

NORTHERN ILLINOIS GAS COMPANY

D/B/A NICOR GAS COMPANY

DIRECT TESTIMONY OF

LEONARD M. GILMORE

REDACTED

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 00-0365

**OFFICIAL FILE**

I.C.C. DOCKET NO. 00-0365

NICOR Redacted Exhibit No. 1

Witness \_\_\_\_\_

Date 1/26/00 Reporter JW

1 Q. Please state your name and business address.

2 A. Leonard M. Gilmore, 1844 Ferry Road, Naperville, Illinois 60563-6900.

3 Q. By whom are you employed?

4 A. Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or  
5 "Company").

6 Q. What position do you hold with Nicor Gas?

7 A. I am Manager Pipeline Regulation and Supply Planning.

8 Q. What are your responsibilities in that position?

9 A. I am responsible for regulatory matters before the Federal Energy Regulatory  
10 Commission ("FERC"), analysis of pipeline service options and analysis of  
11 alternatives to pipeline services.

12 Q. Please summarize your educational background and your experience in the public  
13 utility business.

14 A. I hold degrees of Bachelor of Science and Master of Arts, majoring in Economics,  
15 from DePaul University, and a Master of Business Administration, majoring in  
16 Finance, from Loyola University. I have been employed by Nicor Gas since  
17 1979. From 1979 until 1984, and from 1987 to March 1991, I held a series of  
18 positions in the Economics and Rates Department. From November 1984 until  
19 July 1987, I was Senior Market Administrator/Conservation. Since March 1991, I  
20 have been in my present position.

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

2 A. The purpose of my testimony is twofold. First, I will describe the precedent  
3 agreement, or contract, for firm transportation service between Nicor Gas and  
4 Horizon Pipeline Company L.L.C. ("Horizon"). This agreement is included in the  
5 Direct Testimony of Company witness Lonnie W. Upshaw as Exhibit LWU-1.  
6 Second, I will discuss the alternatives to Horizon considered by the Company  
7 prior to entering this agreement, including the comparative costs of these  
8 alternatives.

9

10 **DESCRIPTION OF CONTRACT BETWEEN HORIZON PIPELINE**  
11 **AND NICOR GAS**

12 Q. Please describe the general terms of the contract between Nicor Gas and Horizon.

13 A. Subject to approval of the Illinois Commerce Commission in this proceeding,  
14 Nicor Gas has signed a precedent agreement with Horizon for 300,000 MMBtu  
15 per day of firm transportation service for receipts from the Joliet area to two  
16 delivery points in McHenry County, in the northern part of the Company's service  
17 territory. The contract contemplates service beginning no later than April 1,  
18 2003. The initial term of the contract is ten years.

19 Q. How did Nicor Gas determine the contract level of 300,000 MMBtu per day?

20 A. As discussed in the Direct Testimony of Mr. Upshaw, the Company expects  
21 annual peak day growth of approximately 75,000 MMBtu. The contract level on  
22 Horizon, coupled with the operating flexibility provided by these deliveries, will

1 help address demand growth for the next ten years.

2 Q. Are there any special features of the contract you would like to describe?

3 A. Yes. First, the effective rate for service under the contract is the lesser of the  
4 Company's negotiated rate of \$0.0947 per MMBtu or Horizon's initial recourse  
5 rate. Second, after the initial term of the contract, at Nicor Gas' sole discretion,  
6 the Company has the option to extend the term for an additional three years at  
7 either the negotiated rate or Horizon's effective recourse rate. Third, if Horizon  
8 expands its capability by an additional 100,000 MMBtu beyond the initial  
9 380,000 MMBtu project design, or extends into Wisconsin, Nicor Gas may elect  
10 to pay either the negotiated rate or the then effective recourse rate for the  
11 remainder of the contract term. Finally, if, pursuant to additional agreements  
12 entered with other shippers or expansion of the project, Horizon extends different  
13 or more favorable negotiated rates to another party, Nicor Gas may elect the more  
14 favorable negotiated rate.

15

16 **ALTERNATIVES TO HORIZON PIPELINE**

17 Q. What alternatives to Horizon were considered by Nicor Gas?

18 A. There were six alternatives to Horizon which were reviewed: proposals for market  
19 area firm capacity from Natural Gas Pipeline Company of America ("Natural")  
20 and ANR Pipeline ("ANR"), market area firm capacity on the proposed Guardian  
21 Pipeline ("Guardian"), construction of jurisdictional facilities by Nicor Gas, and  
22 long haul firm transportation service packages from Northern Border Pipeline

1 Company ("Northern Border") and El Paso Energy ("El Paso").

2 Q. What was the Company's goal in evaluating alternatives to Horizon?

3 A. As described in Mr. Upshaw's Direct Testimony, Nicor Gas sought alternatives  
4 which would help meet demand growth, add infrastructure to the northern section  
5 of the Company's service territory, and achieve these objectives in the most  
6 economic manner.

7 Q. Would these alternatives provide benefits to Nicor Gas comparable to those  
8 provided by Horizon?

9 A. Comparable benefits could be achieved by: (1) a market area transportation  
10 service on ANR from the Joliet area to the Company's interconnection with ANR  
11 near Hampshire; (2) a market area service to transport gas on Natural from the  
12 Joliet area to Natural's Illinois Lateral; (3) a transmission system line constructed  
13 by Nicor Gas from Joliet to the northern section of the Company's service  
14 territory; or (4) other projects similar to Horizon, such as Guardian. Certain  
15 aspects of the Northern Border and El Paso proposals would also provide  
16 comparable benefits.

17 Q. Did Nicor Gas compare these alternatives to Horizon?

18 A. Yes. In each case, the Company determined these alternatives were inferior to  
19 Horizon.

20 Q. What criteria did the Company use to evaluate these alternatives?

21 A. Foremost was whether the alternatives would meet the operational requirements  
22 described in the Direct Testimony of Mr. Upshaw. The economic benefits of the

1 alternatives were also compared. The attached Exhibit LMG-1 provides a  
2 summary cost comparison of these alternatives to Horizon.

3 Q. Have there been any other alternatives to serve the areas in the north end of Nicor  
4 Gas' service territory that are not included on Exhibit LMG-1?

5 A. Yes. In May 1997, ANR announced an open season proposal for expanded  
6 service to Wisconsin under the "10¢ Solution." The open season would provide  
7 phased incremental expansions for up to 1 Bcf per day, as required by the market,  
8 at a set rate of \$0.10 per MMBtu for a term of five to fifteen years. Since July  
9 1997, ANR has held annual open seasons for capacity from Joliet to Wisconsin  
10 under this program.

11 Q. How did Nicor Gas obtain the alternatives considered?

12 A. In the case of Natural and ANR, the Company requested a bid for service  
13 equivalent to that provided by Horizon. Specifically, Nicor Gas requested bids  
14 for a service to provide 300,000 MMBtu per day of firm transportation service  
15 from Joliet to the northern section of the Company's service territory, for a term  
16 of up to 10 years.

17 In the case of jurisdictional facilities, the Nicor Gas Engineering Department was  
18 asked to design a new transmission line that would provide the necessary capacity  
19 from the Joliet area to the north end of the distribution system.

20 In the case of Northern Border and El Paso, the respective parties approached the  
21 Company with the proposals.

22 Q. What response did the Company receive from ANR?

1 A. Nicor Gas received proposals from ANR in 1998 and 1999.

2 Q. Please describe the first proposal from ANR.

3 A. The first proposal, received in August 1998, was for 300,000 MMBtu per day of  
4 firm transportation service from ANR's interconnections with Natural, Northern  
5 Border Pipeline and Alliance Pipeline, all located near Joliet, to a new  
6 interconnection with Nicor Gas at the termination of ANR's existing Crystal Lake  
7 lateral, for a daily demand rate of [REDACTED] per MMBtu. The term of the agreement  
8 would be five to ten years. [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 ANR also offered an alternative proposal. [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED] It should be noted that, in December

16 1999, the FERC conditionally approved Supply Link, but did not grant approval  
17 for construction, due to unresolved issues involving capacity commitments. In an  
18 order dated April 26, 2000, the FERC required ANR to provide a market showing  
19 for its application within 60 days of that date, or the application would be  
20 dismissed. As of June 23, the FERC has not approved this project.

21 Q. Please describe the second proposal from ANR.

22 A. The second proposal from ANR, received in February 1999, offered two options.

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED] The  
5 primary term of the service was five years, with annual rights to renew at the  
6 same rates for an additional five years. The service rate was a daily demand rate  
7 of [REDACTED] per MMBtu, with commodity, fuel and surcharges additive. [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]

17 Q. How did the proposals from ANR compare to Horizon Pipeline?

18 A. ANR's proposals were not as attractive as Horizon Pipeline.

19 First, as shown on Exhibit LMG-1, the annual cost of the proposals from ANR  
20 exceeded the annual cost of market area transportation on Horizon Pipeline.

21 [REDACTED]

22 [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]

10 Q. What offers did Nicor Gas receive from Natural?

11 A. The Company received two offers from Natural for service comparable to

12 Horizon Pipeline. [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED] The second proposal,

18 received in July 1998, offered the Company 300,000 MMBtu per day of firm

19 transportation service from the Joliet area to a new interconnection near Crystal

20 Lake, for a daily demand rate of [REDACTED] per MMBtu.

21 Q. How did the proposals from Natural compare to Horizon?

1 A. The cost of the first proposal was significantly higher than Horizon. The service  
2 under the second proposal was largely comparable to that provided by Horizon,  
3 but the [REDACTED] per MMBtu cost was significantly greater than Horizon's offer of  
4 \$0.0947 per MMBtu.

5 Q. Your analysis includes two scenarios under which the Company would construct  
6 new jurisdictional facilities. Why were these scenarios reviewed?

7 A. Nicor Gas sought information on whether it would be feasible to construct new  
8 jurisdictional facilities to deliver supply to the northern part of the service  
9 territory. Therefore, the Company's Engineering Department designed facilities  
10 under two scenarios that could provide service comparable to Horizon. The first  
11 scenario was comprised of a transmission system which would mirror the path,  
12 receipt and delivery points under the Horizon project. The second scenario  
13 consisted of a new transmission system line from the Troy Grove storage field to  
14 the Illinois Lateral and Volo. As shown on Exhibit LMG-1, the annual cost of  
15 constructing jurisdictional facilities, on a revenue requirement basis, exceeds the  
16 annual cost of the Horizon contract.

17 Q. Has Nicor Gas received an offer from Guardian Pipeline?

18 A. The Company held discussions with Guardian during its open season, but there  
19 were some areas of concern. First, at that time, the route of the pipeline had not  
20 been determined. Therefore, there was no way to measure if Guardian capacity  
21 would increase Nicor Gas' flexibility or its ability to meet demand growth.  
22 Second, the open season conducted by Guardian in March 1999, stated that the

1 levelized rate for firm transportation service on Guardian for a ten year term  
2 would be \$0.1230 per MMBtu per day. Guardian filed its application for FERC  
3 approval and certification of the project in November 1999, for a projected in  
4 service date of November 2002. As reflected in Guardian's certification filing, a  
5 possible future interconnect with Nicor Gas would be located on the Company's  
6 Dubuque line, near Hampshire. This interconnect, if constructed, would be  
7 capable of delivering 300,000 MMBtu per day. However, as with ANR, deliveries  
8 from Guardian would require Nicor Gas to separately contract with Natural for  
9 incremental deliveries to the Illinois Lateral, in order to realize comparable  
10 operational benefits to Horizon.

11 Q. Please describe the proposals received from Northern Border and El Paso.

12 A. The Company reviewed proposals from Northern Border and El Paso. As I  
13 mentioned earlier in my testimony, these proposals offered firm transportation  
14 service to the northern section of Nicor Gas' service territory [REDACTED]

15 [REDACTED]

16 Q. Please describe the proposal from Northern Border.

17 A. Northern Border proposed a 300,000 MMBtu per day transportation service from  
18 a location near Joliet to Nicor Gas' Dubuque transmission line at a rate of [REDACTED]  
19 per MMBtu per day. However, this proposal was highly conditioned.

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED]

6 Q. Why did Nicor Gas reject this proposal?

7 A. [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]

16 Q. Please describe the proposal received from El Paso.

17 A. El Paso proposed a 300,000 MMBtu per day transportation service from  
18 Midwestern Gas Transmission's ("Midwestern") current terminus near Joliet,  
19 Illinois, to a new interconnection with Nicor Gas' Dubuque transmission line.  
20 Like Northern Border's proposal, this transportation service was only available  
21 under several conditions. [REDACTED]

1

[REDACTED]

2

[REDACTED]

3 Q. Why did Nicor Gas not pursue this proposal?

4

A. [REDACTED]

5

[REDACTED]

6

[REDACTED]

7

[REDACTED]

8

[REDACTED]

9

[REDACTED]

10

[REDACTED]

11

[REDACTED]

12 Q. Does this conclude your direct testimony?

13 A. Yes.

**Nicor Gas**  
**Ill.C.C.Docket No. 00-0365**

**REDACTED**

**Cost Comparison of Alternatives to Horizon Pipeline**

	Available Capacity	Daily Demand Rate or Revenue Requirement	Term	Annual Demand Cost or Revenue Requirement
<b>HORIZON PIPELINE</b>	300,000	\$0.0950	10 years	\$10,406,250 (a)
<b><u>Nicor Gas</u></b>				
Jurisdictional Facilities:				
Scenario 1: Nicor Gas builds Horizon-type pipeline	300,000	\$0.1634	Not applicable	\$17,893,000
Scenario 2: Transmission line from Troy Grove to Volo	300,000	\$0.1802	Not applicable	\$19,734,000
<b><u>ANR Pipeline</u></b>				
(8/98) Pipeline Capacity	300,000	[REDACTED]	5 years; annual renewal additional 5 years	[REDACTED]
(2/99) Pipeline Capacity (Option 2)	325,000	[REDACTED]	5 years; annual renewal additional 5 years	[REDACTED]
<b><u>Natural Gas Pipeline Company of America</u></b>				
Pipeline Capacity	300,000	[REDACTED]	10 years	[REDACTED]
<b><u>Guardian Pipeline</u></b>				
Pipeline Capacity	300,000	\$0.1230	10 years	\$13,468,500
<b><u>Northern Border Pipeline</u></b>				
Pipeline Capacity	300,000	[REDACTED]	10 years	[REDACTED]
<b><u>El Paso Energy</u></b>				
Pipeline Capacity	300,000	[REDACTED]	10 years	[REDACTED]

(a) Includes cost of 100,000 MMBtu per day firm delivery rights on Natural's Illinois Lateral.