

**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

**JOHN MCKENDRY**

Senior Leader  
Gas Transportation Services  
Integrays Business Support, LLC

On Behalf of  
The Peoples Gas Light and Coke 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 The Peoples Gas Light and Coke Company (“Peoples  
11 Gas”), which is a 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, PGL Ex. 15.1 breaks down the costs involved, and Peoples Gas witness  
17 Valerie Grace (PGL Ex. 12.0) explains the resulting Administrative Charges for each  
18 program. In addition, the unbundling of storage described by Peoples Gas witnesses  
19 Thomas Connery (PGL Ex. 14.0) and Ms. Grace will introduce a service under which  
20 customers and suppliers will, on an annual basis, select the number of storage days they  
21 wish to purchase. I describe the selection process.

22 **C. Summary of Conclusions**

23 Q. Please summarize your conclusions.

24 A. The costs shown on PGL Ex. 15.1 accurately represent the costs associated with the  
25 administration of Peoples Gas' transportation programs. The proposed process used to  
26 determine the administrative costs and the resulting Administrative Charges are similar to  
27 how Peoples Gas 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.

PGL 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 Peoples Gas 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 Peoples  
46 Gas’ and North Shore Gas Company’s (“North Shore”) large volume and small volume  
47 (Choices For You<sup>sm</sup>) transportation programs. North Shore, like Peoples Gas, is a  
48 wholly-owned indirect subsidiary of Integrys and offers transportation programs that are  
49 substantially identical to Peoples Gas’ programs.

50 Q. What programs does Peoples Gas 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, 4, and 8.  
53 Suppliers may pool customers under Rider P, Pooling. Under the Choices For You<sup>sm</sup>  
54 program we offer small volume transportation service (Rider CFY) for Service  
55 Classification Nos. 1, 2, and 8. 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, Peoples Gas has 7,572 customers under the large volume  
59 programs. Under Rider CFY, Peoples Gas has 52,852 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 Peoples Gas, 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, PGL Ex. 15.1 details the administrative costs for services that GTS performs.

97 Q. From what sources were the data on PGL 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 Peoples Gas 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 Peoples Gas' 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 Peoples Gas 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. 4, 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 Peoples Gas proposing to change?

116 A. As described by Mr. Connery, Peoples Gas 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 Peoples Gas. 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 Peoples Gas. Suppliers and customers will not be able to select fractional days. About  
143 April 1 of each year, Peoples Gas 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. Peoples Gas 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 Peoples Gas proposed that Rider SBS take effect August 1, 2012. At that time, only  
154 those customers on Rider SST will transfer to Rider SBS. Those on Rider FST-T cannot  
155 elect 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.