

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 11-0280
Proposed general increase in rates for gas service.	:	
	:	(cons.)
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	No. 11-0281
Proposed general increase in rates for gas service.	:	

Surrebuttal Testimony of

THOMAS CONNERY
Supervisor, Gas Supply Trading
Integrays Business Support, LLC

On Behalf of
North Shore Gas Company and
The Peoples Gas Light and Coke Company

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

3 Q. Please state your name.

4 A. My name is Thomas Connery.

5 Q. Are you the same Thomas Connery who submitted direct and rebuttal testimony on
6 behalf of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore
7 Gas Company (“North Shore”) (together, “the Utilities”) in these consolidated dockets?

8 A. Yes.

9 **B. Purpose of Testimony**

10 Q. What is the purpose of your surrebuttal testimony?

11 A. The purpose of my surrebuttal testimony is to respond, in part, to the rebuttal testimonies
12 of Illinois Commerce Commission (“Commission”) Staff (“Staff”) witness David
13 Sackett; Constellation NewEnergy – Gas Division, LLC (“CNE-Gas”) witness Jason R.
14 Kawczynski; and Illinois Industrial Energy Consumers and CNE-Gas (“IIEC/CNEG”)
15 witness Michael P. Gorman. In their respective surrebuttal testimonies, the Utilities’
16 witnesses Ms. Valerie Grace and Mr. John McKendry will also address these witnesses’
17 rebuttal testimony.

18 **C. Summary of Conclusions**

19 Q. Please summarize your conclusions.

20 A. I support several aspects of the Utilities’ proposals which were criticized by Staff and
21 Intervenors, including that: the effect of diversity of daily storage activity and month-end
22 storage balances among the transportation customers is not being accounted for in their

23 proposed storage operating parameters, the proposed storage access parameters deny
24 transportation customers the benefits of storage, and the proposed cashout provisions are
25 unnecessary and punitive. The Utilities also suggest modifications to the proposal
26 acknowledging Staff and Intervenor concerns and recommendations relating to daily
27 cashout price basis and the size of the month-end storage balance target ranges.

28 **D. Itemized Attachments to Surrebuttal Testimony**

29 Q. Are you sponsoring any attachments to your surrebuttal testimony?

30 A. Yes.

31 NS-PGL Ex. 46.1 -- Table of Modifications to Storage Access Parameters (Excerpt from
32 Response to IIEC/CNE Data Request 6.09) (public and confidential versions)

33 NS-PGL Ex. 46.2 – Excerpt from Response to Staff Data Request DAS 3.04

34 NS-PGL Ex. 46.3 – Excerpt from Response to Staff Data Request DAS 3.06 (public and
35 confidential versions)

36 **II. LARGE VOLUME TRANSPORTATION PROGRAMS**

37 **A. Month-end Storage Balance Ranges**

38 Q. Staff witness Mr. Sackett and CNE-Gas witness Mr. Kawczynski (CNE-Gas Ex. 2.0, pp
39 8-11) contend that you misinterpreted CNE-Gas Exs. 1.4 and 1.5. Mr. Sackett concludes
40 that, with regard to the month-end storage targets, diversity is "...large enough to dismiss
41 the need for the monthly parameter altogether." (Staff Ex. 18.0, p. 11:216-228) Do you
42 agree?

43 A. No. The Utilities' proposal includes month-end storage ranges within which the large
44 volume transportation customers' Allowable Bank ("AB") inventory balance must fall.

45 The Utilities support for implementing the proposed target ranges is that those balance
46 ranges were the product of modeling the Utilities' assets to produce the broadest
47 operationally feasible balance ranges. The modeled ranges were subsequently broadened
48 through negotiations with Staff in the small volume transportation program ("SVT")
49 workshops and supplier input in the large volume transportation program ("LVT")
50 workshops, recognizing transporter diversity and supplier operating concerns. I discuss
51 this in more detail below. As a result of that process, the proposed ranges are wider than
52 what is operationally feasible—allowing for individual activity outside the operationally
53 feasible ranges and, as such, explicitly incorporating diversity in the proposal. If any
54 group's storage balance exceeds the operationally feasible level, they would necessarily
55 be utilizing other customers' capacity. The broader, negotiated, proposed ranges are
56 intended to apply to individual customers, accounting for diversity among their balances
57 but influencing them to be within the operationally feasible ranges in aggregate. The
58 evidence supporting implementation of the month-end storage balance targets provided
59 by CNE-Gas Exs. 1.4 and 1.5 is that the data represented show that the aggregate
60 transportation positions are, at times, outside the proposed ranges. As such, those
61 aggregate balances would necessarily be further outside the tighter operationally feasible
62 ranges. The conclusion is that at those times, the transportation programs were using the
63 sales customers' storage capacity. In contrast to Mr. Sackett's conclusion, that evidence
64 supports the Utilities' conclusion that the actual diversity within the group is not
65 distributed in such a way as to cause the aggregated balance to fall, at least, within the
66 proposed ranges, and preferably—to accomplish the equitable allocation of storage

67 capacity—within the tighter operationally feasible range. Hence, the month-end storage
68 balance target ranges are necessary.

69 Q. Please comment on Mr. Sackett’s contention that the Utilities have not shown “net
70 economic harm to sales customers” and there is no evidence that any harm “happens over
71 time in one direction or another.” (Staff Ex. 18.0, p. 9:184-193)

72 A. The Utilities have not tried to quantify whether “net” economic harm occurs to sales
73 customers. However, as explained in their response to Staff data request DAS 9.16, the
74 Utilities oppose a rate design concept premised on net activity by one group of customers
75 (LVT customers in this case) over some undefined period potentially being neutral or
76 beneficial to other groups of customers (in this case, sales customers). Specifically, the
77 Utilities oppose the transportation customers having the latitude to operate with wide
78 discretion (altering or not altering deliveries for any reason(s)), to which the sales
79 customers’ purchases are altered to compensate, potentially economically harming the
80 sales customers, and for which they may be compensated by some potential future
81 opportunity — again provided at the transportation customers’ discretion — and to which
82 such opportunity the sales customers are to react. The proposed rate design — including
83 the allocation of storage — equitably allocates daily storage access to all parties for their
84 use to take advantage — or not — of available market opportunities at their own
85 discretion.

86 Q. Does Mr. Kawczynski’s testimony related to heating degree days and economic
87 conditions (CNE-Gas Ex. 2.0, pp. 11:235-14:290) for the periods presented in CNE-Gas
88 Exs. 1.4 and 1.5 provide justification for not having some reasonable limits to guard
89 against transportation customers’ utilization of sales customers’ storage capacity?

90 A. No. Mr. Kawczynski seeks to suggest how non-economic reasons could lead to the
91 activity outside the proposed ranges shown in CNE-Gas Exs. 1.4 and 1.5. Those same
92 exogenous influences would have affected the sales customers also, and, in any case, they
93 do not provide justification for utilizing the sales customers' storage capacity. If one
94 group of customers chooses not to adjust to weather changes by, for example, increasing
95 or decreasing gas deliveries to accommodate consumption changes affected by weather,
96 then other groups must either adjust both for the weather and to accommodate the choice
97 of the first group or potentially incur incremental charges associated with imbalances.
98 Similarly for the asphalter example (CNE-Gas Ex. 2.0, p. 10:199-220), if the asphalter
99 has his storage balance on track for November but decides to extend his season for
100 several weeks due to a favorable stretch of weather, he should deliver gas to support the
101 operation for that period, not use the sales customers' storage gas. Even if "LVT
102 customers use storage differently because they use gas differently" (Staff Ex. 18.0, p.
103 11:233-234), that does not mean the LVT customers should have disproportionate rights
104 to storage relative to sales customers. This applies equally to Mr. Gorman's observations
105 about sales customers vis-à-vis LVT transportation customers. IIEC/CNEG Ex. 2.0, p.
106 4:73-78.

107 Q. Do Mr. Sackett's concerns that you did not demonstrate that market forces drove
108 transportation customers to operate above the Utilities' proposed target inventory levels
109 or that sales customers were economically harmed invalidate the evidence of the CNE-
110 Gas graphs (CNE-Gas Exs. 1.4 and 1.5)? (Staff Ex. 18.0, p. 9:184-193)

111 A. No. As with Mr. Kawczynski's discussion of heating degree days and general economic
112 conditions, the specific exogenous influences or lack of influence are not important.

113 Rather, the rate design intends to equitably allocate storage capacity to all parties. The
114 transportation programs do not have a right to overly broad access to the Utilities' storage
115 capacity (and similarly to injection and withdrawal rights). That sales customers may not
116 have been economically harmed in a specific instance or that it is possible that harm to
117 sales customers may be offset by a future benefit associated with the transportation
118 customers' actions does not justify that result. Moreover, when transportation customers'
119 actions can be perceived as beneficial to sales customers, these actions are at the
120 transportation customers' discretion and are actions to which the sales customers react,
121 rather than taking it into account in planning.

122 Q. Mr. Kawczynski (CNE-Gas Ex. 2.0, pp. 15:303-16:330) criticizes the cashout structure,
123 including that the pricing is not at market. Please comment.

124 A. The cashout proposal should be viewed against the size of the month-end storage balance
125 ranges provided in the Utilities' proposals — averaging 34% of AB (between the low and
126 high point of the range) for Peoples Gas and 58% of AB for North Shore. The Utilities
127 would strongly prefer that the size or structure of the month-end target balances be
128 altered, rather than altering the cashout structure. However, if the Commission favors an
129 at-market cashout layer, then any added deadband (*i.e.*, cashout occurring at-market)
130 should be deducted from the proposed ranges.

131 Q. Despite the evidence you provided supporting the Utilities' proposals, are they willing to
132 propose any alternative storage balance parameters?

133 A. Yes. Notwithstanding the Utilities' continued support of the proposed broad month-end
134 ranges, Peoples Gas offers an alternative for consideration. In addition, Utilities' witness
135 Mr. McKendry describes the Utilities' proposal to implement super pooling for month-

136 end balance requirements. This alternative pertains only to the monthly AB inventory
137 requirements and does not affect the proposed daily injection and withdrawal proposals.

138 Peoples Gas is willing to broaden the month-end target balance ranges further by
139 five percentage points, applicable only to stand alone contracts, *i.e.*, a customer's account
140 or accounts that are not transferred to a supplier to manage in a pool. Peoples Gas does
141 not propose to apply this increase to pools, as pools can capture much of the benefits of
142 account diversity within each pool. As proposed, the average month-end range width
143 (*i.e.*, difference between high and low of range) for Peoples Gas is 34% of AB while the
144 average North Shore range is 58% of AB. This alternative would increase the Peoples
145 Gas average range from 34% to 39% (again, only for stand alone contracts). The North
146 Shore ranges would remain unchanged.

147 **B. Diversity**

148 Q. Mr. Sackett contends that the Utilities' treatment of diversity in the development of its
149 storage operating parameters "is superficial." (Staff Ex 18.0, p. 8:156-158) Do you
150 agree?

151 A. No. The system and storage asset models utilized only aggregate (sales and
152 transportation) sendout patterns in the modeling of system and storage operating
153 parameters and requirements. However, the Utilities incorporated the likelihood of
154 diversity among the transportation program customers in developing the daily storage
155 activity and month-end storage balance parameters proposed in the instant case.

156 The models were utilized in the development of the SVT suppliers' access to
157 storage rights, in the Rider SST storage and standby unbundling process, and in
158 preparation for this rate case to define the operating capabilities and associated

159 requirements for storage. The storage operating parameters (daily injection and
160 withdrawal rights and month-end storage balance target ranges) produced from those
161 models were modified through discussions with Staff during the SVT workshop process
162 and Rider SST unbundling and from comments from suppliers. The driver of the
163 discussions with Staff was recognition of diversity in the daily storage activity and
164 month-end storage balances of transportation customers. Those discussions produced
165 increased daily injection and withdrawal levels, expanded month-end storage target
166 levels, and the introduction of the Daily Balancing Tolerance. Please see NS-PGL Ex.
167 46.1 for a timeline of major changes to the daily and monthly values. The results of the
168 discussions, as detailed in the exhibit, were to:

- 169 • expand the daily injection and withdrawal levels from the modeled availability
170 of approximately 80% of AB annual cycling capability to 130%,
- 171 • introduce the Daily Balancing Tolerance (“DBT”), which increased the daily
172 injection and withdrawal levels, further expanding the annual cycling
173 capability to 200% annual AB cycling capability,
- 174 • expand the low and high AB balance levels from 10% to 95% for Peoples Gas
175 and from 3% to 96% for North Shore to zero to 100% for both utilities, and
- 176 • expand the month-end ranges to provide at least a 30 percentage point spread
177 between the low and high balances targets (except for December for Peoples
178 Gas which was expanded to a 28 percentage point difference).

179 The DBT was added and modified during Rider SST unbundling discussions with Staff
180 explicitly to address diversity, specifically with regard to individual customers who are
181 not members of pools.

182 **C. Peak Day Storage Deliverability**

183 Q. Please comment on Mr. Gorman’s conclusion that peak day storage deliverability is not
184 2.6% of AB for Peoples Gas and 2.7% of AB for North Shore (IIEC/CNEG Joint Exhibit
185 2.0, p. 3: 49-57).

186 A. Perhaps there is some misunderstanding here. On Critical Supply Shortage Days, the
187 proposed maximum daily withdrawal percentage is 2.6% of AB for Peoples Gas and
188 2.7% of AB for North Shore. Those rights supersede the otherwise applicable daily
189 withdrawal and DBT limits on such days.

190 Q. Do the Utilities agree with Mr. Sackett’s interpretation that the Utilities are proposing
191 changes to Rider FST that would “align the rules that the Rider FST customers must
192 follow with the rules for the other programs”? (Staff Ex. 18.0, p. 15:331-332)

193 A. Yes, and part of that alignment is to address peak day deliveries.

194 Q. How does that alignment address peak day deliveries?

195 A. Said another way, the Utilities are proposing to utilize the application of the equitable
196 storage access model for all transportation programs (Riders CFY/AGG (the SVT
197 program), FST and SBS). Rider FST customers, unlike current Rider SST and proposed
198 Rider SBS customers, need not have daily demand measurement devices and,
199 consequently, certain daily balancing requirements are not applicable, However, for
200 Rider FST, the adaptation of that peak day storage deliverability within the non-daily
201 read program is a delivery requirement for the portion not available from storage. Thus,
202 on Critical Supply Shortage Days and OFO Shortage Days, Rider FST customers would
203 have a minimum delivery requirement.

204 Q. Mr. Sackett (ICC Staff Ex. 18.0, pp. 14:295-15:332) and Mr. Kawczynski (CNE-Gas Ex.
205 2.0, p.17:341-356) express concern regarding the charges for standby (the Demand Gas
206 Charge multiplied by the Maximum Daily Quantity (“MDQ”)) relative to its potential
207 unavailability on certain days. Do the Utilities agree with that concern?

208 A. Yes, the Utilities recognize the disparity. Unlike Rider SBS, Rider FST customers will
209 continue to receive standby service and will pay a demand charge to have the right to
210 purchase gas from the Utilities. However, a proposed change from the current service is
211 that, as discussed above, on certain Critical and OFO Days, Rider FST customers could
212 not meet 100% of their requirements through standby gas purchases. The equitable
213 allocation of storage deliverability among all customers (and resultant delivery
214 requirements for Rider FST) should be maintained as proposed, but the Utilities propose
215 to discount the non-storage portion of the costs included in the Demand Gas Charge for
216 Rider FST to recognize that, on certain days, the standby service purchased through the
217 Demand Gas Charge, would be less than 100%. Standby availability is expected to
218 exceed 95%, but given the introductory nature of the delivery obligation, the Utilities
219 recommend a discount rate at four times the maximum anticipated unavailability rate.
220 The Utilities propose, in calculating the Demand Gas Charge, to apply a 20% discount to
221 the FT costs.

222 **D. Daily Balancing**

223 Q. For the daily cashout provisions, do the Utilities accept Mr. Sackett’s recommendation to
224 utilize an average daily price (*i.e.*, the Midpoint) as the basis of the charge rather than the
225 proposed Daily Index Common High and Daily Index Common Low (ICC Staff Ex. 18.0,
226 p. 13:265-266)?

227 A. Yes.

228 Q. Mr. Gorman disagrees that the Utilities' storage proposals provide deliverability
229 (IIEC/CNEG Ex. 2.0, pp. 2-3). Please comment.

230 A. Given the proposed approximately 200% annual cycling capability and winter monthly
231 withdrawal rates greater than the current one-third of AB limits under Rider SST, this
232 conclusion is not warranted.

233 Q. Do the Utilities face any practical limitations to providing a service like the one described
234 by Mr. Gorman (IIEC/CNEG Ex. 2.0, p. 2:32-3:48) as delivering the amount of capacity
235 allocated "whenever the customer wants"?

236 A. Yes. None of the Utilities' storage assets, considered individually or in the aggregate,
237 can deliver anything close to that level of withdrawal capability.

238 Q. Please comment on Mr. Gorman's concern that it is necessary to show harm to sales
239 customers "caused by existing tariff terms and conditions before making those terms and
240 conditions more restrictive...." (IIEC/CNEG Ex. 2.0, p. 7:135-137)

241 A. Following the same logic applied to the month-end storage balance target ranges, the
242 proposed daily injection and withdrawal limits are necessary to ensure that transportation
243 program activity does not utilize more than an equitable share of storage injection and
244 withdrawal availability. For example, under the current tariff parameters the sales
245 customers' purchases are modified extensively to manage day over day changes in
246 sendout. The Utilities demonstrated this phenomenon in response to Staff data request
247 DAS 3.04 subpart c discussion and Excel worksheet attachment (attached as NS-PGL Ex.
248 46.2). In response to subpart c of that data request, the Utilities show that, in aggregate

249 for the period January 2008 to March 2011, the aggregate large and small volume
250 transportation programs' deliveries did not vary in anticipation of usage variations. After
251 utilizing storage swing availability, very large adjustments to the purchases for sales
252 customers were required. As another example, the essentially complete lack of
253 transportation program responsiveness to daily sendout variations is also clear in the
254 Utilities' response to Staff data request DAS 3.06 subpart b discussion and Attachment A
255 (attached as NS-PGL Ex. 46.3). In response to subpart b of that data request, a graphical
256 presentation of March 2011 sendout and deliveries to the Utilities is presented. As shown
257 in the Attachment A slide 3 graph of this response, during a period of widely varying
258 sendout, the aggregate small and large transportation program deliveries were
259 unresponsive or counter to the sendout changes. In the slide, sales purchases — by
260 location — and transportation deliveries are stacked to create the total daily deliveries to
261 the Utilities' systems. Sendout is indicated by the heavy black line. Sales baseload
262 purchases are positioned below the (cobblestone) transportation deliveries layer
263 (identified in the legend as "Customer-", an abbreviation of Customer owned gas) and
264 sales swing purchases are positioned above the cobblestone transportation layer. The
265 slide shows the large fluctuations in sales purchases necessary to meet sendout and
266 unresponsiveness of the transportation program deliveries to that sendout. The ability of
267 the transportation customers to not vary deliveries with sendout results from the current
268 transportation program tariff parameter ineffectiveness in limiting transportation program
269 utilization of sales customer's equitable share of daily injection and withdrawal rights.
270 As discussed in response to the two data requests attached as exhibits, purchases for the
271 sales customers are required to vary dramatically to accommodate baseloaded

272 transportation program deliveries. This demonstrates the transportation program’s use of
273 sales customers’ equitable share of daily injection and withdrawal rights. That daily
274 storage utilization by the transportation programs results in the sales customers
275 purchasing — or not purchasing — gas at times which may cause economic harm to the
276 sales customers. The Utilities’ proposals are designed to move toward a framework
277 which is intended to provide an equitable share of those daily storage capabilities. As
278 with the month-end storage balance target ranges, there may be times when transportation
279 customers’ actions can be perceived as beneficial to sales customers, but again, these
280 actions are at the transportation customers’ discretion and are actions to which the sales
281 customers must react, rather than taking into account in planning.

282 Q. Mr. Gorman contends that the Utilities’ proposal is to “throw everything out and start
283 over with its ‘model’” (IIEC/CNEG Ex. 2.0, p. 7:140-141). Please comment.

284 A. The Utilities followed the Commission’s order to develop proposals to unbundle the
285 storage and standby features of Rider SST. That process produced a standalone storage
286 service (Rider SBS) and the elimination of standby service (Rider SST). The proposed
287 features of the standalone storage service were developed through modeling of the
288 supporting storage assets and subsequent negotiation. The modeling was based on the
289 Utilities’ current asset and system modeling which includes refined daily balancing
290 modeling. That particular feature of the modeling has evolved significantly over
291 approximately the past two years and has become one of the primary portfolio design
292 criteria. For the Utilities’ systems, daily balancing is available only from the storage
293 assets. The significance of daily balancing and the equitable allocation of that system
294 feature became the focus of implementing the Commission’s directive from the Utilities’

295 last rate case to address small volume transportation supplier access to storage and later
296 the unbundling of the storage and standby services within Rider SST. It is not practical
297 to simply edit Rider SST to create Rider SBS. In contrast, a full analysis of the asset
298 support for an unbundled storage service (Rider SBS) coupled with a complete review of
299 costs associated with those assets and commensurately updated rate design were
300 necessary to fully incorporate the increased significance of daily balancing in the
301 Utilities' system portfolios.

302 Q. You stated that it is not practical to simply edit Rider SST to create Rider SBS. Mr.
303 Sackett proposed that the Commission approve the elimination of Rider SST, approve the
304 Rider SBS capacity and subscription process, reject the proposed Rider SBS daily storage
305 parameters and reject the proposed Rider SBS monthly storage parameters (Staff Ex.
306 18.0, p. 3:40-45). If the Commission accepts Mr. Sackett's proposals, are there parts of
307 current Rider SST that should be included in Rider SBS?

308 A. Yes. Rider SST currently has provisions governing daily nominations; use of the AB in
309 the winter months; a November inventory requirement; a Critical Supply Shortage Day
310 withdrawal limit; a Critical Supply Surplus Day injection limit; and an Imbalance
311 Account. These provisions should transfer to Rider SBS if the Utilities' proposed rate
312 design for Rider SBS is rejected (save the elimination of standby service and the storage
313 subscription process). This appears consistent with Mr. Sackett's intent, but it is not
314 expressed as part of his recommendations. (For example, Mr. Sackett states that "If the
315 Commission rejects my proposal that Rider SBS use the operational parameters currently
316 in place in Rider SST," (Staff Ex. 18.0, p. 13:268-269)). If the Commission
317 eliminates Rider SST and adopts only the storage subscription aspect of Rider SBS

318 without carrying over the Rider SST operating parameters to Rider SBS, these existing
319 operating parameters would be lost.

320 Q. Are there any similar issues with Rider FST?

321 A. Mr. Sackett recommended rejecting the proposed Rider FST monthly storage parameters
322 and Critical Day and OFO Day requirements (Staff Ex. 18.0, p. 3:46-48). Rider FST
323 should retain all existing requirements, such as the November AB inventory requirement,
324 the excess bank and existing Gas Bank Account provisions and the provisions governing
325 winter period use of AB. Again, this may be consistent with Mr. Sackett's proposal to
326 reject the new Rider FST rate design and retain the existing program, but the Utilities
327 recommend that the Commission's order be clear on this point if the Commission adopts
328 Mr. Sackett's proposals for Rider FST.

329 Q. Are any other riders affected by Mr. Sackett's proposals?

330 A. Yes. Rider P, Pooling Service, should retain terms and conditions that mirror, as
331 appropriate, whatever terms and conditions exist in Riders FST and SBS.

332 Q. Does this conclude your surrebuttal testimony?

333 A. Yes.