

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY :
d/b/a Nicor Gas Company :
 : Docket No. 08-0363
Proposed general increase in rates, and revisions to :
other terms and conditions of service :

Direct Testimony of

DARCY A. FABRIZIUS

On Behalf of
CONSTELLATION NEWENERGY – GAS DIVISION, LLC

August 27, 2008

OFFICIAL FILE

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Witness Darcy Fabrizius
Date 11/17/08 Reporter KIL

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Direct Testimony of Darcy A. Fabrizius

1 I. INTRODUCTION AND BACKGROUND

2 Q. PLEASE STATE YOUR NAMES AND BUSINESS ADDRESSES.

3 A. My name is Darcy A. Fabrizius and my business address is N21 W23340
4 Ridgeview Parkway, Waukesha, WI 53187-2226.

5

6 Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

7 A. I am appearing on behalf of Constellation NewEnergy – Gas Division, LLC
8 (“CNE-Gas”).

9

10 Q. PLEASE DESCRIBE CNE-GAS’ BUSINESS.

11 A. CNE-Gas is a full-service natural gas marketer that supplies natural gas and
12 related transportation services to approximately 8,000 large commercial and
13 industrial customers, municipalities, local distribution companies and
14 cogeneration facilities, including customers in the service territories of Northern
15 Illinois Gas Company d/b/a Nicor Gas Company (“Nicor”). CNE-Gas’ retail

16 natural gas market includes 22 U.S. states and two Canadian provinces. In
17 addition to our office in Illinois, CNE-Gas is headquartered in Louisville,
18 Kentucky and has regional offices in Michigan, Ohio, Wisconsin, California,
19 Oklahoma, Maryland, New York, Pennsylvania, Missouri, Arkansas, Kansas,
20 Minnesota, Iowa and Nebraska. CNE-Gas is a wholly owned subsidiary of CNE
21 Holdings, Inc. ("CNE Holdings"). CNE Holdings is wholly owned by
22 Constellation Energy Resources, LLC that in turn is wholly owned by
23 Constellation Energy Group, Inc. ("CEG"). CEG is a Fortune 125 company
24 based in Baltimore, Maryland. CEG subsidiaries provide regulated retail
25 electricity and gas supply in central Maryland, including the city of Baltimore,
26 and competitive wholesale and retail electricity and gas supply, energy
27 management and consulting services nationwide.

28

29 **Q. PLEASE DESCRIBE YOUR POSITION WITH CNE-GAS.**

30 A. I am a manager of regulatory affairs.

31

32 **Q. WHAT ARE YOUR RESPONSIBILITIES AS A MANAGER OF**
33 **REGULATORY AFFAIRS FOR CNE-GAS?**

34 A. I monitor filings that are made to the Illinois and Wisconsin state commissions to
35 uncover proposed changes that impact our customers and business. When CNE-
36 Gas decides to participate in a proceeding, I coordinate our participation. I also
37 educate our employees and customers when certain regulatory changes occur.

38

39 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
40 EXPERIENCE.

41 A. My resume is attached hereto as CNE-Gas Exhibit 1.1.
42

43 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ILLINOIS
44 COMMERCE COMMISSION ("COMMISSION")?

45 A. No.
46

47 Q. WHAT IS THE SUBJECT MATTER OF YOUR TESTIMONY?

48 A. My testimony will cover Nicor's proposed tariff revisions that affect
49 transportation customers. Specifically this includes:

- 50 ▪ Storage withdrawal rights and the Storage Withdrawal Factor ("SWF");
- 51 ▪ Storage capacity allocations for Storage Banking Service ("SBS");
- 52 ▪ The charge for SBS; and
- 53 ▪ SBS monthly injection requirements.
54

55 Q. DO YOU HAVE ANY EXHIBITS THAT YOU PLAN TO SUBMIT IN
56 SUPPORT OF YOUR TESTIMONY?

57 A. Yes. In support of my testimony, I offer the following exhibits:

58	CNE-Gas Exhibit 1.1	Resume of Darcy A. Fabrizious
59	CNE-Gas Exhibit 1.2	Nicor response to CNE-Gas 2.01
60	CNE-Gas Exhibit 1.3	Storage Inventory Comparisons
61	CNE-Gas Exhibit 1.4	Nicor response to CNE-Gas 2.22

62	CNE-Gas Exhibit 1.5	Storage Injections Compared to Field Capacity
63	CNE-Gas Exhibit 1.6	Monthly Storage Balances Compared to Field
64		Capacity
65		
66	CNE-Gas Exhibit 1.7	Daily Injection Limits
67	CNE-Gas Exhibit 1.8	Nicor response to DAS 1.01
68	CNE-Gas Exhibit 1.9	July-Oct Daily Injection Limits Example

69
70
71
72

II. THE COMMISSION SHOULD APPROVE STORAGE WITHDRAWAL RIGHTS FOR TRANSPORTATION CUSTOMERS CONSISTENT WITH ITS PRIOR ORDER

73 **Q. MR. ROBERT R. MUDRA PROPOSES TO UPDATE NICOR'S STORAGE**
74 **WITHDRAWAL FACTOR ("SWF") FOR TRANSPORTATION SERVICE**
75 **TO 0.018. (NICOR GAS EX. 14.0, LINES 647-648.) DO YOU SUPPORT**
76 **THIS CHANGE?**

77 A. While I support updating the Storage Withdrawal Factor value consistent with the
78 Commission's formula adopted in Nicor's last rate case, I do not support Nicor's
79 proposed revisions to that formula.

80

81 **Q. IS NICOR PROPOSING TO USE THE SAME FORMULA THAT WAS**
82 **ADOPTED BY THE COMMISSION IN THE 2004 RATE CASE TO**
83 **DERIVE THE SWF?**

84 A. No. Nicor has stated its proposed methodology for calculating the SWF "is the
85 same method as that adopted by the Commission in the 2004 Rate Case." (Nicor
86 Gas Ex. 4.0, lines 496-498.) Upon inspection, however, Nicor's proposed SWF

87 calculation actually deviates from the methodology the Commission approved in
88 Nicor's 2004 Rate Case.

89

90 Q. CAN YOU DEMONSTRATE THE COMPARISON BETWEEN WHAT
91 THE COMMISSION APPROVED FOR THE SWF METHODOLOGY IN
92 THE 2004 RATE CASE AND WHAT NICOR IS PROPOSING IN THIS
93 CASE?

94 A. Yes. The table below presents a graphic comparison of the methodology the
95 Commission approved for Nicor in the 2004 rate case versus the two proposed
96 methodologies Nicor has made in the two rate cases:

97

Table 1	
Comparison of SWF Methodologies	
Nicor Proposed 2004	<u>Estimated Amount of Withdrawn Gas from Storage on a Peak Day</u> Estimated Amount of Gas Cycled During a Year
Commission Approved 2004	<u>Estimated Amount of Withdrawn Gas from Storage on a Peak Day</u> Peak Non-Coincident Working Gas Capacity
Nicor Proposed 2008	<u>Gas Available from Company Storage on Peak Day</u> Storage Banking Service Capacity Allocation

98

99 This table demonstrates that the methodology Nicor has proposed in this
100 proceeding is not the same method the Commission adopted in the 2004 Rate
101 Case, as Mr. Bartlett avers.

102

103 Q. WHAT CHANGE TO THE SWF IS NICOR PROPOSING IN THE
104 CURRENT PROCEEDING?

105 A. In response to CNE-Gas 2.01, attached as Exhibit 1.2 hereto, Nicor stated that in
106 the current proceeding the SWF is based upon the formula which takes the
107 *Amount of gas available from the Company storage facilities on a peak day* of
108 25,000,000 therms divided by the *Storage Banking Service capacity allocation* of
109 1,372,000,000 therms. The result of this calculation is the 1.8%, or 0.018, that
110 Mr. Mudra proposes. Nicor again stated in its response to CNE-Gas 2.01 that this
111 is the same formula that was used in Docket No. 04-0779.

112

113 **Q. WHAT FORMULA DID THE COMMISSION ADOPT IN THE 2004 RATE**
114 **CASE TO DERIVE THE SWF?**

115 A. The 2004 Order required that the *Estimated Amount Withdrawn from Storage on a*
116 *Peak Day* of 25,000,000 therms be divided by *Peak Non-coincident Working Gas*
117 *Capacity* of 1,497,400,000 therms. The result of this calculation was a
118 Commission-ordered SWF of 1.7%, or 0.017.

119

120 **Q. WAS THE FORMULA THE COMMISSION ADOPTED IN THE 2004**
121 **RATE CASE THE SAME CALCULATION NICOR PROPOSED IN THAT**
122 **PROCEEDING?**

123 A. No. In the 2004 Rate Case, Nicor proposed to derive the SWF based upon the
124 *Estimated Amount Withdrawn from Storage on a Peak Day* of 25,000,000 therms
125 divided by the *Estimated Amount of Gas Cycled During a Year* of 1,200,000,000
126 therms. The result of this calculation was 2.1%, or 0.021. The same numerator
127 was used in both the filing and the Order; however, as Table 1 above indicates,

128 the Commission ordered a different denominator than what Nicor proposed in its
129 initial filing.

130

131 **Q. WHY DID THE COMMISSION DETERMINE IT WAS APPROPRIATE**
132 **TO USE A DIFFERENT DENOMINATOR VALUE THAN WHAT NICOR**
133 **HAD PROPOSED?**

134 A. In its Order, the Commission determined that, "to ensure that the SBS [Storage
135 Banking Service] charge is calculated on the same basis as the nature of the
136 service provided, the Commission concludes that the SBS entitlement calculations
137 should utilize the entire capacity of the storage fields as the numerator [and
138 denominator for the SWF]. That is, the total capacity of working gas in storage
139 should be used as the numerator [and denominator for the SWF]." Northern
140 Illinois Gas Company d/b/a Nicor Gas Company, Docket No. 04-0779, Order at
141 120 (Sept. 20, 2005) ("*2004 Nicor Rate Case Order*"). In its analysis of whether
142 the amount of gas Nicor plans to cycle, as proposed by Nicor, is the appropriate
143 value, the Commission determined "[i]t would be inappropriate to base this
144 capacity charge on the volume of gas that Nicor expects to be drawn out of
145 storage. Instead the capacity charge should be based upon the entire capacity of
146 working gas in storage." *2004 Nicor Rate Case Order* at 120.

147

148 **Q. HOW DOES THE CALCULATION OF THE SWF PROPOSED IN THIS**
149 **PROCEEDING COMPARE TO WHAT THE COMMISSION ORDERED**
150 **IN THE PRIOR RATE CASE?**

151 A. It is evident that the numerator is consistent. Twenty-five million therms of
152 *Estimated Amount Withdrawn from Storage on a Peak Day* is equal to 25 million
153 therms of *Amount of gas available from the Company storage facilities on a peak*
154 *day*. However, as demonstrated in Table 1 above, the comparison of the
155 denominator is not as direct. In the current proceeding, Nicor proposed using
156 *Storage Banking Service Capacity Allocation* of 1,372,000,000 therms, which is
157 not the same as the *Peak Non-coincident Working Gas Capacity* of 1,497,400,000
158 therms the Commission ordered in the 2004 Rate Case. Although Nicor claims
159 that the same method is used, it clearly is not.

160
161 Nicor does acknowledge in discovery that the total maximum top gas capacity of
162 its company-owned on-system storage fields is 149.7 Bcf. This is the maximum
163 account of storage inventory achieved in the eight storage fields on a non-
164 coincidental basis. (Nicor response to DRI 1.09.) Nicor's response to CNE-Gas
165 2.22 supports a value of at least 149.7 Bcf as during three of the past eight years,
166 the non-coincidental volume of the storage fields has exceeded that amount. As a
167 measure of maximum inventory, it is clear Nicor has at least this volume of
168 capacity available as no degradation of these fields has occurred since the 2004
169 Rate Case. (Nicor response to data requests CNE 2.48 and IIEC 2.01.)

170
171 Despite the fact that the Commission rejected using the amount of gas to be
172 cycled in the SWF calculation, Mr. Mudra states "[t]he .017 factor represents the
173 daily proportion (1.7%) of peak day deliverability to cycled storage capacity from

174 the 2004 Rate Case.” (Nicor Gas Ex. 14.0, lines 647-648.) Mr. Bartlett, in
175 describing the SWF, testifies “[a] customer’s SWF is a function of targeted on-
176 system storage inventory relative to its expected design day deliverability.”
177 (Nicor Gas Ex. 4.0, lines 485-487.) *Targeted on-system storage inventory* is not
178 identical to *Peak Non-coincident Working Gas Capacity*. Rather, *Targeted on-*
179 *system storage inventory* is more comparable to the amount of gas to be cycled.
180 In the prior rate case, the Commission was very clear that the value to be used in
181 the SWF should be based upon capacity, not usage or volume.

182
183 **Q. SPECIFICALLY, WHAT DID THE COMMISSION SAY ON THIS ISSUE?**

184 **A.** The 2004 Order states that “[t]he Commission is convinced that the issue here is
185 one of capacity rather than some type of usage or volume allocation as Nicor’s
186 proposal could reasonably be characterized” and “The Commission believes that
187 the SBS entitlement charge, by its very nature, is a capacity charge, not a usage or
188 volumetric charge.” *2004 Nicor Rate Case Order* at 120.

189
190 Targeted inventory, which Nicor proposes to uses in this case, is a usage or
191 volume metric--in the context of the Commission’s past Order, it is clearly not a
192 capacity measure. It is misleading for Nicor to pass off its SWF calculation as the
193 “same methodology” that the Commission adopted in the 2004 rate case when, in
194 fact, Nicor has modified that methodology by employing targeted inventory rather
195 than use of on-system storage capacity. As the Commission held in the 2004 rate

196 case Order, it is inappropriate to use the volume of gas that Nicor expects to draw
197 from storage, instead of the capacity of that storage.

198

199 **Q. HAS SOME EVENT OR CIRCUMSTANCE OCCURRED THAT**
200 **WARRANTS A CHANGE IN THE SWF DENOMINATOR VALUE?**

201 A. Not that I could determine from the testimony or evidence in this case. For
202 instance, in response to both CNE 2.48 and IIEC 2.01 Nicor states "Nicor Gas'
203 storage fields have not experienced a reduction in their physical ability to store,
204 receive or deliver gas in the last five years." According to the 2004 study
205 conducted by Fairchild and Wells that Mr. Bartlett cites in his direct testimony,
206 Nicor's top gas volume is 149,740 mmscf (149.7 Bcf). (Nicor Gas Ex. 4.0, lines
207 116-119; Nicor response to ENG 1.17, Exhibit 1, Page 4 of 33.) This is the same
208 value that the Commission ordered Nicor to use in the calculations for SWF and
209 storage capacity allocation in the 2004 rate case. Further, the volume of base gas,
210 including the volume of non-recoverable and recoverable base gas, remains
211 unchanged. (Nicor Gas Ex. 4.0, lines 108-111; Nicor response to CNE-Gas 2.08.)
212 Mr. Bartlett testified that the Company recently caused a review of some of its
213 data and there is no indication of any significant changes. (Nicor Gas Ex. 4.0,
214 lines 122-124.) Thus, it does not appear that Nicor's *Peak Non-coincident*
215 *Working Gas Capacity* of 1,497,400,000 therms has declined since the prior rate
216 case.

217

218 **Q. WHAT DOES CNE-GAS EXHIBIT 1.3 REPRESENT?**

219 A. CNE-Gas Exhibit 1.3 is a table that compares the Section 285.6300 Schedule F-8
220 that Nicor filed for the 2004 and 2009 Test Years with the actual maximum
221 working gas inventory since 2000.
222

223 **Q. WAS CNE-GAS EXHIBIT 1.3 PREPARED UNDER YOUR DIRECTION?**

224 A. Yes.
225

226 **Q. DOES THE ACTUAL HISTORICAL INVENTORY SINCE 2000**
227 **SUPPORT A REDUCTION IN NICOR'S TOTAL PEAK NON-**
228 **COINCIDENT WORKING GAS CAPACITY?**

229 A. No. As the data in CNE-Gas Ex. 1.3 illustrates, since 2000, Nicor's eight storage
230 fields have reached a maximum inventory volume that exceeds 156 MMBtu on a
231 non-coincident basis. This represents a historic volume that is actually higher
232 than what the Commission ordered in Docket No. 04-0779 to be used in the SBS
233 entitlement calculations. Further, this data does not support the reduction Nicor
234 proposes to make in the SWF denominator and SBS capacity numerator.
235

236 **Q. HOW DOES NICOR'S PROPOSED TARGET FOR THE TEST YEAR**
237 **COMPARE TO THE ACTUAL MAXIMUM WORKING GAS IN**
238 **STORAGE INVENTORY EXPERIENCED IN THE LAST EIGHT**
239 **YEARS?**

240 A. The following table, which is based on Nicor's response to CNE-Gas 2.22, lists
241 the non-coincident maximum working gas inventory for each individual year

242 during the last eight years. In that period, there is only one year with actual
243 maximum working gas in storage inventory that is lower than what Nicor targets
244 for the test year and that year is less than one percent under Nicor's 2009 target of
245 134.6 Bcf. (Nicor response to CNE-Gas 2.09.) All remaining years are above the
246 test year target.

247

248 Table 2. Annual maximum working gas in storage comparisons

2000	146,971,423 MMBtu
2001	156,267,482 MMBtu
2002	152,508,562 MMBtu
2003	152,408,207 MMBtu
2004	140,830,782 MMBtu
2005	138,961,473 MMBtu
2006	135,002,412 MMBtu
2007	134,176,238 MMBtu

249

250 Further, when looking at the detail of CNE-Gas 2.22, it is clear that historically
251 from 2000 through 2007, individual storage fields may achieve their maximum
252 working gas in storage inventory in any month from September to January. This
253 suggests that Nicor does not strictly cycle all its storage fields on the same
254 schedule; if all the fields were cycled in unison there would not be a five month
255 period during which individual field peaks occurred. Nicor's response to CNE-
256 Gas 2.22 is attached as CNE-Gas Exhibit 1.4.

257

258 Q. WHAT IS YOUR PROPOSAL ON THE ISSUE OF THE APPROPRIATE
259 SWF THE COMMISSION SHOULD ADOPT IN THIS PROCEEDING?

260 A. I propose the Commission approve storage withdrawal rights for transportation
261 customers consistent with the prior order, including the continued use of the
262 methodology approved in Nicor's last rate case:

263 Estimated Amount of Withdrawn Gas from Storage on a Peak Day divided
264 by Peak Non-Coincident Working Capacity (25,000,000 / 1,497,400,000 =
265 1.7%, or 0.017)
266

267 III. THE COMMISSION SHOULD APPROVE A SBS CAPACITY ALLOCATION FOR
268 TRANSPORTATION CUSTOMERS THAT IS CONSISTENT WITH ITS PRIOR ORDER
269

270 Q. IS THE SWF FORMULA RELATED TO THE MANNER IN WHICH THE
271 SBS CAPACITY ALLOCATION IS CALCULATED FOR
272 TRANSPORTATION CUSTOMERS?

273 A. Yes. The denominator used to calculate the SWF also serves as the numerator
274 used when calculating the storage capacity allocated to transportation customers.
275 Accordingly, a change in the value for one of the SBS entitlement calculations
276 also impacts the SWF, as well as the SBS charge.

277

278 Q. WHAT IS THE SBS CAPACITY THAT NICOR PROPOSES TO
279 ALLOCATE TO TRANSPORTATION CUSTOMERS IN THIS CASE?

280 A. Nicor proposes that the storage allocation remain unchanged at 28 days. (Nicor
281 Gas Ex. ~~22~~, lines 458-465.)

282 4.0

283 Q. WHAT IS THE METHODOLOGY THAT NICOR PROPOSES TO USE IN
284 THIS CASE TO ALLOCATE STORAGE CAPACITY?

285 A. According to Nicor, it is the same methodology as was used in the prior rate case.
286 (Nicor response to CNE-Gas 2.12.) In its corrected responses to IIEC 2.02, Nicor
287 stated that SBS capacity was “computed by dividing the *Storage Banking Service*
288 *allocation* of 1,346,333 therms by the *total amount of peak-day* therms of
289 49,000,000. This results in 27.5 which was rounded to 28” days.¹ Mr. Bartlett
290 testified that the SBS capacity was established as a “function of total system
291 design day demand relative to targeted on-system storage inventory.” (Nicor Gas
292 Ex. 4.0, lines 484-485.)
293

294 Q. WHAT WAS THE STORAGE ALLOCATION METHODOLOGY USED
295 IN THE 2004 RATE CASE?

296 A. In the 2004 Rate Case, Nicor proposed to derive the number of storage days by
297 taking the *Estimated Amount of Gas Cycled During a Year* of 1,200,000,000
298 therms and dividing by the *Estimated Peak Day Sendout for the entire Company*
299 *System* of 52,580,000 therms. As I previously noted, the Commission rejected
300 Nicor’s methodology based on cycling expectations and instead ordered that
301 Nicor base storage allocation on the *Peak Non-coincident Working Gas Capacity*
302 of 1,497,400,000 therms divided by the *Estimated Peak Day Sendout for the*
303 *entire Company System* of 52,580,000 therms – resulting in an allocation to

¹ While Nicor’s corrected response to IIEC 2.02 states 1,346,333 therms, it is likely Nicor intended the correct value of the Storage Banking Service capacity allocation to be 1,346,333,000 therms. In Nicor’s response to CNE-Gas 2.01 Nicor states the Storage Banking Service capacity allocation is 1,372,000,000 therms. In the original response to IIEC 2.02 Nicor stated the Storage Banking Service allocation is 1,354,000,000 therms.

304 transportation customers of 28 days. Due to customer diversity, the Commission
305 held that Nicor's actual deliverability at any point in time, as well as its ability to
306 meet deliverability requirements, should not determine the annual storage
307 capacity entitlement of customers. *2004 Nicor Rate Case Order* at 120-121.

308

309 **Q. PLEASE EXPLAIN THE DIFFERENCE IN SBS CAPACITY BETWEEN**
310 **WHAT NICOR PROPOSES IN THIS CASE VERSUS WHAT THE**
311 **COMMISSION ORDERED IN THE PRIOR CASE?**

312 A. While the 28 day outcome remains the same, Nicor proposes using different input
313 values in the pending application. In the 2004 rate case, the Commission
314 approved the use of *Estimated Peak Day Sendout for the entire Company System*
315 as the appropriate denominator; here, Nicor proposes using *total of peak-day*
316 figure for the denominator. In applying the peak day methodology, Nicor
317 proposes using a denominator value that is 3.58 million therms lower in the SBS
318 capacity formula than the Commission adopted in the 2004 Rate Case.

319

320 The SBS capacity numerator is the denominator in the SWF calculation;
321 accordingly, the same problems that I addressed in the SWF section of my
322 testimony are relevant here. Even though in the 2004 Rate Case the Commission
323 determined "it is appropriate to utilize the capacity of working gas in storage in
324 the SBS entitlement calculation," Nicor clearly uses *targeted on-system storage*
325 *inventory* instead of actual capacity. *2004 Nicor Rate Case Order* at 120-121.

326

327 Q. HAS NICOR'S PEAK DAY SENDOUT DECLINED SINCE THE LAST
328 RATE CASE?

329 A. According to Nicor it has. In the 2004 Rate Case, the total system design day
330 demand was 5.2 Bcf. In the current rate case, Nicor states that the Company's
331 total system design day demand is now 4.9 Bcf. (Nicor Gas Ex. 4.0, lines 498-
332 500.) I leave the analysis of the correctness of this adjustment to the Commission
333 and others with more expertise in the estimation of peak day demand, however, as
334 I noted earlier, Nicor does acknowledge its storage fields have not experienced a
335 reduction in their physical ability to store, receive or deliver gas in the last five
336 years. (Nicor response to CNE-Gas 2.48 and IIEC 2.01.)

337

338 Q. ASSUMING THE DECLINE IN PEAK DAY SENDOUT IS
339 APPROPRIATE, WHAT WOULD THE NUMBER OF DAYS OF
340 STORAGE BE IF NICOR'S PROPOSED TARGETED INVENTORY
341 DENOMINATOR WAS REPLACED WITH PEAK NON-COINCIDENT
342 WORKING GAS CAPACITY AS WAS ORDERED IN THE PRIOR RATE
343 CASE?

344 A. The result is a storage allocation of 30.6 days. Accordingly, the number of
345 storage days for SBS service should be increased to 31.

346

347 Q. DO YOU HAVE ANY FURTHER COMMENTS REGARDING THE SBS
348 ENTITLEMENTS CALCULATIONS?

349 A. Yes. I would like to comment on the unnecessary obstacles that Nicor has
350 introduced into this case for intervenors. Nicor portrays the methodology used in
351 the SBS entitlement calculations as the same methodology that was used in the
352 prior case. On the surface, Nicor's methodology appears to be consistent because
353 the SWF only slightly changes and the number of storage days remains constant.
354 However, when pressed for detail, it becomes apparent that the formulas used are,
355 in fact, not the same between the 2004 and 2009 rate cases. If Nicor had been
356 forthcoming from the start and offered direct testimony challenging the current
357 methodology and provided evidence supporting a move from the capacity metric
358 of *Peak Non-coincident Working Gas Capacity*, intervenors could have directly
359 addressed Nicor's arguments. Nicor has failed to provide any support for its
360 alternative methodology. Instead, Nicor elected to overlook the Commission
361 Order in 04-0779 on SWF and SBS entitlement calculations, base its proposal on
362 wholly different formulas, and attempt to pass its calculations off as the same
363 methodology.

364

365 **IV. THE COMMISSION SHOULD APPROVE A SBS CHARGE FOR**
366 **TRANSPORTATION CUSTOMERS THAT IS CONSISTENT WITH ITS PRIOR ORDER**

367 **Q. WHAT IMPACT DOES THE USE OF TARGETED ON-SYSTEM**
368 **STORAGE INVENTORY IN LIEU OF ACTUAL CAPACITY HAVE ON**
369 **THE PROPOSED SBS CHARGE?**

370 A. In this proceeding, Nicor proposes an SBS Charge of \$0.0051 per therm.
371 Currently the SBS Charge is \$0.0029 per therm. This is an increase of \$0.0022
372 per therm, or 76%. Using the storage capacity allocation that the Commission

373 ordered in Nicor's last rate case, along with the costs from the current proceeding,
374 results in a \$0.0046 per therm SBS charge, which represents a 59% increase
375 compared to the 76% increase proposed by Nicor.

376

377 **Q. DO YOU HAVE AN UNDERSTANDING AS TO WHY NICOR CLAIMS**
378 **THE 76% INCREASE TO ITS SBS CHARGE IS NECESSARY?**

379 A. I am not a cost expert, and will leave it up to such experts to address the merits of
380 Nicor's proposed increase to its SBS Charge and whether Nicor has met its
381 burden under the Commission's rules. As a general observation, however, I
382 would note that an increase of 76% is a substantial increase. As a matter of public
383 policy, Nicor should be held accountable for controlling its costs and be forced to
384 fully justify the increased costs that have resulted in a proposed 76% increase in
385 storage charges in just four years.

386

387 It appears there are several significant factors contributing to the Nicor's proposed
388 increase:

- 389 1) an 164% (\$12.3M to \$32.8M) increase in underground storage costs;
390
391 2) an 82% (\$65.7M to \$119.5M) increase in customer accounts expense;
392
393 3) an apparent change in allocation of Amounts Due To Top Gas and
394 Total W/O Top Gas Amounts for Rate 1-Residential that shifts from a
395 23:73 ratio to 16:84 ratio, resulting in moving from \$29M to \$46M (a 57%
396 increase); and,
397
398 4) a similar apparent change in allocations for Rate 4 General Gas Service
399 increasing revenue needs from \$10M to \$16M (a 55% increase).

400

401 As I stated above, as a matter of public policy, Nicor should be held accountable
402 for these cost increases, and fully justify in this record any increase in the SBS
403 Charge before such costs are recovered from the transportation customers.

404

405 **V. THE COMMISSION SHOULD REJECT NICOR'S PROPOSED MODIFICATIONS**
406 **TO THE STORAGE INJECTION LIMITS FOR TRANSPORTATION CUSTOMERS**

407

408 **Q. ARE OTHER NICOR TRANSPORTATION SERVICE PROPOSALS IN**
409 **THIS PROCEEDING RELATED TO THE OUTCOME OF THE**
410 **COMMISSION ORDER IN 04-0779?**

411 **A.** Yes. In the 2004 Rate Case, Nicor proposed to establish cycling targets for the
412 use of gas storage by transportation customers. Specifically, Nicor proposed that
413 end use customers must have their storage filled to at least 90% on November 1
414 and emptied to no more than 10% by April 1. Violation of either cycling target
415 would result in greater restrictions on withdrawal and injection rights. As
416 discussed below, the Commission ultimately accepted Nicor's proposed
417 November 1, injection fill date, but rejected the proposed April 1 empty date.
418 *2004 Nicor Rate Case Order* at 139.

419

420 In the current proceeding, Nicor's proposal to limit injections will, in effect, force
421 transportation customers to fully cycle their storage if they want to maintain their
422 maximum injection rights and flexibility. Thus, Nicor's current proposal is
423 nothing more than a blatant attempt to circumvent the rejection of the spring
424 cycling target that the Commission denied in the 2004 Nicor Rate Case. Nicor

425 offers no new evidence to support their proposed changes or the need to restrict
426 injections below current levels.

427

428 **Q. DID THE COMMISSION APPROVE THE STORAGE CYCLING**
429 **TARGETS NICOR PROPOSED IN THE 2004 RATE CASE?**

430 A. Not entirely. The Commission did approve Nicor's proposal that transportation
431 customers have their storage 90% full by November 1, but the Commission did
432 not base its approval on a cycling requirement. Rather, the Commission stated
433 that

434 [i]n operating its system, one of Nicor's most important responsibilities is
435 to efficiently manage its storage fields. Having sufficient gas in storage
436 entering the winter season is vital in Nicor's ability to meet winter demand
437 and to manage the cost of meeting peak winter demand. While requiring
438 Transportation to have their storage capacity filled to 90% by November 1
439 may diminish the flexibility of Transportation customers to utilize storage,
440 in light of the importance of storage in the winter season, it is reasonable.
441 *Id.* at 146.

442 The Commission did not, however, approve an April 1 cycling target requiring
443 that storage be no more than 10% full. The Commission stated that "while [it]
444 does not question Nicor's need to fully cycle its storage fields, it is not clear
445 Transportation customers, or Nicor for that matter, need to reduce storage
446 volumes to 10% by April 1." The Commission further stated that "to the extent
447 that Nicor actually needs to reduce the amount of gas in storage after the end of
448 the winter heating season, Nicor should be able to accomplish this without placing
449 this additional withdrawal burden on Transportation customers at this time."
450 *2004 Nicor Rate Case Order* at 146.

451

452 The Commission confirmed its rejection of a spring cycling target in the Peoples
453 and North Shore rate cases. In regards to Seasonal Cycling Requirements, the
454 Commission stated “[w]e are not persuaded to approve a different regime in these
455 dockets” and “[t]hat is not enough to outweigh the considerable difficulties the
456 seasonal cycling requirements will present for transportation customers. While
457 we are willing to subordinate those difficulties to the Utilities’ operational needs
458 during the heating season, the balance tips in the transportation customers’ favor
459 in the spring.” The Peoples Gas Light and Coke Company and North Shore Gas
460 Company, Docket Nos. 07-0241 and 0242, Order at 276 (Feb. 5, 2008).

461

462 **Q. IN THIS PROCEEDING, DID NICOR PROPOSE TO ADD THE SPRING**
463 **CYCLING TARGET THAT THE COMMISSION REJECTED IN THE**
464 **PRIOR CASE?**

465 A. No.

466

467 **Q. THEN HOW DOES THE OUTCOME OF STORAGE CYCLING IN THE**
468 **PRIOR CASE RELATE TO NICOR’S FILING IN THIS CASE?**

469 A. Nicor does not propose a percent empty target or call its proposal cycling per se,
470 but the outcome of its proposed changes to both revise the method of calculating a
471 customer’s Maximum Daily Nomination (“MDN”) and revise the daily
472 nomination limit for the months of March and April results in an outcome similar
473 to a spring cycling target. (Nicor Gas Ex. 4.0, lines 501-517, 591-616.)
474 Essentially, Nicor has come up with an alternative method to sidestep the Order in

475 Docket No. 04-0779 and accomplish its cycling targets that the Commission
476 rejected in the 2004 Rate Case.

477

478 **Q. PLEASE EXPLAIN HOW THESE TWO NICOR PROPOSALS RESULT**
479 **IN AN OUTCOME THAT IS SIMILAR TO A SPRING CYCLING**
480 **TARGET.**

481 A. Under Nicor's spring cycling target proposed in Docket No. 04-0779, a customer
482 had to have its storage account emptied to less than 10% of its capacity by April 1
483 or the customer's summer maximum daily injection nomination rights would be
484 reduced by the corresponding percentage. For example, if the customer had 15%
485 of its storage capacity filled on April 1, then the storage portion of its MDN
486 would be reduced by 15%. *Northern Illinois Gas Company d/b/a Nicor Gas*
487 *Company*, Docket No. 04-0779, Nicor Gas Ex. 8.0, lines 612-616 (Nov. 4, 2004).
488 Simply put, if storage was not emptied to the degree Nicor dictated, the 10%,
489 injection rights were proportionately reduced.

490

491 In this proceeding, Nicor does not seek a specific percentage fill level for SBS as
492 it did in 2004. Instead, Nicor simply restricts a transportation customer's
493 injection rights directly, depending upon the percentage to which storage is filled.
494 Nevertheless, to preserve injection rights, storage inventory must be cycled out of
495 the customer's account. Just like the cycling proposal that the Commission
496 rejected in Nicor's last rate case, the current proposal diminishes transportation
497 customers' flexibility and results in imposing the same restrictions and burdens on

498 transportation customers that the Commission sought to avoid in the 2004 Nicor
499 Order. *2004 Nicor Rate Case Order* at 146.

500

501 **Q. DO NICOR'S AQUIFER STORAGE FIELDS NEED TO BE CYCLED?**

502 A. According to Nicor, they do. (Nicor Gas Ex. 4.0, lines 580-581.) However,
503 Nicor fails to provide support or information related to the appropriate cycling
504 levels and appropriate cycling intervals. In fact, other than likening its storage
505 fields to a NiCad battery, Nicor provides no data to illustrate the proper method of
506 cycling its storage fields and fails to mention, based on its analogy, that it actually
507 has eight separate batteries.

508

509 **Q. DO ALL OF NICOR'S EIGHT STORAGE FIELDS HAVE TO BE**
510 **CYCLED ON IDENTICAL SCHEDULES THAT DIRECTLY**
511 **CORRESPOND TO FILLING AND EMPTYING TRANSPORTATION**
512 **CUSTOMER'S SBS ACCOUNTS?**

513 A. Apparently not. Nicor does not adhere to a precise cycling schedule with its
514 aquifer storage fields. Looking at Nicor's historical practice, it appears that the
515 different fields have different injection and withdrawal patterns. Furthermore, the
516 time period, or month, in which a field meets its peak fill annually, varies between
517 fields. Likewise, all fields do not achieve their most empty status during the same
518 time period, or month, of the year.

519

520 These trends are observed in Nicor's response to DAS 2.05. For ease of
521 comparison, I have taken the data from Exhibit 1 of DAS 2.05 and compared it to
522 the maximum historical field inventory levels as referenced in Nicor's response to
523 CNE-Gas 2.42. The storage injections results are provided in CNE-Gas Exhibit
524 1.5 and the inventory balance results are provided in CNE-Gas Exhibit 1.6.

525

526 CNE-Gas Exhibit 1.5 illustrates that, among Nicor's eight storage fields, Nicor
527 itself does not follow as strict of an injection pattern as what it proposes to impose
528 on its transportation customers. For example, in looking at Ancona over the last
529 three years, there was about a 15% injection in each month from May to October.
530 Monthly injections were not required to lessen as the injection season progressed.
531 At Pontiac/Mt. Simon, in 2007 there were virtually no injections in the summer,
532 whereas injections significantly ramped up to 40% in November. A similar
533 pattern exists for 2006, however, the substantial injection of 46% occurred in
534 October in that year instead of November. At Lake Bloomington a different
535 pattern emerges, but again there is little if any early summer injections with
536 material injections beginning in August. In comparison, injections begin in
537 earnest at Lexington in September. For Hudson, during the past several years,
538 injections begin in May, with monthly injections of under 20% continuing
539 throughout the summer. It is not until October until injection levels exceed 20%.
540 While in total a more consistent pattern begins to emerge, it is obvious that each
541 field does not adhere to strict injection limits and that any injection limits are not
542 firmly correlated to specific months of the year.

543

544

CNE-Gas Exhibit 1.6 illustrates how storage inventory balances fluctuate between

545

months for the eight storage fields. In looking at the data in the Exhibit, it shows

546

that Nicor does not manage its individual fields to achieve their lowest inventory

547

balance on April 30. For example, in 2007 Pectonica remained 58% full from

548

April through July. Pontiac/Galesville on the other hand has an inventory of only

549

16% by the end of April in 2007, yet in 2006 at the same point in the year

550

experienced an inventory balance of 51%.

551

552

Q. WHAT CONCLUSIONS CAN YOU DRAW FROM NICOR'S MONTHLY STORAGE FIELD ACTIVITY?

553

554

A. It is apparent that Nicor does not consistently achieve a storage empty target for

555

each storage field on April 30. Nicor continues to benefit from the ability to

556

inject large volumes of working gas in any month, including the late injection

557

months of September and October. Even as fields fill, Nicor continues to be able

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to inject gas. Further, Nicor does not adhere to a steady pattern of injections

559

across its fields, but rather employs significant variability in injections from

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month to month in each of its fields. Thus, Nicor's storage fields offer greater

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flexibility than the precise injection limits Nicor proposes to impose on

562

transportation customers.

563