

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

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

PUBLIC

**REPLY BRIEF OF THE CITIZENS UTILITY BOARD,
THE CITY OF CHICAGO, AND
THE PEOPLE OF THE STATE OF ILLINOIS**

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Dated: February 27, 2009

This document contains information the People Gas Light and Coke Company claims should be treated as confidential. That information is [REDACTED].

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Pursuant to Section 200.800 of the Rules of Practice of the Illinois Commerce Commission (“Commission” or “ICC”), 83 Ill. Admin. Code § 200.800, and the briefing schedule set by the Administrative Law Judge (“ALJ”), the CITIZENS UTILITY BOARD (“CUB”) by its attorney, the CITY OF CHICAGO (“City”) by its attorney, Mara S. Georges, Corporation Counsel, and the PEOPLE OF THE STATE OF ILLINOIS by Illinois Attorney General, Lisa Madigan (“AG”) (collectively, “CUB-City-AG”), submit their Reply Brief in this proceeding. This brief responds to arguments presented by Peoples Gas Light and Coke Company (“Peoples Gas,” “PGL,” or the “Company”) and the Staff of the Illinois Commerce Commission (“Staff”).

I. CHICAGO HUB STORAGE ASSIGNMENT

A. Introduction

In their Initial Brief, CUB-City-AG demonstrated that PGL's provision of park and loan Hub services reduces the amount of storage gas that can be used to meet the winter requirements of ratepayers, which can result in higher costs to sales customers because it reduces the quantity of lower-cost summer gas available to sales customers. CUB-City-AG Init. Br. at 5. Although these so-called "Hub transactions" are not *per se* imprudent, the Commission has directed the Company to flow any revenues associated with these transactions through the gas charge to offset recoverable gas costs. ICC Docket No. 01-0707, Settlement Order at 144-145. The Company uses a Gas Dispatch Model to assist it in determining how its available capacity resources, including Manlove storage, should be utilized to minimize gas costs. CUB-City-AG Ex. 1.0 at 8, L. 188. But rather than allow this model to optimize Manlove storage for ratepayer benefit, the Company pre-determined that a portion of its storage should be used for park and loan Hub services. *Id.* at 8. Pre-determining the amount of storage made available to sales customers was imprudent because it reduced the amount of Manlove storage available to serve system supply and the opportunity for customers to benefit from the significant seasonal price differentials during the reconciliation period.

In discussing its storage portfolio and its use of Manlove Field, Peoples Gas claims that its practice of buying gas to inject into storage using a "time driven plan...allows ratepayers to gain the full benefit of the summer/winter differential available at the time the purchase decision is made." PGL Init. Br. at 11, LL. 236-238. The record evidence belies the Company's characterization and conclusion. Instead, the record demonstrates that Peoples Gas does not optimize the use of its Manlove Field storage facility to inure the greatest benefit to ratepayers

who pay for this asset in base rates. CUB-City-AG Init. Br. at 10. Mr. Mierzwa testified that “the provision of Hub services reduces the amount of storage gas that can be used to meet the winter requirements of ratepayers and this can result in higher costs to sales customers because the quantity of lower cost summer gas available to sales customer is reduced.” CUB-City-AG Ex. 1.0 at 5, LL. 106-110. Mr. Mierzwa found this to be true for the reconciliation period and recommended a disallowance in the amount of about \$11 million dollars. CUB-City-AG Init. Br. at 13. Further, because Peoples Gas pre-determined the amount of Manlove Storage that it assigned to Hub services, rather than allowing the model to determine the optimal amount of storage to minimize sales customers’ gas costs, ratepayers did not, as Peoples Gas claims, enjoy the full benefit of the summer/winter differential during the reconciliation period. *Id.* at 8-9, LL. 190-196.

Peoples Gas erroneously claims that the interstate Hub services it provides are beneficial to retail customers because Hub revenues are credited against gas costs. PGL Init. Br. at 12, LL. 254-261. The benchmark the Company uses to establish this benefit, however, is in error. It is important to recognize that the Company provides several different services which it characterizes as Hub services. These other Hub services include non-park and loan services such as transportation and interruptible storage service. At issue in this proceeding is the amount of Manlove storage assigned to park and loan services and the effect of that assignment on ratepayers. The Company’s use of the term Hub services and its claimed Hub revenue credit include non-park and loan transactions, as well as park and loan transactions.

As Mr. Mierzwa testified, non-park and loan revenues are simply not relevant to the calculation of the adverse impact of park and loan services. See CUB-City-AG Ex. 2.0 at 10, LL. 201-206. This is because only park and loan transactions effect the allocation of Manlove

Field between system supply and third-party transactions. Non-park and loan activity would have occurred regardless of whether the Manlove storage at issue in this proceeding was used to provide park and loan services for counter parties or was used for system supply. *Id.* If the gas used for park and loan transactions was instead used to serve system supply, ratepayers would have paid less for their gas service. Mr. Mierzwa explained that, if the Company had properly allowed its Gas Dispatch Model to optimize the amount of Manlove storage to allocate to system supply, ratepayers would have incurred approximately \$11 million less in gas costs. CUB-City-AG Init. Br. at 6.

B. PGL’s and Staff’s criticisms of Mr. Mierzwa’s recommended disallowance are misplaced

Peoples Gas criticizes Mr. Mierzwa’s disallowance methodology as creating a mismatch. PGL Init. Br. at 15, LL. 319-322. Staff similarly criticizes Mr. Mierzwa’s proposed disallowance based on two alleged shortcomings: 1) the disallowance represents a mismatch of costs and revenues and 2) Mr. Mierzwa’s calculation of Hub revenues is smaller than the “actual Hub revenues for the same period.” Staff Init. Br. at 8. Mr. Mierzwa clearly addressed each of these points in testimony.

1. Mr. Mierzwa’s approach properly accounts for park and loan Hub service costs and revenues

Mr. Mierzwa’s proposed disallowance does not mismatch the costs and revenues associated with the transactions he analyzed, as claimed by Staff and PGL. In calculating his disallowance, Mr. Mierzwa included – and properly matched -- both the **costs** and offsetting **revenues** of those park and loan transactions that were either initiated or concluded (or both) during the reconciliation period. CUB-City-AG Ex. 2.0 at 9, LL. 170-174. Although the entire timeframe represented by the transactions included in Mr. Mierzwa’s analysis spans 24 months,

Mr. Mierzwa's adjustment did not encompass the entirety of transactions that occurred during that 24-month period. Mr. Mierzwa matched the costs and revenues of those transactions that affected gas costs during the reconciliation period. *Id.*

On cross-examination, Company witness Richard E. Dobson acknowledged that, if the Company loaned gas to a counterparty in January 2007 and that gas was returned to the company in July 2007, the revenues would have been credited against recoverable gas costs in January 2007. Tr. at 68. That is, park and loan Hub revenues are credited against recoverable gas costs when gas is delivered to the counterparty. Under this approach, revenues from a loan transaction initiated prior to the reconciliation period and concluded during the reconciliation period would not be included in the Company's reconciliation period Hub revenue credit. Similarly, revenues from park and loan transactions initiated during the reconciliation period and concluded during the reconciliation period would not be included in the Company's reconciliation period Hub revenue credit. Therefore, the Company's approach does not properly match park and loan revenues with the period the services were performed. These examples illustrate the need to include revenues from park and loan transactions that were either initiated before and concluded during the reconciliation period, or initiated during the reconciliation period and concluded after, because all park and loan transactions initiated or concluded during the reconciliation period affect the Company's gas costs. Thus, rather than distort the results, as claimed by the Company, (PGL Init. Br. at 15, LL. 331-332), Mr. Mierzwa's calculations properly account for the revenues from each relevant transaction affecting the Company's gas costs during the reconciliation period.

2. Mr. Mierzwa's calculation of Hub revenues

As explained above, Mr. Mierzwa demonstrated that revenues from Hub services other than park and loan transactions should not be considered as an offset to the adverse impact of park and loan services. This is because the Company would have provided these other services and received revenues from these other services regardless of whether the Manlove storage at issue in this proceeding was used to provide park and loan Hub services or to serve system supply. Thus, the Company's estimation of Hub revenues of \$15.2 million, (PGL Init. Br. at 12, L. 261), which includes revenues from transportation and interruptible storage services, is improperly inflated. Mr. Mierzwa's estimate of park and loan Hub revenues was approximately \$9.7 million, based on the Company's response to CUB DR 3.20. CUB-City-AG Ex. 2.0 at 6, LL. 131-134. This value was updated by the Company in its revised response to CUB 3.20, which increased the total park and loan revenues by \$2.9 million, making the relevant park and loan Hub revenues total \$12.6 million, instead of the \$9.7 million Mr. Mierzwa referenced in his Rebuttal Testimony. See CUB Cross Ex. 1; CUB-City-AG Init. Br. Attachment B. When the \$12.6 million figure is used, instead of the \$9.7 million Mr. Mierzwa used in developing his recommended disallowance, CUB-City-AG's final recommended disallowance is adjusted to \$11,027,496, which reflects Peoples Gas' imprudent provision of Hub services and allocation of Manlove storage and the relevant park and loan Hub revenues that offset the cost of those Hub services.

3. The quantity of gas used in Mr. Mierzwa's Adjustment is based on Peoples' actual reconciliation period park and loan activity

Peoples Gas further argues that Mr. Mierzwa's analysis is "muddled" with regard to the quantity of gas used in his proposed adjustment. PGL Init. Br. at 17, L. 358. Peoples Gas is mistaken, as Mr. Mierzwa clearly and directly addressed this point in his Rebuttal Testimony.

He testifies that his adjustment does not assume that 10 Bcf of Manlove storage was used to support park and loan transactions. CUB-City-AG Ex. 2.0 at 11, LL. 226-228. Rather, his adjustment properly recognized that a portion of the 10 Bcf of the Manlove storage assigned to Hub services is used to provide other Hub services. His adjustment assumes that 6.6 Bcf of Manlove storage was utilized to provide park and loan services during the winter of 2005-2006 and 7.3 Bcf was utilized during the winter of 2006-2007. *Id.* at LL. 222-225. These quantities reflect the actual amount of Manlove used to support park and loan services. CUB-City-AG Ex. 2.0 at 11, LL. 223-224. Mr. Mierzwa's testimony is clear on this point.

C. Manlove Field Operational Issues

PGL claims that its allocation of Manlove Field capacity during the reconciliation period was prudent, (PGL Init. Br. at 13, LL. 270-271), because its Gas Dispatch Model takes several operating parameters into consideration, in addition to predetermining the amount of storage to allocate to Hub services. PGL Init. Br. at 14, L. 305. PGL further states that pre-determining the amount of storage to allocate to Hub services does not unduly constrain its portfolio development. *Id.* at 13, LL. 271-275. The Company's claims are unpersuasive and should be rejected.

The Company itself appears to recognize the benefit of re-examining the amount of Manlove storage allocated for system supply. Attachment A to Staff witness David Rearden's Rebuttal Testimony is an August 4, 2008 memorandum served by the Company to Staff regarding a change in planned Manlove storage capacity. The memorandum recommends that the Company reallocate 3 Bcf of Manlove Field storage capacity from Hub services to system supply for the 2008-09 winter. Although the Company makes clear that this change in allocation is only applicable for the current winter, the memorandum concludes that "PGL Gas Charge

Customers are expected to benefit from a reallocation of 3 Bcf of Manlove Field Capacity from the Hub.” Staff Ex. 5.0, Attachment A at 3. The fact that Peoples acknowledges ratepayers would benefit from the reallocation of 3 Bcf of Manlove storage from Hub services to system supply lends further support to CUB-City-AG’s recommended disallowance and demonstrates that the utility’s historical practice of pre-determining the amount of Manlove storage to use for system supply is not in ratepayers’ best interest. The 3 Bcf of Manlove storage that Peoples Gas agreed to reallocate to system supply represents approximately 45 percent of the amount of Manlove storage reflected in the CUB’s recommended disallowance of \$11,027,496. Thus, if the Commission were to order an adjustment based on the amount of Manlove storage which the Company has already conceded would benefit ratepayers, that adjustment would be \$4.95 million (45% of \$11 million).

Peoples Gas also claims that ratepayers receive operational benefits from the provision of third-party park and loan services. Company witness Dobson cited an example in his Surrebuttal Testimony, which he claimed showed that park and loan activity was beneficial to system management. PGL Ex. RD 4.0 at 8-9, LL. 169-182. Mr. Dobson testified that, during the period [REDACTED], it was very warm, and no swing, spot or other discretionary purchases were being made by the Company, and that the Company was in an oversupply situation. *Id.* at 8-9, LL. 169-173. He further testified that Manlove Field withdrawal levels were reduced and that [REDACTED] of those withdrawals were for Hub services. *Id.* at 9, LL. 177-178. Mr. Dobson implied that Hub services helped alleviate the oversupply situation, by stating that, but for these Hub withdrawals, the Company would have had to have used additional leased storage injections or off-system sales. *Id.* at 9, LL. 179-182. Mr. Dobson’s operational benefit claim should be dismissed for several reasons.

First, Mr. Dobson admitted that – during the period referenced above - the Company was in an oversupply situation because transportation customers increased their deliveries by over 30 percent. *Id.* at 9, LL. 173-176. Sales customers should not be denied the benefits associated with additional Manlove storage because of the actions of transportation customers. If over-deliveries by transportation customers are a concern, the Company should adopt restrictions in its tariff to mitigate the potential for over-deliveries by transportation customers.

Second, Mr. Dobson claimed that without Hub services the Company may have been required to engage in off-system sales to alleviate the oversupply situation. *Id.* at 9, LL. 179-182. Mr. Dobson, however, failed to identify any concerns associated with off-system sales.

Finally, it is undisputed in this proceeding that if additional Manlove storage were assigned to system supply, the Company would need to reduce its purchases of baseload supplies. CUB-City-AG Ex. 1.0 at 10, LL. 226 – 231. During the period referenced by Mr. Dobson, only baseload purchases were flowing. Certainly, if additional Manlove storage were assigned to system supply during the period cited by Mr. Dobson, the amount of baseload purchases being made by the Company would have been reduced, thereby eliminating the possibility of an oversupply situation.

CONCLUSION

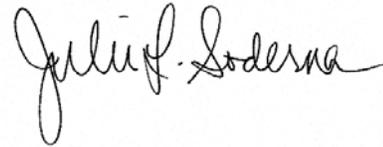
For the reasons set forth in CUB-City-AG’s Initial and Reply Briefs, the Commission should disallow \$11,027,496 in imprudent costs attributable to Peoples Gas’ imprudent provision of Hub services and allocation of Manlove storage and require the Company to run its dispatch planning model and determine its on-system Manlove storage assignments in a manner that complies with least-cost procurement principles for system supply.

WHEREFORE, the Citizens Utility Board, the City of Chicago, and the People of the State of Illinois respectfully request the Commission to adopt the positions in their Initial and Reply Briefs.

Respectfully submitted,

CITIZENS UTILITY BOARD,

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