

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Peoples Gas Light and Coke Company	:	06-0752
	:	
Reconciliation of revenues collected	:	07-0312
under gas adjustment charges with	:	
actual costs prudently incurred.	:	(Cons.)

**REPLY BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION**

Staff of the Illinois Commerce Commission (“Staff”), by and through its undersigned counsel, pursuant to Section 200.800 of the Illinois Commerce Commission’s Rules of Practice (83 Ill. Adm. Code 200.800), respectfully submits this Reply Brief in the instant proceeding. On February 6, 2009, Initial Briefs were filed by The Peoples Gas Light and Coke Company (“Peoples Gas” or the “Company”); the Citizens Utility Board, the City of Chicago, and the People of the State of Illinois (collectively, “CUB-City-AG”); and Staff. Staff replies herein to the Initial Briefs (“IB”) filed by Peoples Gas and CUB-City-AG.

I. CUB-CITY-AG DISALLOWANCE REGARDING MANLOVE FIELD

In its Initial Brief, CUB-City-AG proposes to disallow excess gas costs, because Peoples Gas used Manlove Field to provide storage services rather than store gas for its ratepayers. (CUB-City-AG IB, pp. 4-13) CUB-City-AG begins its argument by noting that Peoples Gas was imprudent to provide Hub services without analyzing whether

ratepayers were better off with Hub services than without them. (*Id.*, pp. 6-7) Staff, in its Initial Brief, noted that it agreed with CUB-City-AG that it was imprudent to allocate Manlove Field capacity to the Hub without a detailed study. (Staff IB, pp. 5-6) In fact, this behavior formed the basis for Staff's recommendation that Peoples Gas explain its allocations in its testimony starting with the 2008 PGA reconciliation docket. (*Id.*, p. 6) In its Initial Brief, Peoples Gas agreed to do so. (Peoples Gas IB, pp. 5-6)

CUB-City-AG witness Mierzwa calculated a disallowance by substituting what Peoples Gas would have saved ratepayers based upon market prices for the Hub revenues actually earned. (CUB-City-AG IB, pp. 7-10) In order to make the comparison accurate, Mr. Mierzwa switched the volumes of Hub parks and loans that occurred during this reconciliation period with potential transactions that Peoples Gas could have made for ratepayers. The savings occur due to the difference between the revenues that Peoples Gas received from the parks and loans and what the gains would have been based on market prices. (*Id.*, pp. 10-11) The savings were then offset by the Hub revenues that were actually earned, but only by the specific set of parks and loans, not for all Hub transactions. (*Id.*, p. 12)

Staff criticized the proposed disallowance for two reasons. One, the savings were calculated over a longer time period relative to the Hub revenues earned, and two, because Mr. Mierzwa did not reconcile his revenue estimate with actual Hub revenues. (Staff IB, pp. 7-8) The dispute over the proper revenue offset for Hub services has a key element. That is, whether or not transportation service and interruptible storage service revenues should be included. While CUB-City-AG argues that these revenues should not offset the costs calculated by Mr. Mierzwa (CUB-City-AG IB, p. 13), Peoples

Gas contends that they should be counted as an offset, since Manlove Field also supports other Hub transactions. (Peoples Gas IB, p. 17) Peoples Gas' assertion is more consistent with the position taken by Staff before the Commission in various docketed proceedings. That is, all Hub transactions are supported by all Peoples Gas assets. (See e.g., Final Order, Docket No. 01-0707, March 28, 2006, pp. 82-83) This means that one set of Hub transactions cannot be segregated from all other Hub transactions, either by type or over time. Therefore, Staff recommends that the Commission reject the disallowance proposed by CUB-City-AG witness Mierzwa.

II. CONCLUSION

For the foregoing reasons, Staff respectfully requests that the Commission adopt Staff's recommendation to adjust Peoples Gas' October 1, 2005 through December 31, 2006 PGA reconciliation by the amount of \$571,933.44, as indicated on Appendix A to Staff's Initial Brief, to be refunded to Peoples Gas' PGA customers via the Commodity Gas Charge through an Ordered Reconciliation Factor to be reflected on the Company's first monthly PGA filing after entry of the Final Order in this proceeding. Staff also respectfully requests that the Commission include Staff's recommendations and proposed Findings and Ordering Paragraphs set forth in its Initial Brief regarding Peoples Gas' Manlove Field capacity allocations.

Respectfully submitted,

A handwritten signature in black ink that reads "Linda M. Buell". The signature is written in a cursive style with a large initial "L" and a long, sweeping underline.

LINDA M. BUELL

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Commerce Commission

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