STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

THE PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	No. 11-____
Proposed General Increase In Rates For Gas Service	:	

Direct Testimony of

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Supervisor, Gas Supply Trading
Integrys Business Support, LLC

On Behalf of
The Peoples Gas Light and Coke Company

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I. INTRODUCTION AND BACKGROUND

A. Witness Introduction

Q. Please state your name and business address.

A. My name is Thomas Connery. My business address is 130 East Randolph Street, Chicago, Illinois 60601.

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

A. I am the Supervisor, Gas Supply Trading for Integrys Business Support, LLC ("IBS"), a wholly-owned subsidiary of Integrys Energy Group, Inc. ("Integrys").

Q. For whom are you providing testimony?

A. I am providing testimony for The Peoples Gas Light and Coke Company ("Peoples Gas"), which is an indirect wholly-owned subsidiary of Integrys.

B. Purpose of Testimony

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe and support proposed changes to Peoples Gas' large volume transportation programs. I provide an overview of requirements of Peoples Gas' last general rate case order (Docket Nos. 09-0166/09-0167 (cons.) ("2009 Rate Case")) affecting the company's transportation programs. The steps Peoples Gas took to comply with two items from the 2009 Rate Case Order are discussed. Specifically, the primary issues reviewed here are Peoples Gas' participation in developing and vetting proposals among the Illinois Commerce Commission ("ICC" or "Commission") Staff and interested parties to address (1) equitable access to and allocation of storage for the small volume transportation program (Rider AGG,

Aggregation Service) and (2) the unbundling of storage and standby service for large volume transportation Rider SST, Selected Standby Transportation Service. I discuss the methodology developed for the Rider AGG access and allocation issues, and I show the applicability of the general analytic framework developed for that program to the unbundling of the storage and standby services of Rider SST. Peoples Gas further demonstrates that application of the equitable access and allocation model to its other transportation program (Rider FST, Full Standby Transportation Service) is necessary to provide equitable and consistent access to and allocation of the company's storage assets across all company transportation programs. Peoples Gas' witnesses John McKendry (PGL Ex. 15.0) and Valerie Grace (PGL Ex. 12.0) also address changes to the transportation programs affected by the structural changes proposed here.

C. Summary of Conclusions

Q. Please summarize your conclusions regarding modifications to the transportation programs.

A. In brief, the conclusions of my direct testimony are that Peoples Gas' large volume transportation programs need to be modified in the following ways to accommodate the equitable access to and allocation of the company's storage assets:

1. The unbundling of Rider SST storage and standby services can be accomplished and the products of that unbundling are stand-alone storage and standby services.
2. A review of the assets supporting those stand-alone services provides two conclusions: That the assets supporting the storage service are exactly the same as the storage asset group identified and analyzed in the development of the small volume storage access review; and that the assets supporting the standby service, which now exclude all storage

assets, cannot support the no-notice feature of the standby service currently offered under Rider SST.

3. Given that Peoples Gas developed guidelines to define access to (operating parameters) and the equitable allocation of the storage asset group, those general parameters logically apply to any class of customers' storage rights. Specifically, the monthly and daily operating parameters developed under the equitable access to and allocation of storage model should be adapted to the Rider SST storage service.
4. The unbundled standby service, due to the absence of any storage support, is not practical to provide and is proposed to be eliminated.
5. Elimination of the unbundled standby service produces the conclusion that Rider SST should be renamed to identify it as a pure storage service—Storage Balancing Service, Rider SBS.
6. Consistent application of the equitable access to storage model across all transportation programs is necessary to align those programs' storage operating parameters with the actual operating capabilities of company storages in meeting varied daily and seasonal system demands. To provide that consistency, Peoples Gas is proposing to adapt the equitable storage access model to the operating parameters of Rider FST. It has already filed appropriate changes to the small volume transportation program.

D. <u>Itemized Attachments to Direct Testimony</u>

Q. Are you sponsoring any exhibits?

A. Yes, I am sponsoring the following exhibits:

Exhibit No.

PGL Ex. 14.1	Design Peak Day Supply Portfolio
PGL Ex. 14.2	Storage Capacity
PGL Ex. 14.3	Storage Inventory Target Levels (CFY Program Workshop)
PGL Ex. 14.4	Daily Storage Access Parameters (CFY Program Workshop)
PGL Ex. 14.5	Storage Inventory Target Levels (Proposed)
PGL Ex. 14.6	Daily Storage Access Parameters (Proposed)

E. Background and Experience

Q. Please outline your educational background and business experience.

A. In 1979, I received my Bachelor of Science degree in Civil Engineering from the University of Illinois at Champaign-Urbana. In 1983, I received my Master of Science degree in Industrial Administration from Carnegie-Mellon University in Pittsburgh, Pennsylvania. I spent 10 years working for Amoco Corporation in finance and economic analysis; seven years for Nicor, Inc. in rate design, gas supply planning, and treasury operations; three years for Exelon Corporation in treasury operations and electric supply risk management; and eight years for Integrys, beginning with Peoples Gas' parent, Peoples Energy Corporation, and now with IBS, in credit management and, since 2008, in my current position in gas supply.

Q. What are your responsibilities in your present position?

A. I supervise all daily and monthly gas purchasing; daily pipeline transportation nominations and scheduling in support of all gas purchase activities; daily and monthly planning and scheduling of all leased storage activities; and natural gas hedge trade execution.

II. CURRENT TRANSPORTATION PROGRAMS

Q. Please provide a brief overview of the transportation program.

A. Peoples Gas first made transportation available to large volume customers in the mid-1980s. The current riders that set forth the detail of transportation service were largely put in place in Peoples Gas' 1995 rate case (Docket No. 95-0032), with limited modifications introduced in 2007 (Docket Nos. 07-0241/07-0242 (cons.) ("2007 Rate Case")). Peoples Gas first offered a small volume transportation program on a pilot basis in 1997 and then to all small volume customers in 2002. In Peoples Gas' 2009 Rate Case, the Commission directed Peoples Gas to work with the ICC Staff and interested parties to: (1) address several program features, including access to company assets for small volume transportation customers (Riders CFY, Choices For You[sm] Transportation Service and AGG), and, (2) unbundle its storage and standby service for one of the programs available to its large volume transportation customers (Rider SST).

III. SMALL VOLUME TRANSPORTATION

Q. Has Peoples Gas worked with Staff and interested parties to address changes to its small volume transportation program ("CFY Program")?

A. Yes, Peoples Gas worked with Staff and interested parties to address access to company assets. (Peoples Gas also agreed to implement other program changes that are not addressed in my testimony in this proceeding.) As a product of the workshop process, Peoples Gas prepared and filed with the ICC revised tariffs for the CFY Program.

Q. What did the ICC direct Peoples Gas to include?

A. The ICC directed Peoples Gas to work with Staff and interested parties to "formulate language that tailors the Nicor choice program provisions for access to and allocation of

company assets to the Utilities' operations" and, specifically, to develop month-end storage inventory target levels, daily injection and withdrawal rights, and a daily delivery tolerance. (2009 Rate Case Order, pp. 253-254).

Q. How did Peoples Gas develop Nicor-style access parameters for its CFY Program?

A. Peoples Gas conducted two primary analyses modeling the capabilities of its assets—one modeling the daily injection and withdrawal rights and another modeling the month-end storage inventory target levels. Peoples Gas adapted the Nicor-style 10% of estimated daily use tolerance as directed.

Q. In this proceeding, is Peoples Gas proposing changes to its CFY Program?

A. None that affect the services, but it is updating charges. Also, Peoples Gas is proposing to revise the gas charge related storage charge in Rider CFY to mirror that being proposed for the large volume programs. Ms. Grace discusses the changes being made to Rider 2 to address this change. In addition, Peoples Gas recently filed changes to its CFY Program to implement the changes it agreed to during the workshop process. The CFY Program changes, filed January 27, 2011, are pending at the Commission. However, the broader month-end storage inventory target levels and reduced Critical Supply Shortage Day delivery requirement (27% vs. 31%) that Peoples Gas developed within the large volume transportation collaborative would also be appropriate for the CFY Program. If the Commission adopts these target levels and the delivery requirement for the large volume program, Peoples Gas expects that it would file changes to Rider AGG to include these broader ranges and the lower delivery requirement.

Q. How do the recently filed CFY Program changes relate to the large volume program proposals in this proceeding?

A. Those changes and, more importantly, the analyses underlying those changes, provide much of the framework for the changes to the large volume transportation programs that Peoples Gas is proposing. In order to unbundle storage service from standby service, Peoples Gas needed to analyze the capabilities of its storage assets in much the same way as for the CFY Program. Consequently, many of the CFY Program storage-related terms and conditions translate directly to the large volume program, and I will describe in detail the process that led to the CFY Program changes solely to show how this process led to the changes Peoples Gas is proposing in this proceeding for the large volume program.

IV. ANALYTIC FRAMEWORK

Q. Please describe the general structure of your storage access modeling.

A. Peoples Gas reviewed its owned and leased storage, transportation, and peaking (e.g., Liquefied Natural Gas gasification) assets to determine which were storage related. As a result of that review, all company-owned and leased storage services, as well as, all peaking assets and some storage-related transportation assets (i.e., transportation capacity needed to deliver gas to storage for injections or deliver storage withdrawals to Peoples Gas' citygate) were categorized as storage-related ("storage"). Peoples Gas used its Design Peak Day Supply portfolio ("DPDS") as a guide for this analysis (see PGL Ex. 14.1) to ensure that all parties received a fair allocation of company storage deliverability on a peak day and that all of the storage attributes and capabilities (e.g., capacity, daily balancing and peaking) are fairly allocated based on a peak day allocation methodology. The exhibit shows both the data used during the CFY Program workshops and the data

for the 2012 test year in this proceeding. As shown in the exhibit, the deliverability of each storage element has not changed on an MMBtu/Day basis though, due to a change in the Design Peak Day ("DPD"), the percentage of DPD values have changed slightly. The total storage contribution for the test year increased from 72% to 75% of the DPD. The capacity of these storage assets is shown in PGL Ex. 14.2. The storage capacities are presented to describe that attribute of the storage assets, as many of the operating parameters of storage are defined on a capacity basis.

Q. What is the Design Peak Day Supply portfolio?

A. The DPDS refers to the collection of resources available to Peoples Gas on its design peak day ("DPD") to serve its customers. Peoples Gas' DPD is defined as the sendout expected to occur on a January weekday with a temperature of -20 degrees Fahrenheit (equivalent to 85 degree days) and an average wind speed of 23.5 miles per hour (mph) following a day with a temperature of -2 degrees Fahrenheit and an average wind speed of 21 mph where the weather-normalized monthly sales and number of customers are consistent with Peoples Gas' most recent normal weather budget forecast for the January containing the DPD. The available resources include what I defined as storage plus transportation capacity unrelated to storage and firm gas purchased at the citygate. See PGL Ex. 14.1.

Q. Was any specific storage asset or capability identified to provide specific services to the transportation programs or to the sales service customers?

A. No. All of Peoples Gas' leased and owned storage assets were included in the studies and none was set aside for any specific group. Peoples Gas owns a storage field (Manlove Field), and it purchases storage services from two interstate pipelines (Natural

Gas Pipeline Company of America, LLC, from which it purchases two services, and ANR Pipeline Company, from which it purchases one service). These pipeline services are no-notice services. Peoples Gas also owns a peaking facility (an LNG facility) located at Manlove Field. Peoples Gas purchases firm transportation services from four pipelines, two of which support the storages. The attributes and operating requirements for storage developed here are for the aggregated mix of all storages.

Q. Why is it appropriate to consider the storage assets portfolio in the aggregate and to consider the timing of dispatch for each element in the development of the operating parameters for storage services available to the transportation programs?

A. Each storage asset has unique operating capabilities and requirements (generally, daily injection and withdrawal capabilities, peaking capability, and the operating guidelines and tariff-parameters which are required to be followed to maintain the functionality of the storage). The storage assets function in aggregate, complementing each other in meeting Peoples Gas' daily balancing needs and varying seasonal peak sendout expectations ("system demands"). The storage assets' ability to complement each other in meeting system demands is significantly influenced by the order of dispatch. Peoples Gas' Manlove Field delivers significant early winter peaking capability and the leased pipeline storage assets provide coverage of the late winter peaking needs, as the Manlove Field peaking capability diminishes. These seasonal system demands and seasonal dispatch timing of the various assets are reflected—in aggregate—in the month-end storage inventory target level proposed later in this testimony. Similarly, on a daily basis, the order of dispatch and appropriate timing of dispatch significantly affect the availability of daily injection and withdrawal rights to transportation program

participants. On a daily basis the company reserves some of the no-notice storage balancing capabilities of its leased storages to accommodate stochastic expectations of changes to sendout and transportation program deliveries subsequent to pipeline nominations deadlines ("set-aside asset capabilities"). Extreme intraday changes and larger changes which occur over weekends and holidays are addressed with variations to Manlove Field dispatch plans. As such, the timing of the dispatch of those set-aside asset capabilities is critical in determining the daily storage injection and withdrawal rights available to the transportation programs. Similarly, the extreme peaking capability of Manlove Field and the LNG facility is designed to meet a very limited number of extreme sendout days and, is not available to meet normal daily swing needs. As such, the daily swing and peaking capabilities of the individual elements of the company's storage portfolio cannot simply be tallied up to determine an appropriate level of daily injection and withdrawal rights available to the transportation programs. Rather, those rights need to be determined considering how the specific contribution and dispatch timing of the storage assets function in aggregate to meet system demands.

Q. One directive from the 2009 Rate Case Order for the CFY Program was, with reference to Nicor's program, to develop monthly targets for injections and withdrawals (2009 Rate Case Order at 253). What are the Nicor month-end storage inventory target levels?

A. The Nicor tariff defines specific ranges for each month within which customers are to maintain their storage balances.

Q. Please describe the modeling used to tailor the Nicor storage inventory target levels to Peoples Gas' operations.

A. The ranges were determined by portfolio modeling which included leased storage and transportation service tariff constraints, Peoples Gas' owned storage and peaking operational constraints, peak day, relative peak days for each month, warm day requirements, daily balancing requirements, estimated gas costs, extra pipeline charges, and two pricing scenarios. The two pricing scenarios were the primary driver for determining the extreme, but operationally acceptable, storage balance ranges. For this analysis, operationally acceptable balance ranges were defined as storage activity which did not substantively increase the chance of experiencing system imbalances and, therefore, extra pipeline charges. The first pricing scenario added a storage inventory benefit to the model to drive the model to keep the highest possible storage balance while, at the same time, not increasing system imbalances. Similarly, the second pricing scenario added a storage inventory cost to the model to determine the extreme low storage balance points while still maintaining system integrity. Additionally, extreme swings were permitted in the modeling for Manlove Field's daily activity. Peoples Gas does not dispatch Manlove Field in this way, but, modeled it as such to produce the widest possible ranges for the transportation programs.

Q. Why does the modeling of Manlove Field dispatch affect the results?

A. Modeling greater flexibility at Manlove Field than its dispatch plan results in broader month-end balance ranges for the leased storages. Manlove Field is dispatched on a baseload basis (i.e., following the annual cycling plan), with Peoples Gas relying, first, on pipeline storage for daily swing needs. Peoples Gas alters the Manlove Field dispatch plan to address large weather-related sendout variations over weekend and holiday periods, extreme high or low sendout, and other operational disruptions. The initial

development of month-end storage inventory target levels was prepared using the broad pipeline storage asset ranges developed in this modeling process coupled with Manlove Field's baseload dispatch plan. The dispatch timing and planning for Manlove Field will be discussed further in the discussion of daily injection and withdrawal rights.

Q. Why do you distinguish weekends and holidays from normal weekdays?

A. For normal weekdays, the nomination deadlines are at 11:30 a.m. on the day prior to gas flow and, although pipelines and Peoples Gas permit nominations every day of the week, it is common in the industry that nominations on Friday are for the days of Saturday through Monday. If Monday is a holiday, then the nomination is through Tuesday. Similarly, if a trading holiday falls in the middle of a week, the prior day nomination will include two days.

Q. Was this modeling initial result retained through the CFY Program workshop process?

A. Some month-end ranges were retained and, through the workshop process, other month-end targets were adjusted. These adjustments included allowing storage balances to be as low as zero on March 31 ("trough") and as high as 100% ("peak") of the Allowable Bank on October 31 and November 30. Though these high and low limits do not reflect the reality of timing differences in the cycling schedules among the storages, through the workshop process, Peoples Gas agreed to those adjustments and additional adjustments in months adjacent to those months to allow for reaching the peak or trough at the then prevailing daily injection or withdrawal rates (discussed later in this testimony). Peoples Gas agreed to adjustments to the modeling results considering that there would likely be diversity among customers balance levels—mitigating some of Peoples Gas' concern that

coincident extreme transportation program balances could be detrimental to the system or sales customers' economic interests. See PGL Ex. 14.3 for the filed month-end ranges.

Q. What do you mean that the limits do not reflect the reality of timing differences in the cycling schedules among the storage assets?

A. Manlove Field and the leased storages have operational and tariff constraints. The beginning and ending of the injection and withdrawal periods differ. Also, the no-notice services have out-of-season injection and withdrawal limitations. Consequently, Peoples Gas does not plan for or experience a time when its inventory for all storage assets is at 0 or at 100% of capacity.

Q. One directive from the 2009 Rate Case Order for the CFY Program was, with reference to Nicor's program, to develop daily injection and withdrawal rights (2009 Rate Case Order at 252). What are the Nicor daily injection and withdrawal rights?

A. The Nicor tariff defines specific summer injection and winter withdrawal rights.

Q. Please describe the analysis used to tailor the Nicor daily injection and withdrawal levels to Peoples Gas' operations.

A. As noted earlier, the availability of storage injection and withdrawal rights ("swing rights") were developed with consideration of the timing of each assets dispatch. That timing includes the reservation of some no-notice swing capability for the uncertainty regarding sendout and transportation program deliveries which only become known after the pipeline nomination deadlines. Pipeline nomination requirements specify a timely nomination at 11:30 a.m. on the calendar day prior to gas flow. The "gas day" begins at 9:00 a.m. the next calendar day. For example, at 11:30 a.m. on Tuesday, Peoples Gas

nominates gas to flow at 9:00 a.m. on Wednesday. Prior to the nomination deadlines, Peoples Gas reserves swing rights at the 95th percentile of certainty of the one-day forecasts of sendout and transportation deliveries. PGL Ex. 14.4 presents these concepts graphically.

Q. Please describe PGL Ex. 14.4.

A. In PGL Ex. 14.4, Peoples Gas' aggregate daily storage injection and withdrawal capabilities are shown on a percent of total storage capacity basis. The availability of daily swing capability is shown as the two dashed lines (labeled Tariff limit injection-w/MLF and Tariff Limit Withdrawal-w/MLF, with "MLF" referring to Manlove Field). Those lines are the tariff-driven swing capabilities of the pipeline storages coupled with the baseload dispatch plan for Manlove Field. At some times swing capabilities include both net injection and net withdrawal. At other times—typically in the winter—the range of swing capabilities is within the withdrawal zone only—with a relatively smaller or relatively larger withdrawal. The reason for this is that Manlove Field's winter withdrawal period is of shorter duration and at a higher baseload rate than the summer injections. Further, those withdrawal rates are larger than the then available leased storage injection rights. The area between the two dashed lines represents a single day's possible storage activity—without modifying the Manlove Field baseload dispatch plan. Stepping in from those two dashed lines are two solid lines. The narrower space between the two solid lines represents the possible, normal daily storage activity with consideration for the need to reserve some no-notice capability to cover the uncertainty of sendout and transportation program deliveries. This narrower space between the two solid lines is also the operating space within which the company executes its normal daily

storage activity to meet annual cycling plans. This, too, is the space available for the transportation programs to operate. To provide some perspective the graph also shows the daily injection and withdrawal rates proposed for the CFY Program (the cross-hatched areas) and the maximum storage peaking capability (shown as the shaded withdrawal area for December through February, extending to 2.6% of the Allowable Bank). The maximum storage peaking capability includes the maximum withdrawal capability from Manlove Field and the full gasification capability of the LNG facility.

Q. How does Peoples Gas handle sendout and transportation delivery uncertainty outside of the 95th percentile range or for dispatch periods longer than one day?

A. Peoples Gas alters the plan of Manlove Field to meet those events. For longer dispatch periods (weekends and holiday weekends), for example, the sendout variation over the period can be larger than the full swing capabilities of the pipeline storage assets. Peoples Gas alters its plan for Manlove Field to accommodate the typically weather-driven, day-over-day forecast sendout variation while reserving some of the pipeline storage swing capability to cover the forecast uncertainty and transportation program delivery uncertainty. Following a significant shift in the Manlove Field dispatch plan, the Manlove Field operation group will prepare a revised dispatch plan to adjust for the deviation and track back to the seasonal balance target. The availability of injection and withdrawal rights for transportation programs should reflect those available prior to the pipelines' timely nominations deadline.

Q. Did Peoples Gas consider using flat seasonal injection or withdrawal rights?

A. Yes. Peoples Gas considered flat rates but flat rates reflecting the highest available seasonal capability would provide too much swing availability in the shoulder months

when the storages are turning around and weather-driven sendout uncertainty is high. The term "shoulder months" refers to months of transition between winter (withdrawal period) and summer (injection period), notably March, April, October and November. Alternatively, flat rates that reflect the low availability of swing capabilities during the shoulder months would unnecessarily restrict rights in other months.

Q. What risks result from providing too much swing capability for the transportation groups?

A. Allowing the transporters excessive injection or withdrawal rights creates the potential for those customers to utilize other customers' swing rights to inject or withdraw more than their equitable share of gas into or out of storage. For example, Peoples Gas proposed reduced injection rights for October, which is a month with reduced injection capabilities and increased weather-driven sendout uncertainties. In a perceived low price environment, high injection levels by transportation customers would disproportionately reduce purchase and injection opportunities for sales customers.

Q. How did Peoples Gas tailor the Nicor choice provisions for allocation of access to assets to Peoples Gas' operations?

A. Like Nicor, Peoples Gas allocates access on a DPD basis. Specifically, the allocation is done on a customer or pool Maximum Daily Quantity ("MDQ") relative to Peoples Gas' DPD sendout. This is accomplished by calculating the storage capacity on a peak day basis (i.e., by dividing the total capacity of storage by Peoples Gas' DPD), which is defined as Days of Storage. Peoples Gas then allocates that full complement of storage days to each customer.

Q. What is the MDQ?

A. The MDQ is designed to represent the customer's peak day usage. It is generally based on actual meter reading data for customers with daily demand measurement devices and is determined by a calculation stated in the tariff for other customers. Each transportation customer has an MDQ. A supplier's pool has an MDQ that is the sum of the customer MDQs that are part of the pool.

Q. Does the basis or analytic framework described here differ from those used in the development of the company's proposals in its 2007 Rate Case?

A. The basis in both cases was the same—the system demands and the operating capabilities of the company's assets. The particulars of the analytic framework used to define and resolve the access to storage issues changed. The changes include the modeling of the daily reserve for sendout and transportation program delivery uncertainty, the exclusion of asset peaking-only capabilities for use as normal daily swing rights, and modeling of the month-end storage target extreme positions. Those changes were utilized in preparation for addressing the Commission order to adopt the Nicor tariff storage operating parameters to the company's asset capabilities. The same modeling was utilized to address the Commission order on unbundling Rider SST storage and standby service. Those modeling developments are also what the company uses currently for its long-term portfolio planning and seasonal and daily dispatch planning. The company used the same modeling framework in the review of Rider FST, bringing a consistent modeling framework to all of its transportation programs. The combination of those three reviews is the basis of this rate case presentation. So, the fundamental basis of the

analysis remains the same as in the 2007 Rate Case, but the mechanics of the analytic framework have been updated to the company's current practices.

V. LARGE VOLUME TRANSPORTATION - RIDER SST UNBUNDLING

Q. In the 2009 Rate Case, the Commission directed "the Utilities to work with Staff and all other interested stakeholders to develop reasonable proposals for unbundling storage service." (2009 Rate Case Order at 235). What changes is Peoples Gas proposing in response to that directive?

A. Based on the storage analysis described above and its application to Rider SST, Peoples Gas is proposing: (1) to offer a stand-alone storage banking service (Rider SBS) under which customers select the amount of storage capacity that they wish, from one day of storage to the maximum amount available; (2) to include monthly inventory targets (minimum and maximum) for all months with monthly cashouts to the extent a customer falls outside the ranges; (3) to include daily injection and withdrawal limits, with appropriate distinctions for Critical Days and Operational Flow Order ("OFO") Days, with daily cashouts to the extent a customer falls outside the ranges; (4) to facilitate customer's move to the unbundled service by including a daily tolerance around the daily ranges; and (5) to eliminate the no-notice standby service because such a service requires storage assets and those assets are fully allocated to the unbundled, standalone storage service.

Q. What key Rider SST features stay the same?

A. Rider SBS, like Rider SST, will still be a daily measurement service. Customers will continue to be able to transfer their contracts to a supplier to manage in a pool, and the pool supplier will be able to aggregate many contracts' Allowable Banks to take

advantage of possible diversity within the pool to stay within monthly and daily requirements. Existing nomination flexibility and Allowable Bank trading rights remain intact.

Q. How did Peoples Gas address the Commission's directive to unbundle the storage and standby services provided under Rider SST?

A. Peoples Gas worked with Staff in developing a proposal which was subsequently forwarded to other interested stakeholders for comment.

Q. How is standby and storage bundled today in Rider SST?

A. Currently, Rider SST customers select a standby percentage ("SSP") in their contracts which is used to determine the size of their Allowable Bank ("AB") as well as their level of standby service. Their AB is determined in a calculation which applies the SSP to available Gas Charge bank days and, for Service Classification No. 4 customers, also to the available Base Rate bank days, and the customer's MDQ. (Service Classification Nos. 2 and 8 customers currently receive all Base Rate bank days, without applying the SSP.) A diversity factor is currently applied to the available Gas Charge bank days in the calculation as well. (As discussed below, Peoples Gas is proposing to eliminate the diversity factor.) Customers pay a standby demand charge (adjusted for the diversity factor) which covers the gas charge related costs of providing both the standby and storage features of this service in addition to base rate storage charges. Ms. Grace discusses the base rate storage costs.

Q. How will the size of a customer's storage bank and their charges be determined under Rider SBS?

A. Under Rider SBS, customers will select the total days of bank of MDQ that they desire. Customers will be allowed to select a minimum of one day of storage up to the maximum days shown in Peoples Gas' annual filing. In addition, customers may request additional capacity and, if there is unsubscribed capacity, the company will allocate that unsubscribed capacity, as discussed by Mr. McKendry. The AB capacity will no longer be tied to a standby selection. The AB will be the elected (or total awarded for customers requesting and receiving more than the maximum) days of bank multiplied by their MDQ. As a result of this selection process—which is now independent of standby service—and the construction of the Storage Gas Charge, Rider SBS customers will no longer pay the gas costs related charges for standby. Ms. Grace discusses the proposed Storage Gas Charge which will replace the standby demand charge for Rider SBS customers as well as the unbundling of other base rate storage charges.

Q. How did Peoples Gas develop its unbundling proposal?

A. As described above, Peoples Gas reviewed the assets used to support Rider SST storage and standby services. As a result of that review, all company owned and leased storage services, as well as, all peaking assets and some storage-related transportation assets (i.e., transportation needed to deliver gas to storage for injections or deliver storage withdrawals to Peoples Gas' citygate) were categorized as storage-related ("storage"). Peoples Gas' leased long-line transportation (not directly supporting storage) and winter citygate-delivered physical call options were categorized as non-storage. To accomplish unbundling of storage and standby service, Peoples Gas examined the characteristics of the storage-related and non-storage-related asset pools to create a separation of storage and standby services.

Q. What is standby service?

A. Standby service allows a transportation customer to purchase gas from Peoples Gas up to an amount selected by the customer. The amount is expressed as a percentage of the customer's MDQ (the SSP referenced above). To the extent the customer's own deliveries, including what is available from its storage (i.e., the "Allowable Bank") are insufficient to meet the customer's requirements, it will purchase, at a market price, the difference from Peoples Gas up to its standby rights. The customer does not nominate the amount of standby gas it wants to purchase; the purchase happens automatically as an after-the-fact part of the order of deliveries to the customer. This is why I refer to standby service as a "no-notice" service.

Q. Does the CFY Program have standby service?

A. No. Peoples Gas has designed its CFY Program such that alternative gas suppliers serving Rider CFY customers are required to deliver enough gas to meet the customers' requirements. The changes to Rider AGG that Peoples Gas filed in response to the 2009 Rate Case workshop process do not change that feature of the program. Consequently, the storage proposals for the large volume program have a parallel with the small volume program, but the standby service questions were limited to the large volume program.

Q. Is the storage asset pool developed here the same as the one developed in the CFY workshop?

A. Yes. It is exactly the same.

Q. Does it operate differently for the large volume transportation programs than for the CFY Program?

A. No. The storage asset pool developed here and for the CFY Program is the aggregation of all of Peoples Gas' storage assets. The operation of those assets is the same. The model developing access to and the equitable allocation of storage would be applicable for this, or any, class of customers.

Q. Does the model developed for access to storage provide some guidance for unbundling storage from standby service under Rider SST?

A. Yes. Because the operating characteristics and the allocating method for that storage asset group was developed in the CFY workshop, that same framework is applicable here.

Q. Are any of the parameters from the CFY Program directly usable for defining appropriate operating parameters for the unbundled storage asset pool?

A. Yes. Peoples Gas believes that the parameters developed for the month-end storage inventory target levels and daily injection and withdrawal rates are directly applicable here.

Q. Do the daily delivery ranges developed for the CFY Program have a parallel in the Rider SST?

A. No. That concept applies to non-daily read customers, where Peoples Gas is providing estimated daily use data as input for the daily delivery range. Rider SST customers must have a daily demand measurement device. The CFY Program does not require daily measurement. (Rider FST also does not require daily measurement, but daily delivery ranges are not currently, and Peoples Gas does not propose that they be, a feature of that

service.) Further, the 10% of estimated daily use factor within the daily delivery range similarly does not have a parallel for Rider SST.

Q. Are any modification proposed for the month-end storage inventory target levels?

A. Yes. Based on a request received during the large volume transportation collaborative the width of the month-end ranges (i.e., the difference between the high and low balance targets) have been widened. The company based the range expansion on updated model parameters and extension of the balance diversity considerations utilized in the broadening the ranges within the CFY workshop. The proposed storage inventory target ranges are presented in PGL Ex. 14.5.

Q. Would utilizing the daily injection and withdrawal rate schedule from the CFY Program represent an equitable allocation of access to storage for Rider SST?

A. Yes, as the CFY Program's daily injection and withdrawal rate schedule was developed with a company-wide access to storage view, it provides a guide for access to the storage capabilities and operating requirement for any group of customers desiring storage access.

Q. Does a similar argument hold for utilizing the month-end storage inventory target levels for any group of customers?

A. Yes, by the same logic (i.e., the development of month-end storage inventory target levels with a company-wide view of equitable storage access operating requirements) those parameters also provide a definition of the operating characteristics of access to storage.

Q. What are the implications of the non-storage-related asset pool's support of standby service?

A. The non-storage-related asset pool consists of pipeline transportation and citygate-delivered physical call options. The elements of this group of assets are all nominated services. They are all nominated on a day-ahead basis. The decisions to utilize them are made in the morning dispatch meeting; they are among the services nominated in the pipeline morning timely cycle (11:30 a.m. the day prior to gas flow). By definition from the asset classification process (creating the pure storage group and this non-storage-related asset group) this group of assets has no storage components and no no-notice attributes. As such, this group of assets cannot support any no-notice supply service. The current Rider SST standby service is a no-notice supply service, and, as a result of this analysis and the directive to develop proposals to unbundle storage services, Peoples Gas concludes that it can no longer support this type of standby service for this rider.

Q. How does Peoples Gas propose to address the implications of the non-storage-related asset pool's inability to support standby service?

A. Peoples Gas proposes to eliminate standby service from Rider SST and because the remaining service is a pure storage service, the service is proposed to be identified as Storage Banking Service (Rider SBS). The costs associated with the non-storage-related asset pool will not be included in charges for Rider SBS.

Q. Why can't the Rider SST transporters continue to receive standby service?

A. The current standby is structured as a no-notice service; that is, it is not nominated. It is, necessarily, supported by storage activity. As a product of the unbundling process, with all storage assets segregated out of the standby service, there is no longer storage asset

support for the no-notice feature. Providing a continuation of that type of standby service would require the utilization of some of the sales customers' equitable share of Peoples Gas' storage operating capability.

Q. If large volume transportation customers wish to continue to receive standby service, will Peoples Gas offer any alternatives?

A. Yes. Rider FST will continue to be a bundled service, and those large volume transportation customers will receive the standby service they have today, with limited exceptions. The exceptions being partial unavailability on Operational Flow Order ("OFO") Supply Shortage Days and Critical Supply Shortage Days. Those exceptions translate into a delivery obligation for a portion of their MDQ—a parallel to the implementation of the access model for the CFY program. Standby service is not part of the CFY Program because that program includes a company-provided daily delivery range that is intended to ensure that CFY Suppliers deliver sufficient gas to meet their customers' requirements.

Q. Do the changes proposed here to accomplish the unbundling of storage and standby service coupled with equitable access to storage represent a significant operational change for these transportation customers?

A. It may be for some.

Q. What does Peoples Gas propose to ease that transition?

A. Peoples Gas proposes a Daily Balancing Tolerance ("Tolerance") band about the daily injection and withdrawal rights to provide additional storage injection and withdrawal flexibility under Rider SBS. The band is proposed to be 25% of the largest daily

injection or withdrawal rate for that season (summer/injection or winter/withdrawal). For the injection season (the months of April through October), the band is proposed to extend the injection rights and add injection period withdrawal rights at a rate of 100% of the added injection period injection rate. For the withdrawal season (the months of November through March), the band is proposed to extend the withdrawal rights and add withdrawal period injection rights at a rate of 50% of the added withdrawal season withdrawal rate. The difference in the opposite direction rights is that, as a practical matter, Peoples Gas' storage assets are in withdrawal mode over a shorter, more intense withdrawal period timeframe compared to the longer injection period. The Tolerance band is displayed on the graph in PGL Ex. 14.6 as shaded areas (labeled "Proposed SBS Inj Tolerance" and "Proposed SBS Wd Tolerance") just outside the crosshatched/patterned areas (labeled "Base Inj" and "Base Wd") which are the negotiated daily rights produced from the CFY workshop. Note that those base injection and withdrawal levels are considerably broader than the storage parameters for the company's normal operations which would be the space between the two solid lines on the graph (labeled "Asset Availability – Low" and "Asset Availability – High"). The base injection and withdrawal levels and asset availability lines are the same as those presented in PGL Ex. 14.4. The company's storage peaking capability is included to provide perspective on the withdrawal side (labeled Proposed Critical Day Wd"), and is also the same as in PGL Ex. 14.4. The current Maximum Daily Nomination ("MDN") injection factor of 0.67% is added to provide perspective on the injection side (labeled as "Current MDN Factor: 0.67% of AB"). Proposed changes to the MDN factor are discussed below.

Q. How is this Tolerance accomplished under the equitable access framework?

A. It does not comport with the equitable access framework, as it is a direct subsidy from sales customers. Rather, it represents a tradeoff between gradualism in rate design change and equity.

Q. How does Peoples Gas propose to address daily long or short positions outside of available injection, withdrawal and tolerance levels?

A. Peoples Gas proposes to cash out daily long or short positions which exceed the total available injection or withdrawal rates. A "long" position means that the customer has delivered more gas to Peoples Gas than its rights support. A "short" position means the customer has delivered insufficient gas. For a normal operating day (or non-Critical/non-OFO day), the cashout is proposed to be: Peoples Gas buys long positions from the customer at 90% of the Daily Index-Low price and sells gas to the customer to fulfill short positions at 110% of the Daily Index-High price. For OFO Supply Surplus days (discussed below), the cashout is proposed to be: Peoples Gas buys long positions from the customer at 50% of the Daily Index-Low price, and on an OFO Supply Surplus Day or a Critical Supply Surplus Day sells to fulfill short positions at the Daily Index-Midpoint price if the customer's Allowable Bank is empty. For OFO Supply Shortage days, the cashout is proposed to be: Peoples Gas sells to fulfill short positions at 200% of the Daily Index-High price and on an OFO Supply Shortage Day or a Critical Supply Shortage Day buys long positions at the Daily Index-Midpoint price if the customer's Allowable Bank is full. For Critical Supply Surplus Days, the cashout is proposed to be: Peoples Gas buys long positions at the Daily Index-Midpoint price and the customer is charged the Critical Supply Surplus Day Rider 9 charge of $6.00 per therm. For Critical

Supply Shortage Days, the cashout is proposed to be: Peoples Gas sells to fulfill short positions at the Daily Index-Midpoint price and the customer is charged the unauthorized use charge of $6.00 per therm. (Peoples Gas is proposing no changes to the amount of the unauthorized use charges.) The referenced daily indices refer to different prices published by Gas Daily for Chicago citygate deliveries. Peoples Gas already uses Gas Daily pricing for different purposes in its tariff, and these terms are defined. Gas Daily publishes a daily price for a "common" and an "absolute" range. The "Low" and "High" price refer to the low and high end of the common range. The midpoint is the midpoint of the common range.

Q. Are the cashout mechanism values cost based?

A. No. They were selected to influence behavior in two ways. The normal operations day charges are intended to cause customers to elect storage service levels adequate to meet normal daily balancing needs and to not habitually overrun daily limits once selected. The normal operating day charges are not intended to be punitive for what is expected to be only occasional long or short activity that does not significantly affect Peoples Gas' operations. Charges for OFO days are intended to be much more of an influence on a day where Peoples Gas has declared that operating capabilities are stressed. Critical Day charges are not proposed to change, remaining strong disincentives to be out of compliance, and are imposed under operating conditions of extreme stress. Alternative suppliers should not plan on buying gas from or selling gas to the company, and the pricing of the cashout quantities should not make this an attractive option.

Q. What is a normal operating day?

A. A day that is not a Critical Day or an OFO day.

Q. What is the difference between a Critical Day and an OFO Day?

A. Generally, Peoples Gas calls Critical Days under extreme sendout conditions (very high or low relative to normal) where company-owned and pipeline systems are operating at or near capacity. The criteria for calling a Critical Day are currently contained in Peoples Gas' tariff, and Peoples Gas is proposing no changes. An extreme condition day will continue to be designated as either a Critical Supply Shortage Day or a Critical Supply Surplus Day. OFO conditions would be less severe, but are such that the levels of flexibility of the company's storage assets is limited to such an extent that injection and withdrawal capabilities of storage used to meet the uncertainties of sendout and transportation deliveries are unavailable or severely diminished. These could include on-system mechanical failures or constraints and force majeure or OFO declarations or injection, withdrawal or flow constraints on the pipelines. The then current or potential limitations on storage flexibility to meet system balancing requires all system users to more carefully align their usage, deliveries and baseload storage activities. Calling an OFO Day is a means to help Peoples Gas stay within or return to its normal operating plan and to avoid incurring additional costs to meet its obligations. To assist in that effort, the company will, provided time permits, request transportation customer assistance in increasing or decreasing deliveries to the system and, if necessary, follow up by calling an OFO Day to attempt to accomplish the needed system delivery changes.

VI. LARGE VOLUME TRANSPORTATION PROGRAM - RIDER FST

Q. Does the equitable access to storage framework have implications for any other programs?

A. Yes. To ensure equitable access for all customers, the framework should also be applied to Rider FST.

Q. How does Peoples Gas propose to change Rider FST to reflect equitable access to storage?

A. Peoples Gas proposes to adopt, with some modifications to address the absence of daily metering, the equitable access to storage framework for Rider FST. The company proposes a full allocation of available Allowable Bank days based on customer MDQ. Some of the capabilities and responsibilities of storage, as previously discussed, are easily applied to this rider, others needed some adaptation. The month-end storage inventory target balances can be applied without adaptation, and are proposed here. The daily injection rates can be applied to the Maximum Daily Nomination ("MDN") calculation for the injection season replacing the current 0.67% rate in the calculation. The normal day, OFO Day and Critical Day features need some adaptation for this non-daily metering group.

Q. Do the month-end storage inventory target balances apply for Rider FST?

A. Yes. The company proposes to adopt the storage inventory target balances at the same levels as for Rider SBS. Those targets would replace the current requirements of having a minimum 70% of AB balance on November 30th and the November to March one-third of AB storage withdrawal limitation. Customers will be allowed to trade with other Riders FST and SBS customers to meet these inventory targets prior to being subject to monthly cashout. To the extent a customer falls outside the monthly range, a monthly cashout process will address the excess (customer sells gas to Peoples Gas) or deficiency (customer buys gas from Peoples Gas).

Q. Can the daily storage activity parameters be applied directly to Rider FST?

A. Not entirely, but with some adaptation, the primary drivers for the parameters can be largely accomplished. One of the parameter drivers is to not allow unlimited access to storage withdrawal on OFO and Critical Supply Shortage Days, but rather have any group's access to the capabilities of those assets reflect the storages capabilities relative to the overall company portfolio and be equitably allocated to that group. To accomplish this, the company proposes to provide equitable access to storage on a Critical Day through a corollary delivery requirement representing the non-storage component of the company's Design Peak Day Supply portfolio (see PGL Ex. 14.1). For OFO Supply Shortage Days, the company proposes the same delivery requirement as for a Critical Supply Shortage Day. Since both the storage capabilities for the day and sendout are variable, and in the absence of daily metering, rather than propose a varying delivery requirement, the company opts for the consistent and simpler, though less conservative, carryover from the Critical Day delivery requirement. The company also proposes to adapt the access model daily injection rights to the Rider FST injection season MDN.

Q. What is the MDN?

A. Rider FST currently includes the MDN, which represents the maximum quantity of gas that the customer may nominate during the injection period (April through October). The MDN is designed to be sufficient to meet the customer's consumption plus fill its AB. The current MDN calculation includes an injection right of 0.67% of AB capacity on a daily basis. This injection limit is displayed on the graph in PGL Ex. 14.6 as a dashed line indentified as "Current MDN Factor: 0.67% of AB. Peoples Gas proposes to replace the 0.67% with the same monthly injection rights that are being applied to the proposed

Rider AGG and SBS customers. Ms. Grace describes changes to the calculation of the MDN.

VII. ALLOWABLE BANK CALCULATION - DIVERSITY FACTOR

Q. Please describe the company's rationale for eliminating the Diversity Factor within the Allowable Bank calculation.

A. In conjunction with the proposed changes to the calculation of the Allowable Bank days (see Ms. Grace's testimony) and the equitable access to storage framework discussed previously in this testimony, Peoples Gas proposes to eliminate the current diversity factor within both the calculation of the Allowable Bank and the charges applied to customer bills. The current methodology—which evolved over the last several rate cases—is no longer valid. Customers would pay the proper amount for the services received using the proposed Rider SBS charge. Therefore, continued use of the factor would result in an improper allocation of storage. The company proposes to eliminate the diversity factor for two reasons. First, the intention of the factor under current rates (i.e., to true-up the relationship between the customer MDQ and the calculation of the Days of Bank) is inconsistent with the proposed formulation of Allowable Bank days in achieving equitable allocation of storage—as it would improperly reduce the allocation of storage to the large volume transportation groups. Second, based on the proposed AB calculation being simplified to be all available storage divided by the DPD, the proposed calculation of a customer's AB generates an equitable allocation of storage.

Q. Does this complete your direct testimony?

A. Yes.