STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

ILLINOIS INDUSTRIAL ENERGY CONSUMERS INITIAL BRIEF

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INITIAL BRIEF OF THE ILLINOIS INDUSTRIAL ENERGY CONSUMERS

Three transportation customers have participated as interveners and members of the Illinois Industrial Energy Consumers ("IIEC") in this docket. These transportation customers are Abbott Laboratories, Inc; General Iron Industries; and the University of Illinois. They present this Initial Brief for the consideration of the Illinois Commerce Commission ("Commission") and refer to themselves herein as "IIEC".[1]

I. INTRODUCTION

IIEC Companies and the University of Illinois view with concern certain proposals made by North Shore Gas Company ("North Shore") and Peoples Gas Light and Coke Company ("Peoples") (collectively the "Companies"). These proposals would increase the cost of, and unnecessarily limit the flexibility of, transportation service offered by the Companies. IIEC strongly supports cost-based rates. Cost-based rates lessen the likelihood of customers leaving the system and reduce the attractiveness of by-pass, to the benefit of all customers on the system. IIEC also endorses the use of generally accepted embedded cost of service studies for rate design and revenue allocation purposes.

In this particular case the focus of IIEC's presentation has been on transportation issues. IIEC, together with Constellation NewEnergy - Gas Division LLC ("CNE") and Vanguard Energy Services LLC ("VES"), have proposed that the Companies be required to offer an unbundled storage

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[1]This brief is organized in accordance with the ALJ's outline using elements of the outline relevant to IIEC's arguments. Citations to testimony and exhibits will be in the following formats: Rosenberg IIEC/CNE/CES Jt. Ex. 1 at 4:3-4", where the number 4 is the page number and 3-4 are the line numbers. Transcript citations will be in the following format: "Tr. 25".

service and they have objected to the Companies' proposed cycling requirements, and modification of storage injection and withdrawal rights for transportation customers. IIEC, together with CNE and VES, has presented the direct and rebuttal testimony of Dr. Alan Rosenberg of the firm of Brubaker & Associates, Inc. (IIEC/CNE/VES Jt. Ex. 1 and IIEC/CNE/VES Jt. Ex. 2). Dr. Rosenberg has testified on transportation issues in Illinois for over 25 years. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 4:3-4). To the extent IIEC fails to address any other issues in this Initial Brief, that failure should not be considered as an acceptance or endorsement of any proposal or recommendation made by any other party to this proceeding, unless specifically stated otherwise in this brief.

X. TRANSPORTATION ISSUES

A. Overview

The Companies provide two distinct types of services. The first is a commodity service. This service is provided to customers who purchase their gas from the Companies. Second, they provide delivery service to all customers, including transportation customers.

The Companies' rates contain a component or charge to recover the cost of gas purchased on behalf of those customers who are taking commodity service from the Companies, and a component charge to recover the cost of storing and delivering gas (including transportation gas). In Illinois, the first charge or component is an automatic rider known as the Purchase Gas Adjustment Clause ("PGA"). The latter charge or component is called the base rate. The base rates for the Companies are the subject of this proceeding.

Customers who purchase their own gas from a producer or marketer and then arrange for delivery of that gas to the Companies are called “transportation customers”. These customers purchase delivery service (at the base rate) from the Companies to move the gas from the Companies’ delivery points to the facilities of the transportation customers, which can be manufacturing facilities or, in the case of the University of Illinois, facilities associated with the University’s educational function.

On the other hand, customers who desire the Companies to purchase gas supply for them and to deliver that supply to them, receive a “bundled service” and are traditionally referred to as “sales customers”. This bundled service includes delivery service, commodity service and storage service.

All customers, sales and transportation, utilize the Companies’ transmission and distribution system to take physical delivery of the gas. Therefore, both groups of customers should have equal access to the Companies’ system, including storage.

IIEC agrees with the Companies that all customers should have the opportunity to select an alternative gas supplier; that transportation services should be enhanced; that sales customers should not be harmed by transportation service; and that transportation customers should receive all of the services they pay for, and pay for all of the services they receive. (*See*, Zack, Peoples Ex. TZ 1.0 Rev. at 2:26-38; Zack, NS Ex. 1.0 Rev. at 2:27-39; Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 3:8-17).

In addition, IIEC believes transportation customers should be permitted to select (and pay for) only those services they require; that the customers (and/or their suppliers on behalf of the customers), should have access to services that the Companies are able to provide on an equal footing with sales customers; and that charges for the services chosen by transportation customers should be cost-based. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 3:18-26 and 4:1-2). Companies’ witness Mr. Zack agreed with those principles as well, as long as sales customers are not harmed, management of operations is not impaired and utilities are entitled to give customers financial incentive to operate within certain parameters (e.g. impose penalties). (Zack, Tr. 564-567).

The Companies' proposals in this proceeding do not further the objectives described above as well as they might. Some of the proposed modifications to transportation service are unnecessary. The Companies have failed to demonstrate their necessity because they fail to provide any substantive evidence that sales customers have been harmed financially under the current tariff and rate structure for transportation service or that services to these sales customers have been otherwise impaired by actions of transportation customers under the current tariff structure.

Furthermore, the Companies have failed to propose other changes to their transportation programs which would further the objectives of: allowing transportation customers to select and pay for only the services they require; providing transportation customers with access to Companies' facilities on an equal basis with sales customers; and charging cost-based rates for the services chosen by transportation customers.

Therefore, IIEC, together with CNE and VES, have proposed that the Companies provide unbundled base storage service from the Manlove Storage Field. They have opposed, in the context of their USB proposal, the Companies' proposals to further limit withdrawals and injections from the transportation customer's Allowable Bank ("AB") and they also oppose the Companies' proposed mandatory cycling of transportation customers storage gas inventory.

C. Large Volume Transportation Program

4. Injection, Withdrawal and Cycling Requirements

(a) Injections and Withdrawals

The Companies originally proposed to limit daily injections and withdrawals from a transportation customer's current AB.[2] The Companies recommend the establishment of a Maximum Daily Withdrawal Quantity ("MDWQ") and a Maximum Daily Injection Quantity ("MDIQ") for transportation customers. (IIEC/CNE/VES Jt. Ex. 1 at 15:13-22 and 18:15-19). The calculation of the MDWQ and MDIQ would have been based on complicated formulas. (*See*, Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 15:20-23-16:1-6; 18:15-22-19:1-2). These proposals would have required transportation customers to inject gas into storage and withdraw gas from storage at the same time as the Companies. (Rearden, Staff Ex. 24.0 Corr. at 6:110-113).

IIEC opposed the modification of the Companies' transportation tariffs to establish these new limits on injections and withdrawals. The Companies did not show the implementation of their proposals was necessary to protect sales customers. (*See*, IIEC/CNE/VES Jt. Ex. 1 at 4:11-13). Staff witness, Dr. Rearden has testified that the Companies have not justified the implementation of these proposals as well. (Rearden, Staff Ex. 24.0 Corr. at 9:169-176). He recommended that the current limitations, which restricted injections and withdrawals on Critical Days only, be retained. (*Id* at 15:284-286).

IIEC witness Dr. Rosenberg testified, the Companies' proposals for imposing new limits on

[2]The term "Allowable Bank" in this instance refers to a bundled storage service. Under current tariffs customers cannot obtain unbundled storage service without electing standby service from the Companies. (*See*, IIEC/CNE/VES Jt. Ex. 1 at 4:21-23).

injections and withdrawals should be rejected for several reasons. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 16:7-11).

Dr. Rosenberg was concerned the Companies proposals failed to take into account transportation customers' diversity in the use of storage. That is, if one customer brings in more gas than it uses on a particular day and as a result must inject into storage, and another customer brings in less gas than it uses on a particular day and as a result must withdraw gas from storage, these two actions will tend to cancel one another out, or at least have the first customer's injection moderate the withdrawals of the second customer. (*Id* at 16:12-16 and 19:3-5). Furthermore, having transportation customers inject gas on winter days actually helps the Companies. (*Id* at 19:6-10). This is because winter day injections may actually offset withdrawals from storage, leaving more gas in storage for winter use than might otherwise be the case.[3]

In addition, the Companies did not demonstrate the necessity of such restrictions (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 4:11-13; Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 12:229-238; Rearden, Staff. Ex. 24.0 Corr. at 9:169-186.) Furthermore, the Companies' proposals were too restrictive and were inconsistent with customer choice. They would have reduced the amount of gas customers can inject and withdraw to levels below those currently permitted. This means transportation customers have little additional operational flexibility than if they had remained bundled service

[3]In many instances, injections and withdrawals from storage are nothing more than accounting transactions. That is, gas "injected" by a particular transportation customer in the wintertime may never actually be physically injected into storage. Instead, the Companies may use that gas to serve the needs of other customers, including sales customers, and avoid the necessity of physically withdrawing gas from storage to meet the needs of those other customers. The Companies would simply credit the injecting transportation customer with an addition to his storage balance.

sales customers. (Rearden, Staff Ex. 24.0 Corr. at 10:87-194).

In response to objections from Dr. Rearden and Dr. Rosenberg, the Companies proposed on surrebuttal to "eliminate" their proposed daily injection and withdrawal limits. (Zack, Peoples/North Shore Ex. TZ 3.0 Rev. at 8:178-179-9:180-182). Specifically, they propose to retain a form of Rider SST for large volume transportation customers and to retain current limitations on daily injections and withdrawals. (*Id* at 10:212-215). However, in addition, they now seek approval of a limitation on daily injections only. The new daily limit would be 0.67% of the transportation customer's AB. This limit is based on a proposed monthly injection limit of 20% of the customer's AB for each month of the entire year (20% divided by 30 days = 0.67 cents per day). (*Id* at 9:184-191).

IIEC agrees with the elimination of the Companies originally proposed withdrawal and injection limits. It appreciates the Companies' efforts to address concerns about those limits. However, it is still concerned about the Companies' proposals to limit monthly injections for each and every month of the year and their proposal to limit daily injections to 0.67% of the customer's AB each and every day of the year. While Dr. Rosenberg has recommended a 20% limit on monthly injections for transportation customers, in the context of his proposal for unbundled storage service for transportation customers, the limit he proposes would apply <u>only</u> during the months of May through October and would involve no daily limitations. (*See*, Section X.C.4.(b)(ii)) below).

The need for daily injection limitations has not been established by the Companies in this case. They have failed to identify a single instance in which sales customers have been harmed or system operations have been impaired under the current mechanism for restricting injections only on a Critical Day/Supply Surplus Day. The Companies still fail to fully consider the diversity in the transportation customers use of storage and the beneficial effect of transportation customers injection into storage in the winter months.

The current limitations provide adequate protection for sales customers. Those limitations have been in place for a number of years. The Companies have introduced no evidence that suggests that sales customers have been harmed as a result of the continued use of the current limitations. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 19:398-403). Indeed, evidence in the record shows, and Staff witness Rearden testified, the ability of companies to declare critical days during the current structure serves to protect the interest of sales customers. (*Id* at 11:219-223 and 12:224-228). For all these reasons, the Companies' new proposals to increase limitations on daily injections by transportation customers into their AB should be rejected.

(b) Injections and Withdrawals Under Unbundled Storage Service

(i) Withdrawals

IIEC/CNE/VES propose an unbundled storage service which is described more fully in Section X,C,5 below. In the context of that proposal, Dr. Rosenberg concluded there is no need for daily withdrawal limits unless the Companies declare a Critical Day/Supply Shortage Day. That is, customers should face no limit on daily withdrawals from unbundled storage except on Critical Days, as is the case under current rates. However, under Dr. Rosenberg's proposal, customers would not be allowed to have a negative storage balance. This is a limitation in and of itself. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 17:18-19).

Critical Days/Supply Shortage Days would be necessary to ration withdrawal capacity. Dr. Rosenberg proposed that the withdrawal capacity be allocated on a supply shortage day on the basis of a quotient determined by dividing the total capacity of Manlove Field by each Company's share of the withdrawal capacity. For Peoples this would be roughly 3%. Therefore, Peoples transportation customers would be allowed to withdraw up to 3% of their USB. For North Shore, this would be approximately 4%. Therefore, North Shore transportation customers would be allowed to withdraw up to 4% of their USB. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 17:13-25 and 18:1-2).

Dr. Rosenberg also proposed monthly limitations on USB storage withdrawals during the months of December, January and February. Withdrawal activities of the Companies are at their peak during these months. For these months he proposed limitations of 35%, 40% and 25%, respectively, of a transportation customers USB. He does not believe limitations on withdrawals are necessary for other months because these are months when the Companies are injecting gas into storage and withdrawals by transportation customers would be synergistic with the Companies' activities and beneficial to sales customers. (*Id* at 18:3-11).

(ii) Injections

For injections into storage under the USB proposal, Dr. Rosenberg testified there should not be any daily restrictions except on Critical Days/Supply Surplus Days as is the case under current rates. Dr. Rosenberg agreed that in the months of May through October, monthly restrictions could be appropriate and therefore proposed a limit on transportation customers' net injections in any month to no more than 20% of the customers USB. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 19:20-26 and 20:1-2).

(c) Cycling Requirements

The Companies propose that transportation customers be required to cycle their storage gas inventory. Specifically Peoples proposes that transportation customers fill their AB to at least 70% of elected capacity by November 30 of each year and empty their AB to no more than 35% of elected capacity by March 31 of each year. North Shore proposes the AB be filled to at least 85% by November 30 and no more than 24% full by March 31. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 20:5-11).

As support for their proposals, the Companies claim they nominally aim to maximize their working gas inventory on November 30 and minimize that inventory by March 31. They also claim they are seeking to better match the supplier and customer's rights with the assets that support those rights. (*Id* at 20:12-19).

However, the Companies have presented no evidence to suggest that their has been any difficulty in operating Manlove storage (the unbundled storage) without such restrictions over the last 10 years. Indeed, the failure of transportation customers to cycle their gas through the unbundled storage facilities on the same schedule as the Companies' cycled gas for sales customers, has more likely benefitted sales customers than harmed them. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 21:9-11, Schs. 3 and 4). Indeed, Dr. Rosenberg demonstrated that if transportation customers were to cycle their storage banks in the manner proposed by the Companies, sales customers would save some money. However, sales customers save even more money if transportation customers are not required to cycle their gas in the pattern proposed by the Companies. (*Id* at 23:8-25 and 24:1-10, Schs. 3 and 4). In short, the Companies' proposals could actually cost sales customers money.

In fact, exhibits offered by Mr. Zack, in behalf of the Companies, confirmed Dr. Rosenberg's conclusion that sale customers would be better off if transportation customers did not follow the same cycling pattern as the Companies. (PGLC/NS Ex. TZ 2.03 at 1-2; Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 18:364-374).

For these reasons, IIEC recommends there be no cycling requirements for transportation customers in general and no cycling requirements for those transportation customers using USB. Currently the transportation program for the Companies does not contain any cycling requirements. The Companies have been able to cycle Manlove (the unbundled storage) as they deemed fit for the last 10 years. They have identified no problems associated with the current program structure. Indeed, sales customers could benefit from lower PGA costs if transportation customers are not required to cycle.

5. Unbundled Storage Bank ("USB")

Available transportation services should be enhanced according to the Companies. (Zack, Peoples Ex. TZ 24.0 Rev. at 2:31-32). Transportation customers should receive all of the services for which they are paying and pay for all the services they receive. (*Id* at 2:36-38). In addition, they should be allowed to select, (and pay for) only those services they may require. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 2:24-25). They should be given access to Companies' services on an equal footing with sales customers without harming sales customers and they should be charged cost based rates for those services. (*Id* a 2:26-28).

Consistent with these principles Dr. Rosenberg, in behalf of IIEC, CNE and VES, has recommended the Companies offer an unbundled storage service to transportation customers.

Transportation customers cannot obtain such service at this time without also acquiring standby service from the Companies. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 4:20-23). There are several reasons the Companies should provide this service.

First, the Companies have bundled storage and standby service in a manner that prevents customers from obtaining storage service without purchasing standby service. However, these are two distinct and separate services. Standby service is really a resource that substitutes for, or augments a transportation customer's gas supply when that gas supply is otherwise unavailable or insufficient. On the other hand, storage service involves the use of an underground reservoir for the storage of gas. This gas can be injected and withdrawn from the reservoir on a periodic basis. Storage service allows for peak day deliverability, physical hedging and balancing. Unlike standby service, storage service requires customers to have previously purchased gas. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 5:12-26). Customers should not be forced to purchase a good or service from the Companies, such as standby service, which they may not be able to afford or they may not need or want. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 7:130-135). This type of bundling is anti-competitive. Unbundling these services as proposed by Dr. Rosenberg would enhance competition.

Second, because transportation customers can now only secure storage service if they purchase standby service from the Companies, these customers will be exposed to proposed increases of 74% on Peoples and 50% on North Shore, in the rates for standby service. By offering unbundled storage service, customers not otherwise able to afford standby service, will have access to unbundled storage service that is cost effective. (Rosenberg IIEC/CNE/VES Jt. Ex. 1 at 6:1-5).

Third, transportation customers can use this cost effective storage service to lower their own gas costs and thereby make the Peoples service area more attractive to large users of gas. This could help to stem the decline in large volume usage. Transportation customers desire to establish a working arrangement with the Companies so that the Companies will store and deliver natural gas to them from time to time in order to make maximum efficient use of their respective gas supplies. (*Id* at 6:6-22).

Fourth, the Companies have access to Manlove Field. Therefore, they are capable of offering an unbundled storage service. (*Id* at 5:3-11). Indeed, they offer such service to third parties such as Merrill Lynch. (*Id* at 6:23-24). North Shore receives storage service from Peoples from Manlove now. (Rosenberg, IIEC/CNE/VES Ex. 1 at 6:6-22). The Companies offer storage from Manlove for smaller customers served under SC 2.[4] (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 6:106-116). The Companies should be willing to offer such service to the transportation customers in their service territories.

a. Allocation of Storage Capacity

Under Dr. Rosenberg's USB service, the amount of Manlove storage to be allocated to transportation customers would be determined by taking the total amount of Manlove storage available to Peoples and the total amount of Manlove storage available to North Shore, times a ratio equal to the transportation customer's Maximum Daily Quantity ("MDQ"), divided by the system coincident peak for each Company. This is similar to a formula used by the Commission to allocate Nicor's underground storage for unbundled access in Northern Illinois Gas Company, d/b/a Nicor Gas Company, ICC Docket No. 04-0479. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 8:20-23 and 9:1-

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[4]Customers must pay for Manlove storage as part of the SC 2 Rate. (*Id* at 6:110-112).

10). Under this formula, transportation customers on Peoples would received 17.8 days of unbundled storage and transportation customers on North Shore would received 5.0 days of storage. After adjusting these figures to reflect the diversity of transportation customers use of storage, Peoples' transportation customers would receive 20 days of storage and North Shore transportation customers would receive 6 days of storage. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 10:1-24 thru 12:1-21).

Allocation of Manlove capacity to transportation customers, as proposed by Dr. Rosenberg, is reasonable. Under Dr. Rosenberg's proposal, 13.1 BCF storage would be available to transportation customers. This equals about 37.7% of the 34.7 BCF of Manlove storage capacity. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 13:268-275). Transportation customers represent about 40% of the Companies' annual thru-put. (PGLC/NS Ex. TZ 2.0 at 32:711).

b. Unbundled Storage Charge for Transportation Customers

Dr. Rosenberg initially calculated separate USB rates for Peoples and North Shore transportation customers. However, he subsequently noted, in response to criticism by the Companies, that with respect to Manlove Field storage, the contract between North Shore and Peoples attempts to equalize the benefits of both North Shore and Peoples customers. Therefore, there should be no reason why these customers should pay different charges for the use of capacity of the Manlove Storage Field on an unbundled basis. He, therefore, withdrew his separately calculated rates for North Shore customers and recommends at equalized rate for USB service for both Peoples and North Shore.

He recommended his calculated rates for Peoples be applied to all Peoples and North Shore USB customers. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 14:285-295). He also agreed an equalized rate should reflect the combined storage capacity and usage of both companies. He recommends this be done in future cases. However, since Peoples' share of the Manlove capacity is approximately 95%, the USB rate he calculated for Peoples transportation customers should be used to establish the combined rate for Peoples and North Shore in this case without significant bias. (*Id* at 14-15:296-302).

He calculated his equalized USB rate taking the total cost of service of Manlove and dividing by the capacity of Manlove, excluding the carrying costs of Top Gas. Top Gas was excluded from the calculation because transportation customers provide their own top gas and have no right to the top gas stored by the Companies without paying an additional charge to the Companies. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 13:3-17).

In calculating the charge, Dr. Rosenberg used the total top storage capacity of Manlove for two reasons. First, because the numerator in his calculation (total cost Manlove storage) reflects the cost of the entire Manlove capacity, the denominator (the capacity of Manlove) must reflect the same entire capacity or there would be a mismatch. Second, revenues Peoples receives for selling, storage and parking as part of its Hub services (Manlove capacity not used by Peoples) flows back to sales customers through the Peoples PGA. They do not ordinarily flow through to transportation customers. Thus, the entire Manlove capacity is appropriate for use as the denominator in the calculation of the cost based storage charge.

Dr. Rosenberg's method of calculating a cost based storage rate was patterned after the rate format approved by the Commission in the recent Northern Illinois Gas Company, d/b/a Nicor rate case, ICC Docket No. 04-0779. (Rosenberg, IIEC/CNE/VES Jt. Ex. 2 at 15:309-310). Application of that format here provides a cost based storage charge of 0.66 cents per therm per month before consideration of diversity was developed for Peoples. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1, Sch. 2-PGLC, Ln. 4).

Dr. Rosenberg also deemed it appropriate to adjust his calculation of the USB charge to account for storage usage characteristics of transportation customers (i.e., diversity in the use of storage). He noted that not all transportation customers would use the maximum amount of USB available to them because an excess storage charge is applied for exceeding their USB. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 14:18-23; *Id* at 10:18-23). In order to determine the diversity factor, Dr. Rosenberg examined the relationship between the amount of storage capacity that transportation customers have reserved and the amount of capacity they have cycled over a four year period beginning in 2002 and ending in 2006. Based on that analysis, he developed a storage diversity factor ("SDF") of 0.9. He stated his calculation was conservative in that transportation customers actually cycle less than 90% of their gas in storage for the first three years of the analytical period (75%, 77%, and 88% respectively) and only 91% in the last year. (Rosenberg, IIEC/CNE/VES Jt. Ex. 1 at 12:1-7).

Adjusting the cost based storage charge for Peoples for transportation customer diversity produces a charge per month per therm of 0.60 cents. (*Id* at 15:10).

The Commission should require the Companies to offer cost based unbundled storage to transportation customers consistent with Dr. Rosenberg's USB proposal. The charge should be based on the total cost of Manlove storage divided by the total Manlove capacity with adjustment for diversity. In the alternative, the Commission should require the Companies to offer USB Service on the basis of a charge calculated using total Manlove storage service costs divided by total Manlove capacity without adjustment for diversity.

CONCLUSION

For the reasons stated herein, the Commission should approve a base-rate storage service that is unbundled from the Companies other services. The charge for such service should be cost based. The charge should be set at 0.60 cents per therm if the Commission wishes to consider transportation customer diversity in the use of storage or 0.66 cents if it does not wish to do so. The total amount of unbundled storage that should be allocated to Peoples transportation customers is 20 days or 20 times the customer's MDQ and for North Shore transportation customers, 6 days or 6 times the customers MDQ.

The Companies proposal for mandatory cycling of transportation customers storage gas inventory should be rejected.

The Companies proposal to further limit daily injections into storage by transportation customers should be rejected.

DATED this 12th day of October, 2007.

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