STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

North Shore Gas Company	)	**Docket No. 09-0166**
	)	
Proposed general increase in natural gas rates (tariffs filed on February 25, 2009)	)))	**(Cons.)**
The Peoples Gas Light and Coke Company	))	**Docket No. 09-0167**
	)	
Proposed general increase in natural gas rates (tariffs filed on February 25, 2009)	)))	

ERRATA SHEET

The Staff of the Illinois Commerce Commission ("Staff"), through its attorneys, hereby submits this Errata Sheet to the Direct Testimony of Staff witness David Sackett, ICC Staff Exhibit 12.0, filed on June 10, 2009. These revisions are reflected in ICC Staff Exhibit 12.0R filed on July 7, 2009. No attachments had revisions; however, all attachments were refiled for completeness purposes. The changes to Mr. Sackett's previously filed Direct Testimony are noted in redline and strike through in the attached document to this errata.

Respectfully submitted,

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July 7, 2009

Docket Nos. 09-0166 – 09-0167
Consolidated
ICC Staff Exhibit 12.0R

ATTACHMENT

REVISED DIRECT TESTIMONY

of

DAVID SACKETT
Economic Analyst

Policy Program
Energy Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company

and

The Peoples Gas Light and Coke Company

Docket Nos. 09-0166 and 09-0167 Consolidated

June 10, 2009

Contents

I. Witness Qualifications

Q. State your name and business address.

A. David A. Sackett, Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois, 62701.

Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission" or "ICC") as an Economic Analyst in the Policy Program of the Energy Division.

Q. What are your responsibilities within the Energy Division – Policy Program?

A. I provide economic analysis and advise the Commission and other staff members on issues involving the natural gas and electric utility industries. I review tariff filings and make recommendations to the Commission concerning those filings. I provide testimony in Commission proceedings. In selected cases, I may be called on to act as an assistant to Commissioners or to administrative law judges.

Q. State your educational background.

A. I graduated from Kankakee Community College with an Associate of Science degree in Arts and Sciences in 1998. I graduated with highest honors from Illinois State University with a Bachelor of Science degree in Economics and History in 2000. I obtained a Master of Science degree in Applied Economics from Illinois State University in the Electric, Natural Gas and Telecommunications

Economics sequence[1] in 2002. I also completed an internship at the Illinois Commerce Commission in the Energy Division in 2001.

Q. Describe your professional experience.

A. Since July 2007, I have been an Economic Analyst in the Policy Program of the Commission's Energy Division. While employed by the Commission, I have reviewed several docketed proceedings before the Commission; I have provided expert testimony in Docket Nos. 07-0585 through 07-0590 (cons.) and Docket No. 08-0363. I was an instructor at Illinois State University from 2003 to 2006, where I taught various courses in economics and statistics to undergraduate students. I am a Captain in the Marine Corps Reserve having served since 1993; I have completed two deployments to Iraq.

II. Purpose of Testimony and Background Information

Q. What is the subject matter of your direct testimony?

A. This testimony concerns The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (individually, the "Company" and collectively, the "Companies") and their Proposed General Increases in gas rates. My testimony focuses on changes to the Companies' gas transportation services as set forth in Riders Choices For You ("CFY"), Full

[1] "The Electricity, Natural Gas, and Telecommunications Sequence is a structured program that combines training in basic economic theory and statistical methods with specialized training in the theory, history and institutions of the economics of regulation." ISU website: http://www.econ.ilstu.edu/grad/program.htm.

Standby Transportation Service ("FST") and Selected Standby Transportation Service ("SST").

III. Summary of Conclusions and Recommendations

Q. Please summarize your conclusions and recommendations.

A. The Companies should provide further justification for their proposal to limit eligibility for Service Classification ("SC") No. 2 to customers who consume an average of 41,000 monthly therms or less, determined annually based on the most recent two calendar year period. Specifically, the Companies should provide more support for their proposal to limit SC No. 2 customers to 41,000 therms in a month. The Companies need to explain why some transportation customers do not receive a credit for the reduced capital costs of working gas in storage while others do. Finally I conclude that the Companies' practice of bundling banking services with standby service is apparently not a service that customers find attractive. However, unbundling these services can provide them with a service that is attractive and does not harm other customers.

Furthermore, I also have four additional recommendations for the Commission to implement in this case, as follows:

1. Change the credit to Choice For You ("CFY") customers for the savings the Companies experience due to reduced storage inventory from a per customer credit to a per-therm-of-Maximum Daily Quantity ("MDQ") credit.
2. Update the Diversity Factors ("DF") that the Companies use to calculate Allowable Banks and standby charges for transportation customers to reflect the

most recent data, which decreases the Peoples Gas DF from .087 to .86 and the North Shore DF from .75 to .73.

3. Require the Companies to unbundle standby service and the allowable bank ("AB") and implement appropriate cost recovery methods.
4. Require the Companies to use the Chicago City Gate price ("CCG") as the Standby Commodity Charge for Riders FST and SST instead of the current charge which is tied to the PGA.

IV. Elimination of Certain Transportation Riders

Q. Please summarize the Companies' proposals to eliminate certain transportation riders.

A. The Companies propose to eliminate the transition riders approved in their last rate cases (Docket Nos. 07-0241/07-0242 Cons.). Peoples Gas also seeks to eliminate its Transportation Balancing Service ("Rider TB").

Elimination of Transition Riders

Q. Please summarize the Companies' proposals to eliminate their transition riders.

A. The Companies have proposed to eliminate the transition riders approved in their last rate case (Docket Nos. 07-0241/07-0242 Cons.). Specifically both utilities have proposed to eliminate riders Full Standby Transportation - Transition Service ("FST-T"), Selected Standby Transportation - Transition Service ("SST-T"), Large Standby Transportation Transition Service ("LST-T"), Transportation Balancing - Transition

Service (“TB-T”), and Pooling – Transition Service (“P-T”). (Peoples Gas Ex. VG 1.0, p. 32; North Shore Ex. VG 1.0, p. 29)

Q. Do you object to these proposals to eliminate the transition riders?

A. No. The transition riders were designed for the interim period before the permanent transportation riders ordered in Docket No. 07-0241/07-0242 Cons. went into effect. The transition riders are no longer effective as the transition period ended on July 31, 2008 and should be eliminated from the Companies’ tariffs.

Elimination of Transportation Balancing Service (Rider TB)

Q. Please summarize the Peoples Gas’ proposals to eliminate Rider TB.

A. Peoples Gas has proposed to eliminate its Rider TB. Peoples Gas witness Ms. Grace supports eliminating Rider TB by stating that no customers are currently taking this service. (Peoples Gas Ex. VG 1.0, p. 32)

Q. Do you object to Peoples Gas’ proposal to eliminate rider TB?

A. No. The Commission approved a similar request from North Shore in Docket No. 07-0241/07-0242 Cons. (*North Shore Gas Co. et al.*, ICC Docket Nos. 07-0241/07-0242 Cons. (Order, February 5, 2008), p. 269 (“North Shore/Peoples Order”))

V. <u>Migration Issues and the Volume Balancing Adjustment (“Rider VBA”)</u>

Q. Please summarize the issue that the Companies raise regarding the migration of customers from Peoples Gas Service Classification (“SC”) No.

4 and North Shore SC No. 3 (collectively "SC Nos. 4/3") to SC No. 2 since the last rate case.

A. Ms. Grace concludes that unanticipated migration from SC Nos. 4/3 to SC No. 2 is problematic because after the Commission's decision in the past rate case,

> customers [in SC Nos. 4/3] switched to S.C. No. 2, at rates which were below their cost of service and a service classification that does not require demand meters or impose a demand charge. A limitation for S.C. No. 2 eligibility would assure that customers take service under their appropriate cost based service classification and that other customers are not unfairly impacted by customers switching to service classifications below their cost of service.
> (Peoples Gas Ex. VG 1.0, pp. 22; North Shore Ex. VG 1.0, pp. 21)

However, her testimony on this issue does not address the fact that the Volume Balancing Adjustment ("Rider VBA") applies to SC No. 2 but not SC Nos. 4/3. Rider VBA was designed to adjust rates so that changes in usage by classes of customers under Rider VBA do not result in the Companies over- or under-recovering established margin revenues. In arguing for a usage limitation on eligibility for SC No. 2, the Companies are effectively arguing that there should *not* be a flow of customers onto service classifications subject to Rider VBA. Their solution is to set the maximum average usage on SC No. 2 equal to 41,000 therms per month for any two year period. (Peoples Gas Ex. VG 1.0, p. 24; North Shore Ex. VG 1.0, p. 22)

Q. Why is the migration from SC Nos. 4/3 to SC No. 2 detrimental to the Companies' opportunities to recover their revenue requirements?

A. For service classifications not subject to Rider VBA, when a customer moves from one rate to another the utility generally under-recovers in the rate the customer left and over-recovers on the rate the customer switches to. Because the customer usually moves for economic reasons and pays less on the new rate than it did on the old rate, the utility will generally have some amount of under recovery of its cost of service on an overall basis. However, according to the Companies' responses to DAS 3.02 (Attachment A), this under-recovery may be exacerbated by the application of Rider VBA.[2] The additional problem for the Companies here is that they under-recover in SC Nos. 4/3 and the additional revenue from SC No. 2 rates (based on the higher average usage of the former SC Nos. 4/3 customers) would be included in the calculation of adjustments (including refunds or credits) under Rider VBA. Thus the additional revenue in SC No. 2 would be returned to VBA customers. In essence the Companies would lose revenue in SC Nos.4/3 without any associated net increate in SC No. 2.

Q. Do utilities generally face this risk of customer migration following rate cases?

A. Yes. Migration is part of the normal regulatory risk that utilities face in regulated industries.

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[2] Rider VBA only includes SC Nos. 1 and 2 and, significantly, *excludes customer charge revenues*. As the Companies move closer to a straight fixed variable rate design ("SFV") (where all fixed costs are recovered through fixed charges and all variable costs are recovered through variable charges), more costs are recovered through the customer charge and therefore, a smaller percentage of revenue is subject to adjustment under the Rider VBA. The Companies proposed Rider VBA in the last rate case to protect themselves against risk associated with diminishing per-customer gas use.

Q. Should Peoples Gas and North Shore be protected against the risk of customer migration?

A. Some protection against the risk of customer migration in this instance might be justified because of the additional risk associated with Rider VBA. Under these unique circumstances, I believe that it is reasonable to limit discretionary movement by the customer onto (and off of) rate classifications subject to Rider VBA in order to protect the Companies (and customers) from this additional risk. Setting a fixed usage level barrier between rate classifications stops migration unless the customer's annual usage changes and forces them onto another rate.

Q. Please explain how the fixed barrier should operate.

A. If a barrier to migration is erected, it should be bi-directional. Just as there should not be a movement of customers from service classification not subject to Rider VBA *on* to service classifications that are subject to Rider VBA, there should not be a movement of customers *off* of service classification subject to Rider VBA (i.e., where the over-recovery that occurs in SC Nos. 4/3 is larger than the under-recovery that occurs in SC No. 2) and the Companies under-recovery is collected from the remaining SC No. 2 customers through the Rider VBA mechanism. Peoples Gas SC No. 4 already has a minimum average of 41,000 therms per month. North Shore has appropriately incorporated a minimum in North Shore's SC No. 3 tariff. Therefore, my only remaining concern is at what level the SC No. 2 Maximum is set.

Q. What evidence do the Companies provide to support their 41,000 therm maximum?

A. The Companies provide little evidence in testimony to support using an average usage of 41,000 therms per month (as determined over a 24-month period) as either a maximum for SC No. 2 or a minimum for SC Nos. 4/3. They have set the maximum on SC No. 2 at 41,000 therms per month. They have also set the minimum on SC Nos. 4/3 at 41,000 therms per month. The Companies make their case for 41,000 therms monthly average usage maximum in their responses to IIEC1.15 (Attachment B), stating that Ms. Grace considered "a desire to reduce usage disparity and intra and interclass subsidies among SC No. 2 customers." As the Companies note in their responses to DAS 5.04 (Attachment C), there are additional parameters of usage, load factors and transportation elections which can make it economical for some customers to switch while not for others.[3] The Companies only use volumes for the cut-off.

Q. Will customer migration that has already occurred still cause under-recovery subsequent to this rate proceeding relative to those customers?

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[3] Under Rider SST customers who move from SC Nos. 4/3 to SC No. 2 gain Base Rate Days ("BRD") of Allowable Bank ("AB") because SC No. 2 rates include storage and the BRD are no longer subject to the Selected Standby Percentage ("SSP") in the AB formula. This could be by up to ten days of AB for Peoples Gas customers and four days of AB for North Shore customers. Additionally, those customers will no longer have to pay the Standby Service Charge ("SSC").

A. No. The Companies seem to imply that they remain in jeopardy of under-recovery if the situation is not corrected. (Companies' responses to DAS-2.01) However, as long as the new Cost of Service ("COS") and billing units for this case reflect the customers on SC No. 2 *at this time* and customers are frozen on their current service classes, then there is no further risk of under-recovery. In other words, *any* max/min level protects the company from under-recovery. This can be seen by the fact that the Companies included many customers in SC No. 2 that in the last case had usage characteristics that now slots them into SC Nos. 4/3. The Companies objection was not to what rate class they were on during the rate case, but the fact that they moved to rate classifications with lower rates designed to recover a lower cost of service.

Q. How have the Companies justified their proposal in the data request responses you previously mentioned?

A. In response to IIEC DR 1.15 (Attachment B), North Shore states that Ms. Grace reviewed 160,000 customer bills for SC No. 2 customers and found that 95% (152,000) of those bills were for less than 3,000 therms and only 331 bills were greater than 40,000 therms. According to Ms. Grace, this shows that the amount does not involve any small customers and that there are really two distinct groups of customers here.

Q. How many customers in total for both Peoples Gas and North Shore would be affected by the Companies' proposed eligibility limitations for SC No. 2?

A. This change would affect 143 customers. That is, 120 customers would be transferred from SC No. 2 to SC No. 4 for Peoples Gas and another 23 would be moved from SC No. 2 to SC No. 3 for North Shore. (Peoples Gas Ex. VG 1.0, p. 38; North Shore Ex. VG 1.0, p. 35) Only 93 customers left Peoples Gas' SC No. 4 to move to SC No. 2 (of which 86 still retain service) and 3 customers left North Shore's SC No. 3 to move to SC No. 2. (Peoples Gas and North Shore responses to DAS-2.03, (Attachment D))

Q. How many of these 143 customers were *not* on SC Nos. 4/3 when rates were established in the Companies' last rate case?

A. According to the Companies' responses to DAS-5.04 (Attachment C), there are actually 51 Peoples Gas customers that were not included in SC No. 4 in the last case but that will be transferring to SC No. 4. There are 20 North Shore customers that were not included in SC No. 3 in the last case that will be swept into SC No. 3 at this time.

Q. What questions are raised by this large number of customers being switched that were *not* on SC Nos. 4/3 when rates were established in the last rate case?

A. What remains unexplained is why, if SC No. 2 costs are really so much below SC Nos. 4/3 as Ms. Grace testified (Peoples Gas Ex. VG 1.0, pp. 22; North Shore Ex. VG 1.0, pp. 21), all of these 143 customers have to be changed from SC No. 2 to SC Nos. 4/3 when 51 of those Peoples Gas customers and 20 of those

North Shore customers were not included in the SC Nos. 4/3 COS in their last rate case. The Companies included these customers (51 for Peoples Gas and 20 for North Shore) in their proposed COS for SC No. 2 in the last case and testified that the rates were just and reasonable. However, without showing any change in these customers' usage or MDQ, the Companies have now determined it is necessary to move these customers to SC Nos. 4/3.

Q. How does the Companies' proposal impact the bills for those customers that are forced to switch?

A. According to both Peoples Gas and North Shore Exhibits VG 1.8 (Schedule E-9), average customers will experience only 2.5% to 4.7% increases over current SC No. 2 total bill (commodity included) for any months when usage is 25,000 therms or greater.

Q. What happens to the banks for those customers forced to switch?

A. Customers on SC No. 2 are allocated larger Allowable Banks ("AB"). I discuss unbundled banks later in my testimony below. One of the advantages of SC No. 2 is that customers qualify for AB without having to select and pay for standby service. It may be that one reason for the migration from SC Nos. 4/3 to SC No. 2 was so that customers could qualify for larger banks without paying standby demand charges.

Q. What do you recommend with regard to the new maximum for SC No. 2 and

the new minimum for North Shore's SC3?

A. The Companies need to provide further justification for enacting any barrier between service classes SC No. 2 and SC Nos. 4/3 and specifically justify a barrier at 41,000 therms. They should show both the bill impacts and the effect on the AB on these SC No. 2 customers, especially for those customers on SC No. 2 since the last rate case.

VI. Changes to the Transportation Rider Charges

Q. What changes to the transportation rider charges are the Companies proposing?

A. The Companies propose to reduce the administrative charges for Rider FST and SST transportation customers and to reduce the Pooling charge for Rider P. They also propose to change the Aggregation Charge credit under Aggregation Service ("Rider AGG"). These charges are designed to recover the contract administration, billing, bill exception processing, billing adjustments, supplier support, customer inquiries, PEGASys billing and support, gas scheduling and CFY supplier billing associated with the various transportation programs offered. (Peoples Gas and North Shore Exhibits VG 1.10)

Rider FST and SST Administrative Charges

Q. Please summarize the Companies' proposal to reduce the monthly Administrative Charges for Riders FST and SST.

A. According to the Companies' witness Ms. Grace, "Peoples Gas proposes to reduce the Administrative Charge for Riders FST and SST from $11.24 to $9.87 per account" (Peoples Gas Ex. VG 1.0, p. 28) and "North Shore proposes to reduce the Administrative Charge for Riders FST and SST from $8.94 to $7.32 per account." (North Shore Ex. VG 1.0, p. 26)

Q. Do you object to the Companies' proposal to reduce the Administrative Charges for Riders FST and SST?

A. No. The Companies adequately justified this reduction in both Peoples Gas and North Shore Exhibits VG 1.10.

Rider P Pooling Charge

Q. Please summarize the Companies' proposal to reduce the monthly Pooling Charge for Rider P.

A. According to Ms. Grace, Peoples Gas proposes to reduce "the Pooling Charge for Rider P from $8.36 to $6.97 per account" (Peoples Gas Ex. VG 1.0, p. 28) and North Shore proposes to reduce "the Pooling Charge for Rider P from $4.95 to $3.44 per account." (North Shore Ex. VG 1.0, p. 26)

Q. Do you object to the proposed reduction in the Pooling Charge for Rider P?

A. No. The Companies each provided justification for this reduction in both Peoples Gas and North Shore Exhibits VG 1.10.

Rider AGG Aggregation Charge

Q. What is the Rider AGG Aggregation Charge and what costs is it designed to recover?

A. The Rider AGG Aggregation Charge is composed of three parts, two are charges and the other one is a credit. It is designed to recover the administrative costs associated with the provision of CFY (Peoples Gas and North Shore Exhibits VG 1.10.) and to provide a credit to CFY customers for the capital costs avoided by the Companies due to reduced storage inventory. (Peoples Gas and North Shore Exhibits VG 1.11.)

Q. Please summarize the Companies' proposal to change the Aggregation Charge for Rider AGG.

A. According to Ms. Grace, Peoples Gas "proposes to increase the Aggregation Charge credit for Rider AGG from 83 cents per account to $1.14 per account. The Aggregation Charge credit arises from an Aggregation Charge of $1.02 and a storage credit offset of $2.16." (Peoples Gas Ex. VG 1.0, p. 28) Also according to Ms. Grace, North Shore "proposes to decrease the Aggregation Charge for Rider AGG from a charge of $.03 per account to a credit of $.36 per account. The Aggregation Charge credit arises from an Aggregation Charge of $1.41 and a storage credit offset of $1.77." (North Shore Ex. VG 1.0, p. 26)

Q. How do the Companies incur capital costs from working gas in storage?

A. When the Companies keep working gas in storage inventory, there is a capital cost to this inventory. The amount of this cost is calculated by multiplying the test year gas in storage inventory costs by the Companies' rate of return.

Q. How do the transportation customers reduce the Companies' capital costs from working gas in storage?

A. The credit stems from the Companies' reduced capital costs for working gas in storage resulting from transportation customers' banked gas. This customer gas reduces the Companies' need to provide working gas and incur its resulting capital costs. The capital costs saved are related to the gas that the customer has in its banks, the capacity of which is determined by the customers' MDQ. Not only do the Companies no longer incur those costs for transportation customers, but the transportation suppliers must incur the same costs to provide inventory gas in storage. Therefore, in order to create a competitive market for gas supply, those savings should be credited to transportation customers.

Q. Do you object to the Companies' treatment of the CFY storage credit?

A. Yes. The credit for savings from the lower capital costs is currently a single fixed credit per CFY customer for both SC No. 1 and SC No. 2. This is despite the fact that Peoples Gas and North Shore SC No. 1 customers use an average of 103 and 108 therms per month, respectively, while SC No. 2 customers use an average of 467 and 382 therms per month, respectively (based on data provided in response to DAS 1.02). Since the savings to each Company depends on the amount of banked gas, the credit a customer receives should reflect the amount each customer banks. Larger customers bank more gas, thereby saving the Companies more capital costs, and should receive a larger credit.

Q. Is there a more appropriate way to apply this credit?

A. Yes. This credit should be a per-therm credit. That way, regardless of service class or usage, the customer's credit reflects its individual contribution to the Companies' savings — the more gas a customer puts into storage, the less the Companies needs to and the less their costs.

Q. Was this issue brought before the Commission before?

A. Yes. This issue was raised in Docket No. 07-0241/07-0242 Cons. The Commission discussed this issue and stated the following in its order:

> Since CFY suppliers incur working capital costs associated with gas stored on behalf of their customers, they aver that "it would be inappropriate to allocate the Company's working capital costs to CFY customers because they do not purchase or consume" Utility-supplied gas. [Retail Gas Suppliers ("RGS")] Init. Br. at 22. The Utilities agree and "propose to include a credit from working capital in the CFY customer Aggregation Charge." NS-PGL Init. Br. at 211…The RGS propose that the credit be applied to the [Aggregation Balancing Gas Charge ("ABGC")], which the RGS describe as "competitively neutral" because of the way CFY suppliers incur and recover gas storage-related working capital costs on their customers' behalf. RGS Rep. Br. at 14. Moreover, "an offset to the ABGC would allow customers to more easily compare the costs of participating in CFY and sales service." Id. Peoples Gas prefers that the remaining credit "simply become a credit on the bill." PGL-NS Ex. 3.0 at 31. Peoples Gas opposes applying the credit to the ABGC, "because the ABGC is a gas cost and the credit relates to base rate costs." Id. Further, the Utilities argue, "[a]pplying the credit to the ABGC would affect the gas cost reconciliation with revenues that are not recoverable gas costs. Also, the credit is a per customer credit while the ABGC is a per therm charge and it is unclear how the per customer credit would be integrated into the per therm ABGC." PGL-NS Rep. Br. at 163-64.

(ICC Docket Nos. 07-0241/2 Cons., (Order, February 5, 2008) p. 297)

Q. Did the Commission approve the application of a credit to the ABGC in the previous rate case?

A. No. The Order concluded:

> The Commission approves the parties' agreement to reduce the customer Aggregation Charge in the amounts described above. We reject the RGS' proposal for applying any excess credit *against the ABGC*. The Utilities are correct that the proposal is *not sufficiently developed on the record*, so that the credit can be accommodated in the per-therm ABGC.
> (ICC Docket Nos. 07-0241/2 Cons., (Order, February 5, 2008) p. 297, *emphasis added*)

While the Commission recognized the appropriateness of a credit, its objection was that the AGBC is not the appropriate mechanism to credit these savings back to CFY customers and not to the credit being "per-therm".

Q. Do any other gas utilities offer a credit to their small volume transportation customers?

A. Yes. Nicor Gas offers a Transportation Service Credit that includes a credit to small-volume transportation customers for the savings that Nicor Gas receives from reduced storage inventory. In Nicor's last rate case, this issue was brought up by an intervenor and the Commission found a change from a per-customer credit to a per-therm-of-use credit to be reasonable. "As a result of the MOU, as was set forth in Section X(A) above, Nicor proposed that: 1) Customer Select customers shall receive a credit for gas in storage as part of the Transportation Service Credit….The terms set forth above are reasonable and they are hereby approved."

(ICC Docket No. 08-0363 (Order, March 25, 2009) pp. 127-128) The Transportation Service Credit is a per-therm-of-deliveries credit.[4]

Q. What issues do the Companies raise with respect to a per-therm credit?

A. In response to DAS-3.06 (Attachment E), the Companies stated that, if a per-therm-of-use credit was applied, it would affect Rider VBA.

> The Company believes that a per therm credit would not be the appropriate way to fully reimburse CFY customers for the carrying cost of capital for working gas. A per therm credit based on CFY deliveries would necessitate its inclusion in the Rider VBA calculation since deliveries would be affected by usage variations, including that arising from weather.
> (Companies responses to DAS 3.06)

Q. Did the Companies offer any alternative that might be more appropriate and avoid the conflict with Rider VBA?

A. Yes. In response to DAS-3.06 (Attachment E), the Companies suggested that a less problematic option was that of a per-therm-of-MDQ. Such an approach would not affect the Rider VBA calculation.[5]

> Keeping the CFY credit for the carrying cost of capital for working gas in storage on a per customer basis eliminates the need for the CFY storage credit to be included in Rider VBA. If the CFY credit for the carrying cost of capital for working gas in storage were to be calculated on a per therm basis, it would be more appropriate to calculate the credit using the CFY customer's MDQ rather than deliveries, especially since CFY storage is

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[4] "the Customer shall receive a Transportation Service Credit (TSC) consisting of the sum of: (1) a 1.12 cent per therm credit for the Company's uncollectible gas expense, (2) a 0.62 cent per therm storage withdrawal adjustment credit, and (3) a 0.34 cent per therm credit for gas in storage, multiplied by the Customer's total use in the billing period." (ILL.C.C. No. 16 -Gas, 12th Revised Sheet No. 75.1)

[5] Note: the Companies did not make the tie in with Rider VBA in the 07 rate case. At that time Rider VBA had not been approved.

based on MDQ, not deliveries. *Furthermore, calculating the CFY storage credit using the CFY customer's MDQ would not require its inclusion in the Rider VBA calculation.*
(Companies responses to DAS 3.06, *emphasis added*)

Q. What options does the Commission have to alter this credit to a per-therm basis for Peoples Gas and North Shore?

A. In its decision in Docket No. 08-0363, the Commission was supportive of this credit on a per-therm basis *provided that an appropriate mechanism exists to make this happen*. The ABGC is not appropriate because it is a *PGA* charge/credit mechanism; therefore, there remain three options: Option One, create a Transportation Storage Credit ("TSC") and reimburse these costs to customers directly through Rider CFY. Option Two, refund the savings via the aggregators through the existing Aggregation Charge on a per-therm-of-use basis. Option Three, break the existing Aggregation Charge into three parts: per pool, per customer and a credit per-therm-of-Pool-Maximum Daily Quantity ("MDQ").

Q. Which of these options most closely reflects the savings that the Companies receive from reduced storage inventory?

A. A per-therm-of-MDQ credit is preferable to a per-therm-of-usage credit because the Companies save money based on inventory instead of usage and the actual savings are calculated using the MDQ based inventory (see Ex. VG 1.11). For example, if the Companies have two customers with equal usage with different MDQs, the Companies save more money on a customer with a higher MDQ because, while the customer is using the same amount of gas, the customer has more gas in storage. Peoples Gas and North Shore SC No. 1 customers have an MDQ per customer of 17 and 147 therms, respectively, while SC No. 2 customers have an MDQ per customer of 71 and 590 therms, respectively (based on data provided in responses to DAS 1.02 and 3.06 (Attachment E)). So SC No. 2 customers are about 4 times bigger than SC No. 1 customers in terms of MDQ. Additionally, as noted above, this type of per-therm credit will not affect the Rider VBA calculations. For these reasons, a per-therm of MDQ credit is better than the one based on a customer gas usage.

Q. Are there any other concerns that you have regarding the credit currently offered by the Companies?

A. Yes. Another related issue which is unclear is why CFY customers should benefit from the credit for savings from reduced inventory while other transportation customers do not. At least those large-volume transportation (Rider FST and SST) customers on SC No. 2 have storage costs in base rates. Additionally, Peoples Gas transportation customers are required to fill their banks up to 70% full by November 30. (Peoples Gas: ILL. C. C. NO. 28, Third Revised Sheet No. 69 and Second Revised Sheet No. 81) and North Shore transportation customers are required to fill their banks up to 75% full by the same deadline. (ILL. C. C. NO. 17, Second Revised Sheet No. 68 and Second Revised Sheet No. 80) The Companies need to explain this inconsistent treatment in rebuttal.

Q. What does Staff recommend with regard to the issue of crediting these

savings to CFY customers?

A. The Companies need to elaborate on the Rider VBA impacts of these various options in rebuttal. I recommend that unless a better mechanism can be found, the Commission should require the Companies to provide this credit on a per-therm-of-MDQ basis.[6] This should be accomplished by establishing a credit in Rider CFY that is based on the customer's MDQ. Another benefit of this method is that the credit is reflected on the customer's bill rather than internalized in the suppliers' costs as happens when it is included in the Aggregation Charge as it is currently done.

VII. Update the Diversity Factors ("DF") to Reflect Current Data

Q. What is the Diversity Factor ("DF")?

A. The DF equals the utility's transportation customers' demand on peak day divided by the sum of individual transportation customers' peak demand. According to the Companies' witness Zack's testimony from the prior rate case,

> Demand diversity is the concept that the Company's system peak day is not necessarily the peak day for each individual transportation customer. Commercial and industrial transportation customers may have requirements that are relatively less sensitive to weather in relation to customers whose primary use of gas is for space heating. Consequently, the resources needed to provide peak day service to transportation customers as a class are reduced to the extent that some transportation customers experience their peak on a day other than the system peak.

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[6] Additionally, a per-therm-of-MDQ credit would be appropriate because the credit is calculated based on capacity.

> (Docket Nos. 07-0241/07-0242 Cons., Peoples Gas Ex. TZ 1.0, p. 20; North Shore Ex. TZ 1.0, p. 19)

Q. How was the DF calculated in the last rate case?

A. The Companies' witness Mr. Zack calculated the DF based upon the usage patterns of peak demand and demand for the most recent four year period.

> The Diversity Factor is the result of dividing the transportation customers' total demand on the Company's peak day (i.e., coincident peak demand) by the sum of each individual customer's peak demand on any day (i.e., non-coincident peak demand). (Docket Nos. 07-0241/07-0242 Cons., Peoples Gas Ex. TZ 1.0, p. 21; North Shore Ex. TZ 1.0, p. 20)[7]

The current DF for Peoples Gas is .87 and for North Shore it is .75.

Q. In this rate case, do the Companies propose to update their DF?

A. No. The Companies testimony does not address updating the Diversity Factors for each Company. However, both the FST and SST tariffs for both Companies state that the DF is the one approved by the Commission in the most recent rate case. "Diversity Factor (DF) shall mean the constant value that has been *approved by the Commission in the Company's most recent rate proceeding* for the applicable service classification." (Peoples Gas: ILL. C. C. NO. 28, Second Revised Sheet No.

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[7] "Once sorted by transportation rider, the Max Use and Peak Use were summed for all accounts in each rider. The DF for each Rider was computed as the sum of all Peak Use volumes for all accounts in the rider divided by the sum of all Max Use volumes for all accounts in that rider. The DF for all accounts was computed as the sum of all Peak Use volumes for all riders divided by the sum of all Max Use volumes for all riders." (Docket Nos. 07-0241/07-0242 Cons., Peoples Gas Ex. TZ 1.4; North Shore Ex. TZ 1.4)

66 and Second Revised Sheet No. 76; North Shore: ILL. C. C. NO. 17, Second Revised Sheet No. 65 and Second Revised Sheet No. 75, *emphasis added*)

Q. What response did the Companies provide to your request to update their DF?

A. The Companies stated in response to DAS-3.01 that they felt they should not update due to the “limited experience” by the Companies and their customers of less than one year with the current DF. Apparently they feel that the new DF, which expanded the size of the Allowable Banks (“AB”), may affect customer behavior.

Q. Should the diversity factors be updated with current data which includes 2007 and 2008?

A. Yes. The Companies’ rationale is illogical because the customers’ behavior (either coincident peak demand or non-coincident peak demand) is not dependent on the DF because a customer’s peak usage is based on operational needs and not on what gas is in storage or what operational parameters are in place. In other words, the DF is determined by a customer’s usage and not the other way around. The Companies have the causation backwards. Therefore, it makes sense to update the Factors to reflect the most recent four years.

Q. What did you find when you used the most recent 4 years of data?

A. When I performed the calculations based on data provided by the Companies in response to DAS 4.01 (Attachment F), I found that there was a small decrease for both Peoples Gas' and North Shore's DF if calculated using the most recent 4 years of data.

Q. What do you recommend with regard to the issue of updating the DF for Peoples Gas and North Shore?

A. I recommend that the DF be updated based on the most recent four years of data as approved by the Commission in the last rate case. Peoples Gas DF would thereby be reduced from 0.87 to 0.86. North Shore DF would be reduced from 0.75 to 0.73.

VIII. Unbundle the Allowable Bank ("AB") from Standby Service

Q. Do the Companies propose any operational changes to their transportation riders?

A. No. The Companies believe "that it would be more beneficial to gain experience under the new riders rather than to propose any new modifications at this time." (Peoples Gas Ex. VG 1.0, p. 33; North Shore Ex. VG 1.0, p. 30)

Q. Do you have any proposals in the instant case?

A. Yes. Two changes should be addressed in this proceeding. The first issue concerns the bundling of the banking service with the provision of standby service. Standby service is where the Companies provide backup gas supply in the event that a transportation customer needs the gas. This may be necessary if the customer's marketer fails to provide the gas necessary. Bundled with that service is a banking service called the Allowable Bank ("AB"). This banking service assists the customers in balancing and also allows them to buy gas when it is relatively cheap, store it and consume it later when the market price is higher. For the reasons listed below, I recommend that this banking service be unbundled from standby service. The second change is that standby gas be sold to transportation customers at the Chicago City Gate gas price ("CCG") rather than the current three-part charge of the Standby Demand Charge ("SDC") which is a reservation charge, and the Standby Commodity Charge ("SCC") which includes both the remaining non-commodity gas charge, along with the commodity gas charge for system gas.

Q. Please describe the banking services that are offered by the Companies.

A. Peoples Gas and North Shore provide what is called an Allowable Bank ("AB") to their transportation customers on Riders Full Standby Transportation Service ("FST") and Selected Standby Service ("SST"). "Allowable Bank (AB) shall mean the maximum quantity of gas that the customer can retain in storage at any time." (Peoples Gas: ILL. C. C. NO. 28, Second Revised Sheet No. 66 and First Revised Sheet No. 75; North Shore: ILL. C. C. NO. 17, Second Revised Sheet No. 65 and First Revised Sheet No. 74) Large Volume Transportation customers must take service under one of these riders. The size of the bank is determined annually by dividing the on and off-system storage capacity that each Company has by the Design Peak Day Supply. This can be seen in Peoples Gas and North Shore

Exhibits VG-1.12 Revised. That result, also known as "Days of Bank,"[8] is split into Base Rate Days and Gas Charge Days. Rider FST customers are granted full use of their AB to store gas.[9] However, SC Nos. 4/3 customers on Rider SST may only use their AB to the extent they select a positive Selected Standby Percentage ("SSP").[10] A transportation customer who does not desire any standby service must take Rider SST and selects an SSP equal to zero.

Q. Do other major gas utilities in Illinois provide their customers with unbundled banking services?

A. Yes. All other major gas utilities in Illinois currently offer banking to their transportation customers without bundling those services with standby service. Nicor Gas provides the largest banking service in terms of both total capacity and capacity per customer and it is unbundled from all other services. All three Ameren Illinois Utilities provide banking service, though transportation customers pay for the service through base rates where it is bundled with distribution service.

Q. How do you define "bundled"?

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[8] This is in reference to the number of multiples of the customer's Maximum Daily Quantity ("MDQ").

[9] Allowable Bank for Rider FST: AB = [BRD + (GCD x DF)] x MDQ. Note that the Diversity factor is used to decrease the size of the GCD.

[10] Allowable Bank for Rider SST: For SC No. 2: AB = [BRD + (GCD x DF x SSP)] x MDQ and for SC Nos. 4(Peoples Gas) and 3 (North Shore): AB = [(BRD x SSP) + (GCD x DF x SSP)] x MDQ. Note that the Diversity factor is used to decrease the size of the GCD and the different treatment of the BRD for the SC No.2 and SC Nos. 4/3 customers.

A. Bundling is the practice of a seller selling several services together for one price. Consequently, unbundling is the process of allowing individual customers to buy only the services that they want. This has been one component of deregulation and the development of competitive markets in formerly regulated industries. In this case, banking services are bundled with the provision of standby service. I recommend that banking services be unbundled from standby services.

Q. Has the Commission approved banking services for Illinois transportation customers?

A. Yes. But only the customers of Peoples Gas and North Shore are currently required to buy standby service in order to receive banking services.

Q. How is standby service provided by other major gas utilities in Illinois?

A. Illinois' largest gas utility, Nicor Gas, provides standby service through its Rider 25 – Firm Transportation Service, which is very similar to the Companies' Rider FST. (Ill.C.C. No. 16 –Gas, 7th Revised Sheet No. 77, 6th Revised Sheet No. 78, and 6th Revised Sheet No. 78)[11] The other major gas utilities have eliminated their standby services. Standby service was eliminated for Central Illinois Public Service Co. ("AmerenCIPS") in Docket No. 07-0585c, and phased it out for Illinois Power

[11] Significantly, while there is a bundled bank provided with Rider 25, transportation customers have other rates and riders that allow them to take an unbundled bank. Peoples Gas and North Shore provide no other options.

Company (“AmerenIP”) and Central Illinois Light Co. (“AmerenCILCO”) prior to that case. “AmerenIP has no SBR [Standby Reserve] option and AmerenCILCO's equivalent to the SBR service was eliminated in its 2002 rate case without dispute. In light of this historically declining interest in SBR service, the Commission does not believe that retaining AmerenCIPS' SBR service is warranted.” (Order, Docket No. 07-0585c., September 24, 2008, p. 320)

Q. Was the issue of an unbundled bank considered in the Companies' previous rate case?

A. Yes. Several intervenors proposed to provide an unbundled storage bank (“USB”). This USB proposal was to be based only on on-system storage assets and was in addition to the AB.

Q. Did Staff support the USB as proposed by those intervenors?

A. No. The Order summarizes Staff's objections.

> Staff also opposes the USB proposal, because it involves only Manlove Field, which Staff views at the Utilities' lowest cost storage asset.… Staff avers that the storage available to transport customers should equitably reflect the cost and availability of *all* storage resources that the Utilities own or lease, so that other customer groups do not have to pay rates that reflect higher cost [storage] resources. Staff Ex. 24.0 at 13.
> (Order, Docket Nos. 07-0241/07-0242 Cons., February 5, 2008, p. 279)

Q. Did the Commission approve the unbundled bank addressed in the Companies' previous rate case?

A. No. The Order states,

> The Commission will not approve the USB proposal. We agree that the proposal is tied to the Utilities' lowest cost storage asset and would benefit large transportation customers disproportionately, to the detriment of sales customers. Additionally, we cannot find that record evidence disproves the Utilities' assertion that the USB proposal will interfere with their ability to manage their storage assets for the benefit of all customers. The proponents of USB request reservation of a substantial portion of Manlove Field in proceedings in which the Utilities are asserting the need for greater control of its storage assets. Without more, the Commission declines to disregard the Utilities' insistence that the USB proposal will unduly burden their storage operations.
>
> (Order, Docket Nos. 07-0241/07-0242 Cons., February 5, 2008, p. 280)

Q. Do the Commission's objections to the USB preclude the provision of banking service that is unbundled from the provision of standby service?

A. No. The Commission listed two reasons why it rejected the USB. First, the Commission objected because the Companies raised operational concerns which were not sufficiently answered by the intervenors. By keeping the operational parameters at their current levels, no new operational issues should develop. Second, the Commission objected to using only the lowest cost asset (Manlove) for the USB. I believe that there are other proposals which could permit transportation customers to use the Companies' storage assets without unfairly allocating all the high-price assets to service for sales customers. By using all storage assets, both on- and off-system, to determine the size of the AB, this does not change the size of the AB and the concerns that the Commission voiced in that order are mitigated.

Q. Do you think that a change in the structure of these services is

appropriate?

A. Yes. Currently, a transportation customer has to purchase full stand-by on Rider SST in order to be able to use 100% of its potential AB, and the bank's size depends on the Selected Standby Percentage chosen by the customer. This bundling prevents the transportation customers from benefitting from storage simply because they do not wish to pay for standby service. These customers cannot take advantage of their potential share of the Companies' assets, unless they subscribe to a service that they may not desire.

Q. Do transportation customers on Rider SST subscribe to the AB via their SSPs?

A. Yes. Rider SST customers indirectly subscribe to a level of AB through SSP choice. However, transportation customers do not generally select a high standby percentage. The data that the Companies provided in response to DAS 1.04 reveals that transportation customers on Rider SST that receive service under SC No. 2 on average elect an SSP of 13 % for Peoples Gas and 16% for North Shore. Conversely, on average the larger customers on Peoples Gas SC No. 4 select 25% SSP respectively (there are currently no SC No. 3 customers in North Shore). Additionally, 13% of Rider SST SC No. 4 customers elect 0% standby. These customers do not receive any bank as a result.

Q. What level of banks do transportation customers on Rider SST subscribe?

A. Based on the Companies response to DAS 1.04, Rider SST SC No. 2 customers on average subscribe to 46% of the maximum potential bank level for Peoples Gas (12.~~3~~ 2 out of 26.5 days) and 33% for North Shore (6.7 out of 20.5 days) while Peoples Gas SC No. 4 customers subscribe on average only 25% of their allotted banking capacity (only 6.5 out of 26.5 days).[12]

Q. What conclusions do you draw from this empirical evidence?

A. First, customers on SC No. 4, even though on average selecting a higher SSP, only utilize about a quarter of the total capacity that they could receive by fully subscribing to standby service. Second, SC No. 2 customers, despite the fact that they do not on average select as high an SSP as SC Nos. 4/3 customers, on average receive a larger bank. This is because storage costs are embedded in base rates for SC No. 2 customers and the formula allocating AB to them multiplies the SSP by only the GCD, excluding the BRD portion of bank days.

Q. How does this compare to Nicor Gas where the banking service is unbundled?

A. All of Nicor Gas' 41 Bcf of capacity allocated to transportation banking service is subscribed to.

[12] Peoples Gas currently has 29 days of allowable bank. However, when the diversity factor of .87 is applied, each customer can only take 26.5 days of bank. The same is true from North Shore who currently offers 26 day of bank. When the diversity factor of .75 is applied, each customer can only take 20.5 days of bank.

Q. What does Nicor Gas' experience show regarding the preference of transportation customers for banking service relative to standby?

A. Nicor Gas' experience demonstrates that appropriately priced banking services will be subscribed to. When combined with the evidence regarding low standby subscription, it further shows that while all transportation customers want storage, not all are willing to pay for standby service.

Q. How much of standby system gas do transportation customers on Rider SST utilize?

A. Based on the Companies response to DAS 3.04 (Attachment G), Peoples Gas Rider SST customers (SC No. 2 and SC No. 4) buy only 0.4% of their annual consumption -from standby supply under the SST; North Shore SC N0.2 Rider SST customers buy only 0.2%. By comparison, Peoples Gas Rider FST customers buy 9.8% of their annual usage from standby supply while North Shore Rider FST customers buy 6.3%. Therefore, for Peoples Gas, Rider FST customers are 22 times more likely to use their standby provisions than their Rider SST counterparts, and for North Shore, Rider FST customers are 33 times more likely to use their standby provisions than their Rider SST counterparts. The fact that Rider SST customers are only using standby supply for less than one half of one percent of their supply portfolio is consistent with the proposition that transportation customers on Rider SST are relatively more interested in banking services than standby services, while customers wanting back up sign up for Rider FST.

Q. How are AB costs currently being recovered?

A. AB costs include the costs of both on- and off-system storage assets. The Companies have two separate and distinct treatments for the recovery of each category of costs.

Q. How are on-system storage costs currently being recovered?

A. On-system storage costs are recovered from SC No. 2 transportation customers through base rates (both the customer charge and the distribution charges). On-system storage costs are recovered from SC Nos. 4/3 transportation customers through the Standby Service Charge ("SSC"). The SSC collects only base rate storage costs.

Q. Do you have any concerns regarding the current calculation and recovery of the SSC?

A. Yes. The SSC calculation may be problematic and the Companies should justify their treatment of the following areas. The SSC includes not just storage costs but also production costs. Additionally, it is calculated based on annual usage and demand but recovered monthly. Furthermore, the costs associated with North Shore may include leased storage from Peoples Gas. Lastly, the SSC is recovered based on the full billing demand and not just the portion associated with the on-system assets. The Companies must show in rebuttal that this charge is calculated and recovered appropriately.

Q. How are off-system storage costs currently being recovered?

A. Off-system storage costs must be separated from on-system costs in both determination and recovery because they are part of Rider 2 (PGA). These costs are recovered from large volume transportation customers through the Standby Demand Charge ("SDC"). For Rider FST customers, the SDC equals the Demand Gas Charge ("DGC") multiplied by the DF and the MDQ; for Rider SST customers, the SDC equals the DGC multiplied by the DF and the Selected Standby Quantity ("SSQ"). The SDC collects only Rider 2 (PGA) costs and the revenues derived from this charge are credited to the PGA.

Q. What problem arises from recovering off-system storage costs through the DGC?

A. The DGC includes in its numerator all off-system storage and transportation costs. This is inappropriate because transportation customers do not use transportation assets to the extent that sales customers do. Much of the gas transported under the Companies' transportation contracts never enters off-system storage fields, but rather is used as commodity gas for sales customers.

Q. Why is it appropriate to exclude transportation costs from the rates paid for the AB?

A. According to the Companies' responses to DAS-4.02 (Attachment H), when asked which costs are excluded from the ABGC but included in the NCGC, they stated that "non-commodity gas costs related to firm transportation service … are not included in the ABGC because they are transportation related purchased gas costs rather than storage and balancing related purchased gas costs." This is consistent with the data provided in DAS-1.11 and DAS-3.05 where the Companies separate "transportation" and "storage" into amounts that are treated differently within the PGA. The Companies and the Commission have already determined that those transportation assets are not used for storage and balancing, which is the extent of the services the AB is proposed to provide. Therefore, excluding them from the charges for the Allowable Bank service is reasonable.

Q. What changes do you propose to make to Rider 2 (PGA)?

A. I propose to modify the PGA to enable the AB to be unbundled. I propose to create in the PGA a new charge that credits PGA customers for transportation customers' portion of off-system storage costs. This charge would exclude certain services necessary to provide sales service but unnecessary for banking services. The excluded services are the various firm transportation contracts necessary to provide year-round supply. This new charge, called the Leased Storage Gas Charge ("LSGC"), equals the

Company's off-system storage costs for the base period divided by the total capacity of the Company's off-system storage assets.[13]

Q. What change do you propose to make to Rider SST?

A. I propose to modify Rider SST in order to enable proper allocation of storage and the appropriate recovery of costs. The following parameters need to be created:

- **Selected Bank Percentage ("SBP")**, a fraction between 0% and 100% that enables the customer to choose its desired allowable bank;
- **Gas Charge Percentage ("GCP"),** the Gas Charge Days ("GCD") divided by the total bank days from each Company's most recent annual information sheet required by both Riders FST and SST to be filed with the Commission no later than April 1 to be effective on May 1 for a one-year period. (Peoples Gas: ILL. C. C. NO. 28, Second Revised Sheet No. 66 and Second Revised Sheet No. 76; North Shore: ILL. C. C. NO. 17, Second Revised Sheet No. 65 and Second Revised Sheet No. 75) Based on Peoples Gas proposed allocation of bank days of 13 BRD and 17 GCD, the GCP for the current period would be 57%, and for North Shore, whose allocation is 5 BRD and

[13] This would follow the same formula as all PGA charges: LSGC = (G+/-A+/-O)T

21 GCD, the GCP would be 81%.(Peoples Gas and North Shore exhibits VG-1.12 Revised)

- **Selected Bank Quantity (“SBQ”)**, a customer’s SBP ~~times its MDQ~~ times its AB;

$$SBQ = (S\cancel{S}BP \cancel{\times MDQ} \times \mathrm{AB})$$

- **Residual Selected Bank Quantity (“RSBQ”)**, ~~the~~ a customer’s SBQ minus the SSP~~Q~~ times the AB;

$$RSBQ = [SBQ - (SSP \times AB)]\cancel{(SBQ - SSQ)}$$

- **Gas Charge Bank Quantity (“~~CGBQ~~GCBQ”)**, the GCP times the customer’s RSBQ.

$$GC\cancel{CG}BQ = (GCP \times RSBQ)$$

- **Leased Storage Charge (“LSC”)**, the LSGC times the DF times the customer’s GCBQ;

$$LSC = (LSGC \times DF \times GCBQ)$$

Analogous changes are also required in Rider P to enable these charges to be recovered within marketers’ pools.

In addition, for Rider SST, Allowable Bank (AB) shall mean the maximum quantity of gas that the customer can retain in storage at any time, determined by the following formula:

$$AB = [BRD \times (GCD \times DF)] \times MDQ$$

Q. Should the size of the AB be fixed or should customers be allowed to subscribe up to a certain maximum?

A. The issue here is essentially one of protection against an *unreasonable* risk of under-recovery. There are two options here: Option One, allow each customer to choose its AB. This is Nicor Gas' approach, and while individual Nicor Gas' customers have selected less than their full allotment, Nicor Gas transportation customers as a group fully subscribe to the total allocated capacity. However, this creates the potential for under-recovery of base rate costs. Option Two, require customers to subscribe to the full AB, setting the SBP equal to 100%. I prefer the first approach, because the size of the bank can be tailored to each customer's needs just like the amount of standby.

Q. If the size of the AB is not fixed, what can be done to eliminate or mitigate the risk that the Companies might under-earn on these services?

A. If the size of the AB is not fixed, then any unsubscribed capacity could be aggregated and offered to other customers. The purchase of capacity from this pool should be prorated to customers that want it. A portion or all of the capacity that is not subscribed to in the pool could be returned to the original customers on a pro-rated basis. This last way ensures that the total capacity gets subscribed and all costs are recovered. Another option is to allow a customer to transfer its allocation directly to another customer, but retain the responsibility to pay for it in its rates while the customer keeps the payment from the buyer.

Q. What critical day ("CD") bank withdrawal rights should be associated with the AB?

A. I recommend that a procedure similar to that used by Nicor Gas be employed. Transportation customers should be allowed a share of the peak day withdrawals commensurate with their share of peak day usage.

Q. What critical day ("CD") system supply rights should be associated with the AB?

A. Those customers who have selected standby service in addition to the bank would continue to get system supply equal to their Selected Standby Quantity.

Q. How do you recommend that the Companies recover the costs to provide an unbundled allowable bank?

A. The costs of providing an unbundled AB include the costs of both on and off-system storage assets. Therefore, the Companies must have two separate and distinct treatments for the recovery of each category of costs.

Q. How do you recommend that the Companies recover their *on*-system costs of providing the unbundled allowable bank?

A. The method of recovering on-system costs for SC No. 2 customers would not change and continue to be recovered through base rates. For SC Nos. 4/3 on-system, the SSC (or a similar charge) may be an appropriate recovery mechanism, which would be multiplied by the ~~sum~~ on-system portion of the ~~of the SSQ and~~ RSBQ (found by multiplying (1-GCP) times the RSBQ) in order to prevent double counting of the SSQ amount.

Q. How do you recommend that the Companies recover the *off*-system costs of providing the unbundled allowable bank?

A. Off-system *storage* costs should be recovered from the LSGC, which should be multiplied by the off-system portion each customer's RSBQ, that is, the GCBQ.

Q. How do you recommend that the Companies recover the *off*-system costs of providing the standby service?

A. Off-system *standby* costs should still be recovered from the SDC which should still be multiplied by each customer's SSQ.

Q. Please summarize your conclusions regarding unbundling the AB from standby service?

A. The Companies' banking services that are bundled with standby service increase the cost of those banks without providing sufficient benefits to merit continued bundling. Therefore, I recommend that the Commission require the Companies unbundle standby service from the allowable bank ("AB") and implement appropriate cost recovery methods. The Companies should demonstrate in rebuttal how they can recover costs for the provision of these services separately based on these recommendations.

Q. How should the Companies change the Standby Commodity Charge ("SCC") for both Rider FST and Rider SST?

A. The SCC currently is calculated as the Commodity Gas Charge ("CGC") plus (NCGC x (1-DF)). (Peoples Gas: ILL. C. C. NO. 28, Third Revised Sheet No. 68 and Second Revised Sheet No. 79; North Shore: ILL. C. C. NO. 17, Second Revised Sheet No. 67 and First Revised Sheet No. 78) Standby customers can arbitrage the difference between the SCC and the CCG by using system gas when the CCG is greater than the PGA, and they can buy gas in the market when the PGA is greater than the CCG. Setting the Standby Commodity Charge ("SCC") equal to the Chicago city gate ("CCG") prevents this arbitrage. The arbitrage hurts sales customers because the standby customers gain by taking standby when the standby price (PGA) is less than the market price. This causes the Companies to buy more expensive spot gas or defer sales of PGA gas at above PGA cost, both actions which cause higher gas costs to sales customers.

Q. Does this conclude your prepared direct testimony?

A. Yes.