

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Consumers Gas Company	:	
Petition pursuant to §7-101 of the	:	97-0338
Public Utilities Act seeking	:	
authority to enter a Gas Sales	:	
Agreement in which an affiliated	:	
interest exists.	:	
and	:	(Cons.)
Consumers Gas Company	:	
Petition pursuant to §7-101 of the	:	97-0339
Public Utilities Act seeking	:	
authority to enter a Gas Storage	:	
Contract in which an affiliated	:	
interest exists.	:	

ORDER

By the Commission:

Procedural History

In this proceeding, Consumers Gas Company ("Petitioner", "Consumers" or "Company") filed, with the Illinois Commerce Commission ("Commission"), two petitions pursuant to Section 7-101 of the Public Utilities Act ("Act") (220 ILCS 5/7-101). In 97-0338, Petitioner seeks approval of a Gas Sales Agreement with Egyptian Gas Storage, Inc. ("Egyptian"), an affiliated interest of Petitioner. In 97-0339, Petitioner seeks approval of a Gas Storage Contract with Egyptian. These dockets are hereby consolidated.

Pursuant to due notice, hearings were held in these matters before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois. Appearances were entered by counsel on behalf of Petitioner and by members of the Commission's Energy and Financial Analysis Divisions ("Staff"). Petitioner presented evidence in support of the petitions. Staff also offered testimony and at the conclusion of the hearings, the record was marked "Heard and Taken." No other appearances were entered and no intervening petitions were filed in this matter.

Background: Nature of Operations

Petitioner's principal offices are located in Carmi, Illinois. The Company provides gas service to approximately 6,000 customers in Gallatin, White and Edwards Counties. Customers include the Shawneetown and Equality municipal systems, which are each counted as one customer.

Egyptian is an Illinois corporation which owns and operates the Mills Storage Field, a gas field used for the underground storage of natural gas, which is located near Cottonwood, Illinois approximately 16 miles south of Carmi.

Mr. C. A. Robinson is a shareholder, director and the President of both Consumers and Egyptian. Egyptian is an affiliated interest of Petitioner as defined in Section 7-101 of the Act.

Existing Sales Agreement with ENSCO; Proposed Sales Agreement with Egyptian

According to Petitioner, a Gas Sales Agreement between Energy Supply Consultants, Inc. ("ENSCO") and Consumers has been in effect for several years. Purchases made under the Agreement have been a part of Consumers' cost of gas and in that context have been reviewed through the annual purchased gas adjustment clause reconciliation ("PGA") process. Consumers states that these purchases have not been viewed unfavorably by the Commission during the reconciliation proceedings. Mr. Robinson testified that ENSCO has indicated that it wants to discontinue doing business in Illinois, and would like to terminate its Gas Sales Agreement with Consumers. The proposed Gas Sales Agreement between the Petitioner and Egyptian would take effect on the first day of the month following the Commission's approval of the Gas Sales Agreement and would be in effect for a period of five years.

The proposed Gas Sales Agreement is on an "as needed" basis. Mr. Robinson testified that under this proposed Agreement, Consumers is not required to purchase any specific amount of gas from Egyptian and, in fact, may elect not purchase any gas from Egyptian in a particular month. He said Egyptian is obligated to sell and deliver to Consumers, in a given month, the amount of gas which Consumers shall confirm as its need to Egyptian at least 10 days prior to the first day of each month.

Mr. Robinson stated that Consumers purchased gas through ENSCO over the past several years because the cost of the gas through ENSCO was lower than other sources. He also said the use of gas from ENSCO helped Consumers keep its demand costs down because the gas purchased from ENSCO goes directly into the Norris City and Carmi systems and does not pass through the Texas Eastern Pipeline System, thus avoiding additional costs. Mr. Robinson testified that Consumers, during the period of 1994 through 1996, had purchased as much as 77,715 DTHs from ENSCO in a year and had purchased 46,355 DTHs from ENSCO during the first five months of 1997.

Mr. Robinson testified that the proposed contract with Egyptian is identical to the Sales Agreement which has been in effect with ENSCO over the past several years, except that the seller will be Egyptian rather than to ENSCO. According to Mr. Robinson, Consumers has a continuing need to purchase gas under such an agreement, now from Egyptian, because (1) those purchases will assist Consumers in keeping its demand costs lower, (2) if Texas Eastern, Consumers' primary supplier, has an emergency which would restrict gas flowing into Consumers' Carmi or Norris City systems, Egyptian would be available to help make up that shortfall, and (3) the gas purchased through Egyptian will always be the lowest cost gas available to the Company. Mr. Robinson testified that gas purchases from Egyptian will always be five cents per DTH less than any other gas purchased.

Mr. Robinson testified that Consumers analyzes the gas every 90 days to insure proper quality of local gas purchases and if any gas is found to be of less than pipeline quality, Consumers would discontinue purchasing that gas.

Mr. Robinson stated that gas purchases from Egyptian will be isolated on the company books and records as are all purchases from gas vendors and that general ledger account 401-804-140 will be used for recording gas purchases from Egyptian, with the "140" indicating Egyptian.

Mr. Robinson believes the proposed Gas Sales Agreement between Egyptian and Consumers is in the public interest and, further, that a five (5) year period for the Gas Sales Agreement between Consumers and Egyptian is a reasonable period because it allows Consumers access to an additional gas supply in the event of gas curtailment by Texas Eastern and because it saves Consumers the cost of frequent applications to the Commission for approval of the Gas Sales Agreement.

Existing Storage Contract with ENSCO,
Proposed Storage Agreement with Egyptian

Mr. Robinson testified that, for the past several years, Egyptian's Mills Storage Field has been leased to ENSCO which, in turn, leased storage capacity to several companies, one of which was Consumers. He said ENSCO and Consumers have had a Gas Storage Contract for the past several years, and that costs incurred thereunder have been a part of Consumer's cost of gas in annual purchased gas adjustment clause reconciliation proceedings. He stated that these costs have not been viewed unfavorably by the Commission in those proceedings. Mr. Robinson testified that ENSCO has indicated that it wants to discontinue doing business in Illinois and would like to terminate its Gas Storage Contract with Consumers. The proposed Gas Storage Contract between Consumers and Egyptian would take effect on the first day of the month following the Commission's approval of the Gas Storage Agreement and would be in effect for a period of five years.

The proposed Gas Storage Contract with Egyptian provides that Consumers will store 160,000 DTH of natural gas in Egyptian's Mills Storage Field. Mr. Robinson testified that under the proposed contract, Consumers is not strictly required to store 160,000 DTHs with Egyptian because there is no penalty provision applicable if 160,000 DTHs is not stored. Mr. Robinson testified that it is the Petitioner's intent to store 160,000 DTHs annually because there is a storage charge based upon 160,000 DTHs which provides an incentive to store that amount and because the anticipated savings to Consumers customers will be greater, if 160,000 DTHs are stored, than will be obtained if a lesser amount of storage is utilized. Mr. Robinson further testified that it is the intent of Consumers to store 160,000 DTHs of natural gas per year with Egyptian, pursuant to the proposed contract.

Mr. Robinson testified that during the Petitioner's rate case in 1992, it was deemed feasible to allocate some 100,000 DTHs of gas for storage purposes for potential use in Petitioner's Carmi system. In 1996, a three-inch line was installed from the storage field to Petitioner's Norris City system and an initial storage volume of 60,000 DTHs of gas was allocated for that system. Mr. Robinson testified that, in this manner, 160,000 DTHs was determined to be the amount of gas needed for storage purposes.

The proposed Gas Storage Contract also provides for associated transportation charges of 15 cents per Dth to be paid to Egyptian. Mr. Robinson testified that Egyptian has a pipeline, which runs northerly some 16 miles from its Mills Storage Field to the interconnection point with the Texas Eastern Transmission Company Pipeline at Carmi. He testified that there are 44 farm taps, all of whom are Consumers customers, along that line and that, in addition, a line owned by Consumers connects with Egyptian's line north of Illinois Route 141 and runs easterly into the Village of New Haven, which provides a natural gas supply to some 200 Consumers customers in New Haven. Mr. Robinson testified that the line was in place at the time he became President of Consumers in 1988 and had apparently been in place for several years prior to that. He stated that the Consumers customers who obtain their natural gas supply through the 16 miles of pipeline had not had their gas service interrupted since 1988 and that Egyptian has, to his knowledge, operated in a manner to insure that those Consumers customers receive their gas supply without problem.

Mr. Robinson testified that it would cost approximately \$172,000 for Consumers to construct a line to service the farm taps and residents of New Haven which are served off the Egyptian line. He does not believe it is beneficial for Consumers to expend \$172,000 when those customers can be served by payment of a transportation charge of 15 cents per Dth to Egyptian for the amount of gas actually distributed to Consumers customers. Mr. Robinson believes the transportation charge of 15 cents per DTH is reasonable.

In terms of benefits to Consumers and its customers under the proposed Gas Storage Agreement, Mr. Robinson testified that Consumers has a continuing need to

store gas because storage permits it to reduce the demand charge which could amount to \$92,000 annually and existing MDQ which could create an extra charge during the winter months. Further, he said Consumers is able to purchase low cost gas in the summer for storage which reduces the cost of higher gas purchased during the winter months. He also testified that gas storage provides a safety factor for Consumers in the event its gas supply is curtailed by Texas Eastern.

Mr. Robinson provided economic data purportedly indicating that the savings to Consumers customers, resulting from its Storage Contract with ENSCO from January 1, 1994, through September 30, 1997, were approximately \$201,000. He believes a Gas Storage Contract between the Petitioner and Consumers will result in continued savings.

Mr. Robinson said the contract the Petitioner proposes to enter with Egyptian is identical to the Gas Storage Contract used with ENSCO over the past several years, except that the contract is with Egyptian rather than ENSCO. Mr. Robinson testified that storage costs will be isolated on the Petitioner's books and records with storage charges posted to general ledger account 401-826 and that transportation charges stemming from the contract will be posted to general ledger account 401-858-T.

Mr. Robinson testified that the proposed Gas Storage Contract between Egyptian and Consumers is in the public interest and, further, that the five-year term of the Gas Storage Agreement is reasonable because it allows Consumers access to an additional gas supply in the event of gas curtailment by Texas Eastern and because it further saves Consumers the cost of frequent applications to the Commission for approval of the Gas Storage Contract.

Staff Position, Commission Conclusions, Findings and Ordering Paragraphs

Mr. Eric Lounsberry, a member of the Commission's Energy Division, testified that Staff reviewed the Company's proposals and its responses to data requests, which were made part of the record as Consumers' Exhibit 2. Mr. Lounsberry reviewed this information to ensure that the contracts with Egyptian were the lowest cost, most economic options available. (Tr. 32-33) The information reviewed by Staff included Consumers' Exhibit 4, which was described as basically an economic analysis comparing the storage field to other options. (Tr. 33) Mr. Lounsberry testified that Staff has found no reason to dispute the company's claim that the proposed Gas Sales Agreement and proposed Gas Storage Agreement are in the public interest. (Tr. 18-19)

Having reviewed the record, the Commission concludes that the Gas Sales Agreement and Gas Storage Agreement with Egyptian are reasonable and in the public interest and should be approved, subject to the conditions set forth below.

The Commission, having considered the entire record herein, is of the opinion and finds that:

- (1) Petitioner is an Illinois corporation engaged in the distribution of natural gas to the public in Illinois, and is a public utility within the meaning of the Public Utilities Act;
- (2) Petitioner and Egyptian Gas Storage, Inc., are affiliated interests as defined in Section 7-101 of the Act;
- (3) the Commission has jurisdiction over Petitioner and the subject matter of this proceeding;
- (4) the recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (5) the Gas Sales Agreement and Gas Storage Agreement as presented in this docket, to be in effect for five years beginning on the first day of the month following the date of this Order, are reasonable and in the public interest and should be approved and consented to by the Commission, subject to the condition that the Commission reserves the right to review, in purchased gas adjustment reconciliation proceedings and other proceedings, the prudence of specific purchases made and costs incurred under these Agreements.

IT IS THEREFORE ORDERED that, subject to the conditions set forth herein, authorization is hereby given to Consumers to enter into and carry out the terms of the Gas Sales Agreement and Gas Storage Agreement between Consumers Gas Company and Egyptian Gas Storage, Inc., as presented in these proceedings, for a period of five (5) years beginning on the first day of the month following the date of this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 6th day of May, 1998.

(SIGNED) DAN MILLER

Chairman

(SEAL)

BEFORE THE
ILLINOIS COMMERCE COMMISSION

CONSUMERS GAS COMPANY) DOCKET NO.
) 97-0338
Petition pursuant to Section 7-101)
of the Public Utilities Act seeking)
authority to enter a Gas Sales)
Agreement in which an affiliated)
interest exists.)

Springfield, Illinois
September 26, 1997

Met, pursuant to notice, at 9:00 A.M.
BEFORE:

MR. LARRY JONES, Examiner

APPEARANCES:

MR. STANLEY MORRIS
Quinn, Johnston, Henderson & Pretorius
3 North Old State Capitol Plaza
Springfield, Illinois 62701

(Appearing on behalf of Petitioner)

MS. LISA BROWY
527 East Capitol Avenue
Springfield, Illinois 62794

(Appearing on behalf of the Accounting
Department of the Illinois Commerce
Commission)

SULLIVAN REPORTING COMPANY, by
Carla J. Boehl, Reporter
Ln. #084-002710

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APPEARANCES: (Cont'd)

MR. ERIC LOUNSBERRY
527 East Capitol Avenue
Springfield, Illinois 62794

(Appearing on behalf of the Electric and Gas
Engineering Department of the Illinois
Commerce Commission)

1 Docket 97-0338 Consumers Exhibits 1, 2 and 3 are
2 admitted. In Docket 97-0339 Consumers Exhibits 1, 2,
3 3 and 4 are admitted.

4 (Whereupon Consumers Exhibits
5 1, 2 and 3 in Docket No.
6 97-0338 and Consumers
7 Exhibits 1, 2, 3 and 4 in
8 Docket 97-0339 were admitted
9 into evidence.)

10 EXAMINER JONES: Mr. Lounsberry, is the Commission
11 staff ready to proceed with a recommendation in
12 narrative testimony form in each of these dockets?

13 MR. LOUNSBERRY: Yes.

14 EXAMINER JONES: Why don't you stand and be sworn.
15 (Whereupon the Witness was sworn
16 by Examiner Jones.)

17 EXAMINER JONES: You are now sworn as a witness in
18 each docket. Why don't you identify yourself as a
19 witness and then proceed with your narrative
20 testimony, first with respect to 97-0038? So just go
21 ahead and identify yourself, state your name and
22 business address.

E R I C L O U N S B E R R Y

1
2 called as a Witness on behalf of the Illinois
3 Commerce Commission, having been first duly sworn,
4 was examined and testified as follows:

STATEMENT

5
6 BY MR. LOUNSBERRY: My name is Eric Lounsberry.
7 Business address is 527 East Capitol Avenue,
8 Springfield, Illinois 62794. I am an economic
9 analyst in the Electric & Gas Engineering Department
10 of the Public Utilities Division.

11 For Docket Number 97-0338 Staff has reviewed
12 the Company's filing and reviewed its responses to
13 data requests concerning the Company's request for
14 Commission authority to enter into a gas sales
15 agreement in which an affiliated interest exists.
16 Staff has found no reason to dispute the Company's
17 claim that this contract is in the public interest.

18 And in Docket Number 97-0339, Staff has
19 reviewed the Company's filing and reviewed its
20 responses to data requests concerning the Company's
21 request for Commission authority to enter into a gas
22 storage contract in which an affiliated interest

1 exists. Staff has found no reason to dispute the
2 Company's claims that this contract is in the public
3 interest.

4 EXAMINER JONES: Does that conclude your
5 testimony?

6 MR. LOUNSBERRY: Yes.

7 EXAMINER JONES: Does the Company have any
8 questions of Mr. Lounsberry?

9 MR. BORLAND: No.

10 EXAMINER JONES: During the off-the-record
11 discussion there was some communication regarding
12 further scheduling. There will be a hearing
13 scheduled for Wednesday, November 5 at 1:30 p.m. At
14 that time if I believe there is any additional
15 information that's needed for the record from
16 Consumers Gas Company, that will be taken up on that
17 day. The witness does not need to be present at that
18 November 5 hearing. The exhibits that were put into
19 the record today will be reviewed by me in the
20 meantime. I believe the preference of the Petitioner
21 is that the witness not be required to come to
22 Springfield for a hearing if there are other means

1 E R I C L O U N S B E R R Y

2 called as a witness herein, having been previously duly
3 sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY EXAMINER JONES:

6 Q. Would you just give us your name again, please,
7 as a witness.

8 A. Eric Lounsberry.

9 Q. Mr. Lounsberry, what information did you review
10 in making your recommendation?

11 A. I reviewed the Company's testimony, the
12 contracts, the Company's responses to data requests. I
13 spoke to Mr. Robinson on numerous occasions regarding the
14 data requests and just questions in general. Also had a
15 meeting with Mr. Robinson regarding the storage contract.
16 And as a result of that meeting, he sent the information
17 that we marked as Exhibit 4 in the record.

18 Q. Generally speaking, what sorts of issues were you
19 looking at when you reviewed that information?

20 A. To ensure that the contracts being entered into
21 were the lowest cost, their most economic options available
22 to the Company and therefore would be in the public

1 interest.

2 Q. Now, you mentioned Exhibit 4. Was that provided
3 in response to some questions that you had of the Company?

4 A. Yes. It was more in the line of an oral request.

5 Q. What is your understanding of what that exhibit
6 intended to show?

7 A. Okay. This exhibit shows the historical usage of
8 the storage fill from 1994 through the present, which was,
9 I believe, September of '97.

10 It compares the usage of that storage field to
11 what it would have cost to not have the storage field and
12 instead take gas from their other supply option, which is
13 Wood River Marketing, and also the associated costs with
14 additional demand charges from Texas Eastern and
15 transportation related to those costs as well.

16 It basically is an economic analysis between
17 having the storage field historically versus their other
18 supply options.

19 EXAMINER JONES: Okay. That's all the questions I
20 had.

21 Do you have any follow-up questions?

22 MR. MORRIS: I do not.