

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company)
) Docket No. 20-0606
Proposed Revenue-Neutral Tariff Filing to)
Address Issues Arising From the Storage Study)
Presented in Docket No. 18-1775.)

DIRECT TESTIMONY OF
JOHN MEHLING
ON BEHALF OF THE
**ILLINOIS COMPETITIVE
ENERGY ASSOCIATION**
AND THE
**RETAIL ENERGY SUPPLY
ASSOCIATION**

November 5, 2020

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**DIRECT TESTIMONY OF JOHN MEHLING ON
BEHALF OF THE RETAIL ENERGY SUPPLY ASSOCIATION
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1 **Q: Please state your name, occupation, business address, and on whose behalf you are**
2 **testifying.**

3 A: My name is John Mehling. I am a Senior Regional Operations Manager at Direct Energy.
4 My business address is 300 N. Meridian St., Suite 1220, Indianapolis, IN 46204. I am
5 testifying on behalf of the Illinois Competitive Energy Association (ICEA) and Retail
6 Energy Supply Association (RESA).

7 **Q: Please explain the job responsibilities and duties in your current position.**

8 A: I am responsible for managing Direct Energy’s Midcontinent regional pricing and
9 scheduling team. I am responsible for ensuring that all scheduling functions (i.e.,
10 forecasting, nominating, volume balancing, pool reconciliation, transportation invoice
11 approval, etc.) take place in an accurate and timely manner. I manage a scheduling team
12 that provides around-the-clock support, as required, to monitor Direct Energy’s positions
13 with utilities and customers. I am also responsible for developing and maintaining a
14 competitive pricing structure for all of Direct Energy’s Midcontinent markets, including
15 the Chicago markets. I manage a pricing team that produces timely competitive pricing
16 while taking into account all supply costs and balancing costs. As Senior Regional
17 Operations Manager, my functions also include strategic growth planning in conjunction

18 with our Sales & Trading teams. I also work closely with the utilities in the region I cover,
19 maintaining relationships with 23 local distributions companies, including Nicor Gas.

20 **Q: Please describe your educational background and relevant work experience through**
21 **your current role at Direct Energy.**

22 A: I have 23 years of experience in the energy industry. In 1997, I began my career with LG&E
23 Energy Marketing as an Energy Coordinator scheduling pipelines and local distribution
24 companies, as well as some power scheduling. Due to LG&E Energy Marketing's decision
25 to exit the unregulated natural gas marketing business, I joined Sigcorp Energy Services,
26 LLC as a Gas Trader/Scheduler in 1999. My responsibilities included trading and
27 scheduling various Midwest pipelines and markets. In 2002, Sigcorp Energy Services, LLC
28 and ProLiance Energy LLC were merged by their parent companies. While at ProLiance
29 Energy, I held the positions of Gas Trader, Director of Commercial & Industrial ("C&I"),
30 Retail Services and ultimately, Director of Gas Operations. In my role as the Director of
31 Gas Operations at ProLiance Energy, LLC, I was responsible for the Pipeline Scheduling
32 group, the C&I Services group, and the Utility Services group. In this position, I oversaw
33 the scheduling, balancing, reconciling, billing, and regulatory and tariff review of all
34 wholesale and retail natural gas activity. I was also actively involved in a collaborative
35 team that handled the structuring of asset management transactions and the procurement of
36 capacity to manage the C&I portfolio. In 2012, I left ProLiance Energy to join Hess Energy
37 Marketing as the Senior Regional Operations Manager of the Midcontinent region. Hess
38 Energy Marketing was acquired by Direct Energy in November 2014, and I maintained the
39 same role at Direct Energy. As the Senior Regional Operations Manager, I am responsible
40 for all retail operations related to this office. My primary oversight is related to the

41 scheduling, balancing, and pricing of all activity related to industrial, commercial &
42 residential load portfolios. I have 23 years' experience related to industrial and commercial
43 gas operations and over 10 years' experience related to the management of small
44 commercial and residential gas operations. I hold a Bachelor of Arts Degree in Business
45 Administration from Bellarmine University in Louisville, Kentucky, and a Masters Degree
46 in Business Administration from the University of Louisville.

47 **Q: Have you ever testified before a regulatory agency?**

48 A: Yes. I have testified in the following cases:

- 49 • Kentucky PSC case 2012-00222, involving Louisville Gas & Electric's rate case.
- 50 • Michigan PSC case U-18424, involving Consumers Energy (on behalf of RESA)
- 51 • Michigan PSC case U-18999, involving DTE Energy (on behalf of RESA)

52 **Q: What is the purpose of your testimony?**

53 A: The purpose of my testimony is to explain ICEA and RESA's opposition to the proposed
54 tariff changes described in Nicor Gas's filing that has given rise to this proceeding.

55 **Q: Are there any attachments to your testimony?**

56 A: Yes. ICEA-RESA Ex. 1.1 includes all of the data request responses I reference in my
57 testimony.

58 **Q: To which testimony are you responding?**

59 A: I am responding to the Direct Testimony of Nicor Gas witness Mr. Timothy Sherwood,
60 and to tariff changes proposed in an exhibit sponsored by Nicor Gas witness Ms. Anne
61 Hizon.

62 **Q: What is your recommendation in this docket?**

63 A: Nicor Gas's changes should mostly be rejected. On-system storage is intended to provide
64 operational flexibility to suppliers to use on behalf of their customers. Nicor Gas's
65 proposed changes would take away much of that operational flexibility, driving up costs to
66 transportation customers with no corresponding benefit to any customer group. I therefore
67 recommend that the Commission reject Nicor Gas's proposed changes to
68 injection/withdrawal parameters, including the monthly storage targets, the daily
69 tolerances, and the associated cash-out provision. I also recommend that the Commission
70 increase supplier operational flexibility by removing the 150-customer cap on customer
71 pools.

72 I reserve the right to make additional recommendations based on the testimony of Staff and
73 other intervenors.

74 **Q: What is the basis for this recommendation?**

75 A: My recommendation is based on the following factors:

76 *The reasons stated for the tariff changes proposed by Nicor Gas are unsupported by any*
77 *evidence in the record.* Nicor Gas claims that the proposed changes are necessary to protect
78 the integrity of its gas storage assets, yet neither the testimony of the Nicor Gas witnesses
79 nor the storage study they rely on support this conclusion. To the contrary, the evidence
80 presented by Nicor Gas itself shows that Nicor Gas is managing the system in a way that
81 adequately protects its storage assets under the current tariff regime.

82 *The proposed tariff changes would reduce flexibility and drive up costs for transportation*
83 *customers,¹ far out of proportion to any offsetting benefit to any customer group. The*
84 monthly storage targets, daily tolerances, and the associated cash-out provisions in the
85 proposed tariffs would reduce the flexibility suppliers need to operate efficiently in serving
86 their customers. This effect is especially pronounced for daily read customers, given the
87 additional constraints around Customer Select supply in existing Nicor Gas tariffs. As
88 discussed further below, the need for this flexibility is completely rational given the
89 combination of assets that suppliers – and Nicor Gas itself – use to provide natural gas to
90 their customers. Using the punitive measures set forth in the proposed changes to reduce
91 the flexible use of one asset – an asset that Nicor Gas itself admits it is managing well
92 within acceptable parameters – will increase the costs suppliers incur to serve their
93 customers. This, in turn, will result in higher prices to these customers and in some cases
94 driving those customers back to full service from Nicor Gas, an option they have otherwise
95 found to be less than desirable. The result will be higher costs to all customers in the Nicor
96 Gas service territory. The tariff filing and supporting testimony provide no evidence of
97 quantifiable benefits to any customer group that would offset this harm.

98 *To the extent the conditions observed by Nicor Gas warrant changes to the existing tariff*
99 *structure, far less draconian measures are available that would address their concerns*
100 *while maintaining suppliers' ability to serve their customers efficiently. The tariff changes*
101 proposed by Nicor Gas are punitive against suppliers and their customers and are not
102 justified by any physical conditions described by Nicor Gas in their tariff filing, the storage

¹ As I note below, there are two types of transportation customers that take supply service from a third-party supplier instead of Nicor Gas: daily read (large volume) and Customer Select (small volume). Except as specifically noted, my testimony and recommendations relate to both types of transportation customers.

103 study, or discovery responses. To the extent the Company needs more tools – in addition
104 to the many tools already at their disposal – for managing storage assets, more limited
105 measures, such as one directed at errors in intraday nominations, would accomplish this
106 goal without reducing the value to suppliers of assets they are paying full price for.

107 **I. Background**

108 **A. Storage Assets and How They Are Used**

109 **Q: What is on-system storage?**

110 A: On-system storage is natural gas storage that is connected to Nicor Gas’s natural gas
111 distribution system, meaning that any gas released from the on-system storage goes directly
112 to the distribution system rather than through the transmission system. It is typically owned
113 and operated by the local distribution company (Nicor Gas), as is the case with the eight
114 storage fields that are at issue in this case.

115 **Q: Who uses storage assets and for what purposes?**

116 A: Both Nicor Gas and competitive suppliers on the Nicor system use on-system storage and
117 for similar purposes. These purposes include establishing an amount of supply sufficient
118 to serve a base level of winter load; balancing variations between anticipated and actual
119 transportation customer receipts, which can be caused by many factors; meeting high
120 demand day supply needs through on-system storage withdrawals; and balancing weather-
121 driven load differences from day-ahead supply plans. Nicor Gas witness Mr. Timothy
122 Sherwood described these uses in his testimony at a high level. (*See* Nicor Gas Ex. 1.0 at
123 6:122-126.) The ability to buy gas commodity during the summer months and place it in
124 storage for use during the winter also allows storage users to hedge the price risk that comes
125 with buying more gas during the winter months when demand is higher.

126 **Q: Are there distinctions between the use of storage assets by suppliers and LDCs?**

127 A: Yes. Competitive suppliers serve their customers under contracts with pricing terms
128 specific to each customer's needs. These needs vary widely among the group of customers
129 served by a supplier, ranging from the needs of a residential customer looking for price
130 certainty during the winter heating season to large industrial customers with consumption
131 driven largely by process loads. Suppliers must take these price commitments into account
132 when managing the supplies that are available to them through the various assets at their
133 disposal. While LDCs are not indifferent to price, they are not bound by the same price
134 commitments as are suppliers. This is because the basic utility sales rate structures provide
135 for a fluctuating gas price based on the utility's near-term costs to procure. The need to
136 manage supply to meet these price commitments makes suppliers particularly sensitive to
137 the flexibility that comes with having access to a portfolio of assets, including on-system
138 storage facilities. To offer these different pricing structures, suppliers need to have
139 flexibility to buy commodity gas and place it into on-system storage and use it to cover
140 shortfalls from daily nominations as the supplier chooses.

141 **Q: How are on-system storage assets paid for?**

142 A: All customers – whether they purchase supply from the LDC (sales customers) or a third-
143 party supplier (transportation customers) – pay for these assets as part of their delivery bill.

144 **B. Proposed changes to the way on-system storage is managed**

145 **Q: What tariff changes is Nicor Gas proposing in its filing?**

146 A: Nicor Gas is proposing to completely overhaul the way in which suppliers use the storage
147 assets their customers are paying for. Currently, Nicor Gas has a number of tools to manage
148 how suppliers and their customers use the system. These include:

- 149 • Limitations on nominations: Suppliers must nominate their gas the day before;
150 intra-day nominations are currently not allowed. They are also subject to maximum
151 daily nominations which restrict deliveries to customers, but from April 1 through
152 October 31, further limit gas storage injections.
- 153 • The setting of a maximum amount (“maximum daily contract quantity” or
154 “MDCQ”) of gas that an individual customer can receive on a given day; if that
155 quantity is exceeded, the customer is subject to penalties.
- 156 • Limits on withdrawals from and injections to storage such as storage withdrawal
157 factors.
- 158 • Operational flow orders (“OFOs”).
- 159 • Citygate supply caps.

160 In place of these measures, which have worked well for many years, Nicor Gas is proposing
161 the following:

- 162 • *Daily nomination limits and Daily Delivery Ranges will be eliminated in favor of*
163 *daily storage parameters.* As described in Nicor Gas’s filing: “All
164 customers/suppliers will be required to deliver a level of gas necessary to stay
165 within the applicable minimum and maximum daily storage activity range. If daily
166 storage activity falls outside of the range, the variance will be cashed out.”
- 167 • *Monthly storage parameters.* All customers and suppliers will be “required to
168 deliver a level of gas necessary to stay within the applicable minimum and
169 maximum inventory range at month end. If month-end inventory level falls outside
170 of the range, the variance will be cashed out.”

- 171 • *Punitive cash-out provisions.* In support of new daily storage injection and
172 withdrawal limits, Nicor Gas proposes forced “cash-out” transactions where Nicor
173 Gas buys gas stored in on-system assets over 5% above the target storage amount
174 and Nicor Gas sells to the supplier if the gas in storage is more than 10% below the
175 target amount. (See Nicor Gas Ex. 2.2 at 23, Proposed Original Sheet No. 49.4.)
176 Essentially, they are forced sales and purchases to get the customer back to within
177 no more than 5% above and 10% below the target amount in storage. As discussed
178 further below, these provisions are punitive because of the compelled sale (if over
179 the maximum) or purchase (if below the minimum) terms that are a discount
180 (compelled sale) or premium (compelled purchase) to the less favorable to the
181 supplier of two market indexes. No such cash-out structure exists today. While
182 Nicor Gas does place limits on nominations and MDCQ (at a customer level), there
183 is currently not a forced purchase or sale to bring stored gas amounts to pre-selected
184 target levels.
- 185 • *Reduced flexibility in Storage Banking Service (SBS) days of capacity allocated.* In
186 place of the current system, in which Daily Read customers can elect more or less
187 than the standard 30 days of SBS capacity and Customer Select customers are given
188 up to six more days in addition to the standard 30 days, the Company proposes that
189 all customers will be allocated 30 days of SBS capacity, with no option to elect less
190 or request more SBS capacity.
- 191 • *Valuation of stored gas when customers change suppliers or programs.* Currently,
192 for daily read customers, gas in storage may transfer with the customer at the
193 election of the customer or the supplier; it is not valued by Nicor. Gas in storage

194 does not move with Customer Select customers. Under the Nicor proposal, a
195 predetermined quantity of gas will transfer with the customer when switching to
196 and from transportation programs and groups. Nicor will charge the new supplier
197 and credit the previous supplier for the predetermined value of gas that moves with
198 the customer.

199 **C. Nicor’s Stated Justification for The Proposed Changes**

200 **Q. What reasons does Nicor Gas give for these major changes to its long-standing**
201 **practices for managing on-system storage and suppliers’ participation in the market?**

202 A. As described in the testimony of Nicor Gas witness Mrs. Timothy Sherwood, the proposed
203 changes are “necessary in order to allow Nicor Gas to maintain the operational integrity of
204 its eight aquifer storage fields.” (Nicor Gas Ex. 1.0 at 2:36-37.) It appears that Nicor Gas
205 witness Mr. Sherwood relied on the Storage Study to support his conclusion.

206 **Q: Where did the Storage Study originate?**

207 A: My understanding is that in a recent rate case, the Commission ordered that Nicor Gas
208 “shall prepare a study to assess the implications of how Transportation Customers use the
209 Company’s storage assets under the current terms and conditions of service and present its
210 results in the Company’s next rate case proceeding.” (ICC Docket No. 17-0124, Final
211 Order dated January 31, 2018 at 148. Based on my review of the Commission’s Final
212 Order in ICC Docket No. 18-1775, it appears that the Commission ordered Nicor Gas to
213 address such a study not less than one year after the Final Order in that docket.

214 In Docket 17-0124, RESA argued that the Commission should “remove \$12.7 million in
215 Customer Care costs from delivery base rates, credit that amount to the bills of customers
216 who take supply from a third-party supplier, and add an additional charge to the bills of

217 customers who take supply from Nicor Gas.” (ICC Docket No. 17-0124, Final Order dated
218 January 31, 2018 at 123.) The purpose was to ensure that costs were allocated to the
219 customer groups (here, sales customers) that caused those costs. In response, Nicor Gas
220 argued not only that its cost allocations were appropriate but that re-allocating costs in the
221 manner suggested by RESA would drive migration of customers away from Nicor sales
222 service to competitive supply, which would have negative implications for its operation of
223 the system:

224 Nicor Gas further explains that, if RESA’s proposal led customers to
225 migrate away from Company supply service, and if Customer Select
226 suppliers continue to use on-system storage as they have in the past, such
227 switching may exacerbate existing problems in cycling gas in Nicor Gas’
228 storage fields resulting from the actions of Transportation customers.

229 *Id.* at 125. In response to the possibility that RESA’s proposal might be approved, Nicor
230 Gas encouraged the Commission to allow it to do a study of the impact of suppliers’ use of
231 storage services on its storage assets.

232 **Q: What is the relevance of this history to the current case?**

233 A: The current proposal does not reflect RESA’s original intention or the Commission’s Order
234 in the Nicor Gas’s 2017 rate case. RESA raised concerns regarding over-allocation of costs
235 to transportation customers that have the result of driving customers to sales service.

236 RESA’s witness in that docket anticipated this issue, according to the Final Order:

237 Nicor Gas witness Wassell takes the position that before the Commission
238 accepts RESA’s recommendation, the “Commission should direct Nicor
239 Gas to conduct a study examining the allocation of storage volumes to
240 Transportation customers and Customer Select suppliers to determine
241 whether an adjustment to such allocations is appropriate.” However,
242 according to RESA, there is no relationship between Mr. Wassell’s proposal
243 for a study of Nicor Gas’ storage operations and RESA’s proposal to
244 allocate customer care costs associated with procuring and providing
245 default service.

246 **RESA states that Mr. Wassell attempts to create a nexus where none**
 247 **exists by claiming that the apparent goal of RESA’s proposal is to**
 248 **“increase the number of customers choosing to participate in the**
 249 **Customer Select program” and that an increase in the number of**
 250 **customers in Customer Select would create problems for Nicor Gas’**
 251 **operation of its storage fields.** According to RESA, Mr. Wassell is wrong
 252 on both counts.

253 (ICC Docket No. 17-0124, Final Order dated January 31, 2018 at 130 (emphasis added,
 254 citations removed).)

255 Unfortunately, the effects that RESA feared appear to be playing out in the present docket.
 256 RESA’s proposal to more accurately allocate customer care costs was rejected, but Nicor
 257 Gas has presented changes with a punitive effect and that does not correctly allocate costs
 258 between sales and transportation customers.

259 **Q: Does the Company provide any justification for its proposal other than the Storage**
 260 **Study?**

261 A: No, not that I am aware of.

262 **II. ICEA and RESA Responses to Nicor Gas Proposals**

263 **A. Connection Between the Storage Study and the Nicor Gas Proposals**

264 **Q: In your opinion, does the information presented in the storage study support Nicor**
 265 **Gas’s proposed tariff changes?**

266 A: No, it does not.

267 **Q: Why not?**

268 A: I should preface my answer by noting that I am not a trained geologist and thus do not
 269 consider myself qualified to comment on the actual physical integrity of Nicor Gas’s eight
 270 underground storage fields. RESA and ICEA have retained a geologist, Mr. Michael King,
 271 who will be providing testimony on this topic. I understand he has concluded that Nicor

272 Gas is soundly operating its storage fields from a geologic perspective and that Nicor Gas's
273 proposed changes do not address the concerns raised in the Storage Study.

274 Even if one takes the Storage Study at face value, the Storage Study does not support Nicor
275 Gas's proposed tariff changes. In fact, one notable aspect of the Storage Study is it appears
276 to be devoid of any actual geological information about the performance of the Company's
277 gas fields and any alleged impact that suppliers' existing use of the fields may be having
278 on their structural or operational integrity. From my review, the Storage Study merely
279 repeats the conclusory view that allowing suppliers and their customers to continue to use
280 the storage assets that they are paying for in a flexible manner that maximizes the value of
281 those assets could, at some point, have some negative impact on the operational integrity
282 of the gas fields. But, to be clear, the report contains no data or information about the
283 actual operational integrity of Nicor Gas's on-system storage fields.

284 **Q: What does the Storage Study show regarding the operation of the on-system storage**
285 **assets?**

286 A: To my review and from my operations (rather than geologic) perspective, it appears that
287 the assets are operating well. In fact, the Storage Study shows that Nicor Gas is able to
288 operate these assets completely within acceptable parameters. For instance, the Storage
289 Study notes that Nicor Gas develops an optimal operational plan each year that is designed:

290 to ensure maximum deliverability is available on January 20th of each year,
291 which is the Company's planned design day, or highest projected demand
292 day, and to satisfy subsequent deliverability targets over the remainder of
293 the heating season, while also targeting to withdraw as much gas as possible
294 during the season in total,

295 and that repeated deviations from the plan "can have an adverse cumulative impact not
296 only on storage operations for the current season, but potentially over the next several
297 seasons." (Nicor Gas Ex. 1.1 at 4.)

298 The Study then presents Figure 1 (*see id.* at 5), which Nicor Gas accurately captioned as
299 follows: “Figure 1 illustrates that the Company was able to operate its storage fields to
300 comply with its Storage Plans.” (*Id.*)

301 **Q: Is there any other evidence that Nicor Gas was able to operate its on-system storage**
302 **assets within its own parameters?**

303 A: Yes. It is also the case that “[d]uring the past ten years, the Company has not failed to
304 withdraw a sufficient volume of gas from, and reach an appropriate level of inventory at,
305 each of its storage fields by the end of each withdrawal season.” (Nicor Gas Response to
306 POL 1.13.)

307 **Q: Is your conclusion supported by other evidence provided by Nicor Gas?**

308 A: Yes. In discovery, Nicor Gas presented documentation and explanations that show not
309 only that they are able to manage their storage fields adequately under the current tariff
310 regime and using the existing tools at their disposal, but also that they are not coming close
311 to meeting, much less exceeding, the capacity of those tools to manage their system.

312 Nicor Gas’s ability to operate its on-system storage within its own parameters is a critical
313 point. The entire justification for Nicor Gas’s proposed changes to how suppliers access
314 gas placed in on-system storage is Nicor Gas’s assertion that these changes are *required* in
315 order to eliminate otherwise unacceptable operational risk to the integrity of the
316 Company’s gas storage fields.

317 **Q: Do you have any examples of the evidence Nicor Gas provided in discovery?**

318 A: Yes. In one example, Nicor Gas admitted that there have been no instances in which
319 suppliers’ use of Nicor Gas storage assets have threatened to do any actual harm to those
320 assets. Specifically, Nicor Gas stated that there were no instances “in which Transportation

321 customers used storage in a manner that, while consistent with the parameters set forth in
322 current tariffs, impaired Nicor’s ability to reasonably manage its storage assets and meet
323 the needs of its customers.” (See Nicor Gas Response to RESA 2.15). In the same
324 response, Nicor Gas stated that there have been no such instances because “the Company
325 utilizes Cap Days and Critical Days, along with its pipeline storage contracts, purchasing
326 activity, and pipeline transportation contract utilization to offset the otherwise harmful
327 effects of transportation customers’ storage utilization.” (*Id.*)

328 **Q: Is there any evidence that the tools Nicor Gas stated it uses to keep its system within**
329 **parameters are overused?**

330 A: No. The evidence presented in discovery responses shows that these tools are infrequently
331 used by Nicor Gas—and certainly not over-utilized. For example, regarding the use of
332 Critical Days, Nicor Gas states that “[f]or the period January 2015 through August 2020,
333 the Company has issued nine (9) Critical Days, eight of which were issued in 2019 and one
334 of which was issued in 2015.” (Nicor Gas Response to RESA 2.14.)

335 **Q: What is your interpretation of that response?**

336 A: That the Company issued no Critical Days at all in 2016, 2017, 2018 or so far in 2020.

337 **Q: What about Capacity Days?**

338 A: With respect to Capacity Days, Nicor Gas stated in discovery that it issued 493 Cap Days
339 between January 2015 and August 2020. (See Nicor Gas Response to RESA 2.13.)
340 However, the majority of these – 61 percent – were according to Nicor Gas pipeline-
341 specific limitations rather than for the system in total. (See *id.*) As Nicor Gas further
342 describes, pipeline-specific limitations arise from construction and maintenance on the
343 Company’s systems rather than any behavior on the part of suppliers. (See *id.*)

344 **Q: What is your conclusion based on Nicor Gas’s responses to discovery?**

345 A: It appears to me that Nicor Gas is successfully using the tools it needs to balance the use
346 of its storage assets much more as a result of its own behavior than the behavior of
347 suppliers. I do not see evidence that further constraints on supplier behavior are necessary,
348 while reducing, or even eliminating, existing tools Nicor Gas has available.

349 **Q: If there is no evidence that transportation customers’ use of the storage assets they**
350 **are paying for actually threatens the Company’s ability “to operate its storage fields**
351 **to comply with its Storage Plans,” are there any other bases for Nicor Gas’s proposed**
352 **tariff changes?**

353 A: I believe there are not.

354 **Q: Does Nicor Gas provide any additional bases?**

355 A: This is not entirely clear to me, though Nicor Gas witness Mr. Sherwood’s testimony and
356 its characterization of the Storage Study provide some insight. Mr. Sherwood appears to
357 frame the issue as “transportation customers do not utilize their access to Nicor Gas storage
358 facilities in a way that *supports* the short- and long-term reliability of those facilities.”
359 Nicor Gas Ex. 1 at p. 11 (emphasis added).

360 **Q: Is that the same issue as transportation customers causing decreased system**
361 **integrity?**

362 A: No. The argument that transportation customers’ use of the storage assets does not
363 “support” the reliability of those facilities is very different from the argument that such use
364 of the facilities poses any actual threat to their operational or physical integrity.

365 **Q: What do you believe Nicor Gas is getting at with this argument?**

366 A: To the extent that my reading of Nicor Gas witness Mr. Sherwood's testimony is correct,
367 it appears to me that, through the Storage Study and Mr. Sherwood's testimony, Nicor Gas
368 is making the following point: Nicor Gas is having difficulty anticipating supplier storage
369 activity. Suppliers make use of the flexibility afforded them under the current tariff regime
370 to nominate and withdraw from storage quantities of gas that, while completely in
371 compliance with existing tariffs and operating procedures, vary in ways that are not
372 predictable to Nicor Gas.

373 **Q: Does Nicor Gas explain why it believes suppliers acting in a manner Nicor Gas cannot
374 predict is problematic?**

375 A: Nicor Gas witness Mr. Sherwood testified that it is:

376 problematic because the Company must attempt to physically balance an
377 expected nomination volume with expected demand for the next Gas Day
378 by adjusting the gas supply purchasing activity for sales service customers,
379 and using pipeline leased storage assets and/or its aquifer storage facilities.
380 The Company must then also balance the difference between the volume it
381 expected transportation customers to nominate and the actual volume that
382 was nominated.

383 (Nicor Gas Ex. 1.0 at 10:207-212.)

384 **Q: Do you agree with Nicor Gas witness Mr. Sherwood that it is problematic for
385 suppliers to use Nicor Gas's on-system storage assets in a manner that Nicor Gas
386 cannot predict?**

387 A: No. What the Company describes as "problematic" is the way the system was intended to
388 work in order to allow transportation customers to make use of competitive alternatives to
389 one-size-fits-all sales service from the LDC. As discussed above, for suppliers to provide
390 these options they must use the assets available to them – including nominations of pipeline
391 gas and the use of withdrawals from and injections to storage – in a way that differs from

392 how the LDC might use those assets to serve sales customers. The LDC uses the tools at
393 its disposal to balance overall system needs and control the use of its storage assets in a
394 way that maintains the operational integrity of those assets. This is the way the system is
395 supposed to function.

396 Moreover, transportation customers pay the full cost for these storage assets and for their
397 use of the LDCs systems and other assets. Nicor Gas makes no allegation to the contrary.
398 As I noted above, the Storage Study arose in Nicor Gas's 2017 rate case in response to
399 pressure on cost allocation and, in that case, Commission Staff testified that "a reliable
400 estimate of the costs Nicor Gas incurs to provide those storage services to transportation
401 customers would be useful to establish how much Nicor Gas should charge for those
402 services." The Company prepared the storage study and submitted it in its subsequent rate
403 case, Docket No. 18-1775.

404 **Q: Does the Storage Study delineate costs associated with storage services to**
405 **transportation customers?**

406 A: No. At best, any estimation of those costs are embedded in how Nicor Gas seeks to
407 reallocate upstream asset costs. In other words, the evidence presented by Nicor Gas shows
408 that they are managing their system, including storage assets, under the current tariff
409 regime in a manner completely within the necessary parameters to maintain the integrity
410 of those assets, for which service they charge transportation an amount sufficient to cover
411 the full cost of providing that service, as determined in the Company's last rate case.

412 Even the alleged problems the Company attempts to identify with any specificity are purely
413 theoretical, not based on actual operational experience. For example, in discovery, Nicor
414 Gas provides graphs that show "theoretical example[s] of the physical impact that would

415 occur at the Troy Grove storage field if the Company were to have operated it in the same
416 manner that Customer Select customers utilized their storage.” (Nicor Gas Response to
417 RESA 1.20; *see also* Nicor Gas Response to RESA 1.19 (addressing same issues for daily
418 read customers).) Examined more closely, taking into account transportation customers’
419 actual utilization of Nicor Gas assets (as described by the Storage Study), these
420 “theoretical” problems do not make sense.

421 **Q: Why do you say the “theoretical problems make no sense” in reference to those**
422 **responses?**

423 A: Transportation customers hold about 38 percent of the storage capacity on the system, and
424 about a third of that capacity is in the Customer Select program, where suppliers have much
425 less flexibility in the use of storage than in the use of capacity assigned to large volume
426 transportation customers. (*See, e.g.*, Nicor Gas Response to RESA 1.15 (values on June 1,
427 2020).) Projecting what would happen if Nicor Gas did not use any of the available tools
428 to balance their system, and assuming that Nicor Gas used its own 60+ percent of storage
429 assets in exactly the same manner as suppliers is a red herring. In fact, that hypothetical
430 runs counter to Nicor Gas’s assertion that it cannot predict how suppliers will use Nicor
431 Gas’s on-system storage assets. To the contrary: Nicor Gas has the tools it needs to manage
432 its storage assets and Nicor Gas is in fact using those tools to successfully manage their
433 system. The proposed tariff revisions are thus unnecessary and unsupported—especially
434 in light of the harsh impact on suppliers and their customers.

435 **B. Response to the Changes in Operational Parameters for On-System**
436 **Storage**

437 **Q: Could you briefly summarize these proposed changes?**

438 A: Nicor proposes to move away from the use of MDN (maximum daily nominations) to
439 manage the injection activity, which already limits customer injection activity and controls
440 ratable monthly injections, to restrictive monthly injection ratchets (for the months of May-
441 October) and daily tolerances that provide little to no flexibility. Nicor also proposed to
442 move away from OFO shortage day restrictions, which can be utilized to manage
443 withdrawal activity, to restrictive monthly withdrawal ratchets (for the months of
444 November-April) and daily tolerances that also provide little to no flexibility. Further,
445 Nicor proposes a one-size-fits all approach to allocating storage by mandating all
446 transportation customers, both large and small, receive 30 days of storage bank.

447 **Q: Do you agree with these changes?**

448 A: No. As I mentioned above, suppliers use on-system storage not just for reliability but for
449 price stability and otherwise meeting contractual obligations for pricing terms, rather than
450 simply passing through actual costs from off-system gas. These changes will undoubtedly
451 increase costs for customers, as the cash-outs will be unavoidable, and the punitive nature
452 of the tiers will be costly. The restrictive ratchets and tolerances will also devalue the
453 customers' asset that they have long been accustomed to using and for which they are
454 paying the same cost as sales service customers.

455 **Q: Do you have any specific concerns?**

456 A: Yes. The bands are far too narrow and rigid for a supplier to have the flexibility needed to
457 manage their retail portfolio. The bands proposed are more restrictive than those already
458 in place for the Customer Select program. Moreover, as discussed above, Nicor has not

459 demonstrated why greater restrictions are necessary. Nor has Nicor show why it is
460 reasonable to manage storage in an identical manner for both for Customer Select and daily
461 read customers who have very different usage profiles and characteristics. Because storage
462 usage will be restricted, suppliers will lose the operational flexibility to elect to cover a
463 greater portion of their customers' daily usage with on-system stored gas compared to off-
464 system sources.

465 **Q: Do you have concerns beyond operational flexibility?**

466 A: Yes. The daily and monthly storage injection and withdrawal targets come with cash-out
467 penalties, which I describe in the next section, if a supplier fails to meet one of the targets.
468 Moreover, these targets are completely unilateral and asymmetrical; they do not apply to
469 the Company's own use of these assets

470 **Q: Can you give an example of the asymmetrical nature of these parameters?**

471 A: Yes. In discovery, ICEA asked Nicor Gas about its own injections and withdrawals from
472 on-site storage. Nicor Gas estimated that it had net injections into its on-site storage assets
473 in 5 days in March and 11 days in April during 2012-2018, despite proposing to require
474 suppliers to remain under 10% of storage capacity in both months or face a cash-out.
475 (*Compare* Nicor Gas Response to ICEA-Nicor Gas 1.19 *with* Nicor Gas Ex. 2.1, proposed
476 Original Sheet No. 49.3.) In other words, the Company's proposed tariff changes would
477 hold suppliers to stringent operational parameters that the Company's use of these assets
478 will not be subject to. This fundamental unfairness renders the proposed changes unjust
479 and unreasonable.

480 **Q. Is storage parity an underlying objective of customers?**

481 A. No. Customers have not requested equity in storage. (*See*, Nicor Gas Response to POL
482 1.15) Nicor proposes a 30 day one-size-fits-all paradigm for widely disparate
483 circumstances which restricts customer choice and limits flexibility. This tariff revision
484 present additional challenges to customers with seasonal usage patterns, especially when
485 their usage profile doesn't follow the prescribed daily and monthly limitations proposed by
486 Nicor. The current tariff provides a more efficient allocation of storage assets as those who
487 most value the assets, secure and pay to use those assets. The proposed 30 days
488 requirements forces certain customers to take more storage than needed, thereby shifting
489 costs from those who value storage to those who don't need it. Nicor performed no study
490 or analysis to support a uniform bank size. (*See*, Nicor Gas Response to POL 1.17)

491 **C. Response to the Proposed Cash-Out Structure**

492 **Q: What does Nicor Gas propose as a cash-out structure?**

493 A: In support of new daily storage injection and withdrawal limits, Nicor Gas proposes forced
494 "cash-out" transactions where Nicor Gas buys gas stored in on-system assets over 5%
495 above the target storage amount and Nicor Gas sells to the supplier if the gas in storage is
496 more than 10% below the target amount. (*See* Nicor Gas Ex. 2.2 at 23, Proposed Original
497 Sheet No. 49.4.) Essentially, they are forced sales and purchases to get the customer back
498 to within no more than 5% above and 10% below the target amount in storage. The
499 imposed cash-outs are quite punitive even within the first tier, resulting in a 15% penalty
500 based on the market-based prices. The penalties significantly increase at the second or
501 third tier.

502 **Q: Does Nicor Gas have a cash-out structure today?**

503 A: No. While Nicor Gas does place limits on maximum daily nominations (MDN) and on
504 MDCQ (at a customer level), there is currently not a forced purchase or sale to bring stored
505 gas amounts to pre-selected target levels.

506 **Q: How would you describe the cash-out amounts?**

507 A: I would describe the cash-out structure to be asymmetrical, with steep tiers. They are
508 extremely punitive and without justification. The third tier has the equivalent of critical
509 day penalties associated by incorporating the \$6 per therm adder, which Nicor has provided
510 no evidence to show this penalty is cost-based, needed to incent compliance, or is otherwise
511 just and reasonable. Much like a currency exchange—where the exchange purchases
512 currency at below value and sells currency at above value—the table in proposed Original
513 Sheet No. 49.4 explicitly sets the cash-out value at below the current day’s market prices
514 if Nicor Gas is buying and above the day’s market prices if Nicor Gas is selling. Even at
515 very minor incidental levels of imbalance, there is no initial tolerance band that does not
516 include discounts or premiums, so that the price differential between even a single therm
517 of excess gas versus a similar shortfall is harsh. Under Nicor Gas’s proposed tiering
518 system, the extent to which Nicor Gas compels the supplier to sell at below market prices
519 or buy at above market prices increases the further away from the target amount the
520 supplier is. Further, the additional restrictions and limitation proposed do not synch well
521 with how gas is sold in the market or how gas is consumed by larger (commercial and
522 industrial) customers with weekday loads. The ability to make spot market gas purchases

523 in order to handle weekend swings is virtually nonexistent, subjecting such customers to
524 incurring cashouts at discounted or premium pricing.

525 **Q: Has the Commission considered a cash-out structure before?**

526 A: Yes. In two previous cases, Ameren proposed a cash-out structure that similarly relied on
527 settling under-deliveries at the higher of market or the cost of PGA gas and over-deliveries
528 at the lower of market or PGA gas. The Commission rejected both of these proposals. (*See*
529 ICC Docket No. 15-0439, Final Order dated April 12, 2016; and ICC Docket No. 11-0282,
530 Final Order dated January 10, 2012.)

531 **Q: Did the Commission make any changes in the 2015 case to Ameren’s transportation**
532 **tariff?**

533 A: Yes. Instead of allowing a cashout set directly at a market rate—unlike the discount (for a
534 sale) or premium (for a purchase) to market rates proposed by Nicor Gas—the Commission
535 modified the maximum daily nomination and MDCQ levels to address Ameren’s concerns.
536 (ICC Docket No. 15-0439, Final Order dated April 12, 2016 at 21.) In other words, refine
537 the exact same structure as Nicor Gas’s existing tariffs.

538 **Q: Is the cash-out structure necessary to meet the goals of the Storage Study?**

539 A: No. At a minimum, the proposed cash-out structure is too rigid due to the “ratchet” of
540 required use of stored gas in particular months (discussed below) and too punitive due to
541 the terms upon which suppliers are compensated for excess gas or must pay for shortfalls.
542 Based on my experience, the cash-out prices being recommended—largely, but not
543 completely, due to the premiums Nicor Gas proposes—would be substantially higher than
544 any market-based price incurred by Nicor. In my judgment, while cash-outs may make
545 cycling storage more likely they are not necessary to achieve storage cycling, and do not

546 ensure that storage cycling will necessarily occur. In fact, as discussed above, the
547 Company is already managing the cycling of its storage assets within its own operational
548 parameters without these punitive cash-out measures, which alone demonstrates that they
549 are not needed to achieve the Company's desired level of cycling.

550 **Q: Do your concerns with the cash-out structure interact with any other concerns?**

551 A: Yes. The restriction on pool size of 150 customers per pool makes the cash-out structure
552 an even more pronounced risk.

553 **Q: Why would that be the case?**

554 A: I would note at the outset that, even in the absence of the tariff changes proposed by Nicor
555 Gas, ICEA and RESA oppose the 150 customer-per-pool limit. Suppliers generally prefer
556 to have their customers in the smallest number of pools possible, as that allows variations
557 in a single customer's usage to be evened out over a much larger total usage. This, in turn,
558 allows a supplier to better manage their overall supply, reducing exposure to penalties and
559 increasing the efficiency of their pricing. Thus, I recommend that the 150 customer-per-
560 pool limit be eliminated. There is no countervailing benefit to an LDC that would justify
561 the increased inefficiency experienced by suppliers from the limit.

562 When one adds the kind of penalties proposed by Nicor Gas in this case to the overall
563 increased risk of artificially-limited pool sizes, the situation becomes even more untenable.
564 The reason the 150-customer limit has not been worse for suppliers is that suppliers are
565 able to use the flexibility of the current tariff regime to balance supply across pools and
566 within pools, mitigating the impact of a larger-than-optimal number of pools. Imposing
567 the proposed daily and monthly storage parameters in combination with the punitive cash-
568 out structure would be absolutely unjust and unreasonable to suppliers. To be clear,

569 however, merely removing the 150-customer limit would not resolve ICEA and RESA's
570 concerns with the proposed tariff changes. The effect of the limit would be to exaggerate
571 the negative impacts of proposed changes that would remain unreasonable even in the
572 absence of the 150-customer limit.

573 **D. Overall Impact on Suppliers and Customers of these Proposed Changes**
574 **and Recommendations**

575 **Q: What effect will these proposed changes have on the competitive gas market in the**
576 **Nicor Gas service territory?**

577 A: If allowed to go into effect, the proposed tariff changes will have a strongly negative impact
578 on the competitive market—both customers and suppliers. As noted in the background
579 section of my testimony, suppliers use the flexibility afforded by the current tariff regime
580 to offer pricing terms to customers that are not available from Nicor Gas. This is the whole
581 point of having a transportation program. The idea that the subset of storage capacity that
582 is controlled by suppliers on behalf of transportation customers must be managed on a daily
583 and monthly basis so that it mirrors the overall parameters set by Nicor Gas for
584 management of the entire capacity of the storage assets is illogical and will have the effect
585 of driving up the costs of the competitive options available to customers. This will, in turn,
586 reduce the robustness of the market and with it the overall efficiency of the Nicor Gas
587 market.

588 These effects will be exacerbated by another proposed change to the existing rules that
589 govern on-system storage assets. As discussed in the summary of the proposed changes,
590 the imposition of monthly ratchets would require Nicor to move the storage supply between
591 suppliers when customers switch suppliers. This will add a new and totally unnecessary
592 element of complexity to customer contracts, as suppliers must value the financial impact

593 of this storage gas moving between suppliers. The likely result will be that customers will
594 be less willing to switch suppliers due to the increased difficulty in pricing deals with
595 suppliers, which will then result in reduced competition in the marketplace.

596 **Q: Who will be harmed by these negative effects?**

597 A: The residential and business customers that RESA and ICEA members and other suppliers
598 serve will be harmed. They will have fewer competitive options to LDC sales service and
599 the punitive nature of the cash-out provisions sought by the Company will put upward
600 pressure on the cost of these options. Moreover, this harm is not offset by any benefits to
601 any group of customers. The Company is already managing its storage assets within
602 operational parameters. It is already collecting the full cost of those assets from customers,
603 including transportation customers. The whole idea that transportation customers' use of
604 storage assets somehow threatened the operational began as an over-reaction by Nicor Gas
605 to a cost reallocation proposal by RESA, which was rejected by the Commission in any
606 event. The existing tariff structure has worked well for all customers on the system for
607 many years and there is no need to change it. I urge the Commission to reject the massive
608 structural changes proposed by Nicor Gas in its tariff filing.²

609 **Q: Does this conclude your testimony?**

610 A: Yes, it does.

² I note there are some changes that I support or do not oppose, such as advanced metering infrastructure on all transportation customers with certain characteristics, access to additional nomination cycles and reallocations after the gas day across a supplier's accounts. While positive, the benefits from these changes do not offset the severe negative impact of the proposed tariff changes above. I reserve the right to provide more detailed analysis in my rebuttal testimony.