

*Vanguard Energy Services, LLC (“Vanguard”) suggests that the Commission modify section IX.A.2. beginning on page 81 of Nicor’s Proposed Order as follows:*¹

2. Embedded Cost of Service Study

Vanguard’s Position

Vanguard states that for the purposes of this case, Nicor has accepted the concept of an Embedded Cost of Service Study (Nicor Pretrial Memorandum, page 39.), but continues to use non-residential classes of customers to subsidize residential customers. Nicor’s proposed rate design for residential customers and non-residential customers deviates from the ratemaking objective of assigning costs in accordance with cost-causation because Nicor limits the increase in the customer charge, currently \$6.00, for Rate 1 customers to \$8.40. Vanguard submits that Nicor’s use of this customer charge cap is arbitrary. Nicor’s failure to remove this arbitrary cap that it placed on the Rate 1 customer charge is a reflection of Nicor’s desire to create an amicable tariff structure for residential customers at the expense of the remaining rate classes, particularly transportation customers. Nicor should remove the cap placed on the Rate 1 customer charge and recalculate the base rate charges for all rate classes that were proposed by Albert Harms in Nicor Exhibits 17.1 through 17.11. Nicor’s own expert, Dr. Kenneth Gordon stated: “It is very important that customer rates provide proper signals and that those customers that cause costs on the system are allocated those costs.” (See Nicor Gas Exhibit 2.0, page 24 lines 467-69.) (Vanguard Initial Brief, pages 1-2.)

Commission Conclusion

The Commission directs Nicor to remove the cap placed on the Rate 1 customer charge and recalculate the base rate charges for all rate classes pursuant to a cost-causation rate design. This action will result in a rate design for both residential and non-residential customers that reflects cost-causation principles and is equitable.

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¹ Additions to Nicor’s Proposed Order are indicated by underlined text. Deletions from Nicor’s Proposed Order are indicated by strikethrough text.

Vanguard suggests that the Commission modify section IX.B.2. beginning on page 85 of Nicor's Proposed Order as follows:

2. Rate 5: Seasonal Use Service and Rate 75: Seasonal Use Transportation Service [uncontested]

BEAR has proposed a new Rate 5, Seasonal Use Service, which would be available to non-residential customers with minimal peak winter usage. (BEAR Ex. 1) No Nicor Gas, Staff, or other intervenor witness has contested this proposal. Vanguard was also a proponent of a separate rate class for non-residential customers with minimal peak winter usage. (Vanguard Exhibit 1.0.) Vanguard has proposed that customers on BEAR's suggested Rate 5 Rider 25 should be able to transfer storage bank gas to another Nicor customer, for a fee similar to Nicor's excess storage transfer fee, within a stipulated period of time after the customer's billing cycle has been issued. Vanguard also proposed that actual distribution charge rates be indicated for the period effective as of January 1, 2007, as opposed to "xx.xx per therm." (Vanguard Initial Brief, pages 2-3.) The Commission finds the proposed Rate 5 and the suggested change regarding Rate 5 Rider 25 appropriate and therefore approves ~~it~~ them at the rate of _____ per therm. Nicor Gas, in its compliance filing, should modify the tariff language to make clear that it is limited, as intended, to non-residential customers.

BEAR also proposed a new companion transportation service to Rate 5, Rate 75, Seasonal Use Transportation Service, which concerns commercial and industrial grain dryers with minimal peak winter usage. (BEAR Ex. 1) No Nicor Gas, Staff, or other intervenor witness has contested this proposal. Vanguard proposed that actual distribution charge rates be indicated for the period effective as of January 1, 2007, as opposed to "xx.xx per therm." (Vanguard Initial Brief, page 3.) The Commission finds the proposed Rate 75 appropriate and therefore approves it at the rate of _____ per therm. Nicor Gas, in its compliance filing, should modify the tariff language to make clear that it is limited, as intended, to non-residential customers.

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Vanguard suggests that the Commission modify section IX.B.3. beginning on page 85 of Nicor's Proposed Order as follows:

3. Rider 6

Nicor Gas' Proposal

Nicor Gas has proposed to apply earnings from hub revenues, particularly transportation customer capacity, as credits to sales customers under Rider 6. (Nicor Gas Ex. 8, Page 7 line 150-61.)

Vanguard's Position

Vanguard expressed concerns regarding Nicor's proposed changes for hub services, namely that the hub will take capacity that a transportation customer is currently subscribed to, and paying for, but not "fully" using. Nicor will then use any revenue generated from this storage and apply it to the Company's Rider 6 Gas Cost, for the benefit of sales customers. Vanguard stated that the hub should not be taking what Nicor perceives to be "underutilized" storage capacity of transportation customers. However, should this be deemed an acceptable practice, Vanguard stated that the revenue should be credited back to the transportation customers who are currently paying for the capacity whether or not Nicor believes the customer is "fully" using the capacity. (Vanguard Exhibit 1.0)

Commission Conclusion

The Commission directs Nicor to provide transportation customer capacity credits to transportation customers, not to Rider 6 sales customers.

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Vanguard suggests that the Commission modify section IX.B.8.(a)(1) beginning on page 96 of Nicor's Proposed Order as follows:

a. Allocation

1. Storage Capacity Allocation

Nicor explains that Storage Banking Service, typically called SBS, is a service offered to transportation customers which allows them to serve all or part of their demands from supplies of gas that they have previously stored in Nicor Gas' storage fields. In addition, when transportation customers' deliveries in a day exceed demand, they may store the excess gas in Nicor Gas' fields. Each eligible customer has the right to elect for an annual period the amount of SBS it wishes to take, up to a certain guaranteed amount. (Nicor Gas Ex. 8.0)

The parties have agreed that the amount of SBS to which each transportation customer is entitled is a function of the total available seasonal withdrawal capacity and an allocation among these customers based on each individual customer's Maximum Daily Contract Quantity (MDCQ). The MDCQ is the maximum amount of gas that the customer can require Nicor Gas to deliver on a given day. (Nicor Gas Ex. 8.0)

Nicor Gas' Proposal

Nicor Gas has used the formula approved in the last rate case, ICC Docket No. 95-0219, to determine the allocation of SBS: the estimated amount of gas to be cycled during a year, divided by the estimated peak day send out for the entire system. Based on this calculation Nicor Gas proposed an SBS allocation of 23 times a customer's MDCQ. This update is reflected in Nicor Gas' proposed Terms & Conditions dealing with transportation services, SBS and Firm Backup Service (Sheet No. 49), and SBS and FBS selections (Sheet No. 50.1). Likewise, Nicor Gas has proposed a conforming change to the level of storage allocated to each Customer Select Group under Rider 16 (Sheet No. 75.7). (Nicor Gas Ex. 8.0)

No party has taken issue with the use of the methodology from Nicor Gas' last rate case or with Nicor Gas' proposed peak day send out of approximately 52,580,000 therms. Nicor Gas used Bcf, which represents the amount of gas that Nicor Gas expects to cycle in a year, as the numerator in the equation. Nicor Gas argues that using 120 Bcf is appropriate because it represents the amount of gas which, given the limitations of the physical storage system, Nicor Gas reasonably plans to cycle. (Nicor Gas Ex. 8.0)

Staff's Position

Staff recommended that the Commission maintain the MDCQ approach as it links allocation to use of storage capacity at peak times. Staff asserted that the correct figure to use for the numerator is Nicor Gas' coincident maximum working gas. Staff calculated averages of coincident maximum working gas over the last three, five, and ten years. Using these figures, Staff calculated a storage allocation of 27 times the customer's MDCQ.

IIEC-CNE-RGS Position

IIC, CNE, and RGS disagreed with Nicor Gas' proposed cycled gas volume of 120 Bcf. They have argued that Nicor Gas should use a figure of 149.74 Bcf, which represents the sum of non-coincident capacity of Nicor Gas' eight storage fields. IIEC, CNE, and RGS argue that transportation customers should be entitled to an amount based on the capacity of Nicor Gas' storage fields, not what Nicor Gas intends to cycle in a particular year. Using this figure results in a storage allocation of 28.5 times MDCQ. (IIEC/CNE Jt. Ex. 1)

Vanguard's Position

Vanguard stated that Nicor witness Gary Bartlett uses an "Estimated Amount of Gas Cycled During a Year" (Nicor Gas Exhibit 8.1, A) as the numerator. Instead, Nicor's top gas, 1,497,400,000 therms (Nicor Gas Exhibit 8.0, line 84), not their "guesstimate" of cycled gas 1,200,000,000 therms, should be the numerator. Therefore, the calculation for determining SBS days should be top gas divided by the "Estimated Peak Day Sendout for the entire Company System", 52,580,000 therms (Nicor Exhibit 8.1, B), or $1,497,400,000 / 52,580,000$, which results in 28 days. However, Vanguard recommends that the Commission leave the SBS days at the current level of 26 days. (Vanguard Exhibit 1.0.)

Nicor Gas' Response

In regard to Staff's calculation of coincident peak, Nicor noted that Staff had not corrected its figures for Nicor Gas' recent reclassification of working gas when reviewing historical numbers. Nicor Gas showed that the reclassification must be considered to compare historical averages with the test year forecast. When corrected for Nicor Gas' reclassification, the averages of the last three, five and ten years would be 136, 138, and 133 Bcf. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0) These corrected averages result in an allocation of 25 times MDCQ, not 27 as reported in the Staff testimony.

In regard to the suggestion to use the non-coincident peak volume of 149.74 Bcf for the storage allocation numerator, Nicor Gas presented several arguments indicating why using that figure would be incorrect. First, Nicor Gas points out that the non-coincident capacity is the total of the capacity of each storage field, even though they reach their maximum capacity level on different days. Therefore, 149.74 Bcf does not represent the capacity of the system as a whole at any particular time. Accordingly, Nicor Gas argues that even if one were to use total working gas, instead of estimated gas actually cycled as Nicor Gas proposes, one should use the coincident maximum volume as suggested by Staff. This figure was 132 Bcf in 2004, which results in an allocation of 25 times MDCQ. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Nicor Gas argued that total working gas, even the coincident total, is not, however, the correct figure. Total working gas is an amount which, in theory, Nicor Gas could draw out of its fields and reinvest over the course of a year under ideal conditions. One of those ideal conditions is that Nicor Gas would be able to draw its working gas down to zero before beginning to inject gas to meet its requirements for the following season. According to Nicor

Gas, this is something that Nicor Gas cannot prudently do. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Nicor Gas presented evidence that the ability to deliver gas at a given rate is directly related to the amount of gas in the fields. For example, Nicor Gas must maintain its maximum deliverability from storage of 2.5 Bcf in a single day, as late as January 20 of the season. Accordingly, in order to meet its required targets late in the withdrawal season, Nicor Gas argues that it will always be necessary to have some gas left “in the tank” when it comes time to begin injecting for the following season. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Nicor Gas highlights that transportation customers are free to withdraw all their gas before Nicor Gas’ design day (January 20), refill their storage, and withdraw it all again by April 1. They do not need to consider the necessary reservoir pressure to achieve a target deliverability, and do not face a reduction in the amount of gas they can withdraw, so long as they have gas in storage.

Commission Conclusion

~~Because the 120 Bcf figure used by Nicor Gas best represents the actual amount of gas that Nicor Gas will cycle in a given year, it is the most appropriate figure for the storage allocation. Using the non coincident peak value of Nicor Gas’ fields would be incorrect, as this is not an accurate reflection of the capacity of the files at any point in time. Using Total working gas, whether the coincident or non coincident peak, would force Nicor Gas to allocate gas which for operational reasons it does not plan to cycle. Nicor Gas’ proposal of 120 Bcf is a reasonable forecast for the gas actually expected to be cycled. The Commission finds that 120 Bcf should be used, resulting in an allocation of 23 times a customer’s MDCQ Nicor shall leave the SBS days at the current level of 26 days.~~

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Vanguard suggests that the Commission modify section IX.B.8.(a)(4) beginning on page 100 of Nicor's Proposed Order as follows:

(4) Maximum Daily Nomination

Nicor Gas Proposal

The daily nomination is the amount of gas a transportation customer can deliver to Nicor Gas for use or additions to storage. Nicor Gas proposes that maximum daily nominations by transportation customers during the heating season be reduced from two times the customer's MDCQ to one times the customer's MDCQ. According to Nicor Gas, the basic principle underlying the change is that winter injections run counter to Nicor Gas' overall objectives to cycle its fields. (Nicor Gas Ex. 12B.0)

Staff's Position

Staff supports Nicor Gas' proposal to reduce maximum daily nominations by transportation customers during the heating season from two times the customer's MDCQ to one times the customer's MDCQ. (Staff Ex. 8.0)

Vanguard/CNE/IIEC's Position

Vanguard, CNE, and IIEC suggests that Nicor Gas should not be restricting gas flow into the system during the cold months when gas use is at its highest. (Vanguard Exhibit 1.0; IIEC Ex. 2) Vanguard stated that Reducing the maximum nomination of marketers into Nicor's system during the winter puts more of a burden on the utility to purchase gas when the demands of the system increase, typically due to colder weather. During the winter season, demands on Nicor's distribution system are increased due to cold weather by both sales customers and transportation customers alike. Natural gas prices in the Chicago market typically rise when the weather gets colder. Therefore, reducing the MDCQ for transportation customers could have a negative impact on sales customers' gas commodity price because the utility will be forced to buy additional gas at higher prices to maintain system reliability. Vanguard also stated that the current working environment between Nicor and marketers and the current MDCQ enables marketers to assist Nicor during Advisory Notices and on Critical Days. If the current MDCQ is reduced, marketers will no longer be able to effectively assist Nicor when a supply situation threatens operational integrity. (Vanguard Initial Brief, pages 4-5.)

RGS' Position

RGS claims that Nicor Gas' proposal "discriminates" against transportation customers because Nicor Gas injects gas into storage during the winter to restore field performance. RGS argues that since Nicor Gas injects gas during the winter, it is unduly attempting to prevent transportation customers from having the same flexibility. (Ex. 1.0)

Nicor Gas' Response

Nicor Gas states that its proposal still allows transportation customers to nominate their entire MDCQ during the winter and continues to provide excellent flexibility for transportation customers without placing an undue burden on Nicor Gas and the retail customers. Since transportation customers are not using their MDCQ every day, all transportation customers will have the flexibility to do some re-injection in the winter. According to Nicor Gas, the extreme flexibility currently in place for one segment of customers runs directly counter to Nicor Gas' goal of cycling its storage as a whole. (Nicor Gas Ex. 24.0)

Nicor Gas responded to Vanguard's, CNE's, and IIEC's arguments, stating that based on experience running the storage fields, Nicor Gas' proposed limits will not reduce gas deliveries to the system on cold days when Nicor Gas needs it most. Nicor Gas highlights that since the limit is set at the maximum daily usage, not average use or actual use, some re-injection will be possible. (Nicor Gas 39.0)

In regard to RGS' argument, Nicor Gas states that there is no discrimination. Indeed, according to Nicor Gas, even one MDCQ is more flexibility than Nicor Gas' system actually has: the system equivalent of all customers; MDCQ is its worst case "design day," and Nicor Gas cannot actually inject its full design day amount of gas on any day of the year, let alone a day in the withdrawal season. (Nicor Gas Ex. 24.0) Storage fields cannot perform at peak withdrawal rates continuously. Withdrawals at high rates impact subsequent days, and Nicor Gas argued that it may need to re-inject gas to be able to meet demand for all customers, including transportation customers. According to Nicor Gas, transportation customers will have significant flexibility to re-inject gas during the withdrawal season. (Nicor Gas Ex. 39.0)

The Commission's Conclusion

~~Nicor Gas storage assets require cycling within parameters in order to maintain optimum operability. Nicor Gas' transportation customers are not forced to comply with the operational demands of maintaining optimal deliverability from storage throughout the withdrawal season. Now Nicor Gas has proposed limitations to prevent transportation customers from acting in a manner counter to that needed to maintain the storage asset. Nicor Gas' proposal to reduce maximum daily nominations by transportation customers during the heating season from two times the customer's MDCQ to one times the customer's MDCQ will hamper marketers' ability to help Nicor maintain system integrity. still provides transportation customers with sufficient flexibility.~~ Therefore, the Commission ~~approves~~ denies Nicor Gas' proposed reduction in maximum daily nominations.

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Vanguard suggests that the Commission modify section IX.B.8.(c) beginning on page 103 of Nicor's Proposed Order as follows:

(c) Cycling

Nicor Gas' Proposal

Underground aquifer fields, including all the gas storage fields owned by Nicor Gas, physically require that gas be seasonally cycled – that is, that gas be injected to near capacity and then drawn down each year. Nicor Gas asserts that failure to properly cycle the storage fields would lead to loss of capability in the short run, and possibly, in the long run as well. (Nicor Gas Ex. 8.0)

Nicor Gas proposes to establish cycling targets for the use of gas storage by end use transportation customers. Specifically, Nicor Gas proposes that failure to bring stored gas levels to at least 90% by November 1 would result in reduction of Critical Day and OFO Shortage Day withdrawal capability, and failure to reduce balances to 10% or less of the maximum inventory level by April 1 would result in a reduction in the customer's daily summer injection rights. Nicor Gas believes that this leaves transportation customers with significant flexibility; a transportation customer can draw its entire storage down to zero during the winter season, fill it back up, and suffer no consequences so long as it draws down to 10% before April 1. (Nicor Gas Ex. 8.0)

Under the current regime, in which there are no cycling targets for transportation customers, Nicor Gas argues that it is entirely possible, and even likely, that individual customers will actually work against Nicor Gas' attempts to cycle its storage fields. According to Nicor Gas, to the extent that end use transportation customers elect to withdraw and inject gas in a manner inconsistent with the physical requirements of the fields, Nicor Gas and its customers must either suffer a degradation of this valuable asset, or Nicor Gas must use its own purchases to compensate. (Nicor Gas Ex. 8.0)

Staff's Position

Staff supports Nicor Gas' proposal for a 90% gas in storage requirement by November 1. However, Staff disagrees with penalty provision proposed by Nicor Gas. In addition, Staff disagreed with the requirement to cycle all by 10% by April 1.

IIEC/CNE's Position

IIEC opposes Nicor Gas' proposals to require transportation customers to cycle their storage. IIEC highlights that neither Hub customers nor Nicor Gas itself cycle to the proposed levels. In addition, IIEC argues that the storage fields need not be cycled by November 1 and April 1, as these dates are driven by the space heating needs of the sales customers. (IIEC/CNE Jt. Ex. 1)

Vanguard's Position

Vanguard states that Nicor's "Chicago Hub," which markets the utility's excess storage capacity and operational flexibility, engages in monetizing the same market opportunities that drive the storage activity of customers transporting on Nicor's system. Vanguard further states that inasmuch as the Chicago Hub, whose operating parameters are dictated by Nicor, engages in the very same activity that Nicor now suggests is detrimental to their system, the argument that marketer behavior strains Nicor's storage facilities is not persuasive.

In the alternative, should the Commission determine that tariff changes are needed to ensure that transportation customers follow a storage cycle program, Vanguard recommends a 75% bank capacity fill as of November 1 and a 30% bank capacity fill as of April 1 of each year. Vanguard stated that the less stringent withdrawal necessity for the April requirement stems from the fact that transportation customers elect to procure their natural gas requirements from a marketer as opposed to taking "Company Supply" from Nicor. Marketers are frowned upon by their customers if their transportation customers receive any portion of natural gas supply from the utility in the form of "Company Supply," and marketers may actually lose customers as a result of this. On the other hand, Nicor simply meets one hundred percent of sales customers' natural gas needs. If a 10% maximum bank fill capacity is in effect, there is no doubt that some transportation customers will take company supply. Thus, a minimum 30% bank fill capacity as of April 1 is eminently more reasonable.

In addition, Vanguard stated that marketers do not have access to intraday nominations by which they can balance transportation customers' accounts. For example, Rate 4 Rider 25 accounts are not required to have telemetry devices that would allow the marketer to see how much gas the account is consuming each day. (See Northern Illinois Gas Company d/b/a Nicor Gas Company ILL. C.C. No. 16 – Gas 3rd Revised Sheet No. 77, Nicor Exhibit 12B.1.) Also, meters for these accounts are typically read only every other month by a member of Nicor's meter reading department. (See Northern Illinois Gas Company d/b/a Nicor Gas Company ILL. C.C. No. 16 – Gas 4th Revised Sheet No. 39, Nicor Exhibit 12B.1.) This causes variations in metered consumption because in the months in which the meters are not physically read, Nicor's computer system estimates the Rate 4 Rider 25 bills. (See Northern Illinois Gas Company d/b/a Nicor Gas Company ILL. C.C. No. 16 – Gas 4th Revised Sheet No. 39, Nicor Exhibit 12B.1.) On the other hand, Nicor has the capability of balancing storage for sales customers as Nicor's staff is responsible for monitoring the storage fields. Thus, Nicor is able to plan an expected storage injection and withdrawal cycle for sales customers. Nicor also has the ability to extrapolate any deviations in planned storage injections and withdrawals by reducing the amount of gas injections or withdrawals of transportation customers from Nicor's working gas. Additionally, Nicor's Supply Department has access to intraday nominations to interstate pipelines should adjustments need to be made to balance the system requirements. Thus, while Nicor can obtain the information necessary to determine whether they are within the storage bank cycle parameters for sales customers, marketers do not have access to the same information nor do they have the ability to schedule intraday nominations. This makes it almost impossible to comply with Nicor's 90% and 10% extremes. (Vanguard Initial Brief, pages 5-8.)

Nicor Gas' Response

Nicor Gas stated, and IIEC agreed, that for Nicor Gas to compensate for the actions of the transportation customers when those actions run counter to the required cycling of the fields, Nicor Gas must deviate from its own planned purchases. Nicor Gas argues that as a result, the transportation customers effectively force Nicor Gas to alter its purchase, even if it results in added costs – purchases when the price is high, or scaling back purchases even though the price is low. These costs are borne, Nicor Gas claims, by the sales customers, even though cycling is a necessary action that benefits all customers on the Nicor Gas system. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

Nicor Gas presented evidence that in the summer of 2004, prices were expected to go down, and transportation customers held off on their purchases for storage. Nicor Gas, in order to get the fields up to the required levels, had to act, despite the prices, to acquire the needed gas. Then, in late summer, expectations changed, and higher prices were predicted. According to Nicor Gas, transportation customers began increasing injections aggressively, attempting to fill space in October that Nicor Gas had already filled. Nicor Gas claims it was forced to reduce its own purchases, contrary to what it would want to do based on price expectations. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

In regard to the transportation customers' argument that Nicor Gas itself does not meet the cycling targets it wants to set, particularly on the Spring 10% withdrawal side, Nicor Gas raised several points. First, Nicor Gas argues that it is not appropriate to look at the total volume of working gas that Nicor Gas cycles, because, as discussed in Section 1X(B)(8)(a)(1) of this Order, Nicor Gas prudently does not cycle every therm of its working gas. Thus, according to Nicor Gas, only the gas that Nicor Gas plans to cycle is allocated to the transportation customers. Second, Nicor Gas contended that the system-wide minimum gas storage level is not an accurate indicator of Nicor Gas' cycling. Nicor Gas presented evidence that Nicor Gas' fields do not reach their minimum level all at the same time, so that on any particular day, the system-wide level may not reflect the minimum for a particular field. (Nicor Gas Ex. 24.0; Nicor Gas Ex. 39.0)

According to Nicor Gas, the arguments made by the intervenors, and picked up in part by Staff, that there are various operational things Nicor Gas could do to cycle its fields even with the transportation customers continuing to work against it, ignore the cost of these solutions. Nicor Gas admits that it is "physically capable" of cycling its fields, even without the proposed incentives. However, Nicor Gas argues that the issue is not whether Nicor Gas can cycle, but rather who should bear the cost of this cycling when Nicor Gas is forced to take actions to get it done. These costs of operating the system and compensating for the actions of the transportation customers fall primarily on the sales customers.

Commission Conclusion

It is undisputed that cycling is a critically important part of managing gas storage fields. ~~Since all customers ultimately have an interest in the proper functioning of the storage fields, Nicor Gas' proposed cycling targets merely spread this responsibility equitably among the customer classes. Cycling storage gas is, however, currently being performed by transportation~~

~~customers and no further tariff changes are needed regarding this topic. Therefore, the Commission approves denies Nicor Gas' cycling requirements proposal. In addition, without some form of an incentive, transportation customers will continue to not cycle (or do so in a counterproductive manner) their gas. Accordingly, the Commission approves Nicor Gas' proposed tariff provisions to encourage cycling.~~

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In the alternative, to the extent that the Commission finds that minimum and maximum gas volume cycling thresholds are appropriate, Vanguard suggests that the Commission modify section IX.B.8.(c)(1) beginning on page 105 of Nicor's Proposed Order as follows:

(1) Super-pooling

CNE's Proposal

CNE proposes that Nicor Gas allow "super-pooling" of storage volumes for all groups of customers under common management of the same supplier in determining overall compliance with target cycling levels. (CNE Ex. 2.0) CNE argues that the proposed super pools will not affect customers or operation capabilities.

Vanguard's Position

Vanguard states that if the Commission approves cycling of storage gas at a stipulated maximum and minimum percent of a given storage bank capacity, then the Commission should require Nicor to treat marketers as an aggregation of each marketer's entire portfolio of transportation customers. In support of this position, Vanguard states that first, Nicor's intention is to ensure that transportation customers are cycling at a particular level of bank capacity. In most cases, each marketer is responsible for deciding upon the quantity and timing of gas deliveries for their respective customers. Therefore, the responsibility should reside with the marketer to ensure that its aggregate portfolio of customers meets the threshold maximum and minimum gas storage bank capacities.

Second, Vanguard states that there are atypical load shape customers, or atypical load shape account(s) of particular customers, including but not limited to chillers, swimming pools, asphalt, concrete, and grain dryers. Nicor cannot intend to penalize these individual customers because of their inverted load shape (as opposed to the traditional heat-load profile). Establishing the precedent that each account will be judged by Nicor on November 1 to see if the account has met the stipulated storage bank maximum or minimum is flawed at best. A business that has an inverted load shape cannot be expected to procure the necessary natural gas needed to fill the account's storage bank to at least the stipulated maximum value by November 1, knowing that there is little hope the account will consume enough gas to drain the storage bank balance to at least the stipulated minimum level by April 1. With the current trend in natural gas commodities prices, such action on the part of an inverted load shape customer will involve an extremely high cost of capital and an immeasurable lost opportunity cost for the business owner. The alternative for these inverted load shape accounts is to terminate transportation service with the marketer and return to Nicor as a sales customer. Ironically, at that point Nicor would not look at the customer individually to see if the sales account met the stipulated injection and withdrawal cycle. Instead, Nicor would include this individual account as a member of the much larger aggregation of all sales customers, similar to what was represented in Mr. Bartlett's graph in Nicor Gas Exhibit 8.0 on page 27. (Vanguard Initial Brief, pages 8-9.)

Nicor Gas' Response

Nicor Gas does not support this proposal. Balancing for each individual group will result in increased incentives for the supplier to meet the cycling requirements and better conformance to the cycling requirements. It would provide a benefit to all customers that suppliers meet the cycling requirements at the group level, not groups of groups. (Tr. 719; Nicor Gas Ex. 44.0) In addition, the proposed targets of 90%/10% were based on the existing pool sizes. If super-pools are accepted, Nicor Gas states that the targets should be changed to closer match 100%/0%. (Tr. 719; Nicor Gas Ex. 44.0)

Commission Conclusion

~~The Commission is not persuaded that super pooling will not affect Nicor Gas' operational capabilities, because monitoring compliance at the individual pool level will generate better compliance with the cycling requirements for the transportation group as a whole. In addition, the record does not indicate the proper cycling levels should super pooling be permitted. Accordingly, CNE's proposal to allow for super pooling of storage volumes is rejected. CNE's proposal to allow for super pooling of storage volumes is an adequate compromise between the marketers' position that no cycling should be required and Nicor's position that cycling is integral to its system function. The Commission therefore adopts CNE's super pooling proposal. Nicor shall view each marketer as an aggregate of all its customers for the purpose of determining whether the stipulated maximum or minimum storage bank capacity threshold is met, rather than assess each marketer managed account individually.~~

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Vanguard suggests that the Commission modify section IX.B.9. beginning on page 106 of Nicor's Proposed Order as follows:

9. Rider 13 – Group Size Limitation

CNE's Proposal

CNE has proposed to eliminate the size limitation for Rider 13. The current language of Rider 13 allows marketers and transportation customers to be billed as a group, but states that each group shall be limited to 50 accounts. CNE named several utilities that did not put a size limit on groups. (CNE Ex. 1.0)

Vanguard's Position

Vanguard stated that Nicor should increase the number of accounts for each Non-Common Ownership Group ("NCOG") from the existing maximum of 50 accounts to 150 accounts, or in the alternative, to a minimum of 75 accounts. Vanguard's rationale for this increase is four fold. First, Nicor has been successful at implementing technological and productivity efficiencies with contract processing and group management since the last rate case, such as process time to add or delete Rider 13 group members. (See Nicor Gas Exhibit 12B.0, page 21 lines 465-71.) Thus, it is only natural that the 50 account minimum set in 1994 should expand in order to fully utilize these efficiencies. Second, compared to prior years, there are presently fewer accounts on daily balanced transportation service rates. An increase in accounts will therefore not be overly burdensome for Nicor to manage, and indeed may simply raise the level of accounts on daily balanced transportation service rates to the numbers managed by Nicor in previous years. Third, Vanguard stated that Nicor's daily balanced meters are consistently maintaining an extremely high call-in rate to the Nicor meter shop. This high call-in rate translates to a minimal impact on delaying Nicor's billing even if additional accounts are added. Fourth, and by way of comparison, the Illinois utility responsible for providing natural gas service to accounts within the city limits of Chicago has a maximum of 150 accounts for their transportation Pooling Service ("Rider P"). (See The Peoples Gas Light & Coke Company ILL. C. C. No. 27 Sheet No. 132.) Rider SST mirrors Nicor's NCOG requirements regarding a daily read by a telemetry device and has been in service since the mid 1990's. (See The Peoples Gas Light & Coke Company ILL. C. C. No. 27 Sheet No. 97 and Sheet No. 98.) (Vanguard Initial Brief, pages 9-10.)

Nicor Gas' Response

Nicor Gas has stated that the current limitation on group size is imposed to maintain efficiency in administering billing and accounting functions at the group level. According to Nicor Gas, suppliers frequently change the make-up of their groups as customers move into and out of groups. Since all customers in a group are billed at the same time, Nicor Gas argues that billing errors typically impact several different customers. In Nicor Gas' opinion, expanding groups beyond 50 accounts increases the potential of billing errors for the group, and increases administrative costs. Nicor Gas points out that although CNE provided examples of some other

utilities which do not limit groups, CNE could not say how many transportation customers these utilities had compared to Nicor Gas. (Nicor Gas Ex. 27A.0)

Commission Conclusion

Nicor Gas has not shown that removal of the group size limitation would result in unnecessarily increased administrative costs which would be necessary to pass on to customers. Therefore, the Commission ~~rejects~~ accepts CNE's proposal to remove the limitation on group size as modified by Vanguard, and directs Nicor to increase the maximum number of accounts for each NCOG to 150.

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CERTIFICATE OF SERVICE

I, Ronit C. Barrett, being an attorney admitted to practice in the State of Illinois and one of the attorneys for Vanguard Energy Services, LLC, herewith certify that I did on the 5th day of July, 2005, electronically file with the Illinois Commerce Commission **Vanguard Energy Services, LLC's Partial Proposed Order**, and caused the same to be electronically served upon the persons identified as parties of record in Docket No. 04-0779.

A handwritten signature in cursive script that reads "Ronit Barrett". The signature is written in black ink and is positioned above a horizontal line.

Ronit C. Barrett