STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	)	
On Its Own Motion	)	
	)	**Docket 07-0577**
The Peoples Gas Light and	)	
Coke Company	)	
	)	
Reconciliation of revenues collected under	)	
gas adjustment charges with actual costs	)	
prudently incurred.	)	

INITIAL BRIEF
OF THE CITIZENS UTILITY BOARD

Pursuant to Section 200.80 of the Rules of Practice1 of the Illinois Commerce Commission ("Commission" or "ICC") and the briefing schedule set by the Administrative Law Judge ("ALJ"), the CITIZENS UTILITY BOARD ("CUB") by its attorney submits its Initial Brief in this proceeding. This proceeding is the reconciliation of Peoples Gas Light and Coke Company's ("Peoples", "Peoples Gas", "the Company", or "PGL") recoverable purchased gas adjustment ("PGA") clause costs and collections for fiscal year 2007.

Section 9-220 of the Public Utilities Act ("PUA") requires the Commission to initiate annual hearings to determine whether the actual gas costs a utility charged through its PGA during the reconciliation period for which the Company seeks recovery through its purchased gas adjustment clause ("PGA") were reasonable and prudently incurred. 220 ILCS 5/9-220(a). In particular, the purpose of this proceeding is to determine whether the purchased gas costs recovered by Peoples Gas during the reconciliation period, January 1, 2007 through December 31, 2007 ("2007 reconciliation period"), meet the requirements of Section 9-220 of the PUA. This provision unequivocally places the burden of proof of all material issues squarely and exclusively on the utility. *Id*. Thus, while Peoples Gas passes its gas costs directly to ratepayers without a markup or profit under the PGA, it still must demonstrate that its costs of purchasing and managing the gas were prudently incurred. *Id*.

In the instant proceeding, CUB generally does not take issue with the reasonableness or prudency of Peoples Gas' 2007 gas costs. However, CUB presented the testimony of Jerome D. Mierzwa (CUB Ex. 1.0) on one discreet issue: the unreasonableness of recovering the costs of the Company's transportation contract with Kinder Morgan Illinois Pipeline ("KMIP") through the PGA. Peoples Gas filed the supplemental direct testimony of Richard E. Dobson, (Peoples Gas Ex. RD 2.0), in response to a recommendation from Staff witness David Reardon in Docket Nos. 06-0752/07-0312 (cons.) to address this issue in this proceeding. KMIP is a 28-mile interstate pipeline which originates near Beecher, Illinois where it connects with Northern Border Pipeline and extends north, connecting to ANR Pipeline and Natural Gas Pipeline Company of America ("NGPL"), finally terminating at the Chicago City Limits where it delivers gas to Peoples Gas. CUB Ex. 1.0 at 4-5. KMIP was built in response to an RFP issued by Peoples Gas in December 2004. *Id*. at 5. KMIP went into service on December 20, 2007. *Id*. Peoples Gas has contracted for 360,000 Dth of capacity with KMIP. *Id*. A map of KMIP is presented as CUB Exhibit 1.1.

Peoples Gas is proposing to recover the costs associated with the KMIP contract through its purchased gas cost adjustment clause ("PGA"). This means that these costs will largely be the responsibility of sales customers. Mr. Mierzwa testified, however, that this is unreasonable because the KMIP pipeline provides benefits to both sales and transportation customers. *Id*. at 3. Recovering these costs through the PGA ignores the benefits realized by transportation customers under the KMIP arrangement. Thus, Mr. Mierzwa recommends that the costs associated with the KMIP contract be separately identified and tracked under Rider 2, and be recovered from all customers through a volumetric charge.

Peoples Gas claims it had four objectives in mind when it initiated the RFP process that resulted in adding the KMIP capacity. Those objectives were: (1) increase the reliability of delivery to Peoples Gas' distribution system; (2) increase diversity of supply; (3) enhance performance and functionality of Peoples Gas' distribution system; and (4) provide cost effective storage and transportation services. Peoples Gas Ex. RD 1.0 at 17. Included in Peoples Gas' evaluation of the projects proposed in response to its RFP was an option for Peoples Gas itself to build the facilities the Company was seeking, but this option proved to be more expensive than the KMIP project. *Id*. at 6. Mr. Mierzwa testified that, had Peoples Gas built the facilities requested in the RFP, the costs associated with the facilities would have been recovered in base rates from all customers. *Id*. The costs associated with the KMIP contract are $273,600 per month, or $3,283,000 per year. *Id*. Because KMIP did not go into service until December 20, 2007, the 2007 reconciliation period KMIP gas costs total only $105,911. *Id*.

The Company admits that both sales and transportation customers will benefit from the KMIP arrangement. In its response to CUB 2.04, the Company indicated that with respect to the KMIP project: "The benefits of the project, as described in the testimony (Peoples Gas Ex. RD 2.0), are expected to accrue to all Peoples Gas ratepayers, sales and transportation." CUB Ex. 1.0 at 6. Because sales customers would be responsible for approximately 90 percent of KMIP costs while representing less than 60 percent of total deliveries, (*id*., citing Peoples Gas' response to CUB 3.01), recovery of KMIP costs through PGA rates largely results in the recovery of these costs from sales customers. Thus, sales customers will be paying a disproportionate amount of the costs that they cause. Transportation customers should not largely be exempt from contributing to the recovery of KMIP costs but yet receive the benefits of the KMIP project because construction of the facilities by the Company was not the least cost option. The Company's method of cost recovery for the KMIP costs therefore violates basic cost causation principles of fairness and equity.

KMIP will provide benefits to both sales and transportation customers and therefore recovery for these costs through the PGA is not reasonable. Mr. Mierzwa recommends, instead, that KMIP costs be separately identified and tracked under Rider 2, and be recovered from sales and transportation customers through a volumetric charge. CUB Ex. 1.0 at 6. This will ensure that sales customers only pay their share of these costs.

The Company opposes Mr. Mierzwa's recommendation, because it maintains that KMIP costs are non-commodity costs that are properly recovered through a non-commodity gas charge. Peoples Gas Ex. VG-2.0 at 2. However, Mr. Mierzwa testified that the KMIP contract is distinguishable from other non-commodity costs. He points out that the KMIP contract was added by Peoples Gas to increase the reliability of delivery to its distribution system and enhance the performance and functionality of Peoples Gas' distribution system. CUB Ex. 2.0 at 2 (Mierzwa Rebuttal). Further, because Peoples Gas does not typically contract with pipelines for these reasons and could have built these facilities itself, the KMIP contract should be viewed differently, as should the cost recovery mechanism. *Id*. The recovery of these costs then is appropriately recovered through a separate volumetric mechanism, as proposed by Mr. Mierzwa.

WHEREFORE, CUB respectfully requests the Commission adopt the recommendation herein to require that KMIP costs be separately identified and tracked under Rider 2, and be recovered from sales and transportation customers through a volumetric charge.

Dated: this 27th day of April, 2011

Respectfully submitted,

Julie L. Soderna
Director of Litigation
CITIZENS UTILITY BOARD
309 W. Washington, Ste. 800
Chicago, IL 60606
(312) 263-4282
(312) 263-4329 fax
jsoderna@citizensutilityboard.org