

**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**

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

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**Dated: May 28, 2010**

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

Pursuant to Section 200.830 of the Rules of Practice of the Illinois Commerce Commission (“Commission” or “ICC”), 83 Ill. Admin. Code § 200.830, 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 Brief on Exceptions in this proceeding. CUB-City-AG’s Brief on Exceptions responds to the ALJ’s Proposed Order issued in these consolidated dockets on May 19, 2010.

## I. INTRODUCTION

The Proposed Order rejects CUB-City-AG's argument that The Peoples Gas Light and Coke Company's ("Peoples Gas," "PGL," or the "Company") practice of pre-allocating the amount of storage available for system supply was unreasonable because that practice precludes the Company's gas dispatch model from optimizing the amount of Manlove storage that should be utilized to serve ratepayers. The Proposed Order concludes that the Commission reviewed CUB-City-AG's argument in Peoples Gas's 2008 rate case (Docket No. 07-0242) and found that "[c]onsidering all of the relevant evidence at hand, the Commission is persuaded that, at this time, the Hub provides more benefits than costs." Proposed Order at 12, *citing, In re Peoples Gas*, ICC Docket 07-0242, Final Order at 116-117 (Feb. 7, 2008) ("2008 Rate Case Order"). The Proposed Order's assertion that the Commission's 2008 Rate Case Order in any way responds to or resolves the issues CUB-City-AG raised in this proceeding regarding the specific allocation of Manlove Field storage capacity between system supply and Hub services is woefully mistaken.

In its 2008 Rate Case Order, the Commission did not address the prudence of Peoples' allocation of Manlove Field between system supply and Hub services in the 2008 rate case. Rather, the portion of the 2008 Rate Case Order cited by the Proposed Order addressed Staff of the Illinois Commerce Commission's ("Staff") recommendation that "the Commission order Peoples Gas to cease providing Hub services because the provision of Hub services at Manlove Field is likely to impose costs above revenues upon ratepayers in the coming years." Rate Case Order at 108. The entire "Commission Analysis and Conclusion" regarding Hub services in the 2008 Rate Case Order is dedicated to Staff's recommendation that Peoples Gas be ordered to stop providing Hub services. CUB-City-AG did not make that argument in the 2008 rate case.

Nor did CUB-City-AG make that argument here. Thus, the Proposed Order's reliance on the 2008 Rate Case Order is misplaced.

The issue raised by CUB-City-AG in this docket is not whether PGL may or may not provide Hub services, but whether its decision to predetermine the amount of Manlove Field storage to allocate to Hub services – without adequate consideration paid to the costs and benefits to ratepayers – was prudent based on the information known at the time. The Proposed Order's rationale seems to be that the Commission cannot review the *prudence* of PGL's supply capacity decisions simply because it decided that PGL *may provide* Hub services. Such a result is plainly absurd.

The question the Commission must resolve in this proceeding is whether Peoples Gas prudently optimized Manlove storage capacity, for which ratepayers pay in base rates, to ratepayers' best advantage. The Proposed Order does not address this issue and, thus, the conclusion in the Proposed Order must be rejected. CUB-City-AG urge the Commission to re-examine the record evidence and render a decision based on the issues raised. The evidence demonstrates that Peoples Gas imprudently managed its gas supply portfolio by not optimizing its storage facility to its ratepayer's benefit. Therefore, the Commission should disallow \$11 million in imprudent gas costs from PGL's 2006 reconciliation year.

## **II. ARGUMENT**

### **A. THE 2008 PGL RATE CASE ORDER DID NOT REVIEW PGL'S GAS PURCHASING ACTIVITY FOR THIS RECONCILIATION PERIOD**

The evidence in this proceeding demonstrates that PGL's provision of interstate park and loan Hub services during the reconciliation period reduced the amount of storage gas that could have been used to meet the winter requirements of ratepayers, resulting 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. The Proposed Order mistakenly claims, however, that “the Commission has already reviewed the costs and benefits of the interstate services in a proceeding directly involving twelve of the fifteen months at issue in this proceeding.” Proposed Order at 12. Although the Commission did consider issues relating to whether Peoples Gas should provide Hub services in ICC Docket No. 07-0242, it did not address Peoples Gas’ purchased gas adjustment (“PGA”) costs during the relevant reconciliation period. In that docket, the Commission reviewed the costs and benefits of PGL’s Hub activities as those activities related to the *base rate* costs of supporting the activities. Rate Case Order at 116-118. The Order, therefore, never addressed the relevant issue in this docket: whether Peoples Gas prudently managed its Hub storage services to ratepayers’ best advantage.

In the 2008 PGL rate case, Staff recommended that “the Commission order Peoples Gas to cease providing Hub services because the provision of Hub services at Manlove Field is likely to impose costs above revenues upon ratepayers in the coming years.” *Id.* at 108. Staff posited that the additional base gas required to be injected into Manlove Field storage to accommodate the increased storage capacity Peoples desired for Hub services would pose substantial additional base rate costs on ratepayers over time. *Id.* The Commission rejected Staff’s arguments and determined that the expansion of Manlove Field to accommodate Hub services was not *per se* imprudent. *Id.* at 116. In that case, CUB-City agreed with the Commission’s determination.

However, that is not what this case is about. Rather, the instant proceeding is, as the Proposed Order correctly notes, addresses the reconciliation of revenues collected under Peoples Gas’ PGA clause for the 15-month period spanning October 1, 2005 through December 31, 2006. Proposed Order at 1-2. Section 9-220 of the Public Utilities Act requires the Commission

to initiate annual hearings to determine whether the actual gas costs a utility charged through its purchased gas adjustment clause during the reconciliation period were reasonable and prudently incurred. 220 ILCS 5/9-220. In this proceeding, the record evidence demonstrates that PGL's allocation of Manlove Field was unreasonable and imprudent because the Company failed to utilize its Gas Dispatch Model to optimize the amount of Manlove storage to allocate to system supply, resulting in ratepayers paying an additional \$11 million more in gas costs. CUB-City-AG Init. Br. at 6.

Pursuant to its FERC Operating Statement, Peoples Gas provides transportation and storage services to certain counter parties (generally marketers). These services utilize the Company's on-system storage facility, Manlove Field, and are referred to as Chicago Hub, third-party or non-tariff services. Under certain transactions, Peoples Gas either accepts gas from a counter party and returns it at a later point in time, or lends gas to a counter party who returns it at a later point in time. While in the 2008 rate case, the Commission decided that provision of 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 the entirety of Manlove storage for ratepayer benefit, the Company excluded a portion of storage from the model, and instead pre-determined that a certain portion of its storage should be used for park and loan Hub services. *Id.* at 8. By not using the model for the entirety of its Manlove gas storage practices, the Company failed to predict the optimal gas portfolio during the

reconciliation year. This 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 that existed during the reconciliation period. By reducing the amount of storage gas that could be used to meet the winter requirements of ratepayers, sales customers' gas commodity costs increased because the quantity of lower cost summer gas available to sales customer was reduced. CUB-City-AG Ex. 1.0 at 5, LL. 106-110.

The record demonstrates that Peoples Gas did 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. Therefore, ratepayers did not enjoy the full benefit of the summer/winter commodity rate differential during the reconciliation period. CUB-City-AG Ex. 1.0 at 8-9, LL. 190-196. 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. THE PROPOSED ORDER'S CRITICISMS OF MR. MIERZWA'S RECOMMENDED DISALLOWANCE ARE MISPLACED.**

**1. Mr. Mierzwa's recommended disallowance is appropriate and consistent with the relevant law and policy.**

The Proposed Order claims that the calculation of CUB-City-AG's recommended disallowance does not appear to be consistent, because it only considers "park and loan" transactions and excludes other Hub transactions. Proposed Order at 12. Before addressing the substance of the Proposed Order's erroneous statement, it should be noted that the Proposed Order appears to rely on what it claims are mistakes in Mr. Mierzwa's disallowance calculation as an additional reason to reject Mr. Mierzwa's argument that Peoples Gas was imprudent for not optimizing its storage assets such that ratepayers benefits are maximized. This is akin to a jury

finding in a civil case that although the defendant intentionally hit the plaintiff with his car, the victim should not be allowed to recover damages because her damages estimate was overstated. Such a conclusion is nonsensical.

Returning to the substance of the Proposed Order's assessment of Mr. Mierzwa's refund recommendation, it is important to recognize – as Mr. Mierzwa did – that the Company provides several different services which it characterizes as Hub services. CUB-City-AG Ex. 2.0 at 10, LL. 193-206. These other Hub services include non-park and loan services such as transportation and interruptible storage service. *Id.* 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. As Mr. Mierzwa testified, non-park and loan revenues are simply not relevant to the considerations in this reconciliation proceeding because revenues from other Hub services (including transportation and interruptible storage services) would have been credited against recoverable gas costs whether Manlove storage was used to provide park and loan services or system supply. *Id.* Only park and loan transactions effect the allocation of Manlove Field between system supply and third-party transactions. Simply stated, if the gas used for park and loan transactions was used to serve system supply instead of being used for Hub transactions, ratepayers would have paid less for their gas service.

The Proposed Order further concludes that the alternative disallowance recommendations provided in Mr. Mierzwa's testimony, coupled with “the differing time periods used for costs and revenues” make it unclear whether there would have been benefits from his recommended approach that outweighed the Hub revenues in the reconciliation period. Proposed Order at 12. This, however, is not the relevant measure by which the Commission must decide whether Peoples Gas's PGA costs were prudent during the reconciliation period. As the Proposed Order

itself recites, the relevant law determines the appropriate prudence standard: the standard of care “which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made.” Proposed Order at 3, citing Commonwealth Edison Company, Docket No 84-0395, Order (October 7, 1987) at 17; Illinois Power Co. v. Illinois Commerce Comm., 245 Ill. App. 3d 367, 371 (3<sup>rd</sup> Dist. 1993). Mr. Mierzwa properly evaluated Peoples Gas’ portfolio under this standard and concluded that Peoples Gas’ purchasing decisions imprudently reduced the amount of lower cost summer gas available to sales customers to serve system supply, thereby likewise reducing the opportunity for customers to benefit from the significant seasonal price differentials that existed during the reconciliation period. Those decisions did not optimize the potential value of the Company’s storage assets to ratepayer benefit.

**2. Mr. Mierzwa’s adjustment captures the effects of Peoples’ imprudent activities during the reconciliation period.**

The Proposed Order claims it is not clear why Mr. Mierzwa included some park and loan transactions and not others. Proposed Order at 12. The time periods included in Mr. Mierzwa’s recommended disallowance necessarily spanned a time frame broader than the reconciliation period, in order to capture all of the relevant transactions that affected ratepayers’ gas costs during the reconciliation period. 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 (emphasis added). 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 properly matched only the costs and revenues of those transactions that affected gas

costs during the reconciliation period. *Id.* Had he not performed his analysis in this way, he would not have captured all of the transactions that resulted in charges to customers during the reconciliation period.

The Company itself confirmed that Mr. Mierzwa's method of calculating the impact of its imprudent allocation of Manlove storage field included all the revenues that impacted gas costs during the reconciliation period. 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. See CUB-City-AG Ex. 2.0 at 9, LL. 170-187. 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, Mr. Mierzwa's calculations properly account for the revenues from each relevant transaction affecting the Company's gas costs during the reconciliation period.

### **3. Mr. Mierzwa's calculation of Hub revenues was correct.**

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, because the provisioning of those services would not have affected sales customers. Mr. Mierzwa's disallowance recommendation calculated the total amount of Manlove storage utilized by PGL to provide park and loan services (6.6 Bcf during the 2006-2006 winter, and 7.3 Bcf during the 2006-2007 winter), which resulted in net revenues of approximately \$9.7 million. CUB-City-AG Ex. 2.0 at 6, LL. 131-134. This value was updated by the Company in a revised discovery response, 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 from \$13,927,631 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.

Mr. Mierzwa's recommended adjustment assumes that Peoples Gas utilized the portion of Manlove storage allocated to park and loan transactions instead for system supply in the same manner it was used to provide Hub services. CUB-City-AG Ex. 2.0 at 6, LL. 134-136. Mr. Mierzwa used published index prices that were comparable to the prices Peoples Gas would have paid for gas if it used the Manlove storage assigned to Hub services to serve system supply. *Id.* Mr. Mierzwa's calculation, therefore, is not hindsight review, but a reasonable and proper

method of calculating the rate impact of the Company's imprudent decisions made at the time the decisions had to be made, as the law requires.

With regard to Mr. Mierzwa's "alternatives," Mr. Mierzwa did not recommend their adoption, but did quantify – for the benefit of the record – the dollar impact of taking into consideration the Company's specific criticisms of his adjustment. First, the Company cries foul that Mr. Mierzwa's adjustment did not take into account the costs associated with injection fuel and carrying charges associated with an increased assignment of Manlove storage to system supply. Mr. Mierzwa responded that these costs are recovered through base rates not the PGA. CUB-City-AG Ex. 2.0 at 5, 106-107. Nonetheless, Mr. Mierzwa testified that, if the injection fuel and carrying charges, his disallowance recommendation would be reduced by \$4.9 million to \$6,127,496.

Second, in response to the Company's criticism that Mr. Mierzwa's assumptions regarding the Company's gas purchase pattern were not an accurate representation of how Peoples Gas conducts Hub transactions (People Gas Ex. 3.0 at 7, LL. 124-133) Mr. Mierzwa performed his calculations assuming the storage assigned to Hub services were used to serve system supply consistent with planned Manlove storage activity. This would further reduce Mr. Mierzwa's adjustment by \$2 million to \$4,127,496. Thus, if the Commission were to accept both of the Company's specific criticisms of Mr. Mierzwa's recommended disallowance calculation – which it should not – the Commission should disallow \$4,127,496 of gas costs at a bare minimum.

**C. THE ADVERSE IMPACT OF PGL'S IMPRUDENT GAS PORTFOLIO DECISIONS CANNOT BE DISMISSED BECAUSE OF CLAIMED OPERATIONAL BENEFITS**

The record demonstrates not only that Peoples Gas imprudently used its Gas Dispatch Model and therefore failed to optimize its gas portfolio during the reconciliation period, but also

that the operational benefits claimed by the Company from the provision of park and loan Hub services are merely an illusion. Company witness 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.

### III. CONCLUSION

For the reasons set forth above and 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. Accordingly, CUB-City-AG request that the Commission replace the Commission Analysis and Conclusion on pages 11-12 of the Proposed Order with the following:

#### e. Commission Analysis and Conclusions

As CUB-City-AG pointed out in their initial brief, the Commission had similar issues before it in Peoples Gas' 2005 Gas Charge reconciliation proceeding. In that case (Docket 05-0749), the Commission noted that hub issues were being addressed in Peoples Gas' then pending rate case (Docket No. 07-0242). Subsequently, in that rate case, the Commission addressed certain aspects of Peoples Gas' interstate services~~at length~~. The rate case test year was Peoples Gas' fiscal year 2006, which was the twelve months ended September 30, 2006. The Peoples Gas Light and Coke Company, ICC Docket Nos. 07-0241 and 07-0242 (Cons.), p. 7 (February 5, 2008) ("2008 Rate Order"). The Reconciliation Period in this case includes that same fiscal year plus the ensuing three months (October 1, 2006, through December 31, 2006).

The Commission's review of Peoples Gas' interstate services addressed several arguments about the costs and benefits of those services. 2008 Rate Order at 102-121. That review included Staff's recommendation that Peoples Gas terminate its hub services~~Mr. Mierzwa's arguments concerning the "predetermination" of the amount of Manlove Field capacity~~

allocated to system supply. 2008 Rate Order at 110-111. The Commission stated that “[c]onsidering all of the relevant evidence at hand, the Commission is persuaded that, at this time, the Hub provides more benefits than costs. We come to this conclusion by examining all of the relevant evidence.” 2008 Rate Order at 116-117; also see Peoples Gas Ex. RD 3.0, p. 5. Although the Commission did consider issues relating to whether Peoples Gas should provide Hub services in ICC Docket No. 07-0242, it did not address Peoples Gas’ PGA costs during the relevant reconciliation period. In that docket, the Commission reviewed the costs and benefits of PGL’s Hub activities as those activities related to the base rate costs of supporting the activities. Rate Case Order at 116-118. The Order, therefore, never addressed the relevant issue in this docket: whether Peoples Gas prudently managed its Hub storage services to ratepayers’ best advantage.

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. But rather than allow this model to optimize the entirety of Manlove storage for ratepayer benefit, the Company excluded a portion of storage from the model, and instead pre-determined that a certain portion of its storage should be used for park and loan Hub services. By not using the model for the entirety of its Manlove gas storage practices, the Company failed to predict the optimal gas portfolio during the reconciliation year. This 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 that existed during the reconciliation period. By reducing the amount of storage gas that could be used to meet the winter requirements of ratepayers, sales customers’ gas commodity costs increased because the quantity of lower cost summer gas available to sales customer was reduced.

Thus, this record demonstrates that Peoples Gas did 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. If the Company had properly allowed its Gas Dispatch Model to optimize the amount of Manlove storage to allocate to system supply, CUB-City-AG witness Mierzwa estimated that ratepayers would have incurred \$11,027,496 million less in gas costs.

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 properly matched only the costs and revenues of those transactions that affected gas costs during the reconciliation period. The Commission rejects Peoples Gas' criticisms of Mr. Mierzwa's disallowance calculation, because Mr. Mierzwa's calculation represents the most reasonable and proper method of calculating the rate impact of the Company's imprudent decisions made at the time the decisions had to be made, as the law requires. Thus, the Commission adopts CUB-City-AG's recommended disallowance of \$11,027,496 to account for Peoples Gas' imprudence with regard to its allocation of Manlove Field storage.

~~The Commission has already reviewed the costs and benefits of the interstate services in a proceeding directly involving twelve of the fifteen months at issue in this proceeding. It specifically addressed the monetary and non-monetary benefits to customers of the interstate services. It found "the record devoid of any evidence that Peoples Gas has utilized any of the Gas Charge assets to subsidize Hub services." 2008 Rate Order at 117. It concluded that the interstate services provide more benefits than costs. 2008 Rate Order at 117. Those conclusions are directly relevant to this Reconciliation Period. Nothing in the record in this proceeding leads us to a different conclusion from that reached in the rate case about the prudence of Peoples Gas' use of its Manlove Field and its provision of hub services during the Reconciliation Period.~~

~~As Staff and the Company pointed out, the calculation of CUB-City-AG's recommended disallowance does not appear to be consistent. It uses only some hub transactions (what are called "park and loan" transactions), and it is not clear why others were excluded. The calculation also spans a period greater than the Reconciliation Period, yet it uses only revenues from the Reconciliation Period for the so-called park and loan transactions.~~

~~The intervenor witness also offered at least two alternatives that substantially reduce the costs he attributed to hub transactions. In one alternative, he removed certain incremental costs and reduced his recommendation by \$4.9 million. In a second calculation, he used a different pattern for storage usage that reduced his calculation by about \$4 million. Coupled with the differing time periods used for costs and revenues, it is not evident that, even assuming Peoples Gas had used additional Manlove Field capacity for ratepayers, there would have been benefits that outweighed the hub revenues flowed through the Gas Charge in the Reconciliation Period.~~

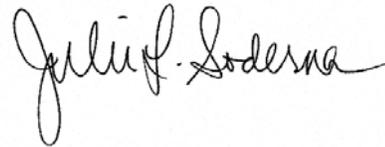
~~The Commission exhaustively reviewed the costs and benefits of hub services in Peoples Gas' 2008 rate case. It concluded that the benefits outweighed the costs at that time. Nothing in the record in this proceeding is contrary to those conclusions.~~

**WHEREFORE**, the Citizens Utility Board, the City of Chicago, and the People of the State of Illinois respectfully request the Commission to adopt the changes to the Order recommended herein.

May 28, 2010

Respectfully submitted,

**CITIZENS UTILITY BOARD,**



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