Docket No. 08-0363
ICC Staff Exhibit 2.0

DIRECT TESTIMONY

OF

DIANNA HATHHORN

Accountant

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

Northern Illinois Gas Company
d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

August 27, 2008

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SCHEDULES

ATTACHMENTS

Witness Identification

Q. Please state your name and business address.

A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am currently employed as an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission ("ICC" or "Commission").

Q. Please describe your professional background and affiliations.

A. I am a licensed Certified Public Accountant. I earned a B.S. in Accounting from Illinois State University in 1993. Prior to joining the Commission Staff ("Staff") in 1998, I worked as an internal auditor for another Illinois state agency for approximately 3.5 years. I also have roughly 1.5 years experience in public accounting for a national firm.

Q. Have you previously testified before a regulatory body?

A. Yes. I have testified on several occasions before the Commission.

Purpose of Testimony

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

A. The purpose of my testimony is to review Northern Illinois Gas Company's ("Nicor Gas" or "Company") filings for a proposed general increase in rates to propose adjustments regarding the pension asset, incentive compensation expense, uncollectibles expense, and invested capital taxes. I also make recommendations concerning four of the Company's proposed riders- Rider 30: Qualifying Infrastructure Plant ("QIP"), Rider 26: Uncollectibles Expense Adjustment ("UEA"), Rider 27: Company Use Adjustment ("CUA"), and Rider 2: Franchise Cost Adjustment ("FCA"). Finally, I make recommendations concerning Nicor Gas' accounting of its gas losses.

<u>Schedule Identification</u>

Q. Are you sponsoring any schedules with your testimony?

A. Yes. I prepared the following schedules that show data as of, or for the test year ending December 31, 2009:

Schedule 2.01	Pension Asset Adjustment
Schedule 2.02	Uncollectibles Expense Adjustment
Schedule 2.03	Incentive Compensation Adjustment
Schedule 2.04	Invested Capital Taxes Adjustment

Q. Are you including any attachments as part of ICC Staff Exhibit 2.0?

A. I have included the following attachments that present information provided by the Company in response to ICC Staff Data Requests and its Part 285 data.

Attachment A	Company partial response to Staff Data Request DLH-9.12
Attachment B	Company responses to Staff Data Request DLH-15.03 and DLH-21.04 and Page 1 of Company Schedule C-16
Attachment C	Company responses to Staff Data Requests DLH-4.05, DLH-5.12, and DLH-5.06
Attachment D	Company partial response to Staff Data Request SK-2.03

<u>Pension Asset Adjustment</u>

Q. Please describe Schedule 2.01 Pension Asset Adjustment.

A. Schedule 2.01 presents my adjustment to reduce rate base by a net $144.687 million to exclude the Company's pension asset since it was funded by ratepayers, as established by the Commission in Nicor Gas' last two rate cases. The Company has presented no new evidence to support including the pension asset in rate base; thus, there is no rationale to support the Company's position that shareholders are entitled to a return on the pension asset.

Q. Does the Company acknowledge that the Commission has rejected the Company's request to include its pension asset in rate base in its last two rate cases?

A. Yes, the Company acknowledges that the Commission has already twice rejected its request. (Co. Ex. 11.0, p. 17) However, the Company's description of the pension asset in this case does not comport with the Commission's orders in Docket Nos. 04-0779 and 95-0219. The Company discusses the pension asset as if it were funded by shareholders. (Co. Ex. 11.0, p. 16) However, the Commission has already rejected these same arguments based on the same facts as the Company presents here. In Docket No. 95-0219, the Commission found:

> [T]he Commission finds that the proposal to eliminate the net Pension Asset from rate base is consistent with past Commission orders which found that the overfunded pension asset was created from ratepayer supplied funds… (Order, April 3, 1996, p. 9)

In Docket No. 04-0779, the Commission found:

> Nicor has not presented any additional evidence since the 1996 Order to show why the Commission should arrive at a different conclusion [about the pension asset] now. **It remains true that the pension asset was created by ratepayer-supplied funds, not by shareholder-supplied funds**…Therefore, the Commission finds no reason to change the treatment of the pension asset. (Order, Sept. 20, 2005, p. 23) (emphasis added)

Q. Is the pension asset that the Company proposes to be allowed in rate base a distinct asset from the pension asset that the Commission reviewed in the prior rate cases?

A. No. The pension asset is a cumulative balance from many past years. The pension asset that Nicor Gas seeks to include in rate base in this case includes the cumulative transactions taking place since the pension plan began. The Company makes the same assertions it did in the last two cases and presents no new evidence that the funds contributed in the past were not provided by ratepayers. There have been no additional contributions since 1995, (Co. Resp. to Staff DR DLH 9.16), well before Nicor Gas' last rate case, and nothing has changed about how the pension was funded previously. As noted above, the Commission has twice analyzed the pension asset funding and found it to be supplied by ratepayers. Yet the Company persists in its request to allow the pension asset into rate base.

Q. What is the amount of, and the Company's position on, the pension asset?

A. The Company adds the cumulative pension obligation, calculated according to Generally Accepted Accounting Principles ("GAAP"), of $108,268,736, to the cumulative contributions to the Pension Trust, $136,112,646 to arrive at a total credit balance, i.e., asset, of $244,381,382. See Att. A-Co. Resp. to Staff DR DLH-9.12. The Company states that shareholders contributed the $244,381,382 with "funds derived from general capital resources (debt and equity), as with other investments in utility assets." (Co. Resp. to Staff DR DLH 1.02) Thus, the Company asserts that it should be included in rate base to provide shareholders a return on the pension asset.

Q. Do you agree?

A. I agree that the Company has a pension asset but not that it should be included in rate base. As stated in the prior Commission Orders quoted above, the pension asset was funded by ratepayers. During the years 1954 through 1995, the period of the contributions, ratepayers paid the Company cash through rates in order for the Company to make the contributions. This is confirmed by the Company’s analysis, which shows no evidence that the contributions were provided by shareholders. See Column C of Att. A-Co. Resp. to Staff DR DLH 9.12. The Company provided copies of past work papers or tax returns showing that the contributions were made. However, this documentation shows only that the contributions were made, not that the contributions were shareholder funded. The Company issued no bonds or other forms of indebtedness to fund the pension and no special equity offerings to fund the pension. In the absence of an alternative source of capital, the Company could only have used income from ratepayers to fund the pension.

It appears that the Company mistakenly believes that since it was the entity that sent the cash to the pension trust, that it and the shareholders actually funded the contribution. The Company’s position was made clear in its response to Staff DR DLH 9.14, “Like all cash disbursements, such amounts [the $136.1 million contribution] are paid from assets of the Company, all of which are funded by liabilities and equity of the Company.” It is clear why the Commission twice rejected this theory; every year between 1954 and 1995, ratepayers paid Nicor Gas cash for pension expense, and every year during that period the Company contributed the cash to the pension trust fund. There was never a contribution by shareholders. Therefore, the pension asset should not be included in rate base; ratepayers should not be required to pay a return on an investment that they funded.

Q. Please discuss the Company's analysis of the ($108) million cumulative pension obligation that the Company claims reduced operating expense from 1954-2009. See Column B of Att. A-Co. Resp. to Staff DR DLH 9.12.

A. The analysis equates the cumulative net pension credit or obligation to a GAAP Expense (Benefit). There are two fundamental flaws in this assumption. First, while the Commission generally follows GAAP for determining rate recovery of pension expense, the Commission is allowed to, and at times does, determine a different pension expense for recovery in a test year revenue requirement than the pension expense reflected on the financial statements presented in accordance with GAAP.

Second, and more importantly, even if the Commission never strayed from GAAP to determine the amount included in rates for pension expense, in order for the cumulative pension obligation to actually result in $108 million of operating expense credits to ratepayers, the Company would have had to file a rate case each and every year since 1954 to update its rates for the current pension expense or credit. This did not happen, thus the cumulative credit for ratemaking purposes is not $108 million. In order to calculate the actual credit, Commission rates and orders back to1954 would need to be analyzed.

Q. Please discuss "the Company's position … that between 1954 and 2009 ratepayers have not been (will not be) charged pension expense on a cumulative basis…" (Co. Resp. to Staff DR DLH 9.15)

A. The fact that ratepayers have been credited pension expense for some years now has no relevance as to whether the related pension asset should be included in rate base. Ratepayers have received pension expense credits because pension assets currently exceed pension liabilities. Pension assets exceed pension liabilities due to many factors, primarily, the returns earned in the pension trust and the assumptions used in the actuarial calculation of the pension expense. The Company has not been required to make a contribution since 1995. The Company is not out any money due to the credits charged to ratepayers.

Q. Do you agree with Mr. Gorenz (Co. Ex. 11.0, p. 17) that a court decision in the pending Commonwealth Edison Company ("ComEd") appeal of its rate case, Docket No. 05-0597, will resolve the issue regarding Nicor Gas' proposal to include its pension asset in rate base?

A. No, the facts pertaining to the pension issue in the ComEd rate case are not similar at all to the facts regarding the pension asset requested by Nicor Gas in this proceeding. In contrast to Nicor Gas, ComEd's pension plan received a major contribution from its parent company, Exelon. It was a major issue of disagreement whether a pension asset even existed. Ultimately, the Commission allowed ComEd a debt return on this contribution to the pension plan. Order on Rehearing, Dec. 20, 2006, p. 28:

> The record evidence shows that recovery based on ComEd's cost of debt as proposed in Alternative 3 is proper. Alternative 3 is based on what ComEd's actual cost of long-term debt would have been had ComEd, instead of Exelon, issued long-term debt in June 2005 to finance the $803 million contribution.

In this case, the controversy is not whether or not Nicor Gas has a pension asset, but rather that the pension asset was funded by ratepayers. There is no contribution in the test year from a parent company or any other party to debate. Thus, there is no basis to allow Nicor Gas to recover what its cost of debt would have been. There is no similarity between the two cases.

Q. Please summarize your position on the Company's proposal to include its pension asset in rate base.

A. The Company's proposal conflicts with Commission findings in the Company's two prior rate orders. Inclusion of the pension asset in rate base is inappropriate since no contributions were provided by the shareholders. No change in the Commission's conclusion in this case is warranted since no new contributions have been made to Nicor Gas' pension fund in over a decade. The negative pension expense that ratepayers have experienced for a number of years now is a result of the assumptions of the plan and the pension plan being overfunded by ratepayer supplied funds. The ComEd appeal should have no effect on the pension asset issue in this proceeding because ComEd's contribution circumstance is an entirely different fact set than Nicor Gas'. In summary, Nicor Gas presents no new evidence on the past contributions or projections of contributions for the future test year 2009. Ratepayers, not shareholders, have provided funding of the pension asset; therefore there is no reason to include it in rate base.

Uncollectibles Expense Adjustment

Q. Please describe Schedule 2.02 Uncollectibles Expense Adjustment.

A. Schedule 2.02 presents my adjustment to operating expense to lower the projected test year uncollectibles expense percentage from 2.25% proposed by the Company to 2.02%, the actual 2007 historical uncollectibles rate experienced by the Company[1], since this rate is more consistent with the seven-month projected and five-month actual percentage for 2008, i.e.,

[1] Co. Ex. 2.0, p. 8, line 161 and Attachment B, Co. Sch. C-16

2.00%, and the Company's most recent uncollectibles expense forecast as of July 3, 2008, which remains at 2.00%. (Att. B-Co. Resps. to Staff DRs DLH 15.03 and DLH 21.04 and p. 1 of Co. Sch. C-16) The 2.02% rate is appropriate to address the Company's concerns regarding economic uncertainty and gas markets[2] since it is nearly identical to the 2008 rate which includes a provision to increase gross-charge offs, which directly affect uncollectibles expense, for a contingency factor due to the weakened economy and higher cost of natural gas. (Co. Resp. to Staff DRs DLH 15.01 and DLH 21.02) Further, it provides the necessary relief for the Company from the 1.4% rate presently included in base rates.[3]

Incentive Compensation Adjustment

Q. Please describe Schedule 2.03 Incentive Compensation Adjustment.

A. Schedule 2.03 reflects my proposed adjustment to reduce the Company's operating expenses and rate base for incentive compensation expenses for amounts which are driven by shareholder-oriented goals, and incentive compensation expenses unlikely to be incurred. The adjustment is comprised of the following three subparts, reflected on Schedule 2.03, pages 2, 3 and 4, and summarized on page 1 of Schedule 2.03:

1) Disallowance of consolidated pool charges for plan costs related to

[2] Id. lines 163-174
[3] Id. line 161 and Att. B, Co. Sch. C-16

shareholder-oriented goals;

2) Disallowance of the Incentive Compensation Units ("ICU") plan costs related to shareholder-oriented goals; and

3) Disallowance of costs related to one performance goal unlikely to be achieved in the Manager Incentive Plan and Officer Bonus Plan.

Q. Please provide the rationale for your recommended disallowance of the Company's consolidated pool charges for plan costs related to shareholder-oriented goals, as reflected on Schedule 2.03, page 2.

A. The Company states it excluded all costs of the Long Term Incentive Plan that focuses on achieving shareholder value in order to limit the scope of issues before the Commission. (Co. Ex. 7.0, p. 9 and Co. Sch. C-2.8) However, the consolidated pool charges allocated from Nicor, Inc. for the test year still include costs from the Company's Long Term Incentive Plan (Co. Resps. to Staff DRs DLH 2.05 and DLH 12.03) for the following components:

- Stock Appreciation Rights ("SAR"). The SAR is based on an assumed $2.50 increase in Nicor, Inc.'s stock price during 2009. (Co. Resp. to Staff DR DLH 12.03) Consistent with prior Commission orders, since ratepayers will receive no direct benefit due to Nicor, Inc.'s stock price increase, the cost should not be included in rates.

- Restricted Stock Plan and Long-Term Plan-Performance Units. These goals focus on generating shareholder value (Co. Resps. to Staff DRs DLH 16.03, Ex. 2 and 4), as acknowledged by the Company, and therefore the cost should not be included in rates.[4]
- Annual Bonus Plan ("ABP"). The APB goals are not related to the Company's utility operations (Co. Resp. to Staff DR DLH 16.03, Ex. 3), therefore the cost should not be included in rates.

Q. Please provide the rationale for your recommended disallowance of the Company's ICU plan costs related to shareholder-oriented goals, as reflected on Schedule 2.03, page 3.

A. First, the ICU plan's test year costs are associated with the remaining participants of the plan, all of whom are former employees; i.e., there are no ICU plan participants actively employed with the Company. (Co. Resp. to Staff DR DLH 20.02) The test year payments are per unit dividend equivalent amounts that mirror the per share dividends received by common stockholders of Nicor, Inc. The payment of dividend equivalents under the ICU plan is triggered whenever the Nicor, Inc. Board of Directors declares a common dividend. (Co. Resp. to Staff DR DLH 20.03) There is no evidence that the test year ICU plan expense will benefit ratepayers; therefore, it

[4] The Company's response to Staff DR DLH 1.06, Exhibit 1-Q, states that the payout is based on a measure of relative total shareholder return, measured as the change in share price over the three-

should be disallowed from rates.

Q. Please provide the rationale for your recommended disallowance of costs related to one performance goal unlikely to be achieved in the Manager Incentive Plan and Officer Bonus Plan, as reflected on Schedule 2.02, page 4.

A. The costs relate to the goal for the at-fault hit ratio per 1,000 locates. The Company's test year costs are based upon the assumption the Company will achieve the target performance required for payment.[5] However, the Company did not achieve the target for this goal in the years 2004 through 2007. (Co. Resp. to Staff DRs DLH 1.06, Ex. 1-H and DLH 18.05) Therefore, there is no basis to assume the Company will meet this target in 2009 and the future. Without accomplishment of the target, the cost results in no benefit to ratepayers, and as such the cost must be disallowed from rates.

Q. How did the Commission rule on incentive compensation in the Company's last rate case, Docket No. 04-0779?

A. In the most recent Nicor Gas rate case, Docket No. 04-0779, the Commission concluded that incentive compensation costs are

(..continued)
year period plus dividends granted over that period.

recoverable in rates only if the utility demonstrates tangible benefits to ratepayers:

> Costs related to incentive compensation are recoverable in rates only if the utility demonstrates tangible benefits to ratepayers. (*See,* e.g., 03-0403 at 15 ("[T]o recover incentive compensation, the plan must confer upon ratepayers specific dollar savings or other tangible benefits. Furthermore, the degree of benefit that accrues directly to ratepayers, rather than to other stakeholders, is a significant factor in determining whether incentive compensation should be recovered in rates."); 01-0696 at 10 (requiring evidence of "specific dollar savings or any other tangible benefit for the ratepayers"); 01-0432 (Mar. 28, 2002) at 42-43 ("the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations. … [I]f a utility is seeking to recover such projected expenses from ratepayers, the utility should demonstrate that its plan can reasonably be expected to provide net benefits to ratepayers.") The utility bears the burden to establish that such tangible benefits accrue to ratepayers, in order to prove that the recovery of incentive compensation costs is just and reasonable. (*See* 220 ILCS 9-201(c).) (Order, Docket No. 04-0779, September 20, 2005, p. 44)

Q. Has the Commission accepted adjustments for incentive compensation in prior Orders other than Docket No. 04-0779?

A. Yes, most recently in Illinois-American Water Company's ("IAWC") general rate case. The Commission Conclusion in the IAWC Order begins with a summary of the Commission's policy on incentive compensation:

(..continued)
[5] Co. Ex. 7.0, p. 10, lines 214-215.

> The Commission has consistently disallowed recovery of payouts that are tied to overall company financial goals. As is apparent from previous rate orders, the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations which provide net benefits to ratepayers. In this case, no such showing has been made by IAWC. (Order, Docket No. 07-0507, July 30, 2008, p. 25)

The order denied rate recovery of 100% of IAWC's annual incentive plan which was dependent on IAWC's corporate parent reaching its financial earnings goals. Id., p. 26.

In Docket No. 93-0183 concerning Illinois Power Company, the Commission concluded that, since financial goals benefit shareholders, ratepayers should not have to bear the costs of incentive compensation plans tied to financial goals:

> Two of the goals, earnings per share and reduced O & M expenses are goals that benefit shareholders. If the shareholders are the ones to benefit, they should be the ones who foot the bill. (Order, Docket No. 93-0183, April 6, 1994, p. 52)

And, in Docket No. 99-0534 concerning MidAmerican Energy Company, the Commission reached a similar conclusion regarding ratepayer benefit from incentive compensation based on financial goals:

> The Commission is not convinced that the ratepayers are protected in the event that the targeted return on capital investment is not achieved. Ratepayers would still fund the

> projected levels of incentive compensation even if that level is not achieved. (Order, Docket No. 99-0534, July 11, 2000, p. 9)

In Docket No. 01-0432, Illinois Power Residential DST (Order, March 28, 2002, p. 42), the Commission concluded that Illinois Power should not be allowed to recover from ratepayers the expenses associated with its incentive compensation plan because the Company did not demonstrate that the plan provides net benefits to ratepayers.

The Commission's policy to disallow incentive compensation plan costs when the plans do not provide a ratepayer benefit is further demonstrated in Docket No.00-0802 (AmerenCIPS/AmerenUE DST, Order, December 11, 2001, pp. 18-19):

> First, as Staff has argued, the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations. For example, in its Order in the CILCO proceeding in Dockets 99-0199/99-0131 (Cons.), the Commission disallowed such expenses, and in doing so stated on pages 37-38, "The Commission remains convinced that such expenses are not recoverable in the absence of any evidence that the . . . Plan benefits ratepayers." In the limited number of cases in which such expenses were allowed, those companies had historical patterns of paying incentive compensation and were able to demonstrate that the incentive compensation payments provided benefits to ratepayers. Generally speaking, the Commission believes that if a utility is seeking to recover such projected expenses from ratepayers, the utility should demonstrate that its plan can reasonably be expected to

> provide net benefits to ratepayers. In the instant case, while Ameren has provided test year amounts for the expenses purportedly associated with its incentive compensation plan, as discussed below, it has not demonstrated that its plan has provided or will provide net benefits to ratepayers. ….

> …Accordingly, while the Commission believes that incentive compensation plans have the potential to provide benefits in terms of improving performance and reducing costs, and that the recovery of expenses associated with incentive compensation plans may be appropriate in some circumstances, the Commission concludes, for the reasons set forth above, that Ameren should not be allowed to recover from ratepayers the expenses associated with its current incentive compensation plan as requested in this docket. (Order, Docket No. 00-0802, December 11, 2001, p. 19)

The Commission has also expressed concern that incentive compensation expenses are discretionary in nature and may be discontinued or reversed by the Company at any time in the future. This concern is evident in its Orders in the following dockets:

> [T]he Commission is concerned that ratepayers are not protected if IP fails to achieve the financial goals and incentive compensation payments are not made. Under that scenario, ratepayers would still pay for the incentive compensation plan if IP's position were adopted. (Order, Docket Nos. 99-0120/99-0134 (Cons.), August 25, 1999, p. 44)

> [T]he Commission is not persuaded that ratepayers are protected in the event that the targeted return on capital investment is not achieved. Under CILCO's proposal, ratepayers would still fund the test year level of incentive payments even if that level is not achieved. While failure to achieve the efficiencies that would result in the projected

> level of incentive payments may penalize individual managers, ratepayers receive no benefit from this “penalty.” Shareholders, on the other hand, would benefit. (Order, Docket Nos. 99-0119/99-0131 (Cons.), August 25, 1999, p. 38)

Also, in its Order dated November 21, 2006, in Docket Nos. 06-0070/06-0071/06-0072 (Consolidated), Ameren DST proceeding, the Commission stated as follows in denying the recovery of incentive compensation expenses:

> For the Commission to include **any** portion of incentive compensation costs in approved operating expenses, Ameren must demonstrate that the plan confers upon ratepayers specific dollar savings or other tangible benefits. As Staff notes, the Commission has generally disallowed recovery of incentive compensation costs except where the utility has demonstrated that its ICP has reduced expenses and created greater efficiencies in operations, as was done in Dockets No. 05-0597, 03-0403, 97-0351 and 95-0219. Consistent with those decisions, we are disallowing funding measures that primarily depend on meeting financial goals. In this case all three funding measures rely on earnings per share (“EPS”) targets and therefore all operational goals are dependent upon meeting the EPS target first. (Docket Nos. 06-0070/0071/0072 (Consolidated), Order, November 21, 2006, p. 72) (emphasis added)

Invested Capital Taxes Adjustment

Q. Please describe Schedule 2.04 Invested Capital Taxes Adjustment.

A. Schedule 2.04 presents my adjustment to include in operating expenses the incremental increase in invested capital taxes (“ICT”) that will result from the increased operating income approved in this case. My adjustment will need to be updated to reflect the final Commission approved rate of return and rate base approved in this case. I further recommend that ICT taxes not be reflected in the calculation of the Gross Revenue Conversion Factor ("GRCF"). My methodology is consistent with the Commission order in Docket Nos. 07-0241/07-0242 (Cons.) on this issue and is appropriate since the Company does not anticipate any changes in its proposed test year capital structure. (Co. Resp. to Staff DR DLH 11.01) The purpose of the GRCF is to reflect the increase in revenues necessary, adjusted for uncollectibles expense, for the Company to pay State and Federal income taxes. ICT can be approximated via the operating income calculation; however, the ITC is primarily a tax on invested capital, and therefore it would be inappropriate to adjust the GRCF for ICT. Further, the GRCF is an input to the Company's proposed Rider QIP. Including ICT in the GRCF would complicate the Rider QIP in that invested capital taxes would need to be added to the tariff and included in the annual reconciliation that I recommend below.

Recommendations Regarding Nicor Gas' Rider 30 QIP-Qualifying Infrastructure Plant

Q. Do you have recommendations with respect to the Company's proposed Rider QIP, Co. Ex. 14.2, pp. 144-148, Original Sheet Nos. 83-83.4?

A. Yes, although I am not opining about whether Rider QIP should be adopted, I have four recommendations for the Rider in the event it is allowed by the Commission. My recommendations address: 1) the need for an annual docketed reconciliation proceeding and to include a Factor O for Commission ordered adjustments in the tariff formula, 2) the need for a prudence and reasonableness of costs determination in such reconciliation proceeding, 3) the need for an annual internal audit with specific tests, and 4) the need to exclude uncollectibles expense from the calculation of the Gross Revenue Conversion Factor.

Q. What is your recommendation regarding the annual reconciliation for Rider QIP?

A. I recommend that the rider be changed to require Nicor Gas to annually file a petition to initiate a docketed annual reconciliation proceeding. Further, such petition should be supported by Nicor Gas testimony concerning the reasonableness and prudence of the costs. Nicor Gas has indicated that it does not believe an automatic annual reconciliation proceeding is necessary; Nicor Gas states that the information is simple and straight forward, and that Staff will have the information necessary to determine if a reconciliation proceeding is necessary. See Attachment C-Co. Resp. to Staff DR DLH 4.05. However, as I explain below, an automatic annual reconciliation is appropriate. In addition, a Factor O, defined as any

Commission ordered adjustment resulting from a reconciliation proceeding, should be added to the tariff and included in the tariff formulas. The Company agrees that including a Factor O in the tariff formulas would be appropriate if the Commission were to adopt Rider QIP and require an annual reconciliation proceeding for the rider. (Co. Resp. to Staff DR DLH 22.01)

Q. Why is it necessary for the Rider to include an automatic reconciliation proceeding rather than just providing that a reconciliation proceeding may be initiated?

A. First, a reconciliation docket would allow parties other than Staff to participate. Under the Company's proposal, other parties would have to petition the Commission in order to initiate a docket. Parties may disagree with Staff about whether or not a reconciliation docket is needed. A requirement for the parties to file a petition would be an unnecessary burden on these parties. Next, it would cause an unnecessary administrative burden on Staff as well to potentially annually write a Staff report in order to initiate a reconciliation docket. Further, without an annual reconciliation proceeding and order, there would be no record of the reconciled balances charged or credited under the rider. This could cause problems in the future, if reconciliation dockets were not conducted for several years. Annual docketed reconciliations would ensure there is a public record of all costs charged and credited under the proposed rider.

Staff also recommends that the Company provide the Commission's Accounting Department supporting invoices and any additional supporting documentation or workpapers affecting the information presented in the Company's reconciliation <u>upon the filing</u> of its reconciliation report. Nicor Gas appears to object to this provision but states it "as always, would respond promptly to any inquiry made by the Commission Staff with respect to the reconciliation of Rider QIP." (Co. Resp. to Staff DR DLH 4.06) Staff is unsure how such inquiries would be accommodated if there is no docketed proceeding, and further how other parties would have access to this information if the review was informal rather than pursuant to an annual reconciliation proceeding.

In summary, Staff recommends that if the Commission approves Rider QIP, that it require annual docketed reconciliations, initiated by a petition and testimony from Nicor Gas, with supporting documentation provided to Staff at the time the Company files its reconciliation.

Q. Is there another reason why the annual reconciliation should occur automatically in a docketed proceeding?

A. Yes. The Company stated in response to Staff DR DLH 4.04 that

> [i]f the Commission approves Rider QIP as proposed by the Company, **it would be approving the prudence of the accelerated replacement program for cast iron main and copper services.** This issue would, therefore, not be relitigated in future reconciliation proceedings. However, if the Commission determines that a reconciliation proceeding is necessary, a prudence review of the costs incurred for the investment in the qualified infrastructure plant would be part of its review. (emphasis added)

Therefore, under the Company's proposal, prudence of QIP investments would only be reviewed in a reconciliation proceeding. This emphasizes the need for an annual, formal docketed reconciliation proceeding initiated by the Company.

Q. Do you recommend the language of Rider QIP be revised to address the prudence and reasonableness of costs, and the need for an annual reconciliation?

A. Yes. I also recommend the reconciliation, petition, and testimony be required as of a specific date rather than the Company's proposed "after each Effective Period." Therefore, I recommend the following changes to Section G-Reconciliation and Section H-Commission Review to accommodate all my above recommendations:

Section G- Annual Reconciliation.

~~After each Effective Period~~ On or before March 31, the Company shall file a petition with the Chief Clerk to initiate the annual docketed reconciliation process. The petition shall be supported by testimony as to the prudence and reasonableness of the costs charged under Rider QIP. Further, the petition shall ~~make~~ include a reconciliation ~~which~~ that will compare actual cost recovery under this rider with the costs that were intended to be recovered under this rider during such Effective Period. Supporting invoices and any additional supporting documentation or workpapers affecting the information presented in the Company's reconciliation shall be provided to the Commission's Accounting Staff at the time of the filing of the reconciliation, petition, and testimony. The reconciliation amount will be adjusted for interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of such Effective Period to the beginning of the following Effective Period.

Section H-Commission Review.

Upon review of the petition, testimony, and ~~report~~ reconciliation filed by the Company under Section G, the Commission may, ~~by order,~~ require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider. If the Commission finds, after hearing, that any amounts were not prudent or reasonable, or were incorrectly debited or credited to the rider during the Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected in the QIP charges through Factor O over a succeeding Effective Period.

Q. Does Rider QIP require an annual internal audit?

A. No. However, Nicor Gas stated it would not oppose this recommendation. (Co. Resp. to Staff DR DLH 4.03) Therefore, I recommend a new section be included in Rider QIP as follows:

Section I- Annual Internal Audit

The Company shall submit an annual internal audit report to the Manager of the Commission's Accounting Department on or before March 20 of each year. The audit shall include at least the following tests: 1) test that costs recovered through Rider QIP are not recovered through other approved tariffs; 2) test customer bills that all Rider QIP Adjustments are being properly billed to customers in the correct time periods; 3) test that Rider QIP revenues are properly stated; and 4) test that actual costs are being identified and recorded properly to be reflected in the calculation of the rates and reconciliation. The Company shall make the workpapers of such audit reports available to the Commission Staff.

Q. Do you have any concerns with the use of the Gross Revenue Conversion Factor (“GRCF”) in Rider QIP?

A. Yes. If the Commission were to approve Rider QIP and Rider UEA and allow the GRCF to include a provision for uncollectibles expense, then uncollectibles expense would be recovered in base rates, Rider UEA, and also in Rider QIP. This would make it administratively burdensome to determine if the Company has exceeded the dead band zone for Rider UEA and if so, what the additional charges should be. Therefore, I recommend, for purposes of Rider QIP, that the GRCF be defined as follows:

Section E-Qualifying Infrastructure Plant Costs.
***
Where:
GRCF= Gross Revenue Conversion Factor, calculated as follows:

$$\frac{1}{\text{(1-Illinois State Income Tax Rate in Effect at Time of Filing)(1-Federal Income Tax Rate in Effect at Time of Filing)}}$$

Recommendations Regarding Nicor Gas’ Rider 26 UEA-Uncollectible Expense Adjustment

Q. Do you have recommendations with respect to the Company’s proposed Rider UEA, Co. Ex. 14.2, pp. 128--131, Original Sheet Nos. 79-79.3?

A. Yes, although I am not opining about whether Rider UEA should be adopted, I have four recommendations for the Rider in the event it is allowed by the Commission. My recommendations address: 1) the need for an annual docketed reconciliation proceeding and to include a Factor O for Commission ordered adjustments in the tariff formula, 2) the need for a prudence and reasonableness of costs determination in such reconciliation proceeding, 3) the need for an annual internal audit with specific tests, and 4) the need to better define the calculation of uncollectibles expense for the purpose of Rider UEA.

Q. What is your understanding of Nicor Gas' position regarding an annual docketed reconciliation for Rider UEA?

A. It appears to be the same as that proposed for Rider QIP that I discussed above. See Att. C-Co. Resp. to Staff DR DLH 5.12.

Q. Do you believe that an automatic annual docketed reconciliation proceeding is necessary for Rider UEA?

A. Yes, primarily for the same reasons I discussed for Rider QIP.

Q. What are your recommended language changes to Sections C and D of Rider UEA?

A. I recommend the following changes to Section C-Reconciliation and D-Commission Review:

Section C- <u>Annual</u> Reconciliation.

~~After each Effective Period~~ On or before March 31, the Company shall file a petition with the Chief Clerk to initiate the annual docketed reconciliation process. The petition shall be supported by testimony as to the prudence and reasonableness of the costs charged under Rider UEA. Further, the petition shall ~~make~~ include a reconciliation ~~which~~ that will compare actual cost recovery under this Rider with the costs that were intended to be recovered under this Rider during such Effective Period. Supporting invoices and any additional supporting documentation or workpapers affecting the information presented in the Company's reconciliation shall be provided to the Commission's Accounting Staff at the time of the filing of the reconciliation, petition, and testimony. The reconciliation amount will be adjusted for interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of such Effective Period to the beginning of the following Effective Period.

Section D-Commission Review.

Upon review of the annual petition, testimony, and reconciliation ~~report~~ filed by the Company under Section C, the Commission may, ~~by order,~~ require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider. If the Commission finds, after hearing, that any amounts were not prudent or reasonable, or were incorrectly debited or credited to the rider during the Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected in the TUEA and SUEA through Factor O over a succeeding Effective Period.

Q. Does Rider UEA require an annual internal audit?

A. No. However, Nicor Gas stated it would not oppose this recommendation. (Co. Resp. to Staff DR DLH 5.13) Therefore, I recommend a new section be included in Rider UEA as follows:

Section E- Annual Internal Audit

The Company shall submit an annual internal audit report to the Manager of the Commission's Accounting Department on or before March 20 of each year. The audit shall include at least the following tests: 1) test that costs recovered through Rider UEA are not recovered through other approved tariffs; 2) test customer bills that all Rider UEA Adjustments are being properly billed to customers in the correct time periods; 3) test that Rider UEA revenues are properly stated; and 4) test that actual costs are being identified and recorded properly to be reflected in the calculation of the rates and reconciliation. The Company shall make the workpapers of such audit reports available to the Commission Staff.

Q. Do you have any concerns with the definition of uncollectible expense as it is used in Rider UEA?

A. Yes. Presently, the definition simply is defined as the amount charged to Account 904, with no further description of how this amount will be calculated for purposes of calculating charges or credits under Rider UEA. Therefore, in order to avoid ambiguity I recommend the following language change to Section B of Rider UEA:

Section B-Determination of Adjustments.
***
AUE = The actual uncollectible expense in Account 904 for the calendar year immediately preceding the Effective Period. Uncollectibles expense in Account 904 is calculated based upon a number of factors including historical information, such as actual gross charge-offs and recoveries as a percentage of applicable revenues and amount of changes in past due accounts receivable, the current economic environment, monitoring of these factors throughout the year by the Company, and conformance with Generally Accepted Accounting Principles.

Recommendations Regarding Nicor Gas' Rider 27 CUA-Company Use Adjustment

Q. Do you have recommendations with respect to the Company's proposed Rider CUA, Co. Ex. 14.2, pp. 132-135, Original Sheet Nos. 80-80.3?

A. Yes, although I am not opining about whether Rider CUA should be adopted, I have four recommendations for the Rider in the event it is allowed by the Commission. My recommendations address: 1) the need for an annual docketed reconciliation proceeding and to include a Factor O for Commission ordered adjustments in the tariff formula, 2) the need for a prudence and reasonableness of costs determination in such reconciliation proceeding, 3) the need for an annual internal audit with specific tests, and 4) certain corrections to the tariff proposed by Nicor.

Q. What is your understanding of Nicor Gas' position regarding an annual docketed reconciliation for Rider CUA?

A. It appears to be the same as that proposed for Rider QIP that I discussed above. See Att. C-Co. Resp. to Staff DR DLH 5.06.

Q. Do you believe that an automatic annual docketed reconciliation proceeding is necessary for Rider CUA?

A. Yes, primarily for the same reasons I discussed for Rider QIP.

Q. What are your recommended language changes to Sections C and D of Rider CUA?

A. I recommend the following changes to Section C-Reconciliation and D-Commission Review:

Section C- Annual Reconciliation.

~~After each Effective Period~~ On or before March 31, the Company shall file a petition with the Chief Clerk to initiate the annual docketed reconciliation process. The petition shall be supported by testimony as to the prudence and reasonableness of the costs charged under Rider CUA. Further, the petition shall ~~make~~ include a reconciliation ~~which~~ that will compare actual cost recovery under this Rider with the costs that were intended to be recovered under this Rider during such Effective Period. Supporting invoices and any additional supporting documentation or workpapers affecting the information presented in the Company's reconciliation shall be provided to the Commission's Accounting Staff at the time of the filing of the reconciliation, petition, and testimony. The reconciliation amount will be adjusted for interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of such Effective Period to the beginning of the following Effective Period.

Section D-Commission Review.

Upon review of the annual petition, testimony, and ~~report~~ reconciliation filed by the Company under Section C, the Commission may, ~~by order,~~ require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider. If the Commission finds, after hearing, that any amounts were not prudent or reasonable, or were incorrectly debited or credited to the rider during the Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected in the TCUA and SCUA through Factor O over a succeeding Effective Period.

Q. Does Rider CUA require an annual internal audit?

A. No. However, Nicor Gas stated it would not oppose this recommendation. (Co. Resp. to Staff DR DLH 5.05) Therefore, I recommend a new section be included in Rider CUA as follows:

Section E- Annual Internal Audit

> The Company shall submit an annual internal audit report to the Manager of the Commission's Accounting Department on or before March 20 of each year. The audit shall include at least the following tests: 1) test that costs recovered through Rider CUA are not recovered through other approved tariffs; 2) test customer bills that all Rider CUA Adjustments are being properly billed to customers in the correct time periods; 3) test that Rider CUA revenues are properly stated; and 4) test that actual costs are being identified and recorded properly to be reflected in the calculation of the rates and reconciliation. The Company shall make the workpapers of such audit reports available to the Commission Staff.

Q. Has Nicor Gas suggested revisions to Rider CUA, Co. Ex. 14.2, pp. 132-135, Original Sheet Nos. 80-80.3, since filing its direct testimony?

A. Yes. Attachment D reflects the Co. Resp. to Staff DR SK 2.03, in which the Company corrected its tariff references from Account 824 to Account 823. It also made minor clarifications to definitions to clarify that only the relevant portions of Company Use therms would be used in the tariff. If the Commission adopts Rider CUA, I have no objections to the corrections proposed by the Company.

Recommendations Regarding Revisions to Nicor Gas' Rider 2 FCA-Franchise Cost Adjustment

Q. Do you have recommendations with respect to the Company's proposed revisions to Rider FCA, Co. Ex. 14.2, pp. 79-86, 1st Revised Sheet Nos. 55.51-55.57?

A. Yes. Although, I am not opining about whether Rider FCA should be adopted, in the event it is allowed by the Commission, I do recommend a revision to the proposed Rider. The rider does not include a provision to provide the Commission with workpapers supporting its annual informational filing. These workpapers are necessary to verify the calculations presented by the Company for rate recovery. Therefore, I recommend the following language addition to the end of the Franchise Cost Adjustment section:

<u>Such informational sheet must include work papers documenting that the computations of the Franchise Cost Adjustments are made in accordance with the applicable equation provided in this Franchise Cost Adjustment subsection.</u>

<u>Recommendations Regarding Nicor Gas' Accounting for Storage Gas Losses</u>

Q. Please explain the accounting treatment which is appropriate for physical gas losses.

A. The cost of storage gas volumes associated with gas losses should be classified based on whether the gas loss is the result of a specific cause or incident. As Mr. Anderson explains in Staff Ex. 9.0, gas losses that occur as a result of a specific cause or incident can be characterized as "physical losses." These types of losses result from damage to gas lines, elimination of gas in lines for repairs or maintenance and represent gas lost to the atmosphere. Since this type of loss represents gas which is lost to atmosphere, this type of physical loss should be classified as a current operating expense and recorded in Account 823 Gas losses.

According to Mr. Anderson, losses that are not attributable to a specific cause or incident can be characterized as storage field performance variations. This gas, which is not expected to be recovered, should be classified as "non-recoverable base gas" and recorded in Account 352.3 Nonrecoverable natural gas. Account 352.3 represents nonrecoverable gas that cannot be physically recovered when the field is abandoned and, therefore, amounts related to this gas loss should be capitalized and depreciated. The Uniform System of Accounts for Gas Utilities Operating in Illinois, 83 Ill. Adm. Code 505 ("USOA") describes the proper inclusions in Account 352.3 Nonrecoverable natural gas as follows: "This account shall include the cost of gas in underground reservoirs, including depleted gas or oil fields and other underground caverns or reservoirs used for the storage of gas which will not be recoverable."

Q. Do you have a recommendation for future accounting treatment of gas losses?

A. Yes. In the future, Nicor Gas should record gas losses according to the nature of the loss. Thus, physical losses should be expensed in the period incurred in Account 823, and adjustments for underground storage field performance variations should be recorded in Account 352.3 and should be subject to depreciation.

Q. Do you agree with Mr. Anderson's recommendation for a written policy to be formulated regarding underground storage adjustments or corrections?

A. Yes. I concur with Mr. Anderson's recommendation and also recommend that the written policy specify the proper accounting treatment based on the type of gas losses.

Staff Recommendation for Reporting of Affiliated Interest Transactions

Q. Do you have any recommendations concerning Nicor Gas' reporting of affiliated interest transactions?

A. Yes. While Nicor Gas provides some affiliate transaction information during a general rate case through its submittal of Schedule C-13 of the Part 285 Filing Requirements, this data is difficult to track and follow all the affiliate transactions and related costs within the abbreviated time frame of a rate case. Annual submittal of information on services Nicor Gas provides to and receives from affiliates would be helpful for Staff to receive prior to the constrained timing of rate proceedings, and could possibly aid Staff in other Nicor Gas proceedings as well. Therefore, I recommend Nicor Gas report the amount paid each year to each affiliate and the amount received each year from each affiliate. The report should also provide a description of the services provided or received, and a description of the method used to determine the amount of the charges, i.e. fully distributed costs, market, etc.

This should be filed as a Supplemental Schedule to Form 21 ILCC filed on or before May 1st.

<u>Conclusion</u>

Q. Does this question end your prepared direct testimony?

A. Yes.

Docket No. 08-0363
ICC Staff Ex. 2.0

VERIFICATION

I, Dianna Hathhorn, being first duly sworn, depose and state that I am an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Direct Testimony of Dianna Hathhorn; that I have personal knowledge of the information stated in the foregoing Direct Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

Dianna Hathhorn
Dianna Hathhorn
Illinois Commerce Commission

Subscribed and sworn to before me
this 27th day of August, 2008.

Lisa Bowman
Notary Public

OFFICIAL SEAL
LISA BOWMAN
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12-9-2011

Docket No. 08-0363
ICC Staff Ex. 2.0
Schedule 2.01

Nicor Gas Company
Pension Asset Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Pension Asset per Staff	$ -	
2	Pension Asset per Company	236,011	Nicor Gas Ex. 11.0, p. 16 & Sch. B-1.2
3	Staff Proposed Adjustment to Rate Base	$ (236,011)	Line 1 - line 2
4	Accumulated Deferred Income Taxes per Staff	$ -	
5	Accumulated Deferred Income Taxes per Company	(91,324)	Nicor Gas Ex. 11.0, p. 16 & Sch. B-1.2
6	Staff Proposed Adjustment to Rate Base	$ 91,324	Line 4 - line 5
7	Net Rate Base Adjustment per Staff	$ (144,687)	Line 3 + line 6

Nicor Gas Company
Uncollectibles Expense Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Uncollectibles Expense per Staff	$ 61,330	Line 6
2	Uncollectibles Expense per Company	68,311	Schedule C-16, col. (J), line 5
3	Staff Proposed Adjustment to Uncollectibles Expense	$ (6,981)	Line 1 - line 2
4	Revenue Used in Calculation	$ 3,036,130	Schedule C-16, col. (I), line 5
5	Uncollectibles Expense Percent per Staff	2.02%	
6	Uncollectibles Expense per Staff	$ 61,330	Line 4 x line 5

Nicor Gas Company
Incentive Compensation Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description (a)	Amount (b)	Source (c)
	Summary:		
1	Incentive Compensation Expense per Staff	$ -	
2	Incentive Compensation Expense per Company	2,824	Staff Ex. 2.0, Sum of Sch. 2.03, p. 2 lines 2, 5, 8, 11; Sch. 2.03, p. 3, line 3 and Sch. 2.03, p. 4, line 7
3	Staff Proposed Adjustment to Admin. & General Expense	$ (2,824)	Line 1 - line 2
4	Payroll Taxes on Incentive Compensation Expense per Staff	$ -	
5	Payroll Taxes on Incentive Compensation Expense per Company	216	Line 2 x 7.65%
6	Staff Proposed Adjustment to Taxes Other Than Income	$ (216)	Line 4 - line 5
7	Capitalized Incentive Compensation per Staff	$ -	
8	Capitalized Incentive Compensation per Company	31	Staff Ex. 2.0, Sch. 2.03, p. 4, line 6
9	Staff Proposed Adjustment to Gross Utility Plant in Service	$ (31)	Line 7 - line 8

Nicor Gas Company
Incentive Compensation Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
	Consolidated Pool Charges:		
1	Stock Appreciation Rights Expense per Staff	$ -	
2	Stock Appreciation Rights Expense per Company	117	Company response to Staff data request DLH-12.03
3	Staff Proposed Adjustment to Admin. & General Expense	$ (117)	Line 1 - line 2
4	Restricted Stock Expense per Staff	$ -	
5	Restricted Stock Expense per Company	996	Company response to Staff data request DLH-16.03
6	Staff Proposed Adjustment to Admin. & General Expense	$ (996)	Line 4 - line 5
7	Annual Bonus Plan Expense per Staff	$ -	
8	Annual Bonus Plan Expense per Company	448	Company response to Staff data request DLH-16.03
9	Staff Proposed Adjustment to Admin. & General Expense	$ (448)	Line 7 - line 8
10	Long-Term Plan-Performance Units Expense per Staff	$ -	
11	Long-Term Plan-Performance Units Expense per Company	832	Company response to Staff data request DLH-16.03
12	Staff Proposed Adjustment to Admin. & General Expense	$ (832)	Line 10 - line 11

Nicor Gas Company
Incentive Compensation Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
	Incentive Compensation Units ("ICU") Plan		
1	ICU Expense per Staff	$ -	
2	ICU Expense per Company	325	Company response to Staff data request DLH-13.02
3	Staff Proposed Adjustment to Admin. & General Expense	$ (325)	Line 1 - line 2

Nicor Gas Company
Incentive Compensation Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
	At-fault hit ratio per 1,000 locates goal:		
1	Target Amount for Officer Bonus Plan	$ 15	Company response to Staff data request DLH-9.10, Exhibit 1
2	Target Amount for Manager Incentive Plan	131	Company response to Staff data request DLH-9.10, Exhibit 1
3	Total for Goal	$ 146	Line 1 + line 2
4	Amount Charged to Affiliates (Line 3 x 6%)	9	Company response to Staff data request DLH-16.02
5	Sub-Total	$ 137	
6	Amount Capitalized (Line 3 x 21%)	31	Company response to Staff data request DLH-16.02
7	Net Amount Charged to Expense	$ 107	Line 3 - line 4 - line 6

Northern Illinois Gas Company
Invested Capital Tax Adjustment
For the Test Year Ending December 31, 2009
(In Thousands)

Line No.	Description (a)	Amount (b)	Source (c)
1	Rate Base	$ 1,317,679	Staff Ex. 1.0, Schedule 1.01, col. i, line 24
2	Rate of Return	7.58%	Staff Ex. 1.0, Schedule 1.01, col. i, line 25
3	Operating Income Required	$ 99,880	Line 1 x Line 2
4	Pro forma operating income at present rates adjusted before ICT adjustment	63,558	Staff Ex. 1.0, Schedule 1.01, col. d line 23 - Staff Ex. 1.0, Schedule 1.02, page 1, col. e line 16
5	Operating Income Additional Allowed	$ 36,322	Line 3 - Line 4
6	Invested Capital Tax Rate	0.80%	Co. Ex. 11.1, p 6
7	Incremental Invested Capital Tax Impact per Staff	$ 291	Line 5 x Line 6

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
DLH Ninth Set of Data Requests

DLH 9.12 Q. Referring to the Company's response to Staff data request DLH-1.02, provide all supporting workpapers, calculations, assumptions, cites to prior rate orders, journal entries, and any other documentation supporting the Company's position that it has cumulative net pension credits that reduced operating expense from 1954-2009 of $108,269,000.

DLH 9.12 A. Column B of the attached Exhibit 1 shows the accumulation of the Company's pension expense (benefit) as determined under Generally Accepted Accounting Principles ("GAAP") from the time of the Company's formation in 1954 through the 2009 test year, totaling $108,269,000 in net pension benefits (or credits). For ratemaking purposes, to the best of our knowledge, the Commission has always used the Company's GAAP pension expense (benefit) in determining its revenue requirement.

The individual historical GAAP expense (benefit) amounts were derived from the Company's tax work papers and tax returns, excerpts of which are shown in the attached Exhibit 2. We did not provide the individual journal entries because the December 31, 2007 pension asset balance, computed on the exhibit using the GAAP expenses (benefits) and the pension trust contributions, reconciles to the Company's general ledger.

Witness: James M. Gorenz

NICOR GAS
PENSION & RETIREMENT PLANS

DLH 9.12
Exhibit 1
Page 1 of 1

Column A Year	Column B GAAP Expense (Benefit)	Column C Payments to Pension Trust	Column D Pension Asset (Liability) Beg. Bal. + Col C - Col B		Source Document (copy attached as Exhibit 2)
1954	$ 752,000	$ 752,000		(a)	Existing tax return or work paper
1955	968,000	968,000		(a)	Existing tax return or work paper
1956	1,107,000	1,107,000		(a)	Existing tax return or work paper
1957	1,195,000	1,195,000		(a)	Existing tax return or work paper
1958	1,338,000	1,338,000		(a)	Existing tax return or work paper
1959	1,616,000	1,616,000		(a)	Existing tax return or work paper
1960	1,712,000	1,712,000		(a)	Existing tax return or work paper
1961	1,761,000	1,761,000		(a)	Existing tax return or work paper
1962	1,819,000	1,819,000		(a)	Existing tax return or work paper
1963	2,950,000	2,950,000		(a)	Existing tax return or work paper
1964	3,550,524	3,550,524		(a)	Existing tax return or work paper
1965	3,650,000	3,650,000		(a)	Existing tax return or work paper
1966	3,480,000	3,480,000		(a)	Existing tax return or work paper
1967	3,900,000	3,900,000		(a)	Existing tax return or work paper
1968	3,500,000	3,500,000		(a)	Existing tax return or work paper
1969	3,500,000	3,500,000		(a)	Existing tax return or work paper
1970	3,500,000	3,500,000		(a)	Existing tax return or work paper
1971	4,000,000	4,000,000		(a)	Existing tax return or work paper
1972	4,350,000	4,350,000		(a)	Existing tax return or work paper
1973	4,250,000	4,250,000		(a)	Existing tax return or work paper
1974	6,000,000	6,000,000		(a)	Existing tax return or work paper
1975	4,900,000	4,900,000		(a)	Existing tax return or work paper
1976	5,800,000	5,800,000		(a)	Existing tax return or work paper
1977	6,200,000	6,200,000		(a)	Existing tax return or work paper
1978	6,550,000	6,550,000		(a)	Existing tax return or work paper
Subtotal ('54-'78)	82,348,524	82,348,524	$ -	(a)	
1979	7,700,000	6,632,741	(1,067,259)		Existing tax return or work paper
1980	8,000,000	7,010,519	(2,056,740)		Existing tax return or work paper
1981	8,200,000	8,971,068	(1,285,672)		Existing tax return or work paper
1982	7,400,000	7,500,000	(1,185,672)		Existing tax return or work paper
1983	7,407,000	7,200,000	(1,392,671)		Existing tax return or work paper
1984	6,420,000	4,024,768	(3,787,903)		Existing tax return or work paper
1985	1,700,000	10,023,477	4,535,574		Existing tax return or work paper
1986	2,100,000	0	2,435,574		Existing tax return or work paper
1987	2,525,000	1,346,848	1,257,422		Existing tax return or work paper
Subtotal ('54-'87)	133,800,524	135,057,946	1,257,422		
1988	3,900,000	0	(2,642,578)		Existing tax return or work paper
1989	3,187,000	0	(5,829,578)		Existing tax return or work paper
1990	(1,279,000)	0	(4,550,578)		Existing tax return or work paper
1991	(7,931,000)	0	3,380,422		Existing tax return or work paper
1992	(14,269,000)	0	17,649,422		Existing tax return or work paper
1993	(11,758,000)	0	29,407,422		Existing tax return or work paper
1994	(11,806,000)	0	41,213,422		Existing tax return or work paper
1995	(9,765,000)	1,054,700	52,033,122		Existing tax return or work paper
1996	(8,697,000)	0	60,730,122		Existing tax return or work paper
1997	(13,271,000)	0	74,001,122		Existing tax return or work paper
1998	(21,196,000)	0	95,197,122		Existing tax return or work paper
1999	(10,171,000)	0	105,368,122		Existing tax return or work paper
2000	(26,923,000)	0	132,291,122		Existing tax return or work paper
2001	(32,035,678)	0	164,326,800		Existing tax return or work paper
2002	(12,739,195)	0	177,065,995		Existing tax return or work paper
2003	(47,413)	0	177,113,408		Existing tax return or work paper
2004	(4,387,733)	0	181,501,141		Existing tax return or work paper
2005	(6,115,708)	0	187,616,849		Existing tax return or work paper
2006	(9,849,408)	0	197,466,257	(b)	Existing tax return or work paper
2007	(11,297,125)	0	208,763,382	(b)	General ledger
Balance 12-31-07	(72,650,736)	136,112,646	208,763,382	(b)	
2008 forecast	(18,875,000)	0	18,875,000		= WP (B-1.2)1
Balance 12-31-08	(91,525,736)	136,112,646	227,638,382	(b)	
2009 forecast	(16,743,000)	0	16,743,000		= WP (B-1.2)2
Balance 12-31-09	$ (108,268,736)	$ 136,112,646	$ 244,381,382	(b)	= Schedule B-1.2

(a) - For these periods, notes in past tax workpapers indicate that pesion expense was equal to the pension contributions deducted for that tax year.
(b) - Balance is presented on the basis of FASB Stmt. No. 87.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
DLH Fifteenth Set of Data Requests

DLH 15.03 Q. Referring to the Company's Schedule C-16, provide updated amounts for line 4, 2008, using five months of actual data from 2008 and the remaining seven months based on any 2008 projection different than the original budget. Provide an explanation of the changes in assumptions from the original to projected budget.

DLH 15.03 A. See attached Exhibit 1 which provides five months of actual results and seven months based on an updated 2008 forecast as of June 3, 2008.

The updated forecast presents the company's uncollectible expense and net charge-offs based on an estimated $3.7B in revenue for 2008. The increase in revenues from those originally budgeted is primarily due to the dramatic rise in the price of natural gas. Increased revenues had a proportional impact on uncollectible expense which is still estimated to be 2.00% of revenue. The increase in net charge-off is based on actual net charge-off for the first five months of 2008, projected net charge-off for the remaining seven months which are based on historical experience, and the company's current collection activities.

Please note the company updates its forecasts throughout the year as factors impacting our estimates change and is in the process of such an update of its forecast for the remainder of 2008. The company anticipates that revenues and uncollectible expense will be higher than those presented on the attached exhibit given the continued increase in the price of natural gas.

Witness: James M. Gorenz

Nicor Gas Company
Uncollectible Expense
5 months actual, 7 months forecasted - 2008

	Balance Sheet Activity in Allowance for Bad Debts					Income Statement Activity in Uncollectible Expense		
	Balance Beginning of Year (B)	Actual / Forecasted Reserve Accrual (C)	Actual / Forecasted Net Charge-offs * (D) + (E)	Miscellaneous Adjustments (F)	Balance End of Year (H)	Actual / Forecasted Revenue (1) (I)	Uncollectible Expense (J)	Uncoll Exp. as Percent of Revenue (K)
5 months actual data		$37,978,000	($16,859,080)	$26,480		$1,903,547,054	$37,978,000	2.00%
7 months forecasted		35,780,400	(50,700,000)	-		1,789,020,000	$35,780,400	2.00%
Total 2008	$32,821,951	$73,758,400	($67,559,080)	$26,480	$39,047,751	$3,692,567,054	$73,758,400	2.00%
Original budget		$57,940,000	($61,276,250)					

* Represents charge-off, net of recoveries.

(1) Revenue is projected to be higher than previously anticipated due to the dramatic rise in price of natural gas.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
DLH Twenty-first Set of Data Requests

DLH 21.04 Q. Referring to the Company's response to Staff data request DLH-15.03, when does the Company expect to complete its update of its forecast for the remainder of 2008? Provide a copy with any new or changed assumptions explained, once completed.

DLH 21.04 A. Nicor Gas completed its most recent forecast of revenues and bad debt expense as of July 3, 2008. Based upon this forecast, 2008 revenues and bad debt expense are forecast to be (in thousands):

Revenues	$3,854,600.0
Bad debt expense	$77,092.0

Witness: James M. Gorenz

SECTION 285.3165
SCHEDULE C-16
UNCOLLECTIBLE EXPENSE

Utility: Northern Illinois Gas Company
d/b/a Nicor Gas Company

Test Year: 12 Months Ended 12/31/09

Section 285.3165 (a) and (b)

		Activity in Allowance for Bad Debts							Percent of Revenue Method is Used (See Note 2)			
Line No.	Year (A)	Balance Beg. Of Year (B)	Reserve Accrual (C)	Charge-Offs (D)	Recoveries (E)	Adjustments (F)	Explanation of Adjustment (G)	(B)+(C)-(D)+(E)+(F) Balance End of Year (H)	Revenue Used in Calculation (I)	Uncollectible Expense (J)	(J)/(I) Uncoll. Exp. as Percent of Revenue (K)	Outside Collection Agency Expense (See Note 3) (L)
1	2006	$ 30,095,086	$ 38,058,000	$ 46,615,157	$ 9,116,986	$ 255,700	misc.	$ 30,910,615	$ 2,452,316,905	$ 38,058,000	1.55%	$ 1,449,119
2	2007	30,910,615	52,973,824	66,719,395	13,424,815	2,232,092	(See Note 1)	32,821,951	2,627,495,000	52,973,824	2.02%	1,274,078
4	2008	32,821,951	57,940,000	83,876,250	22,600,000	-	-	29,485,701	2,896,979,000	57,940,000	2.00%	1,357,917
5	2009	29,485,701	68,311,000	90,937,500	22,000,000	-	-	28,859,201	3,036,130,000	68,311,000	2.25%	1,371,404

NOTES:

(1) 2007 includes the sale of previously charged-off receivables.

(2) The company uses the percent-of-revenue method for determining the amount of uncollectible expense for budget purposes. For recording actual expense, the company uses a percent-of-revenue method monthly and then records adjustments each quarter-end, as needed, such that the ending balance in the allowance account equals management's best estimate of loss.

(3) Outside collection agency fees are included in O&M and are charged to Prime Account 903, Customer Records and Collection Expenses.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-XXXX
DLH Fourth Set of Data Requests

DLH 4.05 Q. Referring to Nicor Gas Ex. 14.2, Rider QIP, Section G-Reconciliation and Section H-Commission Review, does the Company agree to file its reconciliation with the Chief Clerk and include in such reconciliation filing:

1) A petition to initiate the annual reconciliation process; and

2) Testimony as to the reasonableness and prudence of its costs?

If the Company does not agree, provide all reasons for the disagreement. If the Company agrees, provide the date by which the Company proposes to file its annual reconciliation, petition, and testimony with the ICC Chief Clerk.

DLH 4.05 A. Proposed Rider QIP provides for a reconciliation of the amount to be recovered from customers with the actual amount recovered for the past effective period. (Ex. 14.1 page 147) Nicor Gas would not oppose a modification to this provision so that the results of the reconciliation analysis are included with the Company's filing for a Rider QIP factor on or before March 20 of each year. Both the reconciliation of the past effective period and new Rider QIP factor would be filed with the Chief Clerk.

Nicor Gas does not believe it is necessary for it to initiate a reconciliation proceeding before the Commission each year. Nicor Gas' proposal is specific to the recovery of only the incremental investment in cast iron main replacement and copper service replacements. This information is simple and straight forward. As already provided by the proposed Rider QIP, Nicor Gas would provide Staff with all the information necessary for Staff to determine if Nicor Gas' calculations and charges for the effective period were determined in accordance with the provisions of Rider QIP. (Ex. 14.1 page 143). As stated above, Nicor Gas would not oppose a modification to the proposed Rider QIP to require the filing of the reconciliation analysis with the Chief Clerk. After review of this information for a particular effective period, Staff should be able to determine whether it is warranted to initiate a reconciliation proceeding before the Commission for that effective period.

Witness: Gerald P. O'Connor

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-XXXX
DLH Fifth Set of Data Requests

DLH 5.12 Q. Referring to Nicor Gas Ex. 14.2, page 131 Rider UEA, Section C-Reconciliation and Section D-Commission Review, does the Company agree to file its reconciliation with the Chief Clerk and include in such reconciliation filing:

1) A petition to initiate the annual reconciliation process; and

2) Testimony as to the reasonableness of its costs?

If the Company does not agree, provide all reasons for the disagreement. If the Company agrees, provide the date by which the Company proposes to file its annual reconciliation, petition, and testimony with the ICC Chief Clerk.

DLH 5.12 A. Nicor Gas does not believe it is necessary for it to initiate a reconciliation proceeding before the Commission each year. Nicor Gas' proposal is specific to the recovery of only the incremental change in actual Uncollectible Expense versus the rate case benchmark and outside the proposed "deadband". This information is simple and straight forward. Nicor Gas would provide Staff with all the information necessary for it to determine if Nicor Gas' calculations and charges were determined in accordance with the provision of Rider UEA or if a reconciliation proceeding before the Commission is be warranted. Moreover, the data used to determine the charges would be that already reported to the Commission in the Company's Form 21.

Witness: Gerald P. O'Connor

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-XXXX
DLH Fifth Set of Data Requests

DLH 5.06 Q. Referring to Nicor Gas Ex. 14.2, page 135 Rider CUA, Section C-Reconciliation and Section D-Commission Review, does the Company agree to file its reconciliation with the Chief Clerk and include in such reconciliation filing:

1) A petition to initiate the annual reconciliation process; and

2) Testimony as to the reasonableness of its costs?

If the Company does not agree, provide all reasons for the disagreement. If the Company agrees, provide the date by which the Company proposes to file its annual reconciliation, petition, and testimony with the ICC Chief Clerk.

DLH 5.06 A. Proposed Rider CUA provides for a reconciliation of the amount to be recovered from customers with the actual amount recovered for the past effective period. (Ex. 14.1 page 134) Nicor Gas would not oppose a modification to this provision so that the results of the reconciliation analysis are included with the Company's filing for Rider CUA charges or credits on or before March 20 of each year. Both the reconciliation of the past effective period and new Rider CUA charges or credits would be filed with the Chief Clerk.

Nicor Gas does not believe it is necessary for it to initiate a reconciliation proceeding before the Commission each year. Nicor Gas' proposal is specific to the recovery of only the price change impact on Company Use Gas costs. This information is simple and straight forward. Nicor Gas would provide Staff with all the information necessary for it to determine if Nicor Gas' calculations and charges were determined in accordance with the provision of Rider CUA or if a reconciliation proceeding before the Commission would be warranted. Moreover, the data used to determine the charges would be that already reported to the Commission in the Company's Form 21.

Witness: Gerald P. O'Connor

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
SK Second Set of Data Requests

SK 2.03 Q. Please provide the revenue and operating income the Company would have realized in each of the past ten years (1998 through 2007) had the Company's proposed rider CUA been effective. Please include calculations supporting your response and the major assumptions made during each relevant period.

SK 2.03 A. Please see the attached Exhibit 1.

As previously noted in the Company's response to DLH 5.03, the Company's proposed Rider CUA makes reference to Account 824 when the reference should have been to Account 823. The Company has also realized that minor clarifications are needed within parts (ii) of the definitions of terms "RCCUT" and "RCTSCT" to clarify that only the relevant portions of actual Company Use therms would be used in part (ii) which also correspond to the Accounts cited in part (i) of the definitions. Attached as Exhibit 2 is a redline of the Rider CUA tariff language to show these corrections.

Witness: Robert R. Mudra

Rider 27
Company Use Adjustment

Applicable to all Rates Except Rates 17, 19 and 21

Applicability.
This rider is applicable to all customers except those customers served under contract service rates, Rates 17, 19, and 21. The purpose of this rider is to recover or refund the difference between the actual cost incurred by the Company in a calendar year to purchase a specified quantity of gas for certain operational uses as compared to the cost included in the computation of the Company's base rates in its most recent rate case for the purchase of gas for those operational uses.

The price of natural gas to be used in determining the applicable charges or credits for an Effective Period (as that term is defined below) shall be determined by dividing (i) the total costs that are classified for the immediately preceding calendar year as Company Use expenses in Illinois Commerce Commission Account 819 - Compressor Station Fuel and Power, Account 823 - Other Expenses, and that portion of Account 932 related to gas costs for Company facilities by (ii) the actual amount of gas purchased for Company Use, in therms, in that calendar year.

Deleted: 4

The natural gas price as determined above shall then be multiplied by the amount of Company Use gas, in therms, used in the computation of base rates in the Company's most recent rate case. The difference between this dollar amount and the dollar amount used in the computation of base rates in the Company's most recent rate case shall be recovered from, or refunded to, customers through the application of this rider.

On or before the 20th day of March of each year, the Company shall file with the Commission an information sheet specifying the charges or credits to be effective for service rendered during the period of April 1 through December 31 of such year. Such filing shall include a statement showing the determination of such charges and credits under Section B, (including the reconciliation under Section C), and such determination shall be accompanied by data in explanation thereof.

Section A - Definitions.
As used in this rider, the terms below shall have the following meaning:

Company Use - Gas used by the Company in operations, the costs of which are recorded in Account 819 and in Account 823 of the Commission's Uniform System of Accounts, and that portion of gas used by the Company for operations of facilities owned or leased by the Company, the costs of which are recorded in Account 932 of the Commission's Uniform System of Accounts.

Deleted: 4

Company Use Adjustment – Sales Customers (SCUA) - For an Effective Period, the per therm charge or credit during such Effective Period to all customers subject to this rider who receive sales service from the Company, determined pursuant to Section B.

Company Use Adjustment – Transportation Customers (TCUA) - For an Effective Period, the per therm charge or credit during such Effective Period to all customers subject to this rider who do not receive sales service from the Company, determined pursuant to Section B.

Effective Period – A period of time from April 1 of a calendar year through December 31 of such year.

SCUA Intended Amount – For an Effective Period, the amount that the Company would have charged or credited to customers under this rider who receive sales service from the Company for the portion of SCUA that does not include TCUA had the actual deliveries to such customers during such Effective Period equaled the forecasted deliveries to such customers for such Effective Period that were used in the computation of SCUA under Section B of this rider.

(Continued On Sheet No. 80.1)

Rider 27
Company Use Adjustment

(Continued From Sheet No. 80)

Section A – Definitions. (continued)

TCUA Intended Amount – For an Effective Period, the amount that the Company would have charged or credited to customers under this rider for TCUA (including the portion of TCUA that is recovered as a part of SCUA) had the actual deliveries (excluding deliveries under Rates 17, 19 and 21) during such Effective Period equaled the forecasted deliveries (excluding deliveries under Rates 17, 19 and 21) for such Effective Period that were used in the computation of TCUA under Section B of this rider.

Section B – Determination of Adjustments.

a) Annually, the Company shall determine under this section the SCUA and the TCUA to be placed into effect for bills issued during the applicable Effective Period.

b) The TCUA and the SCUA for an Effective Period shall be determined, respectively, in accordance with the following formulas:

TCUA = [((ACUC/ACUT x RCCUT) – RCCUC) + ARA] / (T) x 100

and

SCUA = TCUA+ [(((ACUC/ACUT x RCTSCT) – RCTSCC) + SARA) / (ST) x 100]

Where:

ACUC = The actual cost of Company Use for the previous calendar year.

ACUT = The actual amount of Company Use, measured in therms, purchased in the previous calendar year.

RCCUT = The lesser of (i) the amount of Company Use that would be included in Account 819 and Account 932, measured in therms, and that is used in the computation of base rates in the Company's most recent rate case, or (ii) the portion of ACUT that is included in Account 819 and Account 932.

RCCUC = The cost of Company Use that would be recorded in Account 819 and Account 932 and that is used in the computation of base rates in the Company's most recent rate case.

ARA = The annual reconciliation adjustment determined pursuant to Section C below for the difference between (x) the TCUA Intended Amount for the immediately preceding Effective Period and (y) the amount actually charged or credited to customers under this rider during such immediately preceding Effective Period for TCUA (including the portion of TCUA that is recovered as a part of SCUA). ARA shall be a positive amount in the formulas specified above if either (A) Company Use expense actually charged to customers during the immediately preceding Effective Period under this rider for TCUA (including the portion of TCUA that is recovered as a part of SCUA) was less than the TCUA Intended Amount for such immediately preceding Effective Period, or (B) Company Use expense actually credited to customers during the immediately preceding Effective Period pursuant to this rider for TCUA (including the portion of TCUA that is recovered as a part of SCUA) was greater than the TCUA Intended Amount for such Effective Period.

(Continued On Sheet No. 80.2)

Rider 27
Company Use Adjustment

(Continued From Sheet No. 80.1)

Section B – Determination of Adjustments. (continued)

ARA (cont.) ARA shall be a negative amount in the formula specified above if either (A) Company Use expense actually charged to customers during the immediately preceding Effective Period pursuant to this rider for TCUA (including the portion of TCUA that is recovered as a part of SCUA) was greater than the TCUA Intended Amount for such immediately preceding Effective Period, or (B) Company Use expense actually credited to customers during the immediately preceding Effective Period for TCUA (including the portion of TCUA that is recovered as a part of SCUA) was less than the TCUA Intended Amount for such Effective Period.

T = The forecasted deliveries (excluding deliveries under Rates 17, 19 and 21) for the Effective Period.

RCTSCT = The lesser of (i) the amount of Company Use that would be included in Account 823, measured in therms, and that is used in the computation of base rates in the Company's most recent rate case, or (ii) the portion of ACUT that is included in Account 823.

RCTSCC = The cost of Company Use that would be recorded in Account 823 and that is used in the computation of base rates in the Company's most recent rate case.

SARA = The annual reconciliation adjustment determined pursuant to Section C below for the difference between (x) the SCUA Intended Amount for the immediately preceding Effective Period and (y) the amount actually charged or credited to customers under this rider who received sale service from the Company during such immediately preceding Effective Period for the portion of SCUA that does not include TCUA. SARA shall be a positive amount in the formula specified above if either (A) the expense actually charged to sales customers pursuant to this rider for the portion of SCUA that does not include TCUA during the immediately preceding Effective Period was less than the SCUA Intended Amount for such immediately preceding Effective Period, or (B) the expense actually credited to sales customers pursuant to this rider for the portion of SCUA that does not include TCUA during the immediately preceding Effective Period was greater than the SCUA Intended Amount for such immediately preceding Effective Period. SARA shall be a negative amount in the formula specified above if either (A) the expense actually charged to sales customers pursuant to this rider for the portion of SCUA that does not include TCUA during the immediately preceding Effective Period was greater than the SCUA Intended Amount for such immediately preceding Effective Period, or (B) the expense actually charged to sales customers pursuant to this rider for the portion of SCUA that does not include TCUA during the immediately preceding Effective Period was less than the SCUA Intended Amount for such Effective Period.

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(Continued On Sheet No. 80.3)

Rider 27
Company Use Adjustment

(Continued From Sheet No. 80.2)

Section B – Determination of Adjustments. (continued)

ST = The forecasted deliveries for the Effective Period to customers subject to this rider who receive sales service from the Company.

The TCUA and SCUA shall be measured in cents per therm rounded to the nearest 0.01 cents; any fraction of 0.01 cents shall be dropped if less than 0.005 cents; or, if 0.005 cents or more, shall be rounded up to the next full 0.01 cents. If the TCUA and the SCUA for an Effective Period are positive numbers, then they shall represent charges to customers for that Effective Period. If the TCUA and the SCUA for an Effective Period are negative numbers, then they shall represent credits to customers for that Effective Period.

As applicable, the TCUA or the SCUA, as determined above for an Effective Period, shall be applied to the amount of gas delivered by the Company to a customer during each billing period ending during such Effective Period to determine the amount of charge or credit to such customer on each such bill.

Section C – Reconciliation.
After each Effective Period, the Company shall make a reconciliation which will compare actual cost recovery under this Rider with the costs to be recovered under this Rider during such Effective Period. The reconciliation amount will be adjusted for interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of such Effective Period to the beginning of the following Effective Period.

Section D – Commission Review.
Upon review of the annual report filed by the Company under Section C, the Commission may, by order, require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges and credits under this Rider. If the Commission finds, after hearing, that any amounts were incorrectly debited or credited to this rider during an Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected in the TCUA and SCUA charges or credits over a succeeding Effective Period.