

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
Philip D. Moeller, and Jon Wellinghoff.

Peoples Gas Light and Coke Company

Docket No. PR07-1-000

ORDER ON RATE FILING

(Issued March 15, 2007)

1. On October 18, 2006, Peoples Gas Light and Coke Company (Peoples Gas) filed a petition for rate approval, pursuant to sections 284.123 and 284.224 of the Commission's regulations.<sup>1</sup> Peoples Gas proposes to establish fair and equitable rates for its firm and interruptible transportation and storage services and park and loan service to be effective November 1, 2006. In addition, Peoples Gas proposes to establish a new firm one-cycle exchange service in interstate commerce and associated rates for the new service. Peoples Gas also filed, as Exhibit A to its petition for rate approval, a revised Operating Statement in which Peoples Gas incorporates a new firm one-cycle exchange service, eliminates its title transfer service, makes several revisions to existing services, and incorporates the proposed rates. For the reasons set forth below, the Commission approves the filed rates, the new firm one-cycle exchange service, and the various revisions to Peoples Gas' Operating Statement.

**Peoples Gas' Filing**

2. Peoples Gas proposes to increase its firm and interruptible transportation rates; to decrease its firm and interruptible storage rates; and to decrease its park and loan rates for the services described in its revised Operating Statement. In addition, Peoples Gas proposes to establish exchange rates for a proposed new firm one-cycle exchange service. Pursuant to section 284.123, Peoples Gas requests the proposed rates become effective, subject to refund, on November 1, 2006.

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<sup>1</sup> 18 C.F.R. §§284.123 and 284.224 (2006).

3. Peoples Gas' total transportation cost of service of \$11,472,760 consists of Operation and Maintenance expenses, Administrative and General Expenses, Depreciation, Taxes (income and other than income) and a total return allowance of \$4,489,169. The costs are those associated with Peoples Gas' Mahomet pipeline system, and are based on Peoples Gas' actual cost data for the twelve-month period ending June 30, 2006.
4. Peoples Gas designed its transportation rates using a straight fixed variable (SFV) rate design. As revised, the maximum monthly firm transportation reservation charge is \$1.6898 per MMBtu of maximum daily quantity, and the commodity and minimum charges are \$0.0000 per MMBtu transported. Peoples Gas proposes a maximum interruptible transportation commodity charge, based on a 100 percent load factor derivation of the firm transportation rate, of \$0.0556 per MMBtu and a minimum charge of \$0.0000 per MMBtu. Peoples Gas proposes a maximum authorized overrun charge of \$0.0556 per MMBtu and a minimum of charge of \$0.0000 per MMBtu.
5. Peoples Gas designed its storage rates using an SFV rate design and the storage rate design established by the Commission in *Equitable Gas Company*<sup>2</sup> (assigning fixed storage costs between capacity and deliverability on a 50/50 basis). Peoples Gas' total storage cost of service of \$35,824,227 consists of Operation and Maintenance Expenses, Administrative and General Expenses, Depreciation, Taxes (income and other than income) and a total return allowance of \$12,474,283. The costs are those associated with Peoples Gas' Manlove storage field, adjusted to remove costs associated with services purchased by North Shore Gas Company, and are based on Peoples Gas' actual cost data for the twelve-month period ending June 30, 2006.
6. For the firm storage service, Peoples Gas proposes a maximum monthly reservation charge of \$1.3823 per MMBtu of maximum daily withdrawal quantity, and a minimum charge of \$0.0000 per MMBtu; a maximum capacity charge of \$0.0395 per MMBtu of maximum storage quantity, and a minimum charge of \$0.0000 per MMBtu; and, a maximum storage commodity charge of \$0.0825 per MMBtu of gas injected, and a minimum charge of \$0.0003 per MMBtu. Peoples Gas states that the minimum commodity charge is based on the variable costs, primarily of compressor fuel, underlying the firm storage rates.

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<sup>2</sup> 36 FERC ¶ 61,147 (1986).

7. For the interruptible storage service, Peoples Gas proposes a maximum commodity charge, based on a 100 percent load factor derivation of the firm storage rate, of \$0.0470 per MMBtu of inventory on any day and a minimum charge of \$0.0003 per MMBtu of daily inventory.
8. Peoples Gas states the rate for the park and loan service includes embedded transportation and is based on the cost of service for storage (Manlove storage field) and transportation (Mahomet pipeline). The maximum rate would be \$0.1026 per MMBtu of the absolute value of the shipper's inventory on any day.<sup>3</sup> The minimum charge for this service would be \$0.0003 per MMBtu, and is based on the variable costs – consisting primarily of compressor fuel – underlying the firm storage rates and firm transportation rates.
9. Peoples Gas proposes to increase its fuel and gas lost unaccounted (GLU) monetization rate from \$0.02 per MMBtu to \$0.18 per MMBtu to be more reflective of the prevailing market price of natural gas at the time of the filing. In addition, Peoples Gas proposes to increase the percentage applicable to GLU in kind retention from .44 percent to 1.92 percent to reflect more current data about its system. Shippers may choose to provide fuel in kind or to pay the GLU monetization rate as set forth in Peoples Gas' Operating Statement. In addition, Peoples Gas proposes no change to its imbalance and cashout charges approved by the Commission in Docket No. PR98-1-000.<sup>4</sup>
10. Peoples Gas proposes to offer a new firm one-cycle exchange service (Exchange Service). The Exchange Service is, in essence, a firm parking service with terms of at least one year. Shippers must enter into service agreements. The service will have an equal scheduling priority as Peoples Gas' other firm services. The availability of the Exchange Service will be determined yearly in the same manner as Peoples Gas' other firm services and will be offered to shippers on a non-discriminatory basis in accordance with Peoples Gas' Operating Statement. The Exchange Service receipt and delivery periods mirror Peoples Gas' firm storage service receipt and delivery periods.<sup>5</sup> Under the Exchange Service a shipper's receipt or delivery quantities are based on specific monthly maximum and minimum limits; within those limits a shipper will have the flexibility to

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<sup>3</sup> The absolute value of the inventory is used to reflect a negative inventory balance that the shipper may have on some days.

<sup>4</sup> See *Peoples Gas Light & Coke Co.*, 82 FERC ¶ 61,239 (1998).

<sup>5</sup> The Exchange Service receipt period is March through November and the delivery period is December through February.

choose its receipt or delivery quantities. The Exchange Service provides that a shipper is responsible for any transportation service beyond the receipt or delivery point. The Exchange Service does not require a separate but equal amount of firm transportation service as required by Peoples Gas' firm storage service. Peoples Gas asserts that its transportation services will be unaffected because transportation does not require storage field capacity.

11. For the Exchange Service, Peoples Gas proposes a maximum monthly reservation charge of \$3.0721 per MMBtu of the January maximum daily delivery quantity, and a minimum charge of \$0.0000 per MMBtu; a maximum capacity charge of \$0.0395 per MMBtu of the maximum exchange quantity, and a minimum charge of \$0.0000 per MMBtu; and a maximum commodity charge of \$0.0825 per MMBtu delivered and received by the shipper, and a minimum charge of \$0.0003 per MMBtu. Peoples Gas states the rates are derived from the proposed firm transportation and firm storage service rates. Specifically, the reservation charge is the sum of the firm transportation reservation rate and the firm storage reservation rate, the capacity charge is equal to the firm storage capacity charge and the commodity charge is equal to the firm storage commodity charge.

### **Interventions and Comments**

12. Public notice of the filing was issued on October 18, 2006. Interventions and protests were due as provided in section 154.210 of the Commission's regulations.<sup>6</sup> Pursuant to Rule 214,<sup>7</sup> all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Interstate Gas Supply, Inc. (IGS) filed a motion to intervene and comments.

13. IGS indirectly uses Peoples Gas' non-jurisdictional intrastate services. IGS states it holds firm contracts with Nicor Enerchange, LLC (Nicor) and Peoples Energy Wholesale Marketing (PEWM).<sup>8</sup> In its comments, IGS states that it is concerned about

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<sup>6</sup> 18 C.F.R. § 385.210 (2006).

<sup>7</sup> 18 C.F.R. § 385.214 (2006).

<sup>8</sup> According to Peoples Gas' responses to Staff's data request Nicor is an interstate interruptible transportation shipper and PEWM is an intrastate interruptible transportation and interruptible storage customer of Peoples Gas.

the effect of Peoples Gas' interstate services on its intrastate services, particularly the newly proposed Exchange Service. IGS submits that according to Peoples Gas' filing the Manlove storage field is the main asset being used in providing interstate services, including the proposed additional Exchange Service. IGS indicates that it is concerned specifically in the disposition of the revenues generated from Peoples Gas' interstate services; the reduction in availability of assets for firm intrastate users of Peoples Gas' system in Illinois as a result of the interstate services; and that it has an incomplete understanding of the nature of the assets being utilized to provide the interstate services including whose assets are being used and what other cost recovery is occurring with respect to these assets. IGS submits that this issue may be more appropriately developed before the Illinois Commerce Commission but is concerned that approval here could be viewed by the Illinois Commerce Commission as an endorsement of such use.

14. IGS further states that although it does not disagree that Peoples Gas' system may be strategically located to enable it to offer services on an interstate basis with its system assets, it should not be permitted to do so at the risk of jeopardizing competition on its system by reduction in assets to migrating customers. IGS argues if the assets are no longer available for use by alternative suppliers, although sufficient assets are retained by Peoples Gas to serve its sales customers, marketers that would like to compete for Peoples Gas' firm customers' load will be at a significant competitive disadvantage.

## **Discussion**

### **Transportation, Storage, and Park and Loan Service Rates**

15. Based on our review of the filing and subsequent data responses, we believe that the petition for rate approval for transportation, storage, Exchange Service, and park and loan services is in the public interest and establishes fair and equitable rates. The petition reduces all but Peoples Gas' transportation and authorized overrun service rates. The petition establishes cost-based rates, reflects Peoples Gas' actual costs for the twelve-month period ending June 30, 2006, and utilizes Peoples Gas' state-approved rate of return of 9.19 percent. To ensure that the rates we approve in this order remain fair and equitable, the Commission will require Peoples Gas to make a triennial informational filing demonstrating cost, revenue and throughput information on or before October 18, 2009.<sup>9</sup>

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<sup>9</sup> See, e.g., *Consumers Energy Co.*, 94 FERC ¶ 61,287 (2001).

### **Firm One-Cycle Exchange Service**

16. Peoples Gas proposes to provide an Exchange Service for terms of at least one year. Peoples Gas explains that no firm storage service will be affected by the Exchange Service because there are no current firm intrastate or interstate storage shippers. Peoples Gas explains that the amount of storage capacity at its Manlove storage field available to each of the three services<sup>10</sup> it provides is determined as part of its portfolio planning process. Peoples Gas states in the two most recent injection seasons Peoples Gas had approximately 10.0 Bcf of storage capacity available for interstate services. Of the 10.0 Bcf, park and loan services accounted for at least 66 percent of the capacity sold. Therefore, Peoples Gas submits that providing the Exchange Service is feasible.

17. IGS states its concern is the effect of Peoples Gas' interstate service on its intrastate service system assets, revenues generated from Peoples Gas' interstate services, the reduction in availability of assets for firm intrastate users of Peoples Gas' system in Illinois as a result of the interstate services; and an incomplete understanding of the nature of the assets being utilized to provide the interstate services including whose assets are being used and what other cost recovery is occurring with respect to these assets.

18. Based on our review of Peoples Gas' filing and supplemental information, the proposed Exchange Service will expand Peoples Gas' services, but not degrade services currently available to shippers on Peoples Gas' system. The Exchange Service is comparable to interstate service previously approved by Commission.<sup>11</sup> Thus, the Commission will approve the service. The Commission's regulations define service on a firm basis as a service that is not subject to a prior claim by another customer or another class of service customer and that receives the same priority as any other class of firm service.<sup>12</sup> Peoples Gas' petition clearly indicates any capacity reserved for the proposed Exchange Service has no prior claim, (i.e. no current firm storage contracts). In addition, Peoples Gas' Operating Statement clearly states the Exchange Service will have equal

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<sup>10</sup> The three services are: intrastate services to Peoples Gas' end use customers; a contract service to North Shore Gas Company pursuant to a contract approved by the Illinois Commerce Commission; and Section 311 interstate services.

<sup>11</sup> The Commission has approved short term firm parking and loaning services that function somewhat similar to Peoples Gas' Exchange Service, such as Bluewater Gas Storage's Rate Schedules FP and FL. See *Bluewater Gas Storage, LLC*, 117 FERC ¶ 61,122 (2006).

<sup>12</sup> 18 C.F.R. § 284.7 (2006).

scheduling rights as other firm services and that each year Peoples Gas will determine if it has available capacity and the ability to offer defined amounts for firm storage and Exchange Service and that such services shall be offered on a non-discriminatory basis.

19. Part 284 of the Commission's regulations requires that intrastate pipelines that offer section 311 transportation<sup>13</sup> service on a firm or interruptible basis must provide such service without undue discrimination, or preference, including undue discrimination or preference in the quality of service provided, the duration of service, the categories, prices, or volumes of natural gas to be transported, customer classification, or undue discrimination or preference of any kind.<sup>14</sup> Therefore, access to Peoples Gas' section 311 services, as required by the Commission's regulations, must be offered on a non-discriminatory basis. The Commission believes any concerns IGS has about the effect of the Exchange Service on Peoples Gas' intrastate services are more appropriately addressed by the Illinois Commerce Commission. The Commission does not require intrastate pipelines to provide NGPA section 311 interstate service on a firm basis. However, to the extent an intrastate pipeline does provide interstate firm service, it must do so consistent with the Commission's regulations, as described above. Consistent with these policies, the Illinois Commerce Commission may consider issues concerning the amount of firm interstate service Peoples Gas may offer without adversely affecting intrastate service.

20. The rates being accepted here are for Peoples Gas' interstate section 311 services pursuant to section 284.123 of the Commission's regulations. The Commission has no jurisdiction over a state's determination of intrastate rates. The Commission believes any concerns about how the revenues generated from interstate services are reflected in intrastate rates outside the jurisdiction of the Commission and should be brought before the Illinois Commerce Commission.

### **Other Operating Statement Changes**

21. Peoples Gas proposes to: (1) revise the injection and withdrawal schedule of its firm storage service to more closely match the operations of the storage field supporting this service; (2) eliminate the never used Title Transfer Tracking Service; (3) add section 8 – Operational Purchases and Sales to provide for Peoples Gas to buy or sell gas

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<sup>13</sup> Part 284.1 of the Commission's regulations defines transportation to include storage, exchange, backhaul, displacement, or other methods of transportation.

<sup>14</sup> 18 C.F.R §§ 284.7(b) and 284.9(b) (2006).

to cashout or resolve an imbalance pursuant to applicable sections of the Operating Statement; (4) add evening and intra-day nomination rights to its nomination process; (5) clarify that Peoples Gas does not take title to gas associated with the interstate services; (6) make revisions to its creditworthiness provisions; and (7) make various editorial changes. The proposed revisions to the Operating Statement better reflect the actual operations of Peoples Gas' system, allow greater flexibility to shippers, reflect current interstate gas operations, and more clearly define operational processes. Thus, the Commission will accept the revisions.

The Commission orders:

(A) Peoples Gas' proposed rates are approved without modification, subject to the condition that Peoples Gas must file cost and throughput data in the form specified in section 154.313 of the Commission's regulations and other information on or before October 18, 2009, sufficient to allow the Commission to determine whether any change in Peoples Gas' rate pursuant to NGA section 5, which would apply prospectively, should be ordered.

(B) The Commission's acceptance of Peoples Gas' proposed rates does not relieve it from complying with the filing requirements set forth in section 284 of the Commission's regulations.

By the Commission.

( S E A L )

Philis J. Posey,  
Acting Secretary.