

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
on It's own Motion)	
)	Docket No. 05-0747
Northern Illinois Gas Company d/b/a)	
Nicor Gas Company)	
)	
Reconciliation of Revenues Collected)	
under Gas Adjustment Charges with)	
Actual Costs Prudently Incurred)	

Direct Testimony of

BOB O. BUCKLES

Coordinator Rate Administration, Economics and Rates

On Behalf of
Northern Illinois Gas Company
d/b/a Nicor Gas Company

April 11, 2006

1 **I. INTRODUCTION**

2 **Q. Please state your name.**

3 A. Bob O. Buckles.

4 **Q. By whom are you employed and what is the business address?**

5 A. Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas” or “Company”)
6 located at 1844 Ferry Road, Naperville, Illinois 60563.

7 **Q. What position do you hold with Nicor Gas?**

8 A. I am Coordinator Rate Administration, Economics and Rates.

9 **Q. Please summarize your educational background and your experience in the public**
10 **utility business.**

11 A. I hold the degree of Bachelor of Science, majoring in Energy Resource Management
12 from Eastern Illinois University. I have been employed by Nicor Gas since 1989. From
13 1989 until 2003, I held positions in Commercial and Industrial Sales, Energy
14 Management Services, Rates, Asset Planning and Development and Gas Supply
15 Operations. I assumed my present responsibilities in October, 2003.

16 **Q. Would you please describe your present job responsibilities?**

17 A. Yes. My present job responsibilities are primarily preparing and filing documents with
18 the Illinois Commerce Commission (the “Commission”) and reviewing Company
19 activities as they pertain to compliance with Company tariffs and the Illinois
20 Administrative Code.

21 **II. SUMMARY OF TESTIMONY**

22 **Q. What is the purpose of your testimony in this proceeding?**

23 A. The purpose of my testimony in this case is to explain Nicor Gas' reconciliation of Gas
24 Supply Cost ("GSC") revenues collected to recover its actual cost of gas distributed, to
25 the extent that such costs are recoverable, as recorded on the books of the Company for
26 the 12 months ending December 31, 2005. My testimony and exhibits are in response to
27 the Commission's Order Commencing Reconciliation Proceedings entered November 22,
28 2005, in Docket No. 05-0747.

29 **Q. Was notice given to the public relative to the filing of the testimony and exhibits in**
30 **this docket?**

31 A. Yes. Pursuant to the requirements set forth in the Commission's Order, and in
32 accordance with the requirements of 83 Illinois Administrative Code Part 255, we have
33 posted a printed "Public Notice" card with respect to this case in the business offices of
34 the Company, and a similar public notice was published in newspapers of general
35 circulation in Nicor Gas' service territory. A copy of the printed card and verifiable
36 support of publication will be presented during the hearings in this proceeding. In
37 addition, copies of Nicor Gas' testimony and exhibits are on file and available for public
38 inspection in each of the Company's business offices.

39 **Q. Is any further purpose served by your testimony?**

40 A. No.

41 **III. DESCRIPTION OF RIDER 6, GAS SUPPLY COST (“GSC”)**

42 **Q. Please generally describe Nicor Gas’ Rider 6, Gas Supply Cost.**

43 A. Rider 6 prescribes the method of computing Nicor Gas’ end-user charges, or rates, for the
44 recovery of the Company’s Cost of Gas Distributed (“GSC charges”). In particular, the
45 GSC charges developed under Rider 6 are designed to recover the costs the Company
46 incurs for quantities of gas the Company purchases, transports, stores and sells for the
47 purpose of serving its end-user customers. The purpose and intent of Rider 6 is to
48 promptly pass along to customers, through the GSC charges developed under the Rider,
49 Nicor Gas’ net gas supply cost, without markup or profit.

50 **Q. Does Rider 6 comply with the 83 Ill. Administrative Code Section 525 Purchased**
51 **Gas Adjustment Clause requirements?**

52 A. Yes. The Commission approved the Company’s Rider 6 as compliant with the
53 Commission’s Purchased Gas Adjustment Clause requirements on October 3, 1995 in
54 Docket No. 94-0403. Additionally, the Commission ordered certain changes to Rider 6,
55 in Nicor Gas’ recent gas rate case, Docket No. 04-0779.

56 **Q. Please describe in more detail the gas costs that are recoverable through Rider 6.**

57 A. Recoverable gas costs are derived in accordance with Part 525.40 of the 83 Illinois
58 Administrative Code and are specifically identified in Section D of Sheets 59 and 60 of
59 the Company’s filed tariffs (Ill. C.C. No. 16 – G). In general, the costs incurred by the
60 Company and recovered through Rider 6 are: (1) gas costs based on volumes of gas
61 purchased from suppliers, generally referred to as Commodity Gas Costs (“CGC”); and
62 (2) gas costs other than those defined as commodity related, generally referred to as Non-

63 Commodity Gas Costs (“NCGC”). The NCGC includes costs incurred from interstate
64 pipeline charges for transportation and storage.

65 **Q. Please describe the charges used to recover Nicor Gas’ costs through Rider 6.**

66 A. Attached to my testimony as Attachment BOB-1 is a list of the primary Rider 6 charges
67 along with corresponding descriptions of what type of costs each charge recovers and the
68 customer classes to which each charge is assessed. As seen in Attachment BOB-1, six
69 (6) gas charge components are employed under Rider 6: the Commodity Gas Cost charge
70 (“CGC charge”), the Non-Commodity Gas Cost charge (“NCGC charge”), the Demand
71 Gas Cost charge (“DGC charge”), the Gas Cost charge (“GC charge”), the Customer
72 Select Balancing Charge (“CSBC”) and the Transportation Service Adjustment (“TSA”).

73 **Q. Please describe the CGC charge.**

74 A. The CGC charge reflects Nicor Gas’ incurred commodity costs. It is applied to all therms
75 of Company-supplied gas.

76 **Q. Please describe the NCGC charge.**

77 A. The NCGC charge recovers the Company’s non-commodity costs on a cents per therm
78 used basis.

79 **Q. What does the DGC charge recover?**

80 A. Like the NCGC, the DGC recovers non-commodity gas costs but on a Maximum Daily
81 Contract Quantity (“MDCQ”) basis. The MDCQ is the maximum amount of gas used by
82 a customer in one (1) day. The DGC charge is applicable as a back-up charge to
83 customers on Nicor Gas’ system that have elected to transport their own gas supplies but
84 wish to maintain the availability of Company-supplied gas. It is also applied to

85 customers receiving sales service under either Rate 6, Large General Service, or Rate 7,
86 Large Volume Service.

87 **Q. Please describe the GC charge.**

88 A. The GC charge is the sum of the CGC charge and the NCGC charge. It applies to most
89 sales service rates other than Rate 6 or Rate 7.

90 **Q. Please describe the CSBC.**

91 A. The CSBC is applied to customers served under Rate 1, Residential Service, Rate 4,
92 General Service, Rate 5, Seasonal Use Service and participating in Nicor Gas' Customer
93 Select program. The CSBC represents that portion of the non-commodity gas costs used
94 to balance the customer's deliveries, use and storage inventory on a daily basis. The
95 CSBC had previously been known as the Aggregator Balancing Service Charge
96 ("ABSC") and was changed to the Customer Select Balancing Charge beginning
97 November 1, 2005 as approved by the Commission's Order in Docket No. 04-0779.

98 **Q. Could you explain the CSBC in more detail?**

99 A. Yes. In 1998, the Company began a customer choice program called Customer Select,
100 Rider 15. Under the provisions of the program, small use customers are able to choose
101 gas suppliers other than Nicor Gas. The program allows participating suppliers to
102 aggregate deliveries made on behalf of participating customers, in compliance with Rider
103 16, Supplier Aggregation Service. Today, the CSBC recovers certain non-commodity
104 gas costs on a per therm basis to all deliveries made by the Company to the facilities of
105 customers participating in the Customer Select program. The costs recovered by the
106 CSBC are those used to balance Customer Select deliveries with customers' use and

107 storage activities. The costs include those for off-system storage, no-notice delivery
108 services from interstate pipelines and certain other non-commodity gas costs.

109 **Q. Are these CSBC costs recovered exclusively through Rider 6?**

110 A. Yes. The CSBC is billed to Customer Select customers pursuant to the terms of Riders 6
111 and 15. Prior to November 2005, these costs were applied to deliveries to Customer
112 Select customers; however, the CSBC was billed to supplier aggregators as the ABSC.
113 Revenue arising from application of the CSBC is credited to the Company's non-
114 commodity related gas costs, thereby reducing the NCGC charge.

115 **Q. Please describe the Transportation Service Adjustment.**

116 A. The Transportation Service Adjustment is a commodity related charge or credit applied to
117 deliveries of customer-owned gas delivered to all transportation customers, including
118 Rider 25, Firm Transportation Service and Customer Select customers. The TSA is a
119 credit for the gross revenues derived from the operation the Company's Chicago Hub.
120 Sales customers receive a credit through a reduction in the CGC component of the GC.

121 **Q. Is the TSA refunded exclusively through Rider 6?**

122 A. Yes. As of October 4, 2005, revenues or credits arising through application of the
123 Transportation Service Adjustment have been included in the Company's commodity
124 related gas costs.

125 **Q. Is there anything further you would like to explain with regard to how these charges
126 are applied?**

127 A. Yes. While I described generally how each charge is assessed, specific application of
128 these charges varies depending on a customer's rate and elected level of backup service.

129 These charges may also apply at the calculated level, such as the CGC and the NCGC, or
130 at a percentage of the calculated level, such as the DGC. In addition, charges may apply
131 to gas supplied by Nicor Gas, customer-owned gas, total throughput or a percentage of
132 the customer's Maximum Daily Contract Quantity. In addition, since August 15, 1977,
133 authorized use, requested authorized use and unauthorized use therms sold to
134 transportation customers are priced at the higher of Nicor Gas' currently effective GC
135 charge or the Market Price, which is defined in the Company's Terms and Conditions as
136 the index price for deliveries of gas to the Chicago Citygate as published in *Platts Gas*
137 *Daily*.

138 **Q. What procedure does the Company follow to update its Rider 6 charges?**

139 A. In accordance with the provisions of Rider 6, each month Nicor Gas submits to the
140 Commission schedules specifying the amount of each Rider 6 charge. Each schedule
141 specifies the revised amount of each charge, along with a statement of details and data
142 showing Nicor Gas' calculations. The filings are mailed on or before the twentieth (20th)
143 day of the month prior to the effective month in which the new Rider 6 charges are
144 applied to customer's bills.

145 **Q. Has Nicor Gas filed monthly purchased gas adjustment calculations for 2005 with**
146 **the Commission?**

147 A. Yes.

148 **Q. How are Nicor Gas' Rider 6 charges applied in billing the Company's customers?**

149 A. Changes in Rider 6 charges become effective on the first day of a calendar month.
150 However, as a practical matter, Nicor Gas bills all customers on the basis of reading day
151 cycles that cover various monthly time periods. Therefore, the Company prorates the

152 effective amounts of the Rider 6 charges according to the number of days that each
153 charge is in effect during each customer's billing period. The prorated level of Rider 6
154 charges is shown on the customer's bill.

155 **Q. Please describe Nicor Gas' proration procedure.**

156 A. For each customer, the meter reading date is the controlling factor. If, for example, a
157 customer's meter is read on January 15th and had previously been read on December 16,
158 Nicor Gas assumes that 16/30 of the usage was subject to the Rider 6 charges effective in
159 December and 14/30 of the usage was subject to the charges during January. This system
160 of prorating charges has been used by the Company for many years and is embodied in
161 the revenue calculations reflected in the Attachments to this testimony.

162 **Q. Are Nicor Gas' Rider 6 charges updated through any other process?**

163 A. Yes. Rider 6 provides for an annual reconciliation, which is the purpose of this
164 proceeding.

165 **Q. What occurs during the reconciliation process?**

166 A. Generally speaking, as noted above, the revenue the Company recovered under its Rider
167 6 charges are compared with the Company's actual Cost of Gas Distributed for the
168 preceding year. If Nicor Gas' Rider 6 charges recovered a different amount of revenue
169 than the Company's actual Cost of Gas Distributed, then the Rider 6 charges are set at the
170 level such that the difference is either credited to or collected from customers, depending
171 on whether there was an over- or under-recovery, over the course of the following year.

172 **Q. Is each cost category reconciled?**

173 A. Yes. Pursuant to tariffs approved in Docket No. 95-0219 and filed in compliance with
174 Docket No. 94-0403, revenues recovered under the CGC charge are reconciled with
175 recoverable CGC, and revenues recovered under the DGC charge and NCGC charge are
176 reconciled with recoverable NCGC.

177 **Q. Does proration of the Rider 6 charges complicate a reconciliation of recovered**
178 **revenues with allowable recoverable gas costs?**

179 A. No. It is only the total amount of revenues recovered through each Rider 6 charge over
180 the preceding year that is relevant for performing the annual reconciliation.

181 **Q. Is the cost of gas used by the Company reflected in the amount to be recovered**
182 **through the Company's Rider 6 reconciliation?**

183 A. No. Such costs are not recoverable under Rider 6.

184 **IV. ANNUAL RECONCILIATION OF RIDER 6**

185 **Q. Was an annual reconciliation statement for 2005 filed in accordance with Rider 6?**

186 A. Yes. Nicor Gas' annual statement for the year 2005 is being filed simultaneously with
187 this testimony on April 11, 2006 and is attached hereto as Attachment BOB-2.

188 **Q. Please briefly describe the items contained within the filing.**

189 A. Attachment BOB-2 consists of eleven (11) pages, the first page of which is a transmittal
190 letter. The next ten (10) pages, or through page 11, represent the Company's annual
191 reconciliation for 2005.

192 **Q. What is contained within the portion of the Company’s filing that represents the**
193 **reconciliation for the year 2005?**

194 A. The first of the ten remaining pages is an Independent Accountants Report issued by
195 Deloitte & Touche LLP for the portion of the filing that represents the year 2005
196 reconciliation. The second page is a summary calculation of the reconciliation for the
197 year 2005. Pages three through five (3-5) contain a detailed explanation of the basis for
198 the summary calculation on page two (2). The sixth and seventh pages are detailed
199 reconciliations of the CGC and NCGC, respectively (“Reconciliation Balances”). The
200 eighth and ninth pages summarize the information included in the Company’s monthly
201 filings for CGC and NCGC, respectively (“PGA Reconciliations”). The final page is the
202 Verification of Mr. Gerald P. O’Connor.

203 **Q. Would you please explain the Summary Reconciliation in more detail?**

204 A. Yes. This statement compares the total revenues recorded under the various charges of
205 the Company’s Rider 6 provisions with the appropriate category of recoverable Cost of
206 Gas Distributed to arrive at the balance to be credited or recovered under the two
207 individual reconciliation balances. In other words, it sets forth the overall reconciliation
208 calculation, both based on a total of collected revenue as against total actual Cost of Gas
209 Distributed as well as broken down to the CGC and NCGC levels.

210 **Q. Does the Summary Reconciliation represent that the Company’s Rider 6 charges**
211 **over- or under-recovered the Company’s actual Cost of Gas Distributed for the year**
212 **2005?**

213 A. The calculation shows an over-recovery. In particular, the Company’s CGC charge over-
214 recovered CGC by \$101,357,146, and the NCGC charge over-recovered NCGC by

215 \$9,160,276. This represents a total amount to be credited to customers for the year 2005
216 of \$110,517,422.

217 **Q. Does the Summary Reconciliation also account for any adjustments included in**
218 **Commission proceedings regarding any prior reconciliations that the Company has**
219 **filed?**

220 A. No.

221 **Q. Were there any specific adjustments separately reported in the monthly filings for**
222 **the 2005 reconciliation year?**

223 A. No.

224 **Q. Were there any specific changes in the monthly GC filing and the 2005 annual**
225 **reconciliation that resulted from the Company's recent rate order in Docket No. 04-**
226 **0779?**

227 A. Yes. In addition to the Customer Select Balancing Charge and the Transportation Service
228 Adjustment, the Commission's Order in Docket No. 04-0779 also directed that Rider 6
229 could no longer be a mechanism for recovery from "sales" customers of the expenses
230 related to the Company's storage withdrawal factor. Therefore, the gas costs to be
231 covered recovered through Rider 6 no longer includes any mechanism to recover the
232 storage withdrawal factor.

233 **Q. Would you please describe the Reconciliation Balance for the CGC in more detail?**

234 A. Yes. This is a detailed reconciliation that reflects the monthly amounts of recoverable
235 commodity-related gas costs and revenues that were recorded under the Company's CGC
236 pursuant to Rider 6 for the 2005 reconciliation year.

237 **Q. Has the over-recovered commodity related Reconciliation Balance of \$101, 357,146**
238 **been reflected in the Company’s CGC charges?**

239 A. Yes. The Company has credited \$101,357,146. The over-recovered amount has been
240 reflected in the CGC charges effective for the months of January, February and March
241 2006.

242 **Q. Is the line item identified as “Commodity Related Over/Under Recovery” on the**
243 **Reconciliation Balance for CGC the same as the line identified as “Under/(Over)**
244 **Recovery Balance as 12/31/05” on the PGA Reconciliation for CGC?**

245 A. Yes. The Reconciliation Balance does not include any adjustments for the prior year’s
246 requested Factor O.

247 **Q. What does Factor O represent?**

248 A. Factor O represents additional over- or under-recovery for a reconciliation year ordered
249 by the Commission to be credited or collected including interest from the end of the
250 reconciliation year to the Order date in the reconciliation proceeding.

251 **Q. Please describe the Reconciliation Balance for NCGC in more detail.**

252 A. Like the Reconciliation Balance for CGC, this is a detailed reconciliation that reflects the
253 monthly amounts of recoverable non-commodity related gas costs and revenues that were
254 recorded under the Company’s NCGC and DGC pursuant to Rider 6 for the 2005
255 reconciliation year.

256 **Q. Has the balance to be refunded of \$9,160,276 been reflected in the Company's DGC**
257 **and NCGC charges?**

258 A. Yes. The Company has credited \$9,160,276. The over-recovered amount has been
259 reflected in the DGC and NCGC charges effective for the months of January and
260 February 2006.

261 **Q. Is the line item identified as "Non-Commodity Related Over/Under Recovery" on**
262 **the Reconciliation Balance for NCGC the same as the line item "Under/(Over)**
263 **Recovery Balance at 12/31/05" on the PGA Reconciliation of NCGC?**

264 A. Yes. The reconciliation balance does not include any adjustments for the prior year's
265 requested Factor O.

266 **V. EXPLANATIONS - INDIVIDUAL LINE ITEMS**

267 **Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled**
268 **"Excess Storage Charges."**

269 A. Pursuant to tariffs approved in Docket No. 95-0219, Nicor Gas' transportation service
270 customers are allowed to store certain volumes of customer-owned gas in Nicor Gas'
271 storage facilities. When a customer's actual storage balance is in excess of the allowed
272 storage balance, the excess storage balance volume is subject to an Excess Storage
273 Charge of \$0.10 per therm. All such Excess Storage Charge revenue billed to customers
274 is credited through the Commodity Related Reconciliation Balance in compliance with
275 the Commission's Orders in Docket No. 95-0219.

276 **Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled**
277 **“Storage Services.”**

278 A. Pursuant to the Commission’s Order in Docket No. 95-0219, Nicor Gas includes revenue
279 received from the sale of storage services to off-system customers as a credit to Rider 6
280 through the commodity-related Reconciliation Balance. The item entitled “Storage
281 Services” contains the revenue credits, which are equal to revenues billed for off-system
282 storage services in 2005.

283 **Q. Please explain the revenue item shown on the Reconciliation Balance for CGC**
284 **“Rider 5 Revenues.”**

285 A. Rider 5, Storage Service Cost Recovery, was also approved by the Commission in
286 Docket No. 95-0219. Rider 5 ensures recovery of the Company’s storage related
287 investments, following elections made by transportation customers. The cost of storage
288 investment not elected by transportation customers is recovered from sales customers
289 through Rider 5, which is added to and included as part of the monthly CGC charge for
290 billing purposes. The adjustment reflected for Rider 5 eliminates this revenue from the
291 Reconciliation Balance because it is unrelated to gas costs incurred.

292 **Q. Please explain the revenue item shown on the Reconciliation Balance for NCGC**
293 **entitled “Customer Select Balancing Charge.”**

294 A. As previously explained, this revenue item shows those revenues collected through the
295 application of the ABSC through October 31, 2005 and from the CSBC from
296 November 1 to December 31, 2005.

297 **Q. Please explain the commodity related cost line item shown on the Reconciliation**
298 **Balance for CGC entitled “Recovery From Hits By Contractor.”**

299 A. Recovery From Hits By Contractor represents revenues collected by the Company from
300 contractors whose damage to our facilities have resulted in gas losses. These revenues
301 are shown as a credit to recoverable CGC.

302 **Q. The Reconciliation Balances for both CGC and NCGC contain a line item entitled**
303 **“Amortization of Previous Years RB.” What do these line items represent?**

304 A. Pursuant to the Commission’s Order in Docket No. 94-0403, 83 Ill. Adm. Code 525.50(b)
305 allows the Company to amortize an Adjustment Factor (“Factor A”) over a period longer
306 than the Base Period, as defined in 83 Ill. Adm. Code 525.20, but not to exceed twelve
307 (12) months. These line items represent the amortization of the prior year’s over- or
308 under- collected gas costs. Prior to the Commission’s Order in Docket No. 94-0403,
309 amortization expense was reflected outside the calculation of the Reconciliation Balance.

310 **Q. Please explain the revenue item entitled “Interest on Refunds” as shown on the**
311 **Reconciliation Balance for CGC.**

312 A. Interest is calculated on the unamortized balances related to the amortization expenses
313 described above. Pursuant to 83 Ill. Adm. Code 525.50(b), the Company computes the
314 associated carrying charge on unamortized refunds and over/under collections, in effect at
315 the time the amortization is initiated, based on the rate established under 83 Ill. Adm.
316 Code 280.70(e)(1). Interest is included, through Factor A, with the CGC, NCGC and
317 DGC charges, as applicable.

318 **VI. OVERSIGHT**

319 **Q. In conjunction with the submittal of Annual Reconciliation Filing with the**
320 **Commission, has the Company's annual reconciliation been the subject of an**
321 **independent audit?**

322 A. The 2005 Annual Reconciliation Filing has been audited by Deloitte & Touche LLP, the
323 Company's independent public accountants. This report is included as part of the
324 Company's filing pursuant to Rider 6. The reconciliation itself is prepared by Nicor Gas
325 employees from several departments.

326 **Q. What type of review procedure is in place for the monthly GSC filings?**

327 A. The Rate, Gas Supply, Gas Supply Accounting and Forecasting Departments contribute
328 to preparation of the monthly filings. The departments are familiar with the terms and
329 provisions of Rider 6 and understand which costs are recoverable through each
330 subsection of the GSC. The Rate Department prepares the final document filed with the
331 Commission. Forecasting, Gas Supply and Gas Supply Accounting are involved in
332 preparation of the documents used to support the filing.

333 **Q. How do these departments provide a check on the accuracy of the monthly filings?**

334 A. These departments must be in agreement with the treatment of costs in the monthly GSC
335 filing.

336 **Q. What other review is performed with regard to monthly filings?**

337 A. The Company's Internal Auditing Department, on an annual basis, reviews a monthly
338 filing, source documents and a copy of Rider 6 as in effect at the time of the filing. This
339 review is designed to ensure that only appropriate costs were included in the filing,

340 thereby providing a further check on the inter-departmental review that I have previously
341 described.

342 **VII. CONCLUSION**

343 **Q. What is the Company requesting?**

344 A. The Company is requesting that the Commission approve Nicor Gas' GSC charges at
345 levels established in the Company's 2005 PGA Reconciliation. In addition, the Company
346 is requesting that the Commission approve the \$110,517,422 customer credit through the
347 Company's Rider 6, GSC charges, which resulted from the over-collection of actual
348 Commodity Gas Cost in the amount of \$101,357,146 and the over-collection of Non-
349 Commodity Gas Costs in the amount of \$9,160,276.

350 **Q. Does this conclude your direct testimony?**

351 A. Yes.