STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	No. 11-0280
Proposed general increase in natural gas rates	:	
(tariffs filed February 15, 2011)	:	
PEOPLES GAS LIGHT AND COKE COMPANY	:	
	:	No. 11-0281
Proposed general increase in natural gas rates	:	
(tariffs filed February 15, 2011)	:	

SUMMARY OF POSITIONS OF THE ILLINOIS INDUSTRIAL ENERGY CONSUMERS AND CONSTELLATION NEWENERGY-GAS DIVISON LLC

COME NOW the Illinois Industrial Energy Consumers ("IIEC") and Constellation NewEnergy - Gas Division, LLC ("CNEG") (collectively "IIEC/CNEG"), and pursuant to the Case Management Order in this case, provides the following Statement of Positions:

XI. TRANSPORTATION ISSUES

A. OVERVIEW

1. The interest of IIEC/CNEG

IIEC/CNEG represent a broad spectrum of commercial and industrial Transportation customers who have views with concern proposals which increase the cost of, and unnecessarily limit the flexibility of, transportation service in the Peoples Gas Light and Coke Company ("Peoples") and North Shore Gas Company ("N. Shore") (collectively "PGL/NS" or "Companies"). They are concerned about the proposals of PGL/NS to offer unbundled storage service and to make numerous changes and modifications to its Large Volume Transportation ("LVT") Programs in association with those proposals. IIEC/CNEG opine that the PGL/NS Proposal for unbundled storage service, if adopted as presented, would result in a service with little value and little usefulness to large volume Transportation customers. They consider that the harmful modifications to LVT service warrant rejection of the whole unbundling proposal unless the Commission accepts just the unbundling of storage while rejecting the operationally unnecessary modifications to the LVT programs.

IIEC/CNEG presented the testimony of Michael P. Gorman, (IIEC/CNEG Jt. Ex. 1.0 and Jt. Ex. 2.0) a member of the Firm of Brubaker and Associates, who has extensive experience of working with large energy users to distribute and critically evaluate responses to requests for proposals for gas energy supply from competitive energy suppliers. According to IIEC/CNEG, his analyses have included the evaluation of gas supply and delivery charges. He has participated in rate cases and rate design and class cost of service for natural gas utilities. He has also analyzed commodity prices indices and forward pricing models for third party supply agreements. He has testified before numerous state commissions on behalf of large industrial customers. (IIEC/CNEG Jt. Ex. 1.0 Appendix A).

CNEG has also presented the testimony of Mr. Jason R. Kawczynski, (CNEGG Ex 1.0 and 2.0) who is an associate of Volume Management for Constellation New Engergy-Gas Division LLC. He is responsible for the day to day operation and management of customer accounts, including tracking customer's annual gas consumption, daily and monthly supply forecasting, daily nominations, balancing and the validation of delivery and usage data. He interfaces regularly with PGL/NS. His company provides natural gas supplies and related transportation services to 16,000 commercial and industrial customers, municipalities, local distribution companies and co-generation facilities, including customers within the service territories of PGLC/NS (See CNEGG Kawczynski

Ex. 1.0 at 2:15-24, 3:46-50) He has also been responsible for the management of day to day operations and strategies of natural gas transportation customers. (See CNEGG Ex. 1.1).

2. Nature of Transportation Service

IIEC/CNEG says that PGL/NS provide two distinct types of service. A commodity service to those customers who purchase their gas from PGL/NS and they provide a delivery service to all customers, including Transportation customers. PGL/NS rates contain a component charge to recover the cost of purchased gas from those customers taking commodity service, and a component charge to recover the cost of storing and delivering gas (including transportation gas). The first charge is recovered through an automatic rider known as the Purchased Gas Adjustment Clause ("PGA"). The second component charge is called the Base Rate. It is the Base Rate which is the subject of this proceeding.

IIEC/CNEG opine that a transportation customer is a customer that purchases its own gas from a producer or marketer and then arranges for delivery of that gas to PGL/NS. The customer then purchases delivery services (at the Base Rate) from PGL/NS to move gas from the PGL/NS delivery points to the customer's facility.

According to IIEC/CNEG, customers who desire PGL/NS to purchase gas supply for them and to deliver that supply to them, receive a "bundled service." Such customers are traditionally referred to as "Sales Customers." Transportation customers, on the other hand, require only delivery service from PGL/NS, although they also receive storage service from PGL/NS.

IIEC/CNE reason that all customers, Sales and Transportation, use the PGL/NS transmission and distribution system to take physical delivery of their gas. Therefore, both groups of customers should have equal access to the PGL/NS systems, including PGL/NS storage facilities.

IIEC/CNEG point out that currently large Transportation customers take service under Rider FST, Full Standby Transportation Service, and Rider SST, Selected Standby Transportation Service. Customers taking service under Rider FST receive 100% backup from the Companies if their supplier does not deliver gas supplies. Customers taking service under Rider SST are permitted to choose a level of backup service and the Companies provide gas supplies only up to each customer's selected standby level if the customer's gas supplier does not deliver gas supplies. (IIEC/CNEGG Gorman, Jt. Ex.1.0 at 3:49-55). Storage capacity provided under Rider FST and Rider SST is referred to as the Allowable Bank ("AB"). That capacity is provided to customers on a "bank day basis". The total bank days are determined by dividing the total storage capacity for each Company by the Design Peak Day. Under Rider SST the bank days available to customers are reduced as less backup is selected by the customer. Rider SST customers selecting zero backup receive a storage bank of zero. Thus, currently storage service is bundled together with the PGL/NS standby service provided under Rider FST and Rider SST. PGL/NS propose to unbundle storage service from standby service for Rider SST.

Finally, IIEC/CNEG point out that in addition when large Transportation customers obtain service from a producer or marketer, often the producer or marketer will group many large Transportation customers together in order to obtain economic benefits or increases operational efficiencies. This is often referred to as pooling.

3. Summary PGL/NS Proposal and IIEC/CNEGG Recommendations

IIEC/CNEG argue that PGL/NS proposed a stand-alone storage banking service (Rider SBS) which would allow customers to elect the amount of storage capacity from one day to the maximum number of days available. In other words it unbundles storage service from standby service.

PGL/NS propose to provide unbundled service through Rider SBS, Storage Balancing Service, and to modify Riders FST and Rider P, Pooling Service, to reflect their unbundling proposals. In addition, they propose to implement a new Rider SSC, Storage Service Charge, to recover the cost of service from Transportation customers. (CNEGG Kawczynski, Ex. 1.0 at 7:139-141). The unbundled storage service would include minimum and maximum monthly storage inventory targets for all 12 months of the year, with monthly cash-outs of customers who fail to meet those targets. The unbundled storage proposal includes daily injection and withdrawal limits that have distinctions for Critical Days and Operational Flow Order "(OFO)" days, plus daily cash-outs, for customers whose injections and withdrawals fall outside those limits. The unbundled storage proposal includes daily tolerances around the daily injection and withdrawal ranges. Under the proposal, the current "no notice" standby service (Rider SST) would be eliminated because storage assets used to support that service would be assigned to the unbundled storage service (Rider SBS). (Connery, PGL Ex. 14.0 at 18-17:394-396; NS Ex. 14.0 at 18:391-393).

IIEC/CNEG support the provision of an appropriate unbundled storage service and given such a service, would support the elimination of the current no-notice standby service provided under Rider SST. However, they say the manner in which PGL/NS propose to implement storage unbundling, is flawed and includes provisions that are not necessary for the unbundling of storage service and renders such service not only valueless to Transportation customers, but harmful to Transportation customers.

Specifically, IIEC/CNEG oppose the PGL/NS proposals for 24 monthly storage inventory targets (12 minimum targets + 12 maximum targets) and the associated monthly cash-outs; the imposition of daily injection and withdrawal limits and the associated cash-outs; and the proposed tolerance bans on non-critical days. In addition, they are concerned about the diminution of super pooling for assessing compliance with any monthly inventory target. IIEC/CNEG do not oppose the existing single minimum storage target for the month of November only that has been in place since 2008, to which super pooling applies across both Rider SST and Rider FST. However, if the Commission approves the additional monthly storage inventory targets, they do object to the Companies' proposal to change their current super pooling practice and instead restrict super pooling across the large volume Transportation service Riders SBS and FST.

IIEC/CNEG make the following recommendations to the Commission:

First, that Rider SBS, as proposed by the Company, be rejected.

Second, that PGL/NS be directed to provide unbundled storage service without daily injection and withdrawal limits unless the Companies' declare a Critical Day. On a Critical Day, restrictions on the injection and withdrawal of gas from storage equal to 2.6% of the customer's AB on the PGL system and 2.7% of the customer's AB on the NS system would be appropriate.

Third, the maximum and minimum monthly storage inventory targets and associated cash-outs should be rejected. Withdrawals should be limited on a monthly basis during the winter months to one-third of the customer's AB. There should be no monthly injection limits. If a Transportation customer violates the monthly withdrawal limit, there should be a 5% tolerance band and within that tolerance band, all violations of the withdrawal limit would be cashed out at the average monthly index price. Excess withdrawals outside the 5% tolerance band would be priced at 110% of the average monthly index price.

Fourth, the PGL/NS proposal for declaration of an OFO restriction should be rejected.

Fifth, the Commission should accept the IIEC/CNEG proposed modification for the provision of unbundled storage. Should the Commission reject the IIEC/CNEG proposed modifications, the Commission should then consider and approve Staff proposed modifications as outlined in the testimony of David Sackett. (ICC Staff Sackett Ex. 18.0 at 3:40-53).[1] If the Commission rejects IIEC/CNEG and Staff proposals, then the Commission should reject proposed Rider SBS and maintain current Rider SST and the associated bundled storage service.

D. Large Volume Transportation Issues

2. Transportation Storage Issues

IIEC/CNEG point out that in the 2009 PGL/NS rate case the Commission ordered the Companies to work collaboratively with the Commission Staff and other stakeholders to develop reasonable proposals for unbundling storage and to file any agreed proposal in the next rate case. (Grace, PGL Ex. 12.0 Rev. at 32:707). To the extent an agreement was not reached, PGL/NS were directed to address the matter in the next rate case. The Companies held a workshop in which Staff and stakeholders participated. (Kawczynski, CNEG Ex. 1.0 at 6:19-26). Stakeholders and Staff were given an opportunity to ask questions and provide feedback. (*Id*.). IIEC/CNEG say that unfortunately the concerns of the LVT Customers were not resolved. In accordance with the Commission directive in the previous rate case, since a general agreement and consensus could not be reached on the major issues, the Companies filed their own proposals for unbundling storage in this case. IIEC/CNEG argue that despite the Companies' contention that feedback received during the workshop resulted in modification to their initial unbundling proposal, these modifications did not resolve concerns about the proposal. (*Id*. at 6:118-134). While, according to PGL/NS witness

[1] Rejecting Rider SBS daily and monthly storage parameters. Rejecting Rider FST monthly storage parameters and parameters proposed Critical Day and OFO parameters. Approving cost recovery through Rider SSC.

Connery the Companies did somewhat adjust the monthly minimum and maximum storage inventory targets level percentages, IIEC/CNEG says the basic structure of the original proposal remained the same. (*Id*. at 7-8:156-164). And that structure continues to be detrimental to the LVT customers as outlined by IIEC/CNEG. Absent the adoption of reasonable IIEC/CNEG adjustments to the PGL/NS unbundled storage proposal, Rider SBS should be rejected and Rider SST should remain in effect.

IIEC/CNEG say the Companies have far exceeded the Commission directive to the detriment of the LVT customers. IIEC/CNEG and Staff witness Sackett believe the Companies storage proposals extend far beyond unbundling storage service from standby service. The unbundling, directed by the Commission, was intended to increase operational flexibility for Transportation customers. The Companies, however, unnecessarily increased operational restrictions on the use of storage assets decreasing operational flexibility for such customers. The proposed restrictions would render its storage service useless to Transportation customers. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 6:98-104).

IIEC/CNEG say the Commission has previously dealt with attempts to impose similar operational restrictions . (CNEG Kawczyaski at 17:353-354). In the Nicor Gas 2004 rate case the Commission approved a single fall injection target but rejected a spring withdrawal target. (ICC Dkt. 04-0779 Order, Sept. 20, 2005, at 146). In the Peoples and North Shore 2007 rate case the Companies opposed an unbundled storage service but proposed a system shaping for gas Transportation customers which included injection, withdrawal and storage balance limitations. (*Id.* 1.0 at 9:189-191). Although the Companies withdrew their proposal in Surrebuttal testimony, the Commission approved a November 30 injection minimum requirement of 70% and 75% of AB for

Peoples Gas and North Shore, respectively, while rejecting a Spring withdrawal requirement. (*Id.* at 10:200-206). In doing so the Commission stated:

> In Nicor we approved a fall injection target but not a spring withdrawal target. The Commission concluded that the former was a valid operational requirement that would not unduly burden transportation customers, but the latter was not. Nicor, Docket No. 04-0779, Order at 146. We are not persuaded to approve a different regime in these dockets. The Utilities generally assert that "the storage and standby rights of each Utility's transportation customers need to be shaped to be consistent with each Utility's individual gas supply portfolio, and each Utility needs to have an annual mechanism to adjust those rights as its individual gas supply portfolio changes." That is not enough to outweigh the considerable difficulties the seasonal cycling requirements will present for transportation customers. E.g., CNEG Init. Br. at 20-24. While we are willing to subordinate those difficulties to the Utilities' operational needs during the heating season, the balance tips in the transportation customers' favor in the spring…. .
>
> The Commission also observes that the Utilities strongly emphasize the cycling requirements they face with respect to leased storage facilities. . . . .Thus, most of the Utilities' own storage flexibility is constrained by the general need to recycle Manlove, not by storage leases. That fact, in turn, allows some latitude when balancing the competing and equally legitimate needs of the Utilities and the transporters.
> Accordingly, injection season requirements of 70% and 75% of AB are approved for, respectively, Peoples Gas and North Shore, while seasonal withdrawal requirements are disapproved.
> (Docket Nos. 07-0241/0242 (Cons.), Order, February 5, 2008, at 276).

IIEC/CNEG say it is clear that the Commission believed there is an appropriate balance between managing the gas system and Transportation customers desire to efficiently manage their gas supplies. The overly stringent restrictions proposed by the Companies as discussed below fail to strike an appropriate balance.

In order to strike the appropriate balance IIEC/CNEG argue the Commission must look at how Transportation customers can benefit through the use of storage while considering three key issues.

There are three potential primary benefits to the use of storage. First, it allows for peak day deliverability, that is, as a supplement to or replacement for upstream interstate pipeline capacity that brings gas to the city gate. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 12:231-233). Second, it serves as a physical hedge. Customers can buy more gas when it is less expensive, generally in the non-winter months, to replace spot purchases during the more expensive winter months. (*Id.* at 12:233-235). Third, storage can also function as a temporary parking place to absorb imbalances between planned usage and actual usage. (*Id.* at 12:235-237). While Transportation customers could and should realize the potential benefits, the fact remains that those customers currently only benefit from the temporary parking place to absorb imbalances between planned usage and actual usage. The PGL/NS proposal will wipe out that benefit as well. (*Id.* at 12:238-241).

IIEC/CNEG reason that a Transportation customer cannot use storage for peak period deliverability because the amount of gas that they are permitted to withdraw from storage on a peak day is such a small portion of their peak day need that it cannot offset a meaningful portion of deliveries. Furthermore, these customers tend to have much broader high usage periods than sales customers. As a result even if they could offset some pipeline capacity while operating within the PGL/NS proposed injection and withdraw limitation they could face serious penalties under the month end inventory restrictions proposed by the companies. (IIEC/CNEG Jt. Ex. 1.0 at 12-13:242-251).

IIEC/CNEG also state Transportation customers cannot use storage as a hedge because the amount of gas the customer can use from storage on a daily basis is only a small portion of the customers' daily use. In conjunction with the monthly inventory requirements, this severely limits the ability of customers to take advantage of purchase opportunity and to avoid significant amounts of expensive gas purchases. This could occur on a prolonged basis. (*Id*. at 13:252-257).

IIEC/CNEG opine that Transportation customers cannot utilize storage for balancing because under the companies proposals only a very small daily variance can be cured using the customers' storage. Most balancing problems occur for these customers as a result of (i) failed deliveries due to weather or other emergencies or (ii) over delivered gas because of unanticipated shut down of their manufacturing plant or other production problems. These occurrences could lead to high in balance penalties (*Id.* at 13:258-265).

Considering the potential benefits of storage to Transportation customers, IIEC/CNEG believe that three key considerations must be addressed in order to offer a fair, balanced unbundled storage service to such customers. First, how much storage capacity should a customer be able to reserve? Second, what, if any, restrictions should be placed on a customer's access to the storage they have reserved? Finally, how should costs be allocated to the storage services and how much should customers pay for their storage? (*Id.* at 4:70-76).

i. ***Availability of Storage Capacity***

In discussing the availability of storage capacity, PGL/NS have divided their total storage capacity by their Design Peak Day and allocated it to their customers in proportion to the customer's Maximum Daily Quantity ("MDQ") as defined by PGL/NS Witness Connery. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 4:80-82; PGL Connery Ex. 14.0 at 8:159-165; NS Connery Ex. 14.0 at 8:158-164). IIEC/CNEG find this to be a reasonable way to allocate storage capacity to Large Transportation customers. However, the restrictions placed on the use of that storage by LVT customers are unacceptable from an operational and business standpoint.

IIEC/CNEG also point out that the Companies are proposing monthly restrictions on inventory levels, daily restrictions on withdrawals and daily restrictions on injections, each of which will severely reduce the usefulness of the storage program for Large Volume Transportation customers. (IIEC Gorman Jt. Ex. 1.0 at 5:101-104). In addition to monetary penalties associated with exceeding the restrictions proposed, they also restrict the customer's ability to manage their gas purchasing strategy. (*Id.*at 14:270-271).

ii. *Restrictions*

IIEC/CNEG suggest the Companies are proposing both month-end gas storage inventory levels and daily withdrawal and injection limits.

Month-end Storage Targets

At the end of each month, the Companies are proposing, a customer's inventory of gas in storage as a percent of its AB must be within specific ranges in terms of the percent of total storage capacity filled. The ranges are set out below:

Proposed Storage Inventory Target Levels
As a Percent of a Customer's Allowable Bank

	PEOPLES		**NORTH SHORE**	
Month	**Minimum**	**Maximum**	**Minimum**	**Maximum**
January	29%	59%	23%	76%
February	9%	43%	7%	64%
March	0%	37%	0%	56%
April	6%	42%	3%	59%
May	17%	51%	6%	71%
June	23%	61%	9%	76%
July	32%	72%	15%	83%
August	43%	82%	22%	89%
September	60%	91%	37%	91%
October	69%	100%	46%	100%
November	69%	100%	46%	100%
December	55%	83%	41%	88%

When a customer's inventory exceeds the maximum for the end of the month, it must either trade its excess or sell it to the Company under its proposed monthly cashout schedule. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 7:125-127). Both Companies propose the same cashout schedule which is set out below:

Proposed Cashout Schedule

Monthly Cashout Quantity	**Overage Company pays Customer**	**Underage Customer pays Company**
0% to 2%	90% times AMP	110% times AMP
> than 2% to 4%	80% times AMP	120% times AMP
> than 4% to 6%	70% times AMP	130% times AMP
> than 6% to 8%	60% times AMP	140% times AMP
Greater than 8%	50% times AMP	150% times AMP

(AMP is the Average Monthly Index Price.)

IIEC/CNEG argue the cashout schedule contains very sharply increasing penalties and no tolerance or deadband where customers are allowed to buy or sell at 100% of the market price.

IIEC/CNEG state again that Peoples' current tariffs have a 70% minimum storage inventory target for November and North Shore current tariffs have a 75% minimum storage inventory target for November. (CNEG Kawczynski Ex. 1.0 at 16:338-340). Importantly, the current cashout pricing schedule allows for a 5% variance from the target before discounts/premiums to the market price are imposed. Current penalty pricing is far less restrictive than that proposed by the Companies in this case. Further, the Companies proposal now would require customers to meet 12 monthly minimum storage inventory targets and 12 monthly maximum storage inventory targets, with cashout penalties beginning with all variances from the monthly targets. The increase from one storage inventory target to 24 storage inventory targets each year is a dramatic shift which greatly increases the restrictions on gas transportation storage along with significantly enhanced cashout penalties. These storage parameter changes are counter to the intentions of the Commission when it directed unbundling of the storage services. (CNEG Kawczynski Ex. 1.0 at 8:169-178; Staff Sackett 9.0 at 15-16:327-341).

IIEC/CNEG argue that the monthly inventory targets will add unnecessary costs and restrictions on how Transportation customers seek to manage their own gas purchasing strategy. (CNEG Kawczynski Ex. 1.0 at 17:359-360; IIEC/CNEG Gorman Jt. Ex. 1.0 at 14:270-271). To ensure pools are within monthly targets will require a marketer to, at times, sell gas for no other reason than to decrease inventory to remain below a maximum, or purchase gas for no other reason than to exceed a minimum. (CNEG Kawczynski Ex. 1.0 at 17:360-363). The stringent restrictions will result in the requirement of buffers below the maximum and above the minimum in order to assure that the customer is able to inject and withdraw gas in order to achieve the required targets. In other words, due to the restrictions, marketers will need to be below the actual maximum, so that in the event they are unable to withdraw the amount of gas necessary, the target can still be achieved. In the same vein, marketers will also need to strive to achieve a minimum that exceeds the actual minimum in order to protect themselves in the event that the amount of gas needed is unable to be injected due to the injection restrictions. (*Id.* 17-18:371-374).

IIEC/CNEG reason the proposed requirements will make it more costly to manage storage inventory, both from resource utilization, i.e. additional staff time to manage the AB, and commodity expense due to additional gas purchases and gas sales in order to safely remain inside the targets. (CNEG Kawczynski Ex. 1.0 at 18:377-380).

According to IIEC/CNEG, it appears that the PGL/NS are seizing the opportunity presented by the Commission directed unbundling to resurrect a previously failed attempt to secure seasonal cycling requirements. According to IIEC/CNEG, they do so by altering the language and terminology of their proposal, attempting to link inventory targets, storage shaping, seasonal cycling, etc. to the proposed storage unbundling, but failing to provide a factual or historical basis upon which to do so. (CNEG Kawczynski Ex. 1.0 at 11-12:239-245).

IIEC/CNEG point out that historically, Transportation customers do not cycle the full amount of gas that they bank with the Companies. However, Transportation customer's limited cycling is an advantage to the Companies because it enables them to cycle more of the gas on behalf of their Sales customers. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 14:276-278). The advantage is that the non-cycling Transportation customer's gas is used by the Companies giving them liberal latitude in the amount of "cushion gas" needed to support the Sales customers and actually decreasing the rate base for Sales customers. (*Id.* at 14:279-282). While IIEC/CNEG agree that aquifer storage fields require that gas be injected and withdrawn over the period of a year in order to maintain peak performance this does not necessitate a stringent detrimental monthly plan. (*Id.* at 14:283-287). There is no evidence that current storage requirements and limitations do not adequately address this issue.

IIEC/CNEG say it is clear the Companies are attempting to maximize their working gas inventory on November 30 and minimize this inventory by the following March 31. It is also clear that this inventory protocol is for the convenience and benefit of Sales customers whose usage is much more weather sensitive than that of the Transportation customers as a whole. (*Id.* at 15:291-296). However, IIEC/CNEG believe that in striking the Commission's appropriate balance in the use of PGL/NS storage assets that the usage patterns of one group of customers should not dictate the storage rights of all other groups.

IIEC/CNEG recommend there be no requirements on minimum or maximum banked gas levels for Transportation customers other than the existing November minimum inventory requirement. All customers who are utilizing storage are paying their fair share of the storage costs and thus should be allowed, where operationally possible, to optimize that usage for their own benefit. Moving from a single monthly minimum target to 12 months of both minimum and maximum targets each year increases the operational task for marketers by more than twelvefold, restricts the use of storage, and forces additional purchases and sales of gas supply which will translate into significantly higher costs for Transportation customers. (CNEG Kawczynski Ex. 1.0 at 18:380-385). Clearly, in the opinion of IIEC/CNEG, the current storage terms and conditions, as is evidenced by history, do not in any way prevent or deter PGL/NS from operations their system storage as they see fit. (IIEC/CNEG Gorman at 11:214-218).

Daily Injection and Withdrawal Limits

IIEC/CNEG point out that under current rates there is no daily balancing. While there is an Imbalance Account Charge of $0.10 per therm assessed to Rider SST customers on a daily basis when the entire AB capacity is exceeded, currently no daily cashout charges are applied. (*see* PGL/NS Connery Ex. 30.0 at 19:415-418). Under current rates Transportation customers are cashed out monthly at the arithmetic average of the daily prices published for that month in "Gas Daily" as long as the monthly imbalance is no more than 5%. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 9:154-157). If the imbalance is between 5% and 10% the Company would buy excess gas from the customer at 90% of the Citygate price or sell gas to make up a shortage at 110% of the Citygate price. (*Id.* at 9:157-159).

IIEC/CNEG reason that in dramatic change of course, the Companies are proposing to implement daily cashouts for out of target withdrawals during the months of January through March and November through December and daily injections during the months of April through October. These cashout transactions would include penalties for all out of target withdrawals and injections. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 7:134-136, 13:264-266).

Proposed Daily Injection and Withdrawal Limts
as a Percent of a Customers Allowable Bank

Month	Peoples	North Shore
<u>Withdrawal Limits:</u>		
January	1.10%	1.50%
February	1.10%	1.30%
March	0.30%	1.10%
November	0.50%	1.30%
December	1.10%	1.40%
<u>Injection Limits:</u>		
April	0.20%	0.10%
May	0.75%	0.75%
June	0.75%	0.75%
July	0.75%	0.75%
August	0.75%	0.75%
September	0.75%	0.75%
October	0.30%	0.30%

IIEC/CNEG point out the limits above are expressed as a daily allowed percentage of a customer's subscribed AB. While IIEC/CNEG agree, in general, tighter restrictions on Critical Days may be appropriate, IIEC/CNEG is more concerned with these restrictions and their affect on a normal, or non-critical, day.

According to IIEC/CNEG, the Companies are proposing to cash out all long and short positions on a daily basis. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 9:148). The Companies buy long positions from the customer at 90% of the daily average index price and will sell gas to the customer to correct any short positions at 110% of the daily average index price. (*Id.* at 9:149-151).

IIEC/CNEG says that not only have the Companies failed to show the necessity of daily injection and withdrawal limits they fail to consider the practical application of their proposal. In doing so, the PGL/NS fail to take into account the diversity of Transportation customers' use of storage. For example, if one Transportation customer is long on a day, i.e. brings in more gas than it uses, and another Transportation customer is short, the "injection" of the first customer will, to some extent, cancel out or at least moderate, the "withdrawal" of the second customer, clearly rendering the proposed cashout an arbitrary penalty rather than an operational necessity.

IIEC/CNEG argue further the imposition of the daily limits are based on limits developed by a computer model for the Choices for You ("CFY") program which PGL/NS witness Connery implies is applicable to large user unbundled storage. (IIEC/CNEG Jt. Ex. 1.0 at 10:200-203; PGL Connery Ex. 14.0 at 22:469-473; *see also* NS Connery Ex. 14.0 at 22:469-473). According to IIEC/CNEG, Staff witness Sackett explained that smaller customers do not have daily demand meters, and that transportation programs designed for them reflect that fact, and require different parameters. (Staff, Sackett Ex. 9.0 at 17:350-374). The typical small Transportation customer is a residential customer with a small load and high load profile. The typical large Transportation customer has a large load with a low load profile. These customers use storage differently. (Id. at 17-18:376-386) Rather than design an analytic framework that focused on unbundling of storage and standby services for Large Volume Transportation customers the Companies attempt to treat large Transportation and small CFY customers the same, essentially trying to fit a square peg in a round hole. Many of the CFY program changes led to the changes that the PGL/NS are now proposing for the large Transportation customers. (PGL Connery Ex. 14.0 at 7:133-136; NS Ex. 14.0 at 7:131-136). While the CFY program changes led to additional flexibility for the CFY customers, the same framework applied to the large Transportation customers lead to decreased flexibility in the form of additional and excessive limitations. Not only is the model flawed for large Transportation customers it is designed to enhance the economic benefit of system storage that is used for Sales customers to the detriment of unbundled storage customers. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 16:326-330).

IIEC/CNEG say that CNEG-Gas Exhibits 1.4 and 1.5 show that Transportation customers, as a group, are largely keeping their inventories well within the proposed ranges and, therefore, the monthly storage inventory targets are completely unnecessary. (Sackett, ICC Staff Ex. 18.0 at 10: 196-199). These exhibits show that the divergences between the Companies' model and how diversity actually works is significant enough to dismiss the need for the monthly parameters altogether. (Sackett, ICC Staff Ex. 18.0 at 11: 218-221).

IIEC/CNEG say that PGL/NS witness Connery explains the cashout mechanisms were selected to influence behavior. (PGL Connery Ex. 14.0 at 28:610). The normal operational day charges are intended to cause customers to elect storage service levels adequate to meet normal daily balancing needs and not to habitually overrun the daily limits. (*Id.* at 28:610-612). However the Companies have not shown that any influence is needed especially when the influence proposed is so detrimental to Transportation customer operations and have offered no evidence to suggest that existing tariff requirements do not appropriately influence behavior.

IIEC/CNEG do not believe there is need for daily injection and withdrawal limits unless a Company declares a Critical Day. On Critical Supply Shortage days some restrictions would be appropriate but not those proposed by the PGL/NS in this case. Unless a Critical Day is declared Transportation customers should be allowed to draw upon their storage, up to their MDQ.

iii. *Allocation of Costs to Storage Service*

IIEC/CNEG argue that the costs allocated to storage service are unreasonable given the PGL/NS proposal. The so called unbundled storage service is of little or no value to Transportation customers. Therefore, it should have no costs allocated to it, and no charges associated with it. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 17:339-343).

The Companies allocate storage costs to their proposed storage service by multiplying the total non-gas storage costs by the level of fully subscribed unbundled storage to total storage capacity. (Id. at 17-18: 351-353). If the unreasonable monthly inventory targets and monthly cash outs were removed, and the unreasonable daily injection and withdrawal restrictions and daily cash outs were removed, so that Transportation customers had the opportunity to enjoy the benefits of storage, the PGL/NS allocation would be reasonable for an initial unbundled storage offering. (*Id.* at 17-18:344-363).

Furthermore, the rate structure proposed by PGL/NS for the unbundled storage service would be reasonable if (the monthly and daily restrictions on the use of storage are eliminated from the proposal. (*Id.* at 18:369-373).

3. Associated Rider Modifications

IIEC/CNEG point out that PGL/NS proposed to provide the unbundled service discussed above through a new Rider SBS. In conjunction with offering this service PGL/NS propose modifications to Rider FST and Rider P. PGL/NS also propose a new Rider SSC and the elimination of current Rider SST. Finally, PGL/NS propose the adoption of a set of associated transition tariffs.

IIEC/CNEG says that PGL/NS fail to offer any credible evidence or analyses that explains why the proposed tariff changes are necessary. According to IIEC/CNEG, the Companies simply argue that in order to unbundle storage they must make the proposed changes to ensure equity between small transportation (CFY) and Large Volume Transportation customers. IIEC/CNEG says that despite the Companies wishes, consistency does not exist and has not existed between these programs in many aspects of their service. The programs have different metering requirements, nomination requirements, billing procedures, and service requirements, to name a few. (CNEG Kawczynski Ex.1.0 at 20:426-428). And furthermore, in the opinion of IIEC/CNEG, the differences have never prevented the Companies from operating their system storage in a satisfactory manner. Nor are the proposed changes intricately tied to storage unbundling, which can actually be accomplished without the unnecessary and harmful restrictions. (Id.20:428-429). There have been no such restrictions on Transportation customer banks in the past 10 years. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 11:216-218). The Companies simply want the two programs connected because it suits their desires, but their desires fail to comply with the Commission's stated goal of having the Utilities (working with Staff and all other interested stakeholders) develop ***reasonable*** proposals for unbundling storage service. (Docket Nos. 07-0241/0242 (Cons.), Order, February 5, 2008, p. 235).

a. Rider SBS/SST

PGL/NS Proposal

IIEC/CNEG point out that PGL/NS argue that Rider SST can no longer support standby service due to the absence of storage support. (PGL Ex. 14.0 at 3:53-54). PGL/NS witness Connery proposes to remove the costs of storage assets from the standby option, and provide an unbundled storage service under the new Rider SBS. Rider SBS will allow a customer to choose the total days of bank based on the Maximum Daily Quantity "(MDQ)" they desire from a range of one day of storage, up to the maximum number of days shown in PGL/NS annual filing. (NS McKendry Ex. 15.0 at 6:122-125). The Companies will then allocate any unsubscribed capacity on a pro rata basis, rounded to a full day, to all customers requesting extra capacity. (*Id.* at 7:150-151). Storage assets being allocated to Rider SBS include all Company-owned and leased storage assets, peaking assets and storage-related transportation assets. (NS Connery Ex. 14.0 at 20-21:436-440; PGL Connery Ex. 14.0 at 20:434-437). The Companies will have the right to declare Critical Days and an OFO allowing the Companies to restrict daily storage injections and withdrawal allowances and triggering daily punitive cashout costs. (NS. Connery Ex. 14.0 at 18:390-392; PGL Connery Ex. 14.0 at 18:387-389). The Companies are proposing stringent monthly target levels based on the modeling parameters it presented as part of the Choices For You (CFY) workshops and LVT program meeting. (NS Connery Ex. 14.0 at 7:132-134, 22:476-480; PGL Connery Ex. 14.0 at 7:133-136, 22:474-478). The Companies are also proposing daily injection and withdrawal limits, with daily cashout transactions for injections and withdrawals outside of strict daily tolerance bands. (NS Connery at18:390-392; PGL Connery at 18:387-389).

Problems with the Companies Proposed Rider SBS

IIEC/CNEG say the Companies are proposing to divide their storage capacity by the design peak day and allocate to customers in proportion to each customer's MDQ. IIEC/CNEG believe this storage capacity allocation is reasonable but would encourage the Commission over time to recognize customer usage diversity in the allocation of storage resources. (IIEC/CNG Jt. Ex. 1.0 at 4:91-95).

However, IIEC/CNEG take issue with the Companies' proposed restrictions and penalties on the use of storage in Rider SBS by Transportation customers. As IIEC/CNEG previously argued, the PGL/NS proposed storage asset restrictions are not necessary nor consistent with the concept of unbundling storage from standby service. (*see* Sec. XI. D. 2. above).

According to IIEC/CNEG, gas inventory restrictions will eliminate a Transportation customer's ability to benefit from storage use. If customer banks are out of tolerance the customer's face costly cashout penalties for the deficiencies. With the proposed costly cashout transactions, the storage assets will not be economic options to Transportation customers to manage the cost of deliverability, gas cost, or to balance load. (*see* Sec. XI. D. 2. above).

Daily injection/withdrawal limits as proposed by the Companies will severely limit a customer's ability to economically utilize storage assets to balance load in IIEC/CNEG's opinion. Storage asset balancing will become exorbitantly expensive rendering storage useless to Transportation customers due to the daily cashout with no tolerance bands.

IIEC/CNEG say PGL/NS failed to prove a need for the proposed storage limits. The sole justification for those limits is based on economic modeling done for the CFY program which PGL/NS witness Connery states is applicable to large user unbundled storage and which IIEC/CNEG has shown to be incompatible with LVT customers . (*see* Sec. XI. D. 2. above).

According to IIEC/CNEG, the Companies proposed storage limit justification is inappropriate. As IIEC/CNEG witness Gorman stated, PGL/NS was searching for limitations and restrictions on the use of unbundled storage which would enhance the economic benefits of the storage assets to the Companies Sales customers at the expense of Transportation customers. (IIEC/CNEG Gorman Jt. Ex. 1.0 at 11:209-211). IIEC/CNEG argue the PGL/NS modeling effort was in effect an attempt to identify economic optimization of storage assets for Sales customers, and not to actually identify operational limitations for the combined use of storage assets by Sales and Transportation customers. (*see* Sec. XI. D. 2. above).

IIEC/CNEG Recommendations

IIEC/CNEG say the Companies proposed Rider SBS storage asset restrictions for unbundled storage service are so restrictive and uneconomic that storage service from the Companies would be useless for Transportation customers. In order to comply with the Commission directive of developing a reasonable proposal the Rider SBS storage service conditions must be adjusted or Rider SBS must be rejected. If the Commission should approve Rider SBS, the following modifications must be made in order to make Rider SBS economically and operationally palatable to Transportation customers.

According to IIEC/CNEG, PGL/NS have not proven a need for daily injection and withdrawal limits unless a Company has declared a Critical Day. If a Company declares a Critical Day, restrictions on injections and withdrawals equal to 2.6% (Peoples) and 2.7% (N Shore) of the customers AB would be reasonable according to IIEC/CNEG.

IIEC/CNEG recommend that withdrawals during the withdrawal period should be limited on a monthly basis to 1/3 of the customer's AB. Any withdrawal outside the 5% tolerance band would be priced 110% of the average monthly index price for purchases. Injection limits, beyond the AB capacity elected, are not required.

IIEC/CNEG recommend the Companies proposal for declaration of a restriction on an Operational Flow Order (OFO) day should be denied. OFO days are less severe than declared Critical Days but give the Companies the option to restrict storage assets on non-critical days when the Company decides that the levels of flexibility of the Company's storage assets is limited. (PGL

Connery Ex. 14.0 at 29:627-632). According to PGL/NS witness Connery "[c]alling 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 meets its obligations." (*Id.*). In IIEC/CNEG's opinion, however, the Companies have not demonstrated that they have been unable to stay within or return to their normal operating plans without similar restrictions in current tariffs. The Companies have not adequately justified a need to declare operating restrictions for OFO days. The Companies have failed to provide concrete examples of when or why the OFO declaration is necessary.

IIEC/CNEG recommend no additional monthly bank balance maximum and minimum targets should be required for Transportation customers. The Companies have not identified any operational constraints either in modeling or in actual use of the storage assets to suggest the need. In fact PGL/NS Exhibit 46.2 shows that during the January 1, 2008 through February 28, 2011 time period, the Companies were able to balance Transportation and Sales customers' deliveries and storage without the restrictive maximum and minimum targets.(see IIEC Connery Sept 1 Tr. 712).

IIEC/CNEG also recommend that absent the adoption of the reasonable IIEC/CNEG adjustments to the PGL/NS unbundled storage proposal, Rider SBS should be rejected and Rider SST should remain in effect.

b. Rider FST

IIEC/CNEG point out the Companies will continue to offer Rider FST under their unbundling proposal, with certain changes to be reflected in a transitional rider, Rider FST-T, and other changes in Rider FST to be effective August 1, 2012. (NS Grace Ex. 12.0 at 36:816-818). The Companies believe, without any apparent operational justification that IIEC/CNEG can discern, the proposed revisions for Rider FST better align the operations of the full standby service with the

Companies assets and align where practical with the proposed Rider SBS.

IIEC/CNEG opine the modifications to Rider FST will result in a reduction in service to Rider FST customers. Currently Rider FST customers are not required to deliver gas on Critical and OFO supply shortage days since the service they subscribe to and pay for provides full standby service. (CNEG Kawczynski Ex. 2.0 at 17:343-345). Under the proposed changes to this Rider, customers or their supplier will be required to deliver at minimum 27% (Peoples) and 39% (N. Shore) of their MDQ on Critical and OFO supply shortage days. (PGL Grace Ex. 12.0 at 40:888-889; NS Grace Ex. 12.0 at 37:831-832). These customers will no longer be receiving full backup service, even though the Companies will still recover the same costs as if they were providing full backup service. (CNEG Kawczynski 2.0 at 17:347-350). This results in a reduction in service without an associated reduction in cost for that same service. Further, while the 27% and 39% MDQ delivery requirement is enforced on Critical and OFO supply shortage days, this change also affects the customer on non-critical days as well. Customers or their supplier will have to plan to make the deliveries in the event the utility decides to declare a Critical Day or OFO supply shortage day. (CNEG Kawczynski Ex. 1.0 17:351-356).

IIEC/CNEG conclude the Companies have failed to provide sufficient evidence to warrant modification of Rider FST in this case.

c. Rider P

IIEC/CNEG point out that the Company's proposed modifications to Rider P correspond with their proposed modifications to Rider FST and the storage limits and restrictions that are set forth in proposed Rider SBS. According to the IIEC/CNEG, to the extent that the PGL/NS proposals for unbundled storage are rejected their proposed modifications to Rider P are generally unnecessary. In fact, if the Commission does not approve any form of unbundled storage IIEC/CNEG reason there is no need to make modifications to Rider P at all.

If the Commission on the other hand adopts IIEC/CNEG's modifications to Rider SBS, in their opinion corresponding modifications should be made to Rider P (i.e. modifications relating to any limits or restrictions on use of storage). If the Commission adopts Staff witness Sackett's proposal for unbundling then the Utilities would need only to make the conforming changes to Rider P. (Sackett Sept. 1 Tr. at 763).

Finally, if the Commission adopts the Companies proposal for unbundling and the associated storage-related changes without making any of the modifications proposed by either the IIEC/CNEG and/or Commission Staff witness Sackett, IIEC/CNEG say the Commission should authorize super pooling for the purpose of determining compliance with the Companies storage requirements in order to mitigate the adverse impact of the additional storage-related changes on LVT customers. Further, super pooling across Riders SBS and FST should be permitted, as under current tariffs super pooling across Riders SST and FST is permitted, while super pooling across the PGL and NS utilities would not be allowed as is current practice.

d. Rider SSC

IIEC/CNEG say the PGL/NS proposed Rider SSC, Storage Service Charge, unbundles and recovers base rate storage costs from Sales and Transportation customers through a Rider rather than through base rate delivery charges. (NS Grace Ex. 12.0 at 42:951-955). The Companies believe Rider SSC addresses intervenor issues by both unbundling the base rate cost of storage from standby service, and recovering the cost of any unsubscribed storage. (*Id.* at 43:965-968). However, according to IIEC/CNEG, the Companies are disingenuous. While Rider SSC does propose to unbundle the cost of storage and standby service and provides a means for the PGL/NS to recover the cost of unsubscribed storage, the Companies do not stop there. The storage proposal creates Rider SBS, eliminates Rider SST and modifies Rider FST, reaching far beyond unbundling storage service from standby service and is out of touch with what the Commission recommended in the previous rate case. (Docket Nos. 07-0241/0242 (Cons.), Order, February 5, 2008, at 276; CNEG Kawczynski Ex. 1.0 at 8:166-178; Staff Sackett 9.0 15-16:327-341). IIEC/CNEG reason the Companies, in conjunction with unbundling in this proceeding, propose storage changes that are similar to those proposed in earlier proceedings, proceedings in which unbundling was not proposed. IIEC/CNEG state that clearly these additional storage changes are not a requirement of storage unbundling.

IIEC/CNEG suggest the Companies consider Rider SSC to be the storage cost recovery component of the Utilities' unbundling proposal. (NS-PGL Grace Ex. 28.0 at 17:364-365). However Rider SSC cannot be looked at in a vacuum. Despite Ms. Grace's contention otherwise, Rider SSC is part of the Companies' overarching storage proposal and must be looked at in tandem with Rider SBS, the elimination of Rider SST and the modification of Rider FST according to IIEC. (*Id.* at 17:365-367).

IIEC/CNEG continue to recommend the rejection of Rider SBS, without Rider SBS then Rider SSC is unnecessary. However if the Commission determines Rider SBS should be adopted with the critical changes recommended by IIEC/CNEG or if the Commission adopts the position of Staff witness Sackett, Rider SSC would be necessary to unbundle and recover the base rate storage costs from Sales Transportation customers.

e. Transition Riders

IIEC/CNEG note that PGL/NS have proposed transition riders for the implementation of their unbundled storage proposals. To the extent the unbundled storage proposals as presented by the Companies are rejected transition riders are not needed. According to IIEC/CNEG, if the IIEC/CNEG modifications to the Companies unbundled storage proposals are adopted there is no need for transitional riders because they do not represent a radical change to current storage requirements. If Staff Witness Sackett's proposals for unbundled storage services are adopted there is no need for transition riders since that proposal likewise does not represent a radical change to current storage requirements.

XII. CONCLUSION

In conclusion, IIEC/CNEG recommend:

1. Reject Rider SBS as proposed by PGL/NS;
2. Direct PGL/NS to provide unbundled storage service without daily injection and withdrawal limits unless the Companies declare a Critical Day and on a Critical Day restrictions on the withdrawal of gas from storage equal to 2.6% of the customer's AB on the PGL system and 2.7% of the customer's AB on the NS system should be approved;
3. Reject the maximum and minimum monthly storage inventory targets and associated monthly cash outs proposed by the Companies and limit withdrawals on a monthly basis during the winter months to 1/3 of the customer's AB;
4. Authorize a 5% tolerance band for the monthly withdrawal limits such that within the tolerance band, all violations of withdrawal limits would be cashed out at the average monthly index price and withdrawals outside the 5% tolerance band would be cashed out at

110% of the average monthly index price;

5. Reject the PGL/NS proposal for declaration of an OFO;

6. The Commission should accept the IIEC/CNEG proposed modification for the provision of unbundled storage. Should the Commission reject the IIEC/CNEG proposed modifications, the Commission should then consider and approve Staff proposed modifications as outlined in the testimony of David Sackett. (ICC Staff Sackett Ex. 18.0 at 3:40-53). If the Commission rejects IIEC/CNEG and Staff proposals, then the Commission should reject proposed Rider SBS and maintain current Rider SST and the associated bundled storage service.

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PROOF OF SERVICE

STATE OF ILLINOIS :
: SS
COUNTY OF MADISON :

I, Eric Robertson, being an attorney admitted to practice in the State of Illinois, and one of the attorneys for the Illinois Industrial Energy Consumers, herewith certify that I did on the 27th day of September, 2011 electronically file with the Illinois Commerce Commission IIEC's Summary of Position, and electronically served same on the persons identified on the Commission's official service list.

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SUBSCRIBED AND SWORN TO before me, a Notary Public, on this 27th day of September, 2011.

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Notary Public