

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

**Illinois Commerce Commission** :  
**On Its Own Motion** :  
**-vs-** :  
**Illinois Gas Company** : **07-0571**  
: :  
**Reconciliation of revenues** :  
**collected under gas adjustment** :  
**charges with actual costs** :  
**prudently incurred.** :

**ORDER**

By the Commission:

**Procedural History**

In this proceeding, the Illinois Commerce Commission (“Commission”) entered an Order commencing the instant purchased gas adjustment (“PGA”) Reconciliation Proceeding, in accordance with the requirements of Section 9-220 of the Public Utilities Act (“Act”), 220 ILCS 5/9-220. That Order directed Illinois Gas Company (“Illinois Gas” or “Company”) to present evidence at a public hearing “to show the reconciliation of PGA revenues with the actual cost of such gas supplies obtained through purchases demonstrated by the [utility] to be prudent, and the measures taken to insulate the PGA from price volatility ...” for the 12 months ended December 31, 2007(the “Reconciliation Period” or “reconciliation year”).

Pursuant to due notice, hearings were held in this matter before a duly authorized administrative law judge of the Commission at its offices in Springfield, Illinois. Appearances were entered by counsel for Illinois Gas and by members of the Energy and Financial Analysis Divisions of the Commission (“Staff”). Evidence was presented by the Company and Staff, and at the conclusion of the hearings, the record was marked “Heard and Taken.” A draft order was filed by Illinois Gas.

**Applicable Authority**

In accordance with Section 9-220 of the Public Utilities Act (“Act”), 220 ILCS 5/1-101 et seq., the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a purchased gas adjustment clause. Section 9-220(a) requires the Commission to initiate annual public hearings “to determine whether the clauses reflect actual costs of . . . gas . . . purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual cost of . . . gas . . . prudently purchased.” In each

such proceeding, the burden of proof is on the utility to establish the prudence of its applicable costs.

For gas purchases, the provisions of Section 9-220 are implemented in 83 Ill. Adm. Code Part 525, "Uniform Purchased Gas Adjustment Clause." Section 525.40 of Part 525 identifies gas costs which are recoverable through a PGA. Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70.

### **Information Presented by Illinois Gas**

Illinois Gas' offices are located in Olney, Illinois. The Company provides gas services to approximately 9,817 customers in the communities of Lawrenceville, Bridgeport, Sumner, Pinkstaff, Birds and Russellville in Lawrence County, Illinois; Olney, Noble, Parkersburg, Calhoun, Claremont and Dundas in Richland County, Illinois; and West Liberty, Saint Marie and Willow Hill in Jasper County, Illinois.

Gas supplies for Illinois Gas are transported into the area by Texas Gas Transmission Corp. ("Texas Gas"). Ms. Lori Uhl, the Company's Comptroller and Assistant Treasurer, testified that the nearest alternative pipeline is Trunkline Gas Company ("Trunkline") which is approximately 50 miles west of Illinois Gas' primary gate station. In her opinion, the cost of installing necessary transmission lines to Trunkline cannot be justified as a cost to be recovered from rate payers.

Ms. Uhl testified that under its contracts with Texas Gas, the Company is allotted, during the winter season, 2,200 MMBtu per day under a Firm Transportation ("FT") Agreement and 14,950 MMBtu per day under a No Notice Service ("NNS") Agreement, for a total of 17,150 MMBtu per day. The Company's 2007 peak day was 11,069 MMBtu on February 5, 2007.

With respect to gas purchases for the reconciliation year, Ms. Uhl testified that all gas purchases since November, 2006, were made by the Company through its agent BP Canada Energy Marketing Corporation. The agent was selected by competitive bidding. (Illinois Gas Ex. 4 at 5)

With regard to the Company's reconciliation of revenues collected under its PGA with costs actually incurred, a schedule containing this information was identified as Statement 1 of Exhibit 3. According to Statement 1, and as shown in the Appendix to this Order, the Company had PGA revenues of \$9,639,787 in 2007 compared to recoverable gas costs of \$9,389,815. After reflecting certain other adjustments in lines 7, 8 and 9, the over recovery of costs for calendar year 2007 was \$246,926,245,926.

After adding the "balance to be refunded from prior periods" of \$404,450, the under recovery balance at December 31, 2007 was \$158,524. Upon reflecting the latter

amount as a Factor A adjustment, the unamortized balance at December 31, 2007, and requested Factor O, is zero dollars.

It is noted that the Company's Uniform PGA tariff unbundles the PGA rate into the following components: Winter/Season Demand, Summer/Season Demand and the Commodity Components. The PGA rate billed is based on different combinations of components applicable to each of two classes of gas usage customers. Firm Usage of system supply is billed the Winter/Season Demand, Summer/Season Demand and Commodity Components.

Interruptible Winter Usage of system supply is billed the Winter/Season Demand, the Summer/Season Demand and Commodity Components, but receives credit for the Winter/Season Demand Component. According to Ms. Uhl, Interruptible customers are not charged the Winter/Season Demand Component because they are interruptible during the Winter/Season and Firm during the Summer/Season, allowing the contractual pipeline Winter/Season or Peak Demand to be lower than it would otherwise be.

### **Staff's Recommendations**

Mr. Daniel Kahle, a Certified Public Accountant and accountant in the Accounting Department of the Commission's Financial Analysis Division, reviewed the Company's filing and reviewed the Company's responses to extensive data requests concerning the revenues collected under the PGA and the costs recoverable under the clause. Mr. Kahle found no reason to object to the reconciliation performed by the Company and he recommends the acceptance of the Company's reconciliation of revenues collected under the PGA with actual costs as shown on Statement 1 of Illinois Gas Exhibit 3. He further testified that the reconciliation in this proceeding does not require an Ordered Reconciliation Factor (Factor O).

Mr. Brett Seagle, a Gas Engineer in the Gas Section of the Engineering Department of the Commission's Energy Division, stated that Staff reviewed Illinois Gas' testimony and its responses to Staff data requests concerning the prudence of gas purchases. Mr. Seagle testified that using the Commission's criteria for prudence, he found no reason to dispute the Company's assertion that all gas supply purchases were prudently incurred during the reconciliation period.

### **Commission's Conclusions, Findings and Ordering Paragraphs**

The evidence shows that during the calendar year 2007 Reconciliation Period, Illinois Gas acted prudently in its procurement of natural gas supply. The evidence presented by the parties further shows that the cost of purchased gas has been reconciled satisfactorily with the revenues received for such gas during calendar year 2007. The Commission notes that a review of the 2006 PGA reconciliation for Illinois Gas in Docket No. 06-0745 shows that following the reconciliation, no ordered adjustment Factor "O" was required, reflecting no unamortized balance. Essentially, Line 13 of the Appendix attached to the Order in Docket No. 06-0745 serves as the

starting point for Line 1 for the Appendix attached hereto. Similarly, Line 14 of the Appendix attached to the Order in Docket No. 06-0675 is replicated on Line 3 of the attachment hereto and Line 12 of the Appendix in Docket No. 06-0745 is replicated on Line 2 of the Appendix to this Order. Lines 4 through 11 of the Appendix attached to this Order reflect activity during 2007. There have been no findings of imprudence, the automatic adjustment clause Factor A, has served its purpose during the last two years and again, there is no ordered reconciliation through Factor O as shown on Line 14 of the Appendix attached hereto.

The Commission concludes that the 2007 PGA reconciliation, presented by the Company, and reviewed by Staff, as shown in the Appendix hereto, is reasonable and should be approved.

The Commission, having considered the entire record, is of the opinion and finds that:

- (1) Illinois Gas is a corporation engaged, among other things, in the distribution of natural gas to the public in portions of the State of Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) the Commission has jurisdiction over Illinois Gas and of the subject matter of this proceeding;
- (3) the statements of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (4) The evidence shows that during the calendar year 2007 Reconciliation Period, Illinois Gas acted prudently in its purchases of natural gas;
- (5) the cost of purchased gas has been reconciled satisfactorily with the revenues received for such gas during calendar year 2007, as shown in the Appendix hereto;
- (6) Illinois Gas experienced an under-recovery of costs for calendar year 2007, of \$249,972 and an under-recovery balance at December 31, 2007, of \$158,524, amortized to Schedule 1 as Factor A Adjustments, resulting in a reconciliation factor of zero dollars; an Ordered Reconciliation Factor (Factor O) is not required.

IT IS, THEREFORE, ORDERED that Illinois Gas Company's reconciliation of the revenues collected under its PGA for calendar year 2007 with the actual costs prudently incurred for the purchase of gas supply as shown in the Appendix hereto, is approved.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Illinois Administrative Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 8th day of October, 2008.

(SIGNED) CHARLES E. BOX

Chairman