STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company	:	
	:	
	:	**ICC Docket No. 04-0779**
Proposed general increase in rates, and revisions to other terms and conditions of service	:	
	:	

PRETRIAL MEMORANDUM

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STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company **Proposed general increase in rates, and revisions to other terms and conditions of service**	**:** **:** **:** **:** **:**	**ICC Docket No. 04-0779**

PRETRIAL MEMORANDUM OF STAFF
OF THE ILLINOIS COMMERCE COMMISSION

Pursuant to the April 12, 2005 Administrative Law Judges' ("ALJs") Notice, Staff of the Illinois Commerce Commission ("Staff"), by and through its attorneys, hereby submits its Pretrial Memorandum in this investigation of proposed general increase in rates, and revisions to other terms and conditions of service by Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor" or "Nicor Gas" or the "Company"). Consistent with the ALJs' Notice, attached hereto as Attachment A is a copy of ICC Staff Exhibit 10.0-Revised showing, in table form, the revenue impact of Staff's proposed adjustments.

I. STATEMENT OF CONTESTED AND UNCONTESTED FACTS

In this docket the Illinois Commerce Commission ("Commission") is investigating Nicor's request for a general rate increase and revisions to other terms and conditions of service. Because this is a general rate case, there is no concise list of facts or assertions at issue as there would be in a complaint case. Indeed, every number or amount contained in the Company's 83 Ill. Adm. Code 285 filing is potentially a

contested fact. Staff's primary role is to review the Company's filing and advise the Commission with respect to those issues it is able to identify. Although Staff conducts a thorough and complete review, Staff is not -- as a practical matter -- able to review each and every fact or identify each and every possible issue. Further, Staff's testimony is typically, if not exclusively, expert testimony. Although Staff relies on discovery responses, field audits and other information to identify factual inaccuracies in a utility's filing and presents facts obtained through discovery or other means to support necessary adjustments, Staff does not typically present fact witnesses and typically does not possess knowledge that would allow it to state or form an opinion on whether a fact identified by a utility is correct or not. Given that discovery through depositions is not typically utilized in Commission proceedings, Staff is often unable to test or explore factual assertions until cross-examination at hearings. Thus, contested facts sometimes develop or are discovered at hearings, and Staff fully reserves its right to raise disputed facts in that manner. Even if Staff does not contest a particular fact, it does not prevent other parties or the Commission from either contesting such fact or asserting or finding that the utility has not met its burden of proof with respect to such fact. Accordingly, subject to the qualifications and limitations stated above, Staff submits that the contested and uncontested facts are those reflected below in Staff's statement of contested and uncontested issues.

II. STATEMENT AS TO STIPULATIONS TO BE PRESENTED AT TRIAL

There are no stipulations at this time between Staff and the Company that will be presented at the evidentiary hearing in this proceeding.

III. RATE BASE

A. Uncontested Issues

1. Accumulated Deferred Income Taxes

Staff witness Theresa Ebrey proposed an adjustment to increase the Company's Accumulated Deferred Income Taxes to reflect the required proration and the revised Section 263A adjustment proposed by the Company (ICC Staff Exhibit 2.0, p. 9, lines 168-170 and ICC Staff Exhibit 11.0 Revised, p. 2, lines 26-27).

Company witness O'Connor agreed that the prorated balance of deferred tax on property should be $18,214,000 (Nicor Gas Exhibit 26A.0, p. 68, lines 1537 – 1539).

2. Adjustment to Accounts Payable Relating to Gas in Storage

Since Staff witness Mark Maple has withdrawn his gas in storage adjustment (ICC Staff Exhibit 15.0, p. 1), Staff witness Ebrey's companion adjustment to Accounts Payable associated with Gas in Storage was also withdrawn (ICC Staff Exhibit 11.0 Revised, p. 3, lines 48 – 50).

3. Regulatory Tax Liability

Staff witness Ebrey withdrew her adjustment to Regulatory Tax Liability (ICC Staff Exhibit 11.0 Revised, p. 3, lines 51 - 55) in agreement with the Company that the proposed increase to the Regulatory Tax Liability balance would result in an offsetting decrease to Accumulated Deferred Income Taxes and thus would have no net impact on rate base (Nicor Gas Exhibit 26A.0, p. 73, lines 1648 – 1651).

4. Adjustments to Materials and Supplies Inventory, Customer Deposits, Budget Payment Balances, and Reserve for Injuries and Damages

Staff witness Ebrey withdrew her adjustments to Materials and Supplies Inventory, Customer Deposits, Budget Payment Plan Balances, and Reserve for Injuries and Damages in the interest of narrowing the issues in this proceeding (ICC Staff Exhibit 11.0 Revised, pp. 3-4, lines 56 - 63).

5. Gas in Storage

In rebuttal testimony, Staff witness Mark Maple agreed to withdraw his adjustment to the Company's proposed working capital allowance for gas in storage due to new information provided by Nicor in its rebuttal testimony. (ICC Staff Ex. 15.0, p. 1) This position is consistent with the Company's initial filing and the rebuttal testimony of Messrs. Bartlett and Gorenz. (Nicor Gas Exhibit 24.0, pp. 2-5) (Nicor Gas Exhibit 26.0B pp. 43-45)

Mr. Maple proposed that the Commission include in the final order a requirement that Nicor abide by language proposed in his rebuttal testimony regarding future leased storage management contracts. Nicor indicated in its response to Staff data request ENG 7.07 that the Company found this language to be acceptable. (ICC Staff Exhibit 15.0, p. 4)

B. Contested Issues

1. Average Rate Base

a. Staff's Proposed Adjustment

Staff witness Struck proposes an adjustment to convert the Company's proposed year-end rate base to an average rate base for the test year, because an

average rate base better matches the level of rate base investment with the revenues and expenses during the test year than does a year-end rate base. (ICC Staff Exhibit 1.0, pp. 6-7, lines 115-118)

b. Staff's Recommended Disposition

Mr. Struck explains that, in deciding this issue, the Commission should weigh two concerns against one another. On the one hand, a year-end rate base can be more forward looking. On the other hand, an average rate base more accurately reflects the cost of providing service during the test year because it better matches the cost of capital for the rate base during the test year with the other costs incurred during the test year. The Company has chosen a future test year that is already forward looking, therefore, the Commission should give more weight to matching the rate base with the test year. (ICC Staff Exhibit 10.0-Revised, pp. 14-15, lines 243-275) Mr. Struck noted that it has been the Commission's practice to use an average rate base with a future test year. (ICC Staff Exhibit 10.0-Revised, pp. 15-20, lines 276-293)

c. Revenue Requirement Impact

Mr. Struck's proposal would produce an average rate base that is $40,069,000 lower than the year-end rate base proposed by the Company. (ICC Staff Exhibit 10.0-Revised, Schedule 10.04-Revised, page 1, column (b), line 23) This would reduce the Company's revenue requirement by approximately $4,366,000. (ICC Staff Exhibit 10.0-Revised, Schedule 10.05-Revised, page 2, column (i), line 2)

2. Provision for Uncollectibles

a. Staff's Proposed Adjustment

Staff witness Struck recommends the Commission reject the adjustment proposed by Citizens Utility Board and Cook County States Attorney's Office witness Mierzwa to reduce the Company's rate base by the balance of the reserve for uncollectible accounts.

b. Staff's Recommended Disposition

The uncollectible reserve does not represent a ratepayer-supplied source of funds because of the way uncollectibles expense is matched to sales by accrual accounting. (ICC Staff Exhibit 10.0-Revised, pp. 25-26, lines 501-516)

c. Revenue Requirement Impact

Mr. Mierzwa's proposed adjustment would reduce the Company's rate base by $24,185,247 and reduce the Company's revenue requirement by approximately $3,806,494. (CUB-CCSAO Exhibit 2.2)

3. Utility Plant

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to reduce the Company's forecasted Utility Plant additions for the years 2004 and 2005 for rate making purposes. (ICC Staff Exhibit 4.0, pgs 3-4, lines 43-68 and Schedule 4.01)

b. Staff's Recommended Disposition

Mr. Griffin recommends that the Company's Utility Plant forecasted additions for the years 2004 and 2005 be reduced by 3.3% to reflect the average difference between actual expenditures and forecasted expenditures from 1998 to 2003.

c. Revenue Requirement Impact

A rate base deduction of $8,742,000 and a revenue requirement decrease of ($946,000).

4. Daily Metering Project

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to the Company's Daily Metering Project to eliminate unauthorized costs. (ICC Staff Exhibit 4.0, pages 4-6, lines 69-106 and Schedule 4.02)

b. Staff's Recommended Disposition

Mr. Griffin recommends that the Commission reduce the cost of the Daily Metering project by $389,000 which is the amount that was not authorized under the Company's Policy Order A-11, Control of Capital Expenditures.

c. Revenue Requirement Impact

A rate base deduction of $389,000 and a revenue requirement decrease of ($42,000).

5. Mainframe Computer Project

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to recognize an early purchase discount received by the Company for this project. (ICC Staff Exhibit 4.0, pg. 6, lines 107-113)

b. Staff's Recommended Disposition

Mr. Griffin recommends that the Commission reduce the cost of the mainframe computer project by $522,000 to reflect the early purchase discount received by the Company.

c. Revenue Requirement Impact

A rate base deduction of $522,000 and a revenue requirement decrease of ($56,000).

6. Accumulated Depreciation

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to reflect the effects of his adjustments to Utility Plant, the Daily Metering project and the Mainframe Computer Project on Accumulated Depreciation. (ICC Staff Exhibit 13.0, Schedule 13.01)

b. Staff's Recommended Disposition

Mr. Griffin made corresponding adjustments to his rate base adjustments that affect Accumulated Depreciation.

c. Revenue Requirement Impact

A rate base increase of $2,152,000 and a revenue requirement increase of $233,000.

7. Deferred Taxes

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to reflect the effects of his adjustments to Utility Plant, the Daily Metering project and the Mainframe Computer project on Deferred Taxes. (ICC Staff Exhibit 13.0, Schedule 13.02)

b. Staff's Recommended Disposition

Mr. Griffin made corresponding adjustments to his rate base adjustments that affect Deferred Taxes.

c. Revenue Requirement Impact

A rate base increase of $1,509,000 and a revenue requirement increase of $163,000

8. Pension Asset

a. Staff's Proposed Adjustment

Staff witness Pugh proposed an adjustment to reduce rate base by a net amount ($105,410,000) (a ($184,192,000) pension asset less $78,782,000 of related accumulated deferred income taxes ("ADIT")) to disallow what, for regulatory purposes, represents an over accrual of pension credits. (ICC Staff Exhibit 3.0, pp. 2-3, lines 38-55 and ICC Staff Exhibit 12.0, p. 4, lines 66-70) Company witness O'Connor opposes the disallowance of the net pension asset for the reasons outlined in Nicor Gas Exhibit 26A.0, pp. 54-57, lines 1219-1279.

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment to reduce rate base by a net amount of ($105,410,000), which includes the pension asset of ($184,192,000) and the related accumulated deferred income taxes ("ADIT") of $78,782,000.

c. Revenue Requirement Impact

Staff's adjustment reduces rate base by a net amount of ($105,410,000) which in turn reduces the revenue requirement by a net amount of ($11,407,000).

IV. OPERATING REVENUES, EXPENSES AND INCOME

A. Uncontested Issues

1. PGA and ECR Adjustment

In direct testimony, Staff witness Struck proposed an adjustment to remove PGA and Coal Tar Rider revenues and the associated costs for presentation purposes. Mr. Struck explained that removing these items would provide a clearer presentation of the costs and revenues used to derive the revenue requirement the Company should recover through base rates. (ICC Staff Exhibit 1.0, pp. 9-10, lines 180-202) The Company agreed with Mr. Struck and removed PGA and coal tar rider revenues and costs from the base rate revenue requirement presented in the Company's rebuttal testimony. (Nicor Gas Exhibit 26B.0, p. 75, lines 1691-1698) This is a matter of presentation only and has no impact upon the Company's base rates revenue requirement.

2. Lobbying Expense

Staff witness Theresa Ebrey proposed an adjustment to disallow expenses related to lobbying activities included in the Company's Outside Professional Services (ICC Staff Exhibit 2.0, p. 10, lines 174-176 and ICC Staff Exhibit 11.0 Revised, p. 3, lines 40 - 42).

Company witness Gorenz agreed with the basis for the adjustment proposing a reduction to test-year operating expenses of $213,000 relating to non-recoverable lobbying related costs (Nicor Gas Exhibit 26B.0, p. 85, lines 1909 – 1919).

3. Promotional and Goodwill Activities

Staff witness Pugh proposed an adjustment to remove items from the Company's contributions because they are either of a promotional, goodwill or institutional nature. (ICC Staff Exhibit 3.0, p. 14, lines 304-307 and ICC Staff Exhibit 12.0, p. 12.0, pp. 22-23, lines 476-479)

Company witness Suppes states in her rebuttal testimony that in order to narrow the issues in this rate case the Company does not oppose the adjustment. (Nicor Gas Exhibit 23.0, p. 6, lines 116-126)

4. Matching Gift Program

Staff witness Pugh proposed an adjustment to remove the charitable contributions for the Matching Gift Program since such cost should be paid by stockholders. (ICC Staff Exhibit 3.0, p. 18, lines 402-404 and ICC Staff Exhibit 12.0, p. 23, lines 488-491)

Company witness Suppes states in her rebuttal testimony that in order to narrow the issues in this rate case the Company does not oppose the adjustment. (Nicor Gas Exhibit 23.0, p. 6, lines 116-126)

5. Injuries and Damages Expense

Staff witness Pugh withdrew her adjustment to Injuries and Damages Expense in the interest of narrowing the issues in this proceeding. (ICC Staff Exhibit 12.0, p. 25, lines 524-529)

B. Contested Issues

1. Uncollectibles Expense

a. Staff's Proposed Adjustment

Staff witness Struck recommends the Commission reject the Company's proposal to recover the commodity-related portion of its uncollectibles expense through the Company's Purchased Gas Adjustment Clause ("PGA"). (ICC Staff Exhibit 1.0, p. 11, lines 213-224)

b. Staff's Recommended Disposition

The purpose of the PGA is to change rates based upon changes in the cost of purchased gas. (ICC Staff Exhibit 1.0, pp. 16-18, lines 311-388) Uncollectibles expense is not an unrecovered cost of purchased gas; it is a cost of doing business on something other than a cash-only basis. (ICC Staff Exhibit 1.0, pp. 13-15, lines 254-310) Staff witness Struck also demonstrates that the Company's uncollectibles expense does not stand out in comparison to the Company's overall operating expenses in a way that warrants special treatment through a rider like the PGA. (ICC Staff Exhibit 1.0, pp. 19-26, lines 401-503) If the Commission does determine that the gas commodity portion of uncollectibles expense should be recovered through the PGA, then Mr. Struck recommends the Commission initiate a rulemaking to revised 83 Ill. Adm. Code Part 525 accordingly. (ICC Staff Exhibit 1.0, p. 27, lines 518-530)

c. Revenue Requirement Impact

The Company's proposal would remove $23,417,000 from the Company's bases rates revenue requirement and reassign that amount to the PGA. Staff witness Struck's recommendation includes an adjustment to restore the $23,417,000 in the Company's

base rates revenue requirement. (ICC Staff Exhibit 10.0-Revised, Schedule 10.02-Revised, page 1, column (c), line 6)

2. Rate Case Expense

a. Staff's Proposed Adjustment

Staff witness Ebrey is proposing an adjustment to Rate Case Expense based on Staff's 8-year amortization period (ICC Staff Exhibit 11.0 Revised, p. 4, lines 73 – 75). The Company argues that a five-year amortization period is conservative and reasonable based on the determination made in its last general rate case and the amortization periods approved in recent rate cases (Nicor Gas Exhibit 26B.0, p. 84, lines 1886 – 1888).

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment to decrease Rate Case Expense by $268,000 based on Staff's proposed 8-year amortization period for rate case expense.

c. Revenue Requirement Impact

Staff's adjustment decreases the operating expenses by $268,000.

3. Depreciation Expense

a. Staff's Proposed Adjustment

Staff witness Griffin proposed an adjustment to reflect the effects of his adjustments to Utility Plant, the Daily Metering project and the mainframe Computer project on Depreciation expense. (ICC Staff Exhibit 13.0, Schedule 13.03)

b. Staff's Recommended Disposition

Mr. Griffin made corresponding adjustments to his rate base adjustments that affect Depreciation Expense

c. Revenue Requirement Impact

A revenue requirement decrease of ($325,000).

4. Incentive Compensation

a. Staff's Proposed Adjustment

Staff witness Pugh proposed an adjustment to disallow incentive compensation and associated payroll taxes related to the 2005 Bonus Plans for reasons outlined in ICC Staff Exhibit 3.0, pp. 4-5, lines 81-88 and ICC Staff Exhibit 12.0, p. 7, lines 134-141. The Company rejects Staff's adjustment, stating that Staff's proposal is not valid, it is arbitrary and it is not in the interests of customers. (Nicor Gas Exhibit 25.0, p. 1, lines 13-15)

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment reducing operating expenses by a total of $6,555,000 ($6,089,000 for incentive compensation expense and $466,000 for associated payroll tax expense).

c. Revenue Requirement Impact

Staff's proposed adjustment to disallow incentive compensation expense reduces operating expenses by a total of $6,555,000.

5. Storage Gas Losses

a. Staff's Proposed Adjustment

Staff proposed an adjustment to include the cost of storage gas losses in Account 823 (Gas Losses), an operating and maintenance cost instead of recovering the cost through the Purchased Gas Adjustment ("PGA") charge. (ICC Staff Exhibit 3.0, p. 8, lines 165-168 and ICC Staff Exhibit 12.0, p. 11, lines 217-221) The Company disagrees with Staff's adjustment because the Company has been including the 2% storage withdrawal adjustment factor in the same manner since the 1970's, which is recovery through Rider 6. (Nicor Gas Exhibit 27B.0, p. 7, lines 149-150) Mr. Harms further states that if the Company is ordered to make a change, the method Ms. Pugh has proposed is the best choice of the other alternatives. (Nicor Gas Exhibit 27B.0, p. 7, lines 151-153)

Company witness Gorenz in his rebuttal testimony, Nicor Gas Exhibit 26B.0, p. 76, lines 1714-1717, states that irrespective of the ultimate ruling on the rate design issue relating to these expenses, Ms. Pugh's calculation is inappropriate and results in a substantial understatement of the potential adjustment. Staff maintains the position that determining the amount related to gas storage losses should be calculated only on Company-owned gas in Company-owned storage reservoirs. The ratepayers should not pay for storage losses on third-party gas. (ICC Staff Exhibit 12.0, pp. 13-14, lines 277-285)

In Company witness Gorenz's Surrebuttal Testimony, Nicor Gas Exhibit 41.0, p. 22, lines 470-473, he describes an amount of the 2% withdrawal factor that is attributable to sales customers. That amount, 61% of total aquifer storage withdrawals, is used to calculate the estimated gas storage losses for Nicor Gas-Owned gas from

On-System storage for the forecast 2005 test year (demonstrated on Exhibit 1 of the Company's response to Staff data request LAP 11.03). Staff accepts this calculation as a reasonable estimated amount of storage gas losses to be charged to Account 823 instead of recovery through the PGA.

b. Staff's Recommended Disposition

Staff recommends that the Commission approve the amount of storage gas losses as calculated on the Company's Exhibit 1 in response to ICC Staff data request LAP 11.03. This amount increases Other Operating and Maintenance, Storage costs by $9,971,865 and decreases taxes associated with the storage gas losses for $3,963,318. (Company response to Staff data request LAP 11.03, Exhibit 1)

c. Revenue Requirement Impact

Staff's recommendation increases the revenue requirement by a net amount of $6,008,547.

6. Industry Association Dues

a. Staff's Proposed Adjustment

Staff witness Pugh proposed an adjustment to remove expenses associated with certain community organizations from the Company's miscellaneous expense for dues and memberships because the nature and purpose of the organizations demonstrate that membership in the community organizations are of a promotional, goodwill and institutional nature. (ICC Staff Exhibit 3.0, pp. 15-16, lines 345-350 and ICC Staff Exhibit 12.0, p. 17, lines 365-371) The Company disagrees with Staff's adjustment because it believes that Nicor Gas should be permitted to recover the dues associated with its participation in community and industry organizations and because Staff's

characterization of these expenses as promotional and goodwill is not supported. (Nicor Gas Exhibit 23.0, pp. 6-7, lines 134-140)

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment to reduce Industry Association Dues for $93,000.

c. Revenue Requirement Impact

Staff's proposed adjustment to Industry Association Dues decreases the operating expenses by $93,000.

7. Social and Service Club Dues

a. Staff's Proposed Adjustment

Staff witness Pugh proposed an adjustment to remove expenses associated with the dues and memberships for certain organizations from the Company's miscellaneous general expense because participation in such groups is a promotional and goodwill practice. (ICC Staff Exhibit 3.0, p. 17, lines 378-384 and ICC Staff Exhibit 12.0, p. 20, lines 417-423) The Company disagrees with Staff's adjustment because it believes that Nicor Gas should be permitted to recover the dues associated with its participation in community and industry organizations and because Staff's characterization of these expenses as promotional and goodwill is not supported. (Nicor Gas Exhibit 23.0, pp. 6-7, lines 134-140)

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment to reduce Social and Service Club Dues for $85,000.

c. Revenue Requirement Impact

Staff's proposed adjustment to Social and Service Dues decreases the operating expenses by $85,000.

8. Stock Option Expense

a. Staff's Proposed Adjustment

Staff witness Pugh proposed an adjustment to eliminate the expense for the fair market value of stock options from utility cost of service. The stock options reward employees based on the increase in the price of common stock shares and therefore benefit shareholders, not ratepayers. (ICC Staff Exhibit 12.0, p. 24, lines 515-518) Staff did not propose the adjustment to Stock Option Expense until the Rebuttal phase, therefore, the Company did not have an opportunity to respond to Staff's adjustment. However, AG witness Effron proposed an adjustment to Stock Option Expense (AG Exhibit 1.0, p. 23, lines 19-22, and p. 24, lines 1-11; and AG Exhibit 1.3, p. 20, lines 15-23, and p. 21, lines 1-2), which the Company rejects for the grounds discussed earlier in relation to incentive compensation program costs. (Nicor Gas Exhibit 25.0, p. 13, lines 274-279)

b. Staff's Recommended Disposition

Staff recommends that the Commission approve its adjustment to reduce Stock Option Expense for $891,000.

c. Revenue Requirement Impact

Staff's proposed adjustment to Stock Option Expense decreases the operating expenses by $891,000.

V. CAPITAL STRUCTURE AND COST OF CAPITAL

A. Uncontested Issues

1. Cost of Long-Term Debt

The parties agree that the embedded cost of Nicor Gas' long-term debt is 6.72%. (ICC Staff Exhibit 14.0, Schedule 14.1; CUB-CCSAO Exhibit 3.0, p. 2; Nicor Gas Exhibit 36.1.)

2. Cost of Preferred Stock

The parties agree that the embedded cost of Nicor Gas' preferred stock is 4.77%. (ICC Staff Exhibit 14.0, Schedule 14.1; CUB-CCSAO Exhibit 3.0, p. 2; Nicor Gas Exhibit 36.1.)

B. Contested Issues

1. Capital Structure

Staff recommends a capital structure for Nicor Gas comprising $177,608,285 (13.65%) of short-term debt, $478,311,049 (36.77%) of long-term debt, $1,386,101 (0.11%) preferred stock, and $643,607,150 (49.47%) of common equity. (ICC Staff Exhibit 14.0, Schedule 14.1) The Company recommends a capital structure comprising $500,376,000 (43.51%) of long-term debt, $1,401,000 (0.12%) preferred stock, and $648,156,000 (56.37%) of common equity. (Nicor Gas Exhibit 36.1, p. 2) CUB-CCSAO adopted Staff's short-term debt balance recommendation, but adopted the Company's recommendations for the other capital structure component balances. (CUB-CCSAO Exhibit 3.0, p. 2)

The primary dispute with regard to the capital structure is whether or not short-term debt should be included in Nicor Gas' capital structure. Staff and CUB-CCSAO

maintain that Nicor Gas uses short-term debt to finance a portion of its rate base and, thus, short-term debt should be included in Nicor Gas' capital structure. (ICC Staff Exhibit 14.0, Schedule 14.1; CUB-CCSAO Exhibit 3.0, p. 8) The Company maintains that short-term debt should be excluded from its capital structure. (Nicor Gas Exhibit 36.0, pp. 7-17) However, the Company suggests that, if short-term debt is to be included in Nicor Gas' capital structure, no more than $36,625,000 of short-term debt should be included. (Nicor Gas Exhibit 36.0, pp. 16-17)

In addition, Staff adjusts all the components in its recommended capital structure to reflect the Commission's methodology for calculating the AFUDC, which assumes that short-term debt is the first source of funds financing CWIP. (ICC Staff Exhibit 5.0, pp. 6-7) The Company argues that such an adjustment is not necessary if short-term debt is excluded from the capital structure. (Nicor Gas Exhibit 36.0, p. 21)

The Company also takes issue with Staff's calculation of Nicor Gas' long-term debt balance. The Company argues that the unamortized discounts and expenses attributable to retired debt should not be deducted from the long-term debt balance as Staff proposes. (Nicor Gas Exhibit 36.0, pp.20-21)

2. Cost of Short-Term Debt

The Company estimates the cost of short-term debt is 4.12%. (Nicor Gas Exhibit 36.0, p. 17) The Company's estimate reflects a forecasted interest rate plus commitment fees. Staff estimates the Company's cost of short-term debt is 2.58%. (ICC Staff Exhibit 5.0, pp. 12-13) Staff's estimate is based on the current interest rate on commercial paper and does not reflect commitment fees. Staff argues that the Company has failed to establish the reasonableness of the commitment fees reflected

in its short-term debt cost recommendation and, thus, should not be allowed to recover them through rates. (ICC Staff Exhibit 14.0, p. 7) CUB-CCSAO adopted Staff's cost of short-term debt recommendation. (CUB-CCSAO Exhibit 3.0, p. 8)

3. Cost of Common Equity

Staff estimates the investor-required rate of return on common equity for Nicor Gas is 9.54%. (ICC Staff Exhibit 14.0, Schedule 14.1) Staff measured the investor-required rate of return on common equity for Nicor Gas with DCF and CAPM analyses, which it applied to a sample of natural gas distribution companies. (ICC Staff Exhibit 5.0, pp. 13-14) The S&P credit ratings and business profile scores for Nicor Gas and the companies in Staff's sample indicate that Nicor Gas is significantly less risky than Staff's sample. Accordingly, Staff adjusted the investor-required rate of return for its sample downward to derive its estimate of the investor-required rate of return for Nicor Gas. (ICC Staff Exhibit 7.0, pp. 10-11)

The Company recommends a 10.82% rate of return on common equity for Nicor Gas. (Nicor Gas Exhibit 36.1, p. 2) The Company measured the investor-required rate of return on common equity for Nicor Gas with DCF and CAPM analyses, which it applied to a sample of regulated utility companies. The Company's cost of equity estimate was adjusted upward to reflect selling and issuance costs. (Nicor Gas Exhibit 21.9)

CUB-CCSAO recommends a 9.86% cost of common equity. (CUB-CCSAO Exhibit 3.0, p. 2) CUB-CCSAO performed a DCF analysis on the same proxy sample the Company employed. (CUB-CCSAO Exhibit 1.0, p. 12) The CUB-CCSAO estimate includes Staff's downward adjustment for the lower risk of Nicor Gas relative to the

proxy sample and excludes the Company's upward adjustment to reflect selling and issuance costs. (CUB-CCSAO Exhibit 3.0, pp. 13-15)

VI. COST OF SERVICE AND RATE DESIGN

A. Uncontested Issues

1. Companion Rates

Staff accepts the concept of companion rates, in which rates between similar groups of customers are based upon a comparison of rates for gas supply customers and transportation customers. Generally, transportation customers pay less for volumetric distribution charges to reflect their lower overall bills compared to a gas supply bill for similar volumes distributed because transportation customers are not billed by Nicor for gas supply. Nicor obtains gas supply for gas supply customers, but transportation customers obtain their own gas supply. Transportation customers also pay for their use of Nicor's storage facilities through the Storage Banking Service charge, which is not paid by gas supply customers. Gas supply customers pay for their use of the Company's storage facilities through the volumetric distribution charge.

Companion rates are Rates 4 and 74, Rates 6 and 76, and Rates 7 and 77. Staff also included Rates 10 and 11 with Rates 4 and 74. Rates 10 and 11 are not applicable to a significant number of customers, but it appears Nicor also groups Rates 10 and 11 with Rates 4 and 74 because the Rates 10 and 11 are the same as Rate 4.

B. Contested Issues

1. Using A 10-Year Average Rather Than A 30-Year Average Of Heating Degree Days For Purposes Of Weather Normalizing Billing Determinants

a. Staff's Proposed Adjustment

Staff witness Gene Beyer recommends that the determination of normal weather continue to be based on a 30-year average of heating degree days rather than the Company's proposal to use a 10-year average.

b. Staff's Recommended Disposition

As the Commission has consistently done for Illinois' electric and natural gas companies, Staff recommends that the Commission continue to utilize a 30-year average as the basis for determining normal weather until the Commission can (1) gather and consider the input from all natural gas and electric utilities and (2) determine if a basis other than the 30-year period as measured by heating degree days is appropriate. To this end, Staff recommends the Commission initiate a generic proceeding to address the best approach to the weather normalization of test year billing determinants. The Commission would have a broad range of potential outcomes available to it in a generic proceeding.

If the Commission is persuaded to adopt the Company's 10-year period to determine normal weather for purposes of weather normalizing test year billing determinants, Staff witness Beyer recommends that, in its final order, the Commission also require the Company to file a weather adjustment tariff subsequent to the final order in this case that would mitigate the revenue effects of actual versus normal weather.

If the Commission were not persuaded by the Company's argument, Staff witness Beyer would continue to recommend the Commission require the Company to file a weather adjustment tariff subsequent to the final order in this case that would mitigate the effects of actual versus normal weather. This would also alleviate the Company's questions and concerns about a statewide proceeding as well as other issues raised in the Company's rebuttal concerning a rulemaking, single issue ratemaking, retroactive ratemaking, and cost recovery. A weather adjustment tariff would provide assurance to the Company that it can recover its costs, and it would also provide assurance to the customers that they are reimbursing the Company for no more and no less than its prudently incurred costs. Staff witness Beyer recommends that the Company, Staff, and other parties not wait for a Commission order, but, rather, begin discussions now regarding the development and implementation of a weather adjustment tariff.

Regardless of the Commission's action in this rate case, it remains my position that a generic case is necessary in which Illinois' gas and electric companies and other interested parties can participate to discuss ways to address the weather issues. Staff plans to begin contacting the companies and other parties in the very near future to begin this dialogue.

c. Revenue Requirement Impact

This is not a revenue requirement issue. The revenue requirement is based on rate base, income statement, and rate of return.

2. Embedded Cost of Service Study

Staff developed customer class cost of service through an embedded cost of service study ("e-coss"). Nicor developed customer class cost of service through a marginal cost of service study ("m-coss"). Staff believes an e-coss delivers results more in line with current costs of providing utility service and is closer to how revenue requirement is determined. Nicor believes an m-coss is more forward-looking and provides a more accurate price signal to customers of the cost to provide utility service.

3. Average Peak Allocation Factor ("A&P")

Staff used an A&P allocation factor to allocate distribution costs. Nicor used a Coincident Peak ("CP") allocation factor. Staff believes the A&P allocates distribution costs in a way that fairly balances how the distribution system is used throughout the year, rather than only one or a few peak days, with the maximum design capability of the system. Staff also believes that CP does not properly show the incremental costs associated with adding capacity to the system to accommodate additional peak demand. Nicor believes that cost allocation should be based upon the cost to construct the distribution system to accommodate the maximum demand placed upon the system, which is shown through the CP.

4. Demand Allocation Factor

Staff based the allocation of demand costs upon a demand allocation factor that reduced the Company's calculation of the Rates 1 and 4 share of peak demand. Nicor increased the Rates 1 and 4 share of peak demand by 18.4 percent above Nicor's calculated use by Rates 1 and 4 customers on a 79 Heating Degree Day ("HDD"). Staff reduced the Rates 1 and 4 share of demand costs to Nicor's calculation based upon a

79 HDD. Demand costs for other rate classes were based upon the Maximum Daily Contract Quantity ("MDCQ") for those rate classes as of March 31st, 2004. MDCQ as of March 31st, 2004 was based upon calendar year 2003, which did not have a 79 HDD. The coldest day in Chicago during the calendar year 2003 was only 61 HDD. Staff believes that eliminating the additional 18.4 percent from projected Rates 1 and 4 peak day usage based upon 79 HDD is a reasonable approximation of relative customer class peak demands in a typical year, if not overstating the demands of Rates 1 and 4, though to a smaller extent than the Nicor determination of demand allocation.

5. Modified Distribution Mains Study ("MDM Study")

Staff adjusted the Company's MDM Study so that overall customer class demand is consistent with Staff's position on the allocation of demand costs. Distribution mains costs allocated according to the MDM Study are based upon the customer class demands upon the distribution system and the percentage of customers within each rate class attached to various sized distribution main. Since Staff believes that Nicor overstated the demands of Rates 1 and 4 relative to other rate classes, costs for distribution mains that Rates 1 and 4 use in common with other rate classes are over-allocated to Rates 1 and 4 in the Company's MDM Study.

6. Uncollectible Accounts Expense

Staff allocated uncollectible accounts expense based upon relative class revenue requirement, rather than Nicor's revised position that allocates uncollectible accounts expense 84 percent to residential customers.

Staff accepts the general proposition that uncollectible accounts expense from gas supply billings should be allocated to gas supply ("sales") customers. Staff reduced

the amount of uncollectible accounts expense allocated to gas sales customers by a similar percentage (2/3rds) of late payments revenues resulting from gas supply billings.

7. Rate Design

Staff's rates are based primarily upon the results of the Staff e-coss, adjusted for additional revenue recoveries to allow the Company the opportunity to recover revenues that do not cover Rate 17 customer class revenue requirement. Nicor's rates are based upon its m-coss.

8. Rate 1

Staff's customer charge is based upon Rate 1 customer and other costs, determined through Staff's e-coss, divided by Rate 1 monthly billings. Nicor's m-coss suggests that the Rate 1 customer should be higher than its own proposed Rate 1 customer charge, which is higher than Staff's proposed Rate 1 customer charge.

Staff proposes 2 blocks of Rate 1 volumetric distribution rates with a difference between the 2 blocks that is narrower than each of the differences between Nicor's proposed 3-block volumetric distribution rates that decline from the first to the second to the third blocks. Currently, Rate 1 has 3 usage blocks with wider differences than the difference between Staff's proposed 2 blocks. Volumetric distribution rates for Rate 1 are designed to recover Rate 1 demand and volume-related costs. Nicor states that fixed costs to attach a customer are approximately the same, so it is appropriate to recover approximately the same demand costs from small volume users as large users within Rate 1 through the volumetric distribution charge. Staff's proposed approximately volumetric distribution rates recover demand and volume costs on essentially an average cost per therm.

9. Rate 4

Staff proposes a single Rate 4 volumetric distribution rate, while Nicor proposes a declining 3-block Rate 4 distribution rate. Staff's rates are based upon the Staff e-coss.

10. Rider 7

Staff opposes Nicor's proposal to have the opportunity to annually update the various Rider 7 rates that could be placed into effect the Order in this docket. Nicor would have approximately 500 different Rider 7 rates in effect, but Rider 7 would recover only $7.9 million in local government costs in this docket. Staff does not object to the Company's proposal to recover local government costs from customers within the jurisdiction of various local governments, but the Commission should not be required to review up to 500 changes in Rider 7 rates. Staff's position is to allow Rider 7 rates to go into effect based upon the information in this docket, but revisions to Rider 7 rates would not be allowable until the next Nicor rate case.

VII. RULES, REGULATIONS AND CONDITIONS OF SERVICE

A. Rider 12

In direct testimony, the Company proposed to 1) add language to Rider 12 to allow for recovery of research and development ("R & D") costs associated with environmental remediation; 2) add the phrase "Manufactured Gas Operations"; and 3) change the basis for the interest component to be included in the reconciliation process from the Company's after tax cost of capital to the short term interest rate determined annually by the Commission (Nicor Gas Exhibit 12B.2, pp. 88 – 90).

With respect to the Company's first proposal, Staff does not recommend to include recovery of R & D costs through Rider 12 should be rejected since:

1. Recovery of R & D costs are already provided for in base rates,

2. The USOA specifically addresses the accounting treatment of such costs, and

3. The Commission has previously ruled that general R & D costs, even though they may be related to environmental remediation, must be specific to the Company's MGP sites to be considered for recovery under an environmental rider. (ICC Staff Exhibit 2.0, pp. 14 – 15, lines 291 – 298)

Regarding the Company's second proposal, Staff witness Ebrey also does not support the addition of the phrase "Manufactured Gas Operations" since it adds confusion to the current Rider 12 language (ICC Staff Exhibit 2.0, p. 15, lines 302 - 313). With respect to the final proposal, Staff does not oppose the change for the basis of the interest component included in the reconciliation process (ICC Staff Exhibit 2.0, p. 16, lines 318 – 326).

In rebuttal testimony in response to Staff's argument against including "Manufactured Gas Operations" to current Rider 12, Company witness Harms claims that "The Commission granted utilities the ability to remove costs relating to MGP operations from base rates and allowed those costs to be recovered through a rider. Ms. Ebrey's position would not be consistent with the Commission's decision in granting MGP cost recovery riders." (Nicor Gas Exhibit 27B.0 p. 9, lines 188 – 191) However, this is a mischaracterization of the Commission's Order in Docket No. 91-0080 et al., which discusses recovery of "coal tar *cleanup* costs" and "coal tar *remediation* expense" (Order Docket 91-0080 et al at 63, emphasis added) and is much more restrictive than "MGP operations" (ICC Staff Exhibit 11.0 Revised, p. 10, lines 186 – 190). Further, despite claiming that the addition of the words "Manufactured Gas Operations" in its

Rider 12 would allow it to recover certain costs it believes it is not currently recovering (Nicor Gas Exhibit 27B.0, p. 9, lines 203 – 206), the Company has not shown how it is being discriminated against and just what costs that it is prevented from recovering through Rider 12 (ICC Staff Exhibit 11.0 Revised, p. 13, lines 242 - 252).

Staff opposes the first two revisions the Company proposes to its Rider 12 because:

1. R&D costs as incurred for remediation at a specific Nicor site have already been approved for recovery under the existing tariff language.
2. The addition of the language proposed by the Company for recovery of R&D costs does not allow for the site-specific analysis necessary to determine recoverability through Rider 12.
3. The Commission has previously ruled that general R&D costs, even though they may be related to environmental remediation and may be prudent, must be specific to the Company's MGP sites to be considered for recovery under an environmental rider.

The Company has not proven its claim that it is being discriminated against in recovery of costs necessitating the addition of the phrase "Manufactured Gas Operations". (ICC Staff Exhibit 11.0 Revised, pp. 13-14, lines 256 - 267)

VIII. Other Issues

A. Uncontested Issues

There are no uncontested other issues.

B. Contested Issues

1. Customer Select Rider 16 Supplier Withdrawals from Storage

Staff witness Borden proposes that Customer Select requirements be changed such that suppliers are able to vary daily withdrawals from storage on a daily basis according to forecasted daily variations in weather. (ICC Staff Exhibit 17.0, pp. 4-8)

However, if the Commission is reluctant to adopt Staff witness Borden's proposed gradual change to the Customer Select program during this proceeding, then Mr. Borden recommends that the Commission order a collaborative process to commence for Customer Select to review storage issues and implement storage withdrawal requirements that provide for greater daily flexibility in response to daily changes in weather. (ICC Staff Exhibit 17.0, p. 4)

2. On System Storage Capacity or Storage Banking Service ("SBS")

Staff witness Borden recommends that the Commission maintain the MDQ approach to the allocation of storage because it links the allocation of storage costs to the use of storage capacity at peak times. Mr. Borden recommends the use of the coincident peak for working gas in storage to determine the MDCQ for SBS. Mr. Borden reviewed the historic coincident peak for working gas in storage provided by the Company in its response to IIEC data request 4.09, and recommends that the MDCQ be increased from the current 26 days to 27 days. (ICC Staff Exhibit 17.0, pp. 8-12)

3. Cycling Requirements

Staff witness Borden supports the Company's proposal for a 90% gas in storage requirement by November 1. Mr. Borden disagrees with the Company's penalty charges if transportation customer fails to meet this requirement. Mr. Borden disagrees with the Company's proposed requirement that all but 10% of a transportation customer's inventory be removed from storage by April 1. (ICC Staff Exhibit 8.0, pp. 10-12)

4. Uncollectible Expense

Staff witness Borden proposes that uncollectible expense associated with gas supply be recovered from sales customers only. (ICC Staff Exhibit 17.0, pp. 13-15)

5. Working Gas in Storage Capital Costs

Mr. Borden proposes that working gas in storage capital costs no longer be recovered from Customer Select customers. (ICC Staff Exhibit 17.0, pp. 15-16)

6. Customer Select Sign Up Issues

Mr. Borden recommends that the Commission reject Dominion Retail's recommendation that the meter number be required to authorize a customer switch. Instead Mr. Borden recommends that the customer account number be required. (ICC Staff Exhibit 17.0, pp. 16-17)

7. Energy Efficiency

Mr. Borden recommends that the Commission reject Mr. Kushler's proposal requiring the Company to spend $38 million per year or not less than $10 million per year (presumably over a five year period) on energy efficiency programs. Mr. Borden recommends that if Commission determines to pursue energy efficiency initiatives that it first undertake a collaborative process to address all issues. (ICC Staff Exhibit 17.0, pp. 17-18)

8. Hub Services

Mr. Borden and the Company agree that revenues from Hub services should be credited to the PGA and that the costs associated with Hub services should be recovered in base rates. Mr. Borden remains opposed to the Company's position to

provide Hub loans for beyond the current 120 day limit and he opposes the removal of the one year limitation on all Hub services. (ICC Staff Exhibit 17.0, pp. 18-22)

IX. ACRONYMS AND TERMS

A. Rate Base

1. GCRF

Gross Revenue Conversion Factor is a calculation that is based on the Federal tax rate, state tax rate, and the Company's uncollectible rate. It is an amount that is applied to the income deficiency to derive the change in the Company's revenue requirement.

B. Operating Revenues, Expenses and Income

1. ECR

ECR refers to the Company's Rider 12, Environmental Cost Recovery.

2. PGA

Purchased Gas Adjustment Clause.

C. Capital Structure and Cost of Capital

1. Accounting earnings

Earnings calculated from accounting-based valuations rather than market-based valuations.

2. BPS

A basis point ("BPS") is 1/100 of a percentage point.

3. CAPM

The Capital Asset Pricing Model is a method both Staff and the Company used to estimate the cost of common equity.

4. CEM

The Comparable earnings model is a model the Company used to estimate its cost of common equity.

5. CWIP

Construction Work In Progress.

6. DCF

Discounted Cash Flow is a method both Staff and the Company used to estimate the cost of common equity.

7. Overall Cost of Capital

Overall cost of capital is the sum of the costs of the capital structure components (i.e., debt and equity) after weighting each component according to its proportion of total capitalization.

8. Regression beta

Regression beta refers to a beta that Staff calculated using the Merrill Lynch beta estimation methodology.

9. S&P

Standard & Poor's is one of the rating agencies that rates credit risk. The U.S. Securities and Exchange Commission has designated S&P a Nationally Recognized Statistic Rating Organization.

10. Value Line beta

Value Line beta is a beta that either Value Line publishes or it calculated using the Value Line methodology.

D. Cost of Service and Rate Design

1. A&P

Average and Peak allocation factor.

2. COSS

A Cost Of Service Study is a study performed to functionalize a utility's revenue requirement into basic categories and to allocate those costs across rate classes to determine each class' cost of service. Rates can then be designed to recover the cost to serve each customer class. In the water industry, embedded cost studies are utilized as the main guide to designing rates unique to each utility.

3. CP

Coincident Peak allocation factor.

4. HDD

Heating Degree Day.

5. e-coss

Embedded cost of service study.

6. m-coss

Marginal cost of service study.

7. MDCQ

Maximum Daily Contract Quantity.

8. MDM Study

Modified Distribution Mains Study.

E. Other Issues

1. SBS

Storage Banking Service.

X. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve its recommended rate base of $ 1,289,611,000, as found on ICC Staff Exhibit 10.0-Revised, Schedule 10.01-Revised; weighted cost of capital of 7.55%, as found on ICC Staff Exhibit 14.0, Schedule 14.1, which reflects an estimate of the investor-required rate of return on common equity of 9.54% as found on ICC Staff Exhibit 14.0, Schedule 14.1; revenue requirement of $560,745,000, as found on ICC Staff Exhibit 10.0-Revised, Schedule 10.01-Revised; and embedded cost of service study and rate design as found on ICC Staff Exhibit 16.0, Schedules 16.1 through 16.6."

Respectfully submitted,

_____
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of the Illinois Commerce Commission

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Illinois Commerce Commission

May 17, 2005

ATTACHMENT A

Northern Illinois Gas Company

Revenue Effect of Adjustments

For the Test Year Ending December 31, 2005
(In Thousands)

Line No.	Description	Amount	Effect at Company's ROR	Effect of Staff's ROR	Effect of Interest Synchronization	Rounding	TOTAL REVENUE EFFECT
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Company's Proposed Revenues - Total						$ 583,586 [1]
2	Staff's Proposed Overall Rate of Return Applied to the COMPANY'S RATE BASI	7.55%		$ (35,899)			(35,899)
3	Staff's Proposed Return on Equity	9.54%					
4	Staff's Proposed Adjustments - Total RATE BASE (From Page 2 of 3)		$ (23,022)	3,773	$ 2,858	-	(16,391)
5	Staff's Proposed Adjustments - Total OPERATING INCOME STATEMENT (From Page 3 of 3)						29,449
6	Gross Revenue Conversion Factor Adjustment						- [2]
7	Rounding						-
8	Total Effect of Staff's Proposed Adjustments						(22,841)
9	Staff's Proposed Revenues						$ 560,745
10	Rounding (Memo Only)			-	Memo Only		
11	Staff's Proposed Overall Rate of Return Applied to STAFF'S RATE BASE (Memo Only			$ (32,126)	Memo Only		

[1] Source: ICC Staff Exhibit 10.0-Revised, Schedule 10.01-Revised, columns (b) + (e), line 5.
[2] Source: ICC Staff Exhibit 10.0-Revised, Schedule 10.01-Revised, column (f), line 5.

Note: Witness Identification

Ex. 4.0 and 13.0 - Thomas L. Griffin
Ex. 1.0 - Scott A. Struck
Ex. 11.0 - Theresa Ebrey
Ex. 12.0 - Leslie A. Pugh

Northern Illinois Gas Company
Revenue Effect of Adjustments
For the Test Year Ending December 31, 2005
(In Thousands)

Line No.	Description	Exhibit	Net Rate Base Adjustment (1)	Effect at Company's ROR (2)	Effect of Staff's ROR (3)	Effect of Interest Synch.(4)	Rounding	TOTAL REVENUE EFFECT (5)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)
1	Staff Adjustments - RATE BASE							
2	Average Rate Base	ICC Staff Exhibit 10.0-Revised, Schedule 10.08-Revised	$ (40,069)	$ (6,090)	$ 998	$ 756	$ -	$ (4,336)
3			-	-	-	-	-	-
4	Overfunded Pension Asset	ICC Staff Exhibit 12.0, Schedule 12.01	(105,410)	(16,021)	2,626	1,989	(1)	(11,407)
5	Utility Plant Adjustments	ICC Staff Exhibit 4.0, Schedule 4.01	(8,742)	(1,329)	218	165	-	(946)
6	Daily Metering Project	ICC Staff Exhibit 4.0, Schedule 4.02	(389)	(59)	10	7	-	(42)
7	Mainframe Computer	ICC Staff Exhibit 4.0, Schedule 4.03	(522)	(79)	13	10	-	(56)
8	Accumulated Depreciation Adjustment	ICC Staff Exhibit 13.0, Schedule 13.01	2,152	327	(54)	(41)	1	233
9	Deferred Taxes Adjustment	ICC Staff Exhibit 13.0, Schedule 13.03	1,509	229	(38)	(28)	-	163
10			-	-	-	-	-	-
11			-	-	-	-	-	-
12			-	-	-	-	-	-
13			-	-	-	-	-	-
14			-	-	-	-	-	-
15			-	-	-	-	-	-
16			-	-	-	-	-	-
17			-	-	-	-	-	-
18			-	-	-	-	-	-
19			-	-	-	-	-	-
20			-	-	-	-	-	-
21			-	-	-	-	-	-
22			-	-	-	-	-	-
23			-	-	-	-	-	-
24			-	-	-	-	-	-
25			-	-	-	-	-	-
26			-	-	-	-	-	-
27			-	-	-	-	-	-
28			-	-	-	-	-	-
29			-	-	-	-	-	-
30			-	-	-	-	-	-
31			-	-	-	-	-	-
32			-	-	-	-	-	-
33			-	-	-	-	-	-
34			-	-	-	-	-	-
35			-	-	-	-	-	-
36			-	-	-	-	-	-
37			-	-	-	-	-	-
38			-	-	-	-	-	-
39	Subtotal		(151,471)	(23,022)	3,773	2,858	-	(16,391)
40	Rounding		-	-	-	-	-	-
41	Total		$ (151,471)	$ (23,022)	$ 3,773	$ 2,858	$ -	$ (16,391)

(1) Source: ICC Staff Exhibit 10.0-Revised, Schedule 10.04-Revised, line 23.
(2) Source: Net Rate Base Adjustment x Co. ROR x Staff GRCF.
(3) Source: Net Rate Base Adjustment x (Staff ROR - Co. ROR) x Staff GRCF.
(4) Source: Net Rate Base Adjustment x (Staff After-tax ROR - Staff Before-tax ROR) x Staff GRCF.
(5) Source: Net Rate Base Adjustment x Staff After-tax ROR x Staff GRCF.

Northern Illinois Gas Company
Revenue Effect of Adjustments
For the Test Year Ending December 31, 2005
(In Thousands)

Line No.	Description	Exhibit	Operating Income Adjustment (1)	TOTAL REVENUE EFFECT (2)	Remove Rate Base Portion (3)	Operating Income Statement Portion (4)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Staff Adjustments - OPERATING INCOME STATEMENT					
2	Interest Synchronization	ICC Staff Exhibit 10.0-Revised, Schedule 10.06-Revised	$ (2,271)	$ 3,822	$ (2,858)	$ 964
3	Uncollectibles Expense	ICC Staff Exhibit 10.0-Revised, Schedule 10.09	(14,110)	23,750		23,750
4	Rate Case Expense	ICC Staff Exhibit 11.0, Schedule 11.01	161	(271)		(271)
5	Incentive Compensation	ICC Staff Exhibit 12.0, Schedule 12.02	3,949	(6,647)		(6,647)
6	Gas Storage Losses	ICC Staff Exhibit 12.0, Schedule 12.03	(7,760)	13,061		13,061
7	Industry Association Dues	ICC Staff Exhibit 12.0, Schedule 12.04	56	(94)		(94)
8	Social & Service Club Dues	ICC Staff Exhibit 12.0, Schedule 12.05	51	(86)		(86)
9	Stock Option Expense	ICC Staff Exhibit 12.0, Schedule 12.06	537	(904)		(904)
10	Depreciation Expense	ICC Staff Exhibit 13.0, Schedule 13.03	193	(325)		(325)
11			-	-		-
12			-	-		-
13			-	-		-
14			-	-		-
15			-	-		-
16			-	-		-
17			-	-		-
18			-	-		-
19			-	-		-
20			-	-		-
21			-	-		-
22			-	-		-
23			-	-		-
24			-	-		-
25			-	-		-
26			-	-		-
27			-	-		-
28			-	-		-
29			-	-		-
30			-	-		-
31			-	-		-
32			-	-		-
33			-	-		-
34			-	-		-
35			-	-		-
36			-	-		-
37			-	-		-
38			-	-		-
39	Column Total		$ (19,194)	$ 32,306	$ (2,858)	29,448
40	Rounding					1
41	Total Revenue Effect of Operating Statement Adjustments					$ 29,449

(1) Source: ICC Staff Exhibit 10.0-Revised, Schedule 10.02-Revised, line 23.
(2) Source: Operating Income Adjustment x Staff GRCF.
(3) Source: ICC Staff Exhibit 10.0-Revised, Schedule 10.05-Revised, page 2, column (f), line 41.
(4) Source: Column (d) + column (e).