STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY	)	
d/b/a NICOR GAS COMPANY	)	
	)	**Docket No. 08-0363**
Proposed General Increase	)	
In Natural Gas Rates	)	

REBUTTAL TESTIMONY OF DAVID J. EFFRON
ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS
AND
THE CITIZENS UTILITY BOARD

AG/CUB Exhibit 4.0

OCTOBER 23, 2008

08-0363
AttyGen/CUB 4.0-4.2
David Effron
11/18/08 CC

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. Have you previously submitted testimony in this docket?

A. Yes. I submitted direct testimony on August 27, 2008, marked as AG/CUB Exhibits 1.0 and 1.1. My qualifications and experience are included with my direct testimony.

Q. What is the purpose of your rebuttal testimony?

A. In this rebuttal testimony, I respond to the rebuttal testimony of Company witnesses D'Alessandro, Bartlett, McCain, Kirby, Gorenz, and Pepping. I do not respond to the all of the rebuttal testimony of the Companies' witnesses on all revenue requirement issues, but this should not be interpreted to mean that I agree with the Companies' rebuttal positions on those issues. I also update certain of my proposed adjustments to rate base and operating income under present rates based on information received since the preparation of my direct testimony and on my responses to the Company's rebuttal testimony as contained herein. Finally, I present a revised calculation of the Company's revenue deficiency, which incorporates the updated recommendation of CUB witness Thomas on the appropriate rate of return.

Plant Additions

Q. Have you reviewed the Company's rebuttal testimony to the adjustment to 2008 and 2009 plant additions proposed in your direct testimony?

A. Yes. I have reviewed the rebuttal testimony of Mr. Gorenz and Mr. D'Alessandro regarding my proposed adjustment to plant additions. Based on the testimony of Mr. Gorenz and further review of the responses to data requests, I agree that it would be a double-count to adjust both the plant additions and cost of removal based on the plant related expenditures through June (or September) of 2008. Therefore, I am no longer proposing to adjust test year plant in service based on the Company's actual rate of capital spending in 2008. However, as I explain in the following section, I continue to believe that the net cost of removal projected for 2008 and 2009 in the determination of the test year average balance of accumulated depreciation should be adjusted.

Depreciation Reserve

Q. In his rebuttal testimony, Mr. Gorenz states that your proposed adjustment to the Company's forecasted net cost of removal fails to "take into account the specific capital requirements of the business" in 2008 and 2009. Do you have a response to that rebuttal testimony?

A. Yes. I have reviewed the actual net cost of removal incurred in 2008 through September, as shown by the Company in the response to Attorney General Data Requests 8.07 and 8.10. The actual rate of spending on cost of removal related to distribution plant, underground storage, and transmission plant in 2008 through September 30, while greater than the spending in earlier years, was still less than the rate of spending forecasted by the Company. To address Mr. Gorenz's contention that my adjustment does not take into account the specific requirements of the business in

2008 and 2009, I have updated my proposed adjustment to reflect the actual experience in 2008 through September.

Through September 30, the Company incurred $10,619,000 of net cost of removal expenditures related to distribution, underground storage, and transmission plant in 2008 (response to AG Data Request 8.10). This translates into an annual rate of expenditure of $14,159,000. I recommend that the forecasted cost of removal in the years 2008 and 2009 be adjusted to reflect the annualized rate of spending over the first nine months of 2008. This adjustment reduces the forecasted cost of removal in 2008 by $3,385,000 and the forecasted cost of removal in 2009 by $3,108,000. These reductions to the forecasted cost of removal increase the average test year depreciation reserve by $4,940,000 (AG/CUB Exhibit 4.1, Schedule B-2) and reduce the Company's test year rate base accordingly.

Gas in Storage

Q. In his rebuttal testimony, Mr. Bartlett cites three reasons why he disagrees with your proposed adjustment to the gas in storage inventory included by the Company in its 2009 test year rate base. Are any of his cited reasons grounds for rejecting your proposed adjustment to the Company's forecasted 2009 test year balance of gas in storage?

A. No. The first reason cited by Mr. Bartlett as to why my proposed adjustment should be rejected is that I do not "explain why use of actual storage balances from two different calendar years (i.e. the last six months of 2007 and the first six months of 2008) is any more representative than calendar years 2004 or 2005 of what is likely to occur during the test year calendar year 2009." The simple reason that the more recent period is more likely to be representative of the test year in that it is closer in time to the test year. The balance of gas in inventory at any given time is the cumulative result of injections and withdrawals up to that time. Because the balance of gas in storage is cumulative, the balances in the most recent twelve month period reflect the results of all transactions up until that time, whereas the balances from earlier periods do not. Therefore, the balances in the most recent period are more likely to be representative of future balances, and that is why I am proposing to use the actual balances of gas in storage in the most recent months available rather than the balances from 2004 or 2005. The reason that I did not explain this in my direct testimony is that I had thought it was intuitively obvious and did not require an explanation.

Q. What is the second reason cited by Mr. Bartlett as to why he disagrees with your proposed adjustment to the gas in storage inventory included by the Company in its test year rate base?

A. The second reason cited by Mr. Bartlett is that I made "no effort to consider the impact on storage balances based on normal weather compared to the actual weather during the particular periods" I chose. While it is true that weather conditions can affect the storage balances, such impact would occur mainly in the early months of the year, when the inventories are being drawn down.

This can be illustrated by comparing the balances for months January through April on AG/CUB Exhibit 4.1, Schedule B-3 to the Company's forecasts of the balances on its Workpaper WP (B-1.1). The differences in those months account for only a relatively small part of my proposed adjustment (less than 1%). The great majority of my proposed adjustment relates to the months August – October, when the balances would be less affected by the weather than in the first months of the year. Accordingly, I do not believe that any difference between actual and normal weather in 2008 had a material impact on the quantification of my proposed adjustment. With regard to Mr. Bartlett's comment that I failed to consider the impact of end-users' storage utilization, I believe that my reliance on actual data in 2008 takes into account all impacts on storage balances, including the impacts cited by Mr. Bartlett.

Q. What is the third reason cited by Mr. Bartlett as to why he disagrees with your proposed adjustment to the gas in storage inventory included by the Company in its forecasted test year rate base?

A. The third reason cited by Mr. Bartlett is that I "failed to consider the information that Nicor Gas provided to Staff witness Maple in response to data requests MEM 2.04 and 3.16." He then goes on to describe a change in operating strategy mentioned in those responses and states that "Nicor Gas has implemented and is on track to achieve [this strategy] in 2008." Indeed, much of the Company's responses to Staff Data Requests MEM 2.04 and 3.16 describe changes in storage practices in 2008, such as a targeted increase in leased storage service and greater storage utilization for non-sales storage customers. Nothing in the responses referenced by Mr. Bartlett compromises my reliance on the most recent actual data to determine the test year gas in storage inventory to be included in rate base. To the extent that the changes described in the responses Staff Data Requests MEM 2.04 and 3.16 have been implemented in 2008, my inclusion of the actual 2008 gas in storage balances in the thirteen month average captures the effects of those changes.

Q. Do you have additional information on the balances of gas in storage since the preparation of your direct testimony?

A. Yes. In response to AG Data Request 8.11, the Company provided the actual balances of gas in storage in the months July through September of 2008. I have updated my proposed adjustment to incorporate the actual balances in those months (AG/CUB Exhibit 4.1, Schedule B-3). I would further note that the actual balance of gas in storage as of September 2008 (the latest month available at the time of the preparation of this testimony), $221 million, was approximately $113 million less than the Company's forecast for that month. It appears to be Mr. Bartlett's opinion that this actual experience should be completely disregarded when considering the reasonableness of the Company's forecast of gas in storage for the 2009 test year. If so, I disagree.

Retirement Benefits, Net

Q. Have you updated the adjustment necessary to remove prepaid pensions from rate base?

A. Yes. Based on the Company's rebuttal testimony, the prepaid pension included in its rate base is $231,625,000. I have eliminated this prepayment on AG/CUB Exhibit 4.1, Schedule B. I have also eliminated the accumulated deferred income taxes of

$89,581,000 related to the prepaid pensions from the balance of accumulated deferred income taxes deducted from plant in the calculation of rate base (AG/CUB Exhibit 4.1, Schedule B-3). The net effect of this adjustment is a reduction to the Company's test year rate base of $142,044,000.

Test Year Sales and Revenues

Q. Have you reviewed the rebuttal testimony of Ms. Pepping regarding your proposed adjustment to test year sales and revenues?

A. Yes. Ms. Pepping cites two reasons why she opposes my proposed adjustment to the Company's forecast of test year sales and revenues. The first reason she cites is that I have considered usage for two customer classes without evaluating total customer usage and usage by other classes. Second, she states, is that I have failed to take into consideration the impacts of new Rate Classes 5 and 75 on the use per customer in Rate Classes 4 and 74.

Q. Is the assertion by Ms. Pepping that you did not evaluate total customer usage and usage by other rate classes accurate?

A. No. This is exactly the sort of spurious and circular reasoning that the Commission rejected in the Company's last general rate case, Docket No, 04-0779 (Order on Rehearing, Pages 10-11). In fact, I did evaluate the Company's forecasts of sales to other rate classes and determined that these forecasts were not clearly unreasonable and that no adjustments were necessary. In my direct testimony, I proposed to adjust forecasted sales to two rate classes while not proposing to adjust the forecasted sales to the other rate classes. Therefore, the adjustments to the sales to these two rate classes implicitly give rise to a simultaneous adjustment to total sales. That is, the Company's total test year therm sales change by the same amount as the sum of the proposed adjustments to Rate Classes 4 and 74.

Q. Is the second assertion by Ms. Pepping, that you failed to take into consideration the impacts of new Rate Classes 5 and 75 on Rate Classes 4 and 74, grounds for rejecting your proposed adjustment?

A. No. As described by Ms. Pepping, since the establishment of Rate Classes 5 and 75 in Docket No. 04-0779, there has been some migration of customers from Rate Classes 4 and 74 to Rate Classes 5 and 75. As shown in the response to AG Data Request 8.18, this migration has been somewhat limited. However, I agree with Ms. Pepping that this migration should be considered in evaluating the trends in use per customer in Rate Classes 4 and 74. Therefore, while the referenced migration may be reason to modify my proposed adjustment to forecasted test year sales, it is not reason to reject that proposed adjustment. The underlying reasons for the adjustment described in my direct testimony still apply.

In the response to AG Data Request 8.18, the Company provided the use per customer for Rate Classes 4 and 5 on a consolidated basis and for Rate Classes 74 and 75 on a consolidated basis. On AG/CUB Exhibit 4.1, Schedule C-1, I have recalculated my proposed adjustment to reflect the use per customer of those rate classes on a consolidated basis, as recommended by Ms. Pepping. As can be seen on that schedule, I am now proposing an adjustment to test year base rate revenues under present rates of $1,441,000.

Payroll Expense

Q. In his rebuttal testimony, Mr. D'Alessandro states that he disagrees with your adjustment to the Company's forecast of the test year employee complement for two reasons. Do you have a response?

A. Yes. The first reason cited by Mr. D'Alessandro for his disagreement is that the Company is incurring unbudgeted overtime and contractor expenses to accomplish the workload related to the employee vacancies. This point would have more validity if I were proposing to freeze the employee complement as the 2008 level. However, I am not. The Company is forecasting an increase in the authorized positions, as well as the actual number of employees, from 2008 to 2009. My proposed adjustment is based on the difference between the authorized and actual employees in 2008. However, to the extent that the Company is forecasting an increase in the number of authorized positions from 2008 to 2009, my adjustment implicitly recognizes that increase, so as to maintain the calculated difference between the authorized and actual employees in 2008. As these new employees are added, it should reduce the reliance on overtime and contractor expenses.

Q. What about the second reason cited by Mr. D'Alessandro?

A. The second reason cited by Mr. D'Alessandro is that the Company currently has 89 pending hires. This fact is of no relevance. Based on the information provided by the

Company, there are *always* vacant positions that it is trying to fill. At some point those positions probably will be filled. But if history is any guide, as those positions are filled, other vacancies will occur as a result of retirements and normal turnover. The Company has not cited any occasion where the actual employee complement has been equal to the number of authorized positions, and there is little reason to believe that this situation will change in the 2009 test year.

Q. Are you modifying your proposed adjustment to the Company's forecast of the test year employee complement?

A. Yes. In response to AG Data Request 8.15, the Company provided the actual number of employees in August and September of 2008. On AG/CUB Exhibit 4.1 Schedule C-2.1, I have updated my adjustment to the forecasted test year employee complement to incorporate this information. In addition, in his rebuttal testimony, Mr. D'Alessandro states that headcount is projected to increase by 39 people in Accounts 874 and 903 between 2007 and 2009 (Nicor Ex. 18.0, at 14). I am separately proposing adjustments to Accounts 874 and 903. To avoid any possibility of a double-count between my proposed adjustment to payroll expense and my proposed adjustments to Accounts 874 and 903, I have reduced my proposed adjustment to test year payroll expense by $1,636,000.

Uncollectible Accounts Expense

Q. Mr. Gorenz describes your proposed adjustment to uncollectible accounts expense as picking and choosing selected amounts from other periods in order to reduce

the Company's revenue requirement (Nicor Gas Ex 26.0, at 37). Is this an accurate description of your proposed adjustment to the Company's test year uncollectible accounts expense?

A. Not at all. As I stated in my direct testimony, I used the two year period to give higher weight to more recent data. For example, in the recent Ameren Illinois cases (Docket No. 07-0585, consolidated), the pro forma test year uncollectible accounts rates were based on three year averages of net charge-offs to current year revenues. In fact, in those cases, the Commission explicitly referred to the use of a three-year average as a means to address an upward trend in uncollectible accounts expense (Order, Page 118). Had I adapted the same method to the present case, I would be proposing an uncollectible accounts rate of 1.57%, substantially below the 1.80% that I recommended in my direct testimony. Neither Mr. Gorenz nor Mr. Kirby claims that the 1.80% rate is inconsistent with the Company's actual experience in recent years. However, it appears to be their testimony that because the Company is using a future test year, the actual experience in recent years must be disregarded in favor of their subjective estimates of test year uncollectible accounts expense. In my opinion, ignoring the actual charge-off experience in recent years would be inappropriate.

Account 874 – Mains and Services Expenses

Account 903 – Customer Records and Collections Expenses

Q. Have you reviewed the Company's rebuttal testimony to your proposed adjustments to the forecast of test year expenses charged to Account 874 – Mains

and Services Expenses and Account 903 – Customer Records and Collections Expenses?

A. Yes. Mr. McCain addresses my proposed adjustment to Account 874 – Mains and Services Expenses, Mr. Kirby addresses my proposed adjustment to Account 903 – Customer Records and Collections Expenses, and Mr. Gorenz addresses both.

Q. Are you modifying either of these proposed adjustments as a result of your review of their rebuttal testimony?

A. Yes. Both Mr. McCain and Mr. Gorenz explain that one factor contributing to the increase in Account 874 is a reclassification of expenses from other accounts to Account 874. I agree that to the extent the increase in Account 874 results from the reclassification of costs from other accounts, the forecasted increase in expenses to that account is reasonable. Therefore, on AG/CUB Exhibit 4.1, Schedule C-2, I have reduced my proposed adjustment to Account 874 to recognize the reclassification of expenses from other accounts.

With regard to Account 903, Mr. Kirby, describes the expected increases by expense category in his rebuttal testimony. However, I do not believe that he has established that the described increases will actually be taking place from 2007 to the 2009 test year with any reasonable degree of certainty. Therefore, I am not modifying the adjustment proposed in my direct testimony.

Updated Revenue Deficiency

Q. Have you prepared an updated calculation of the Company's revenue deficiency?

A. Yes. I have prepared an updated calculation of the Company's revenue deficiency on AG/CUB Exhibit 4.1, Schedule A. In addition to incorporating the modifications and updates addressed in this testimony, I have also reflected the rate of return as proposed by Mr. Thomas in his rebuttal testimony. With these changes, I have calculated an updated revenue deficiency of $50,297,000.

Q. Does this conclude your rebuttal testimony?

A. Yes.

NICOR GAS COMPANY
REVENUE DEFICIENCY
($000)

	(1) Company Position	Adjustments		Proposed Position
Rate Base	$ 1,522,157	$ (176,211)	(2)	$ 1,345,946
Rate of Return	9.27%	-2.02%	(3)	7.25%
Operating Income Requirement	141,104	(43,533)		97,571
Adjusted Operating Income	57,731	10,079	(4)	67,810
Income Deficiency (Excess)	83,373	(53,612)		29,761
Gross Revenue Conversion Factor	1.6978	(0.0078)	(5)	1.6900
Revenue Deficiency (Excess)	$ 141,552	$ (91,255)		$ 50,297

Sources:

(1) Nicor Gas Exhibit 26.1, Schedule A-2

(2) Schedule B

(3) Schedule D

(4) Schedule C

(5)

Revenue	1.0000
Uncollectible Accounts	(0.0180)
State Income Taxes	(0.0717)
Federal Income Taxes	(0.3186)
Net Income	0.5917
Conversion Factor	1.6900

NICOR GAS COMPANY
RATE BASE
($000)

	(1) Company Position	Adjustments		Proposed Position
Gross Utility Plant	$ 4,481,874	$ -	(2)	$ 4,481,874
Reserve for Accumulated Depreciation	(2,694,454)	(4,940)	(3)	(2,699,394)
Net Utility Plant in Service	1,787,420	(4,940)		1,782,481
Add:				
Cash Working Capital	87,544			87,544
Materials and Supplies	5,634			5,634
Gas in Storage	95,645	(29,228)	(4)	66,417
Retirement Benefits Net	94,543	(231,625)	(5)	(137,082)
Subtotal	283,366	(260,853)		22,513
Deduct				
CWIP Subject to AFUDC	9,232			9,232
Accumulated Deferred Income Taxes	272,478	(89,581)	(6)	182,897
Customer Deposits	38,644			38,644
Budget Payment Plan Balances	160,582			160,582
Regulatory Tax Liability	45,237			45,237
Investment Tax Credits	11,334			11,334
Reserve for Injuries and Damages	883			883
Customer Advances for Construction	10,239	-		10,239
	548,629	(89,581)		459,048
Net Rate Base	$ 1,522,157	$ (176,211)		$ 1,345,946

Sources:
- (1) Nicor Ex. 26.1, Schedule B-1
- (2) Schedule B-1
- (3) Schedule B-2
- (4) Schedule B-3
- (5) Nicor Ex. 26.0, Page 21
- (6) Schedule B-4

NICOR GAS COMPANY
ADJUSTMENT TO UTILITY PLANT
($000)

Adjustment to Plant Additions 2008	$ -
Adjustment to Plant Additions 2009	$ -
Effect on Average Test Year Rate Base	$ -
Total Adjustment to Test Year Plant in Service	$ -

NICOR GAS COMPANY
ADJUSTMENT TO ACCUMULATED DEPRECIATION
($000)

Adjustment Related to Plant Additions			
Adjustment to Accumulated Depreciation 2008			$ -
Adjustment to Accumulated Depreciation 2009			-
Adjustment to Rate Year Accumulated Depreciation			$ -
Adjustment Related to Cost of Removal			
Nicor Forecasted COR - Storage, Dist., and Trans 2008		(1)	$ 17,544
Annualized - Storage, Dist., and Trans 2008		(2)	14,159
Adjustment to Depreciation Reserve - 2008			$ 3,385
Nicor Forecasted COR - Storage, Dist., and Trans 2009		(1)	$ 17,267
Average COR - Storage, Dist., and Trans 2006 and 2007		(2)	14,159
Adjustment to Depreciation Reserve - 2008			$ 3,108
Effect on Average Test Year Rate Base	50%		$ 1,554
Total Adjustment - Cost of Removal			$ 4,940
Net Adjustment to Depreciation Reserve			$ 4,940

Sources:

(1)	Nicor Schedule B-6			
(2)	Actual Net COR 2008 to 9/30	AG 8.10		10,619
	Annualized Net COR		1.333	14,159

AG/CUB Exhibit 4.1 Corrected

Schedule B-3

NICOR GAS COMPANY
GAS IN STORAGE
($000)

	Gas in Storage	Accounts Payable	Net Balance
Dec-08	112,945		
Jan-09	12,763		
Feb-09	6,892		
Mar-09	1,328		
Apr-09	176		
May-09	3,128	2,952	
Jun-09	8,298	5,170	
Jul-09	13,847	5,549	
Aug-09	68,053	54,206	
Sep-09	221,349	153,296	
Oct-09	394,874	173,525	
Nov-09	301,526		
Dec-09	112,945		
Average Balances	$ 96,779	$ 30,361	$ 66,417

Sources:

Dec-08 through Jun-09:	Actual 12/07 - 06/08, responses to AG 2.07, 5.02
Jul-09 through Sep-08	Actual 2008, Response to AG 8.11

Oct-09	=	Sep-09	+	20,089.4	*	$ 8.64
Nov-09	=	Oct-09	-	10,807.2	*	$ 8.64
Dec-09	=	Actual Dec-07				

NICOR GAS COMPANY
ADJUSTMENT TO ACCUMULATED DEFERRED TAXES
($000)

Adjustment Related to Plant Additions	(1)	$ -
ADIT on Prepaid Pensions	(2)	(89,581)
Total Adjustment to ADIT		$ (89,581)

Sources:

(1)	Adjustment to Plant Additions - 2008	(Schedule B-1)	-
	Nicor Forecasted Plant Additions - 2008	(Nicor Sch B-5)	193,799
	Ratio		-
	Growth in 2008 ADFIT	(Nicor Sch B-9.1)	18,087
	Adjustment to ADFIT		-
(2)	Nicor Ex. 26.0, Page 21		

AG/CUB Exhibit 4.1 Corrected

Schedule C

NICOR GAS COMPANY
OPERATING INCOME
($000)

	(1) Company Position	Adjustments		Proposed Position
Operating Revenue	$ 567,584	$ 1,441	(2)	$ 569,025
Cost of Gas	1,371			1,371
Operation and Maintenance Expense	308,145	(20,128)	(3)	288,017
Depreciation and Amortization	178,458	-	(4)	178,458
Taxes other than Income Taxes	20,251	(199)	(5)	20,052
State Income Tax Expense - Current	533	2,147	(6)	2,680
Federal Income Tax Expense - Current	13,592	9,542	(6)	23,134
Deferred Income Tax Expense	(10,456)			(10,456)
Investment Tax Credits	(2,041)	-		(2,041)
Total Operating Expenses	509,853	(8,638)		501,215
Adjusted Operating Income	$ 57,731	$ 10,079		$ 67,810

Sources:

(1) Nicor Ex. 26.1, Schedule C-1
(2) Schedule C-1
(3) Schedule C-2
(4) Schedule C-3
(5) Schedule C-4
(6) Schedule C-5

NICOR GAS COMPANY
OPERATING REVENUE
($000 Except Rates)

		Rate 4 & Rate 5	Rate 74 & Rate 75	Total
Weather Normalized Use per Customer, 2007	(1)	4,455	64,736	
Forecasted Customers - 2009 Test Year	(1)	186,968	9,179	
Projected Therm Sales (000)		832,942	594,212	
Forecasted Therm Sales, per Company	(1)	824,012	579,080	
Adjustment to Company Forecast		8,930	15,132	24,062
Average Price per Therm	(2)	$ 0.0794	$ 0.0484	
Adjustment to Revenues		$ 709	$ 732	$ 1,441

Sources:

(1) Response to AG Data Request 8.18

(2) Nicor Schedule E-5

NICOR GAS COMPANY
OPERATION AND MAINTENANCE EXPENSE
($000)

Adjustments to Operation and Maintenance Expense:

Payroll Expense	(1)	$ (2,602)
Incentive Compensation Allocated from Nicor, Inc.	(2)	-
Uncollectible Accounts Expense	(3)	(13,235)
Mains and Services Expenses	(4)	(1,352)
Customer Records and Collections Expenses	(5)	(3,035)
NSF Check Expenses	(6)	96
Branding	(2)	-
Total Adjustment to Operation and Maintenance Expense		$(20,128)

Sources:

(1)	Schedule C-2.1		
(2)	Adjustment Accepted by Company in Rebuttal		
(3)	Schedule C-2.2		
(4)	Actual Mains and Services Expense - 2007	(Nicor Sch. C-4)	18,612
	Increase to 2009 at 5% per Year		20,520
	Reclassification from other Accounts	(Nicor Ex. 20, p. 10)	1,896
	Projected Test Year Expense		22,416
	Company Forecasted Expense	(Nicor Sch. C-4)	23,768
	Adjustment to Company Expense		(1,352)
(5)	Actual Customer R&C Expense - 2007	(Nicor Sch. C-4)	30,061
	Increase to 2008 at 5% per Year		31,564
	Expense to Bill Every Customer Every Month (AG 2.22)		1,400
	Projected 2008 Expense		32,964
	Increase to 2009 at 5% per Year		34,612
	Company Forecasted Expense	(Nicor Sch. C-4)	37,647
	Adjustment to Company Expense		(3,035)
(6)	Testimony of Mr. Rubin		

NICOR GAS COMPANY
ADJUSTMENT TO PAYROLL EXPENSE
($000)

		(1) Actual	(1) Authorized
Jan-08		2,139	2,257
Feb-08		2,133	2,272
Mar-08		2,161	2,282
Apr-08		2,198	2,296
May-08		2,212	2,321
Jun-08		2,239	2,322
Jul-08		2,245	2,321
Aug-08		2,208	2,317
Sep-08		2,222	2,278
Average		2,195	2,296
Difference			101
Test Year Payroll Charged to O&M	(2)		97,545
Average Test Year Employees	(3)		2,325
Average O&M Expense per Employee			41.961
Adjustment to Test Year Payroll Expense			$ 4,238
Adjustment Applicable to Accounts 874 and 903	(4)		1,636
Net Adjustment to Payroll Expense			$ 2,602

Sources:

(1) Responses to AG Data Requests 2.25, 5.09, 8.15
(2) Nicor Schedule C-11.1
(3) Nicor Schedule C-11.2
(4) Nicor Gas Exhibit 18.0, Page 14

NICOR GAS COMPANY
UNCOLLECTIBLE ACCOUNTS EXPENSE
($000)

Year	(1) Charge-Offs	(1) Recoveries	(1) Net Charge-Offs	(1) Revenue	(2) Ratio	(3) Lagged Ratio
2004				2,363,918		
2005	46,099	12,808	33,291	2,909,553	1.14%	1.41%
2006	46,616	9,117	37,499	2,452,317	1.53%	1.29%
2007	66,719	13,425	53,294	2,627,495	2.03%	2.17%
Three Year Average		2005-2007			1.57%	1.62%
Two Year Average		2006-2007			1.78%	1.73%

Test Year Revenues, per Company	3,036,130	(4)
Proposed Adjustment to Base Rate Revenue	1,441	(5)
Proposed Adjustment to Gas Cost Revenue	22,185	(6)
Adjusted Test Year Revenue	3,059,756	
Proposed Charge-Off Rate	1.80%	(7)
Test Year Uncollectible Accounts Expense	55,076	
Uncollectible Accounts Expense, per Company	68,311	(4)
Adjustment to Company Expense	$ (13,235)	

Column Notes
(1) Response to AG Data Request 2.29, Nicor Schedule C-16
(2) Net Charge Offs/Revenue
(3) Net Charge Offs/Prior Year Revenue
(4) Nicor Schedule C-16
(5) Schedule C-1
(6) Sales adjustment on Schedule C-1 * $0.922 (AG-2.16)
(7) See Testimony

AG/CUB Exhibit 4.1 Corrected

Schedule C-3

NICOR GAS COMPANY
DEPRECIATION EXPENSE
($000)

Adjustment to Plant in Service	(1)	$	-
Composite Depreciation Rate	(2)		4.10%
Adjustment to Depreciation Expense		$	-

Sources:

(1) Schedule B-1

(2) Nicor Schedule C-12, Page 18

AG/CUB Exhibit 4.1 Corrected

Schedule C-4

NICOR GAS COMPANY
TAXES OTHER THAN INCOME TAXES
($000)

Adjustment to Wages and Salaries	(1)	$ (2,602)
FICA Tax Rate	(2)	7.65%
Adjustment to Payroll Taxes		$ (199)

Sources:

(1) Schedule C-2

(2) Statutory Rate

NICOR GAS COMPANY
INCOME TAXES
($000)

Adjustments to Taxable Income:

Revenue	(1)	$ 1,441
Operation and Maintenance Expense	(1)	(20,128)
Depreciation and Amortization	(1)	-
Taxes other than Income Taxes	(1)	(199)
Lobbying	(2)	-
Interest	(3)	(7,643)
Adjustment to Expenses		(27,970)
Adjustment to Taxable Income		29,411
Illinois Income Tax Rate		7.30%
Adjustment to Illinois Income Tax		$ 2,147
Adjustment to Federal Taxable Income		27,264
Federal Income Tax Rate		35%
Adjustment to Federal Income Tax		$ 9,542

Sources:

(1)	Schedule C		
(2)	Nicor Schedule C-5		
(3)	Rate Base	1,345,946	Schedule B
	Weighted Debt Cost	2.75%	Schedule D
	Interest Deduction	36,956	
	Company Interest Deduction	44,599	Nicor Ex. 26.1, Schedule 1.01
	Adjustment	(7,643)	

NICOR GAS COMPANY
RATE OF RETURN
($000)

Company Position

	Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	43.11%	6.80%	2.93%
Preferred Stock	0.12%	4.77%	0.01%
Common Equity	56.77%	11.15%	6.33%
Total Capital	100.00%		9.27%

AG Position

	Percent of Total	Cost Rate	Weighted Cost
Short Term Debt	17.24%	2.09%	0.36%
Long Term Debt	35.08%	6.80%	2.39%
Preferred Stock	0.10%	4.77%	0.00%
Common Equity	47.58%	9.46%	4.50%
Total Capital	100.00%		7.25%

Sources: Nicor Exhibit 24.1
Testimony of Mr. Thomas

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Attorney General
Ill.C.C. Docket No. 08-0363
AG Eighth Set of Data Requests

AG (DJE) 8.18 Q. Referring to Nicor Exhibit 31, Page 7, Lines 148 – 150, please provide the effects of considering Rate Classes 4 and 5 on a consolidated basis and Rate Classes 74 and 75 on a consolidated basis. The response should include all supporting workpapers and calculations.

AG (DJE) 8.18 A. Please see below the summary of Rate Classes 4 and 5 on a consolidated basis and Rate 74 and 75 on a consolidated basis. See attached Exhibits 1 and 2 for supporting workpapers and calculations.

Rate 4 and Rate 5
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	809,906	180,464	4,488	-1.6%
2006	794,880	182,853	4,347	-3.1%
(b)2007	815,866	183,155	4,455	2.5%
(a)2008	817,165	185,081	4,415	-0.9%
2009	824,012	186,968	4,407	-0.2%

Rate 74 and Rate 75
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	589,520	9,100	64,782	-2.6%
2006	597,792	9,119	65,555	1.2%
2007	583,916	9,020	64,736	-1.2%
(a)2008	578,196	9,166	63,081	-2.6%
2009	579,080	9,179	63,087	0.0%

(a) Excludes Leap Year
(b) Includes Rate 99 Therms of 1,600 therms.

Witness: Karen Pepping

Rate 4
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	809,903	180,464	4,488	-1.6%
2006	794,818	182,852	4,347	-3.1%
(b)2007	815,762	183,149	4,454	2.5%
(a)2008	812,832	185,018	4,393	-1.4%
2009	819,679	186,905	4,386	-0.2%

Rate 5
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	3	-		
2006	62	1	62,000	
(b)2007	104	6	17,333	-72.0%
(a)2008	4,333	63	68,778	296.8%
2009	4,333	63	68,778	0.0%

Rate 4 and Rate 5
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	809,906	180,464	4,488	-1.6%
2006	794,880	182,853	4,347	-3.1%
(b)2007	815,866	183,155	4,455	2.5%
(a)2008	817,165	185,081	4,415	-0.9%
2009	824,012	186,968	4,407	-0.2%

(a) Excludes Leap Year
(b) Includes Rate 99 Therms of 1,600 therms.

Rate 74
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	589,517	9,100	64,782	-2.6%
2006	597,127	9,114	65,518	1.1%
2007	582,536	9,000	64,726	-1.2%
(a)2008	574,546	9,144	62,833	-2.9%
2009	575,430	9,157	62,840	0.0%

Rate 75
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	3	0		
2006	665	5	133,000	
2007	1,380	20	69,000	-48.1%
(a)2008	3,650	22	165,909	140.4%
2009	3,650	22	165,909	0.0%

Rate 74 and Rate 75
Average Use Per Customer
Normalized Deliveries at 5,600 Degree Days

	Therms (In Thousands)	Avg Cust	Use Per Avg Cust	Growth Year vs Year
2005	589,520	9,100	64,782	-2.6%
2006	597,792	9,119	65,555	1.2%
2007	583,916	9,020	64,736	-1.2%
(a)2008	578,196	9,166	63,081	-2.6%
2009	579,080	9,179	63,087	0.0%

(a) Excludes Leap Year

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY	)	
d/b/a NICOR GAS COMPANY	)	
	)	**Docket No. 08-0363**
Proposed General Increase	)	
In Natural Gas Rates	)	

VERIFICATION

State of New Hampshire :
: SS
County of Rockingham :

I, David J. Effron, a consultant specializing in utility regulation, affirm I have prepared direct testimony in this proceeding, AG/CUB Exhibit 4.0, and schedules, AG/CUB Exhibit 4.1, that I know the contents thereof, and that to the best of my knowledge, information and belief, based upon reasonable inquiry, the contents are true and correct.

David J. Effron

David J. Effron

SUBSCRIBED AND SWORN to before me
On this 23rd Day of October, 2008.

Susan Buchanan

Notary Public

SUSAN BUCHANAN, Notary Public
My Commission Expires April 5, 2011