IIEC/CNEG Joint Exhibit 2.0

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	**:**	**Docket No. 11-0280**
Proposed general increase in natural gas rates.	**:**	
THE PEOPLES GAS LIGHT AND COKE COMPANY	**:**	**Docket No. 11-0281**
Proposed general increase in natural gas rates.	**:**	**(Consolidated)**

Rebuttal Testimony of

Michael P. Gorman

On behalf of

Illinois Industrial Energy Consumers
and
Constellation NewEnergy – Gas Division, LLC

Project 9435
August 15, 2011

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Rebuttal Testimony of Michael P. Gorman

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q DID YOU ALSO SUBMIT DIRECT TESTIMONY IN THESE CONSOLIDATED PROCEEDINGS?

A Yes.

Q HAVE YOU READ THE REBUTTAL TESTIMONY OF NORTH SHORE GAS COMPANY ("NS") AND THE PEOPLES GAS LIGHT AND COKE COMPANY ("PGL") (COLLECTIVELY "THE COMPANIES" OR "NSPGL") WITNESS THOMAS CONNERY IN THESE PROCEEDINGS?

A Yes. In his rebuttal testimony, Mr. Connery comments on issues addressed in the direct testimony of myself and other witnesses concerning the Companies' proposed large volume transportation programs.

Q DO YOU HAVE ANY RESPONSES TO THE COMMENTS MR. CONNERY MADE IN HIS REBUTTAL TESTIMONY?

A Yes. Mr. Connery discussed the three potential benefits of storage I described in my direct testimony and suggests that under the large volume transportation programs proposed by the Companies, customers would receive all these benefits. My rebuttal will explain why his arguments miss the point and that, in fact, large volume customers will not receive these benefits under the Companies' proposals. In the

course of my discussion I will also address other arguments made by Mr. Connery in his rebuttal testimony.

Q WHAT ARE THE THREE BASIC BENEFITS OF STORAGE YOU DESCRIBED IN YOUR DIRECT TESTIMONY?

A These are: (1) a supplement or replacement for upstream interstate pipeline capacity that brings gas to the city-gate; (2) to provide a physical hedge against high peak natural gas prices; and (3) to function as a temporary parking place to absorb imbalances between planned usage and actual usage.

Q DOES MR. CONNERY EXPRESS ANY DISAGREEMENT WITH THIS LIST OF BENEFITS?

A No.

Q DOES MR. CONNERY FEEL THAT THE COMPANIES' PROPOSAL WOULD PROVIDE TRANSPORTATION CUSTOMERS THE FIRST BENEFIT OF STORAGE?

A Yes. However, he refers to this first benefit as "deliverability" and equates it to the amount of storage capacity transportation customers are allocated by the Companies.

Q ARE THESE CONCEPTS TRULY THE SAME?

A No. The amount of capacity that is allocated to transportation customers is just that. It cannot be considered "deliverability" unless the Companies are willing to deliver that amount of capacity whenever the customer wants. They are not willing to do

that. For example, although a customer on the PGL system may be allocated and subscribe to an Allowable Bank ("AB") of 29 days of MDQ of storage capacity, the Company is willing to deliver only 1.1% of that amount on any given day in December, January and February, only 0.5% on any day in November and only 0.3% on any day in March. (PGL Ex. 12.1, page 100). This very limited daily deliverability is why the Company's proposal would fail to provide this first benefit of storage, i.e., a supplement or replacement for upstream interstate pipeline capacity that brings gas to the city-gate.

Q MR. CONNERY SUGGESTS ON PAGE 11 OF HIS REBUTTAL TESTIMONY REFERRING TO PGL AND NS EXHIBITS 14.1 THAT 2.6% OF AB FOR PGL AND 2.7% FOR NS, REPRESENT PEAK DAY STORAGE DELIVERABILITY OF 75% AND 64% OF THE MDQ FOR PGL AND NS, RESPECTIVELY. IS HE CORRECT?

A His arithmetic is correct but all that these numbers tell us is that the Companies' "Design Peak Day Supply Portfolios" rely on using 2.6% and 2.7% of total storage capacity on peak days. This is irrelevant for transportation customers that are limited to 1.1% or 1.5% of their ABs for PGL and NS, respectively, during peak months.

Q DOES MR. CONNERY ARGUE THAT TRANSPORTATION CUSTOMERS CAN USE STORAGE AS A PHYSICAL HEDGE ON SEASONAL NATURAL GAS PRICE VARIATIONS UNDER THE COMPANIES' PROPOSALS?

A Yes. He states beginning at page 13, line 284 of his testimony:

> Rather, the Utilities believe that the proposed limits on month-end storage balances (as well as the daily activity limits which are discussed below) provide for an equitable allocation among all customers of the Utilities' storage assets' capabilities to provide seasonal hedging. (Connery Rebuttal, NS-PGL Ex. 30.0, 13:284-14:287).

Q DO YOU HAVE ANY COMMENTS ON THIS STATEMENT?

A Yes. First, I would note that his comment does not answer the question that it purports to be addressing. While I agree with an equitable allocation being a reasonable goal, even if it is a reasonable allocation of storage resources, that does not imply it allows transportation customers to use storage as a physical hedge.

Second, the programs are designed to reflect the way the Companies use storage for their sales customers. The proposed month-end requirements can be considered reasonable only to the extent transportation customers desire to utilize their storage in the same way as sales customers. Because of their different load factors and annual load patterns, it is not likely that this is the case, especially for the larger transportation customers.

Third, and most critically, the primary factor that negates this potential benefit of hedging for transportation customers under the proposed storage program is the daily winter withdrawal limits of 0.3% to 1.5% of ABs. These limits do not allow full replacement of market price natural gas during market price spikes even when the customer has gas in storage.

Q IS MR. CONNERY CORRECT WHEN HE SUGGESTS THAT YOU OVERLOOKED THE CURRENT "DAILY CHARGE" OF 10 CENTS PER THERM ASSESSED ON DAILY IMBALANCE ACCOUNT ("IA") IMBALANCES IN YOUR DESCRIPTION OF THE PRESENT TREATMENT OF IMBALANCES?

A Yes.

Q DID MR. CONNERY OFFER ANY NEW EXPLANATIONS CONCERNING THE COMPANIES' PROPOSED IMBALANCE CHARGES?

A No. He continues to look on imbalance charges as sticks to be applied to control customer behavior. There is absolutely no cost basis for the proposed charges nor can there be. This approach appears to assume that customer imbalances are the result of inattention or carelessness. However, as I explained in my direct testimony, large volume transportation customer imbalances often are a result of operational problems experienced by the customer. Customers are not able to call "critical days" and pass the problems on to their own customers like PGL and NS. Rather, they incur significant costs of their own. In such cases, imposition of Draconian imbalance charges by the Companies adds insult to injury.

Q HAS MR. CONNERY OFFERED ANY SUGGESTIONS FOR DEALING WITH THESE IMBALANCES THAT ARE UNAVOIDABLE ON THE PART OF CUSTOMERS?

A No.

Q DOES RECOGNITION OF THIS DAILY CHARGE CHANGE YOUR CONCERN WITH THE PROPOSED IMBALANCE CHARGES?

A Absolutely not. While I believe that it is inappropriate to assess non-cost-based penalties on customers, to do so without any tolerance band to recognize physical imperfections in the world is simply egregious.

Q ARE THE PROPOSED HIGHER DAILY WITHDRAWAL AND INJECTION LIMITS A SUBSTITUTE FOR TOLERANCES IN THE IMBALANCE CHARGES?

A No. The proposed daily withdrawal and injection limits are themselves unreasonably low so they cannot also be a substitute for a tolerance band in the imbalance charges.

Q AT PAGE 8 OF HIS REBUTTAL TESTIMONY, LINES 163 TO 177, MR. CONNERY ARGUES WITH STAFF WITNESS SACKETT'S CLAIM THAT LARGE VOLUME TRANSPORTATION CUSTOMERS USE STORAGE DIFFERENTLY FROM SALES CUSTOMERS. DO YOU HAVE ANY COMMENTS ON THAT DISCUSSION?

A Yes. Mr. Connery's point in that discussion is that SC-2 large volume transportation customers have load factors similar to residential customers. He goes on to say that not all the remaining large volume transportation customers have process loads with very high load factors but concedes that these remaining customers have much higher average load factors than sales customers.

I believe the conclusions to be reached from this information are two. First, the Companies should consider whether SC-2 customers belong in a separate transportation program than the large volume transportation customers. Second,

since there is a wide disparity among the customers it is critical that the transportation programs be flexible enough to allow all customers to benefit from the availability of storage . It is not appropriate to design the storage program for one type of customer (e.g., sales customers) and forcing all customers to fit that mold for storage usage.

Q BEGINNING AT PAGE 8, LINE 160 OF HIS REBUTTAL TESTIMONY, MR. CONNERY STATES: "THE UTILITIES DO NOT AGREE THAT THEY NEED TO DEMONSTRATE ECONOMIC HARM TO SALES CUSTOMERS (OR SYSTEM INTEGRITY FAILURES) TO SUPPORT TARIFF TERMS AND CONDITIONS MODELED ON THE SUPPORTING ASSETS' CAPABILITIES." DO YOU AGREE?

A No. The relevant point is whether it is necessary to show harm to sales customers (or system integrity failures) caused by existing tariff terms and conditions before making those terms and conditions more restrictive or adding new restrictions. The basic starting point for this proceeding was to create a transportation program for customers that was less restrictive than the status quo where storage is bundled with standby service. The Company's proposal is to throw everything out and start over with its "model," rather than improve its existing system. Since much of what the Company is proposing is based on claims of harm to residential customers or system integrity, I believe it is certainly necessary to show such harm to justify those proposals.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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