously proposing severe restrictions on the flexibility afforded to transportation customers to utilize storage assets. Peoples has failed to justify the very radical changes that it proposes in the instant proceeding.

CNE-Gas has presented a compelling case that demonstrates Peoples' failure to justify many of the proposed changes to transportation service and the use of storage assets. In addition, CNE-Gas has offered the Commission some rather straight-forward and easily implemented revisions to Peoples' proposals.

WHEREFORE, in accordance with arguments herein, CNE-Gas Division, LLC respectfully request that the Commission enter an order that:

1. **Accepts Peoples' alternative Rider FST if the November 30 and March 31 cycling requirements are removed.**
2. **Requires that Peoples modify its revised Rider SST.** Necessary modifications include both the removal of November 30 and March 31 cycling requirements AND revision of the proposed daily injection limits. With these suggested modifications, CNE-Gas supports revised Rider SST.
3. **Rejects the cycling requirements for transportation customers as proposed by Peoples.** Peoples has failed to demonstrate that any changes in the operation of its system warrant such restrictive and unnecessary measures.
4. If the Commission approves cycling requirements for transportation customers, the Commission should:
 - a) **Direct Peoples to implement more moderate target levels and eliminate any spring withdrawal targets.** The proposed target levels are overly restrictive and not analogous to the leased storage contracts of Peoples.
 - b) **Direct Peoples to implement common targets and prohibit NS from imposing target requirements that are more restrictive than PGL.** Current leased storage contracts include provision that require Peoples to be more than 50% full by November and less than 50% full by March.

- c) **Expand the compliance period from a single day to a window of time that is no shorter than 30-days.**
- 5. **Requires Peoples implement Unbundled Storage Bank Service.**
- 6. **Direct Peoples to remove any restriction that limits group size under Rider P.**
- 7. **Requires Peoples to implement Super Pooling.** Super Pooling allows transportation customers to better utilize their storage and to mitigate the impact of high penalties and charges, while still enabling a utility to achieve its objectives.
- 8. **Directs Peoples to permit customers with different Selected Standby Percentages to be included in the same pool or group.**
- 9. **Directs Peoples to allow intraday nominations.** Throughout the industry intraday nominations are standard practice. Intraday nominations allow market participants to adjust for changes to minimize costly imbalances. Peoples should not continue to discriminate against transportation customers by generally denying this capability.
- 10. **Directs Peoples to modify its delivery restriction requirements.** Peoples should better correlate delivery restrictions to actual customer usage.

Respectively submitted,

CONSTELLATION NEWENERGY-GAS DIVISION, LLC

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