Nicor Gas

EFFECTIVE:	January 17, 2005	POLICY ORDER:	A-54
SUPERSEDES:	Policy Order A-54 effective November 1, 2001		
REFERENCES:	Illinois Public Utilities Act; Part 550 of Ill.C.C. Regulations; Operating Agreement between Nicor Gas and Affiliates; Policy Order L-6	SUBJECT:	Illinois Commerce Commission Regulation of Transactions between Nicor Gas and its Affiliates

Transactions between gas utilities and their affiliates are subject to regulation by the Illinois Commerce Commission ("Ill.C.C."). With some exceptions, contracts and arrangements between gas utilities and their affiliates must receive the prior consent of the Ill.C.C. In addition, the Illinois Public Utilities Act ("PUA") and Ill.C.C. rules prohibit or restrict certain types of interactions by gas utilities with their affiliates. It is the policy of Nicor Gas to comply fully with these laws and regulations in its interactions with affiliates.

A. The Operating Agreement

The Ill.C.C. has approved an Operating Agreement (the "Operating Agreement") between Nicor Gas and most of its affiliates. Among other things, the Operating Agreement permits Nicor Gas to (i) provide certain types of services to affiliates, (ii) receive certain types of services from affiliates, (iii) make available certain Nicor Gas facilities for use by affiliates, (iv) effectuate the sale of assets and (v) use certain facilities of affiliates. Transactions between Nicor Gas and its affiliates that are permitted by the Operating Agreement may be undertaken without further approval by the Ill.C.C. as long as those services or facilities are provided in the manner outlined in the Operating Agreement and are not prohibited by specific Ill.C.C. rules.

Nicor Gas recognizes the potential benefits from transactions with affiliates that are permitted under the Operating Agreement. Therefore, Nicor Gas may enter into transactions with affiliates that involve provision or receipt of services and use of facilities to the extent provided by the Operating Agreement and not prohibited by specific Ill.C.C. rules.

1. Required charges.

If Nicor Gas is the provider of services or facilities under the Operating Agreement, the applicable affiliates shall generally be charged for the services and facilities at an amount equal to or greater than Nicor Gas' fully distributed cost. If Nicor Gas provides similar services to the general public under an Ill.C.C. approved pricing mechanism, that third-party price should be charged to the affiliate instead of fully distributed cost.

If Nicor Gas is the recipient of services or facilities, Nicor Gas shall generally be charged for services and facilities at an amount equal to or less than the applicable affiliate's fully distributed cost. If the affiliate provides similar services to the general public, and the affiliate receives a substantial portion of its revenue from such transaction with the general public, that third-party price should be charged to Nicor Gas instead of fully distributed cost.

Fully distributed cost includes direct costs, allocated costs, and a charge for indirect costs.

2. Facilities

Facilities that may be provided under the Operating Agreement include office space and equipment (copy machines, filing cabinets, furniture, etc.), computer equipment and networks (including peripheral devices, storage media and software), communications equipment, vehicles and supplies.

For practical reasons, Nicor Gas will generally own all applicable facilities that are provided under the Operating Agreement. For example, Nicor Gas should own all furniture and fixtures in the General Office building. It should also own all computer software and computer equipment that are used by both Nicor Gas and affiliates. The cost of such facilities will be recovered through the charge for indirect costs.

Facilities that are used exclusively by an affiliate should be purchased by or charged directly to the affiliate. Examples include computer software used exclusively for an affiliate's own purposes, and furniture and fixtures in a building rented and used exclusively by an affiliate.

3. Services

Services include administrative and management support (executive, accounting, legal, secretarial, tax, treasury, etc.), personnel services, purchasing services, technical (IT) services, operational services, joint purchasing and customer support.

Standard support services that are provided to all Nicor Gas employees will be charged to affiliates via an indirect labor additive. All other services of Nicor Gas employees that are specifically attributable to an affiliate shall be directly charged to the affiliate.

Example: An affiliate desires to design a compensation and benefit package specific to its employees. Since this goes beyond standard personnel services covered by the indirect labor additive, Nicor Gas should directly charge the affiliate for this service.

Example: An affiliate desires computer programming specific to its needs. Since this goes beyond standard information technologies services covered by the indirect labor additive, Nicor Gas should directly charge the affiliate for this service.

Appropriate systems for accumulating hours worked for affiliates and distributing associated charges shall be maintained. Labor charges will reflect the effects of overtime and paid absences.

4. Obligation to Provide Facilities or Services

Nicor Gas shall not be obligated to provide facilities or services to its affiliates. Therefore, affiliates are encouraged to consult with Nicor Gas before making decisions that depend on its support.

Example: An affiliate purchases computer software to be used exclusively for its own purposes. To support the software, incremental shared computer equipment such as servers and disk storage is necessary. Nicor Gas is not required to purchase such equipment. In that case, the affiliate may need to acquire its own computer equipment for its exclusive use.

Example: An affiliate purchases computer software utilizing technology that is not supported by Nicor Gas. Nicor Gas is not obligated to acquire the technology or skills necessary to support the affiliate.

B. Authorizations and Compliance Questions

It shall be the responsibility of the Nicor Gas officer in charge of a transaction with an affiliate to ensure that any necessary Ill.C.C. authorization has been obtained and that such transaction is conducted in accordance with such authorization and with requirements of the PUA and Ill.C.C. regulations. If such transaction involves a contract or arrangement to provide or receive service or use of a facility, the Nicor Gas officer shall be responsible to ensure that costs are appropriately accounted for in accordance with this policy.

Questions regarding the requirements of the PUA and Ill.C.C. regulations or interpretation of the Operating Agreement shall be directed to the General Counsel of Nicor Gas. Questions regarding appropriate accounting for costs under the Operating Agreement shall be directed to the Principal Accounting Officer of Nicor Gas. The Accounting Control Department shall review and approve inter-billing pricing matters for each type of transaction.

C. Transactions with Affiliates that are not Covered by the Operating Agreement

As a general rule, contracts and arrangements between Nicor Gas and its affiliates that are not specifically permitted under the Operating Agreement must receive prior Ill.C.C. approval unless the PUA or Ill.C.C. rules provide a specific exception.

Currently, no partially –owned subsidiaries of Nicor Inc. are party to the Operating Agreement. As such, contracts and arrangements between Nicor Gas and such affiliates generally will require prior Ill.C.C. approval.

D. Transactions with Affiliates that are Restricted or Prohibited

The PUA and Ill.C.C. rules prohibit certain types of interactions between gas utilities and their affiliates and impose restrictions on other types.

For instance, the PUA requires prior approval for a gas utility to guarantee obligations of its affiliates. It also prohibits employees of a gas utility from engaging in certain marketing activities on behalf of its affiliates that provide heating, ventilating or air conditioning services within the utility's service territory.

Part 550 of the Ill.C.C. rules (83 I.A.C. Part 550) prohibits or restricts certain activities by a gas utility that might discriminate in favor of its affiliates. Among other things, these rules prohibit the gas utility from (i) providing its affiliates with preferential treatment or advantages in connection with services provided under tariffs or in releasing or transferring interstate pipeline and storage service, (ii) tying utility services to the required purchase of goods or services offered by its affiliates, (iii) providing its affiliates with preferential access to customer billing and usage information or (iv) entering into transactions with its affiliates that subsidize the affiliates.

Part 550 imposes special restrictions on a gas utility's dealings with its affiliates in competition with alternative retail gas suppliers. Generally, these additional restrictions are designed to require these affiliates to function independent of the utility in most respects.

Part 550 also imposes on gas utilities certain recordkeeping and audit requirements with respect to their transactions with affiliates.

E. Related Policies

See Nicor Gas Policy L-6 for additional guidelines applicable to (i) releases of interstate pipeline capacity by Nicor Gas to an affiliate, (ii) purchases of gas by Nicor Gas from an affiliate, (iii) sales of gas by Nicor Gas to an affiliate and (iv) sales of Rate 21 or FERC HUB services by Nicor Gas to an affiliate.

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