

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY :
 : No. 11-____
Proposed General Increase :
In Rates For Gas Service :

Direct Testimony of
JOHN MCKENDRY
Senior Leader
Gas Transportation Services
Integrays Business Support, LLC

On Behalf of
North Shore Gas Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Witness Introduction**

3 Q. Please state your name and business address.

4 A. My name is John McKendry. My business address is 130 E. Randolph Drive, Chicago,
5 Illinois 60601.

6 Q. By whom are you employed and what is your current position?

7 A. I am the Senior Leader of Gas Transportation Services for Integrys Business Support,
8 LLC (“IBS”), a wholly-owned subsidiary of Integrys Energy Group, Inc. (“Integrys”).

9 Q. For whom are you providing testimony?

10 A. I am providing testimony for North Shore Gas Company (“North Shore”), which is a
11 wholly-owned indirect subsidiary of Integrys.

12 **B. Purpose of Testimony**

13 Q. What is the purpose of your direct testimony?

14 A. The purpose of my direct testimony is to describe the services Gas Transportation
15 Services offers. Based on the department’s staff and support of the transportation
16 programs, NS Ex. 15.1 breaks down the costs involved, and North Shore witness Valerie
17 Grace (NS Ex. 12.0) explains the resulting Administrative Charges for each program. In
18 addition, the unbundling of storage described by North Shore witnesses Thomas Connery
19 (NS Ex. 14.0) and Ms. Grace will introduce a service under which customers and
20 suppliers will, on an annual basis, select the number of storage days they wish to
21 purchase. I describe the selection process.

22 **C. Summary of Conclusions**

23 Q. Please summarize your conclusions.

24 A. The costs shown on NS Ex. 15.1 accurately represent the costs associated with the
25 administration of North Shore's transportation programs. The proposed process used to
26 determine the administrative costs and the resulting Administrative Charges are similar to
27 how North Shore has made these determinations in prior rate proceedings. The annual
28 storage selection process associated with new Rider SBS is a fair way to allow customers
29 and suppliers under the proposed Rider SBS to choose the amount of storage they desire.

30 **D. Itemized Attachments to Direct Testimony**

31 Q. Are you sponsoring any exhibits?

32 A. Yes, I am sponsoring the following exhibit:

Exhibit No.

NS Ex. 15.1 Gas Transportation Administrative Costs

33 **E. Background and Experience**

34 Q. Please outline your educational background and business experience.

35 A. I have a Bachelor's Degree in Marketing from Loras College in Iowa. I have been
36 employed by North Shore or its parent company, Peoples Energy Corporation, since 1990
37 in positions related to Marketing and Gas Transportation Services. In January 2008, I
38 transferred to IBS and assumed my present position in Gas Transportation Services.

39 Q. What are your responsibilities in your present position?

40 A. I supervise the Large Volume Transportation support staff in the Gas Transportation
41 Services department.

42 **II. GAS TRANSPORTATION DESCRIPTION**

43 **A. Description**

44 Q. Can you describe the role of Gas Transportation Services for the utilities?

45 A. Gas Transportation Services (“GTS”) is a department within IBS that manages North
46 Shore’s and The Peoples Gas Light and Coke Company’s (“Peoples Gas”) large volume
47 and small volume (Choices For Yousm) transportation programs. Peoples Gas, like North
48 Shore, is a wholly-owned indirect subsidiary of Integrys and offers transportation
49 programs that are substantially identical to North Shore’s programs.

50 Q. What programs does North Shore offer?

51 A. Under the large volume program we offer Full Standby Transportation (Rider FST) and
52 Selected Standby Transportation (Rider SST) for Service Classifications Nos. 2 and 3.
53 Suppliers may pool customers under Rider P, Pooling. Under the Choices For Yousm
54 program we offer small volume transportation service (Rider CFY) for Service
55 Classification Nos. 1 and 2. Suppliers aggregate Rider CFY customers under Rider
56 AGG.

57 Q. How many customers participate in these programs?

58 A. Based on test year 2012, North Shore has 1,666 customers under the large volume
59 programs. Under Rider CFY, North Shore has 11,612 customers.

60 **B. Personnel Roles**

61 Q. How many employees do you have in GTS?

62 A. There are 17 employees in GTS.

63 Q. What functions does GTS perform?

64 A. The department's purpose is the management of gas transportation-related contracts,
65 nominations, billing and support work related to customers, their accounts and gas
66 metering equipment. We also provide certain services, billing, and support to alternative
67 gas suppliers participating in the programs.

68 Q. Are GTS's activities strictly related to transportation customers and suppliers?

69 A. The purpose of the GTS department is to support the companies' transportation
70 programs, and while the majority of transactions performed by GTS are directly tied to
71 transportation customers and suppliers, there may be closely-related activities performed
72 that are not directly in support of gas transportation.

73 Q. What are examples of such closely-related activities?

74 A. An example is complex billing transactions, such as special metering and instruments or
75 special billing.

76 **III. LARGE VOLUME AND SMALL VOLUME ADMINISTRATIVE CHARGES**

77 Q. Do Administrative Charges recover the costs for GTS's activities?

78 A. Yes, Administrative Charges are applied to the contract and pool level accounts to
79 recover the costs of activities performed by GTS. For example, a customer taking service
80 under Rider FST has a contract with North Shore, and that contract may include more
81 than one service account. That customer pays an Administrative Charge for each account
82 covered by the contract. A supplier has a pool comprised of as many as 300 customer
83 accounts under Rider P and an unlimited amount under Rider AGG. That supplier pays
84 an Administrative Charge for each account in the pool.

85 Q. How do the companies account for costs related to work not directly in support of
86 transportation programs?

87 A. To the extent any planned activity by GTS is outside transportation-related work,
88 adjustments are made to remove those costs from the administrative costs. For example,
89 activities that are not GTS related would include the performing of work for customer
90 accounts that are not currently active on one of the transportation programs. Most often
91 this would occur when one of our major transportation customers has additional accounts
92 that are not on a transportation program or when complex billing transactions, such as
93 special metering and instruments or special billing, are performed for non-transportation
94 customers.

95 Q. Can you provide the breakdown of GTS's costs that support the Administrative Charges?

96 A. Yes, NS Ex. 15.1 details the administrative costs for services that GTS performs.

97 Q. From what sources were the data on NS Ex. 15.1 derived?

98 A. The data is derived from GTS' labor costs, IT costs and telecommunications and office
99 expenses.

100 Q. Are the non-transportation costs removed from these exhibits?

101 A. Yes, this exhibit contains just the costs associated with transportation activity.

102 **IV. LARGE VOLUME STORAGE SUBSCRIPTION PROCESS**

103 Q. How does North Shore currently determine the quantity of storage available to customers
104 and suppliers in the large volume program?

105 A. The amount is based on customers' service elections and the related cost recovery.

106 Currently, Rider FST customers and Rider P suppliers with Rider FST customers in a

107 pool receive the maximum quantity of storage available based on North Shore's storage
108 recovered in its base rates and in its Gas Charge. This is because these customers receive
109 a fully bundled service and full standby service. Rider SST customers and Rider P
110 suppliers with Rider SST customers in a pool receive the quantity of storage for which
111 North Shore recovers costs from that customer class in its base rates plus a quantity based
112 on the customer's selection of standby service. For customers taking service under
113 Service Classification No. 3, the amount of "base rate" storage depends on the customer's
114 standby service selection. The storage account is called an "Allowable Bank."

115 Q. What is North Shore proposing to change?

116 A. As described by Mr. Connery, North Shore is unbundling the Rider SST service, such
117 that a customer or supplier will receive storage based on its selection through a
118 subscription process. As Mr. Connery explains, Rider SST is being replaced by Rider
119 SBS, Storage Banking Service. Storage will continue to be called an "Allowable Bank"
120 under Rider SBS.

121 Q. Please explain what storage subscription means.

122 A. Storage subscription means the process that allows Rider SBS customers and Rider P
123 suppliers serving Rider SBS customers to select, annually, the number of days of storage
124 provided by North Shore. The amount of Allowable Bank will be the product of the
125 number of days selected and the customer's Maximum Daily Quantity ("MDQ").

126 Q. Is this process restricted to Rider SBS program only?

127 A. Yes, this process will apply only to Rider SBS. The Rider FST program will still operate
128 with full standby and maximum days of storage. Rider FST customers will have an

129 Allowable Bank that is equal to the product of their MDQ and the maximum number of
130 storage days available. Mr. Connery and Ms. Grace describe other changes to Rider FST.
131 Also, this will have no effect on the amount of storage available under the small volume
132 program.

133 Q. Does this storage subscription process replace selecting standby service under Rider
134 SST?

135 A. Yes, under Rider SBS, suppliers will no longer select a standby percentage which would
136 determine the size of the Allowable Bank.

137 Q. Please explain how this annual process will work.

138 A. Large volume transportation service contracts are for a one-year period beginning May 1,
139 and each May the contracts roll over for a new one-year term. The annual subscription
140 process will occur prior to the annual May rollover. Suppliers and customers will be able
141 to select from one day of storage up to the maximum amount of days made available by
142 North Shore. Suppliers and customers will not be able to select fractional days. About
143 April 1 of each year, North Shore will notify each customer or its supplier of the
144 maximum number of days of storage available. No later than April 15, the customer or
145 its supplier may request a change to the number of days used in calculating its Allowable
146 Bank. If the customer or supplier requests no change, then its previous selection will
147 remain in effect, but if the previous selection exceeds the maximum number of days
148 available, then the customer's Allowable Bank will be reduced to the maximum number
149 of days available. A customer or supplier may also request days of storage in excess of
150 the maximum number of days. North Shore will allocate unsubscribed capacity on a pro
151 rata basis, rounded to a full day, to all customers requesting extra capacity. Elections are

152 made at the contract level and then aggregated if the contract is part of a Rider P pool.
153 North Shore proposes that Rider SBS take effect August 1, 2012. At that time, only those
154 customers on Rider SST will transfer to Rider SBS. Those on Rider FST-T cannot elect
155 to transfer to Rider SBS until the following rollover period.

156 Q. What is Rider FST-T?

157 A. Rider FST-T, Full Standby Transportation Service - Transition, is a rider that will be in
158 effect solely as a transition to the proposed Rider FST. Rider FST-T is substantially
159 similar to the current Rider FST, and it will terminate July 31, 2012.

160 Q. How will a new customer or a customer who switches to Rider SBS transportation
161 service after the rollover period select the number of days of storage for its contract?

162 A. This customer will select the number of days up to the maximum available when the
163 customer enrolls for service.

164 Q. Does this complete your direct testimony?

165 A. Yes.