

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)

CORRECTED
 Direct Testimony of

ROBERT R. MUDRA, CFA

Director – Rates and Financial Analysis
 Nicor Gas Company

April 29, 2008

OFFICIAL FILE

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 Witness Robert Mudra Corr.
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TABLE OF CONTENTS

	Page
I. Introduction and Witness Qualifications	1
A. Witness Identification	1
B. Qualifications and Experience	1
C. Purpose of Direct Testimony and Summary of Conclusions	3
D. Itemized Attachments	3
II. Summary of Rate Design Objectives.....	4
III. Summary of Revenue Increase.....	6
IV. Summary of Proposed Charges	6
V. Preparation of the Embedded Cost of Service Study	6
VI. Preparation of the MDM Study.....	7
VII. Revenue Requirement and Allocation.....	8
VIII. Rate Design Objectives.....	12
A. Recovery of Revenue Requirement	13
B. Creating Cost-Based Rates.....	13
C. Equity and Equalized Rates of Return Across Rate Classes.....	14
D. Recovery of Fixed Costs Through Fixed Monthly Service Charges.....	14
IX. Nicor Gas' Rate Design	15
X. Proposed Rate Class Charges.....	17
A. Rate 1: Residential Service	17
B. Non-Residential Rates	19
XI. Proposed Transportation Charges	23
XII. Proposed Changes to Existing Riders.....	30
XIII. Proposed New Riders	33
A. Rider 26 – Uncollectible Expense Adjustment	34
B. Rider 27 – Company Use Adjustment	38
C. Rider 28 – Volume Balancing Adjustment	43
D. Rider 29 – Energy Efficiency Plan	47
E. Rider 30 – Qualifying Infrastructure Plant	49
XIV. Terms and Conditions.....	52
XV. Conclusion	53

1 **I. INTRODUCTION AND WITNESS QUALIFICATIONS**

2 **A. WITNESS IDENTIFICATION**

3 **Q. Please state your name and business address.**

4 A. Robert R. Mudra, Northern Illinois Gas Company, 1844 Ferry Road, Naperville, Illinois
5 60563.

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

7 A. I am employed by Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor
8 Gas" or the "Company") as Director of Rates and Financial Analysis.

9 **B. QUALIFICATIONS AND EXPERIENCE**

10 **Q. Please describe your duties and responsibilities as Director of Rates and Financial
11 Analysis for Nicor Gas.**

12 A. With respect to rate matters, I am responsible for managing the rate research, design and
13 administration of Nicor Gas' tariffs, including the proposed revisions in Nicor Gas' rates
14 that are the subject of this proceeding. While my department is not responsible for
15 financial forecasting and reporting, it utilizes the Company's financial forecasts and other
16 data to evaluate their impact on utility cost of service and rates. My department is also
17 responsible for the maintenance of public records relating to the tariffs on file with the
18 Illinois Commerce Commission (the "Commission").

19 Further, my department is primarily responsible for conducting financial analysis
20 of significant corporate projects for Nicor, Inc. and its subsidiary companies, including
21 Nicor Gas. Our projects include the analysis of various capital and operating

22 investments; financial analysis of potential new ventures, business valuation, and other
23 general corporate financial analysis.

24 **Q. Please describe your educational background.**

25 A. I hold a Bachelor of Science Degree, *cum laude*, from Eastern Illinois University, with a
26 major in Energy Management, and a Master of Business Administration with a
27 concentration in Finance degree from Northern Illinois University. I have also earned the
28 right to use the Chartered Financial Analyst designation from the CFA Institute, which is
29 a globally recognized standard of competence in the field of investment analysis and
30 management. The CFA Institute leads the investment industry by setting the highest
31 standards of ethical and professional excellence and requires CFA Charterholders to
32 commit to uphold the stringent CFA Institute Code of Ethics and Standards of
33 Professional Conduct.

34 **Q. Please summarize your professional and managerial experience.**

35 A. I have been employed by Nicor Gas for 21 years. I began my employment with the
36 Company in 1987 as an Energy Representative in the Sales department. Since that time, I
37 have held management positions in the Sales, Marketing, Rates, and Finance departments
38 of Nicor Gas. In April 2000, I was appointed Coordinator of Financial Analysis and, in
39 October 2002, I was promoted to Manager, Financial Analysis and Projects. I assumed
40 my present position as Director of Rates and Financial Analysis in January 2005.

41 **Q. Have you testified before the Commission previously?**

42 A. Yes. I testified in Nicor Gas' last rate case, Docket No. 04-0779 ("2004 Rate Case").

43 C. PURPOSE OF DIRECT TESTIMONY AND SUMMARY OF
44 CONCLUSIONS

45 Q. What is the purpose of your direct testimony?

46 A. The purpose of my direct testimony is to:

- 47 (1) present the appropriate allocation of the Company's proposed base rate revenue
48 requirement to its rate classes;
- 49 (2) present just and reasonable charges for utility services that are based on Nicor
50 Gas' proposed base rate revenue requirement and cost of service study; and
- 51 (3) present the proposed revisions to Nicor Gas' tariff sheets, including revisions to
52 its rates and riders.

53 Q. Please summarize the conclusions of your direct testimony.

54 A. I reach three primary conclusions:

- 55 (1) The Company's proposed rate design is just and reasonable and appropriately
56 allows the Company an opportunity to recover its base rate revenue requirement
57 of \$687,566,000 through its base rates and the remainder of the revenue
58 requirement through riders and other revenues, while making significant
59 improvements in the rate design of its existing base rates.
- 60 (2) The proposed rate design, among other things, moves the Company's rates toward
61 the ratemaking objective of assigning costs in accordance with cost-causation.
- 62 (3) The proposed rate design addresses changes in Nicor Gas' business environment
63 and improves the effectiveness of the Company's revenue and cost recovery
64 mechanisms.

65 D. ITEMIZED ATTACHMENTS

66 Q. Are you sponsoring any attachments to your direct testimony?

67 A. Yes. I am sponsoring, and have attached hereto, several exhibits:

- 68 • Nicor Gas Exhibit 14.1 contains an updated version of Nicor Gas' Schedule of
69 Rates, which reflects the proposed new and revised tariff sheets that Nicor Gas
70 has filed with the Commission and that are the subject of this proceeding.
- 71 • Nicor Gas Exhibit 14.2 shows in "legislative" style the differences between the
72 revised tariff sheets and the Nicor Gas tariffs currently on file.
- 73 • Nicor Gas Exhibit 14.3, entitled "Comparison of Present and Proposed Rates," is
74 a copy of the Company's Schedule A-3 submitted under Part 285 of the
75 Commission's rules, 83 Ill. Adm. Code Part 285. This exhibit shows, among
76 other things, revenues under existing rates as well as under the Company's
77 proposed rates and rate design.
- 78 • Nicor Gas Exhibit 14.4, entitled "Summary of Changes from Present to Proposed
79 Charges," shows current and proposed charges by rate class.
- 80 • Nicor Gas Exhibit 14.5, entitled "Original Cost of Main Installed by Rate and
81 Main Size - Test Year 2009," shows the cost of distribution main investment by
82 rate class based upon the Modified Distribution Main study performed by Nicor
83 Gas.
- 84 • Nicor Gas Exhibit 14.6, entitled "Allocation of Proposed Revenue Adjustments to
85 Base Rates," shows the current and proposed revenues by rate class.
- 86 • Nicor Gas Exhibit 14.7, entitled "Jurisdictional Operating Revenues at Proposed
87 Rates," shows the Company's forecasted billing determinants associated with
88 each base rate classification and the proposed charges designed to collect the
89 proposed base rate revenue requirement.
- 90 • Nicor Gas Exhibit 14.8, entitled "Annual Bill Comparison Rate 1, Residential
91 Service," shows bill impacts between current and proposed rates for a typical
92 space heating customer for a calendar year under normal usage conditions.
- 93 • Nicor Gas Exhibit 14.9 is a group exhibit showing the bill impacts between
94 current and proposed rates for Rates 1, 4, 74, 5, 75, 6, 76 and 77 at various levels
95 of them use.

96 **II. SUMMARY OF RATE DESIGN OBJECTIVES**

- 97 **Q. Please describe the Company's overall rate design objectives in connection with its**
98 **proposed general rate increase.**

99 A. The Company has four major objectives in connection with its rate design in this case.

100 (1) First, the proposed rate design is intended to appropriately allow the Company the
101 opportunity to effectively recover its just and reasonable base rate revenue
102 requirement through its base rates, and to appropriately allow the Company the
103 opportunity to effectively recover the remainder of its revenue requirement
104 through riders and other revenues.

105 (2) Second, the proposed rate design furthers the objective of creating cost-based
106 rates. That is, the proposed rates are structured to recover costs from the
107 customers that cause the costs to be incurred.

108 (3) Third, the proposed rate design is intended to provide more equity between the
109 rate classes and to move each class closer to providing an equalized rate of return
110 while reducing or removing existing cross subsidies.

111 (4) Fourth, the proposed rate design increases the recovery of the Company's fixed
112 costs through its fixed monthly service charges, which adds stability to customers'
113 bills and sends more accurate price signals.

114 **Q. Are there other principles the Company considered in the development of the**
115 **proposed rate design?**

116 A. Yes. Nicor Gas considered the rate making principle of gradualism. This principle
117 considers the overall impact of the rate changes on Nicor Gas' customers and customer
118 classes while striving to achieve the four rate design objectives mentioned above. For
119 example, in applying the principle of gradualism, the rate increase to one class of
120 customers might be reduced to some degree in this proceeding by collecting more
121 revenues from another class of customers. While gradualism can moderate the rate
122 increase to one class of customers, it should be noted that it will not eliminate interclass
123 rate subsidies nor will it achieve greater equity between the rate classes.

124 **Q. Are all aspects of Nicor Gas' proposed rate design addressed in your direct**
125 **testimony?**

126 A. No. Nicor Gas witness Gerald P. O'Connor discusses the rationale and purpose behind
127 five new riders. (Nicor Gas Ex. 12.0). Further, changes to Nicor Gas' Storage Banking
128 Service ("SBS") and daily nomination limits for transportation customers are discussed in
129 the direct testimony of Nicor Gas witness Gary R. Bartlett. (Nicor Gas Ex. 4.0).

130 **III. SUMMARY OF REVENUE INCREASE**

131 **Q. What is Nicor Gas' proposed revenue increase?**

132 A. Nicor Gas Exhibit 14.4, entitled "Summary of Changes from Present to Proposed
133 Charges," illustrates the proposed increase in base rate revenue of \$140,286,000 by rate
134 class. Further, it illustrates the total revenue increase, which includes Rider 6 – Gas
135 Supply Cost and Rider 12 – Environmental Cost Recovery and Other Revenues.

136 **IV. SUMMARY OF PROPOSED CHARGES**

137 **Q. Has the Company prepared a summary its proposed charges?**

138 A. Yes. Nicor Gas Exhibit 14.4 shows a comparison of the Company's current charges for
139 each rate with the corresponding proposed charges.

140 **V. PREPARATION OF THE EMBEDDED COST OF SERVICE STUDY**

141 **Q. Did the Company prepare, or direct the preparation of, an embedded cost of service
142 study ("ECOSS")?**

143 A. Yes. The Company employed Brown, Williams, Moorhead, & Quinn ("BWMQ") to
144 prepare an embedded cost of service study, which is presented in the direct testimony of
145 Nicor Gas witness Alan C. Heintz. (Nicor Gas Ex. 15.0).

146 **Q. What data did the Company supply to BWMQ to enable Mr. Heintz to prepare an
147 appropriate ECOSS on behalf of the Company?**

148 A. The information provided included the Company's forecasted 2009 test year rate base
149 and operational expenses according to the Uniform System of Accounts for Gas Utilities
150 Operating in Illinois ("USOA"). The Company also provided its updated Modified
151 Distribution Main ("MDM") study and information on its forecasted numbers of
152 customers, peak day demand, and delivery volumes by rate class. Mr. Heintz's direct
153 testimony and the attachments thereto reflect in more detail the information supplied by
154 the Company that ultimately was relied upon in preparing the ECOSS.

155 **Q. Has the Company used the Average and Peak ("A&P") method of cost allocation**
156 **within the ECOSS?**

157 A. Yes. While the Company has historically recommended use of the Coincident Peak
158 ("CP") method within the ECOSS to more accurately reflect peak day costs and customer
159 demands by rate class, the Commission determined in the 2004 Rate Case that the A&P
160 method is an acceptable method of allocating costs and used it in conjunction with the
161 Company's MDM study. Therefore, to limit the scope of issues in this proceeding, the
162 Company proposes using the A&P method in conjunction with its MDM study. The
163 Company reserves the right to propose use of the CP method in future rate making
164 proceedings.

165 **VI. PREPARATION OF THE MDM STUDY**

166 **Q. What is the purpose of the MDM study?**

167 A. The MDM study determines the peak day flows for each size of distribution main in
168 service and what percentage of those peak day flows are attributed to each customer rate
169 class. The MDM study provides value by accurately assigning main-related costs to the

170 appropriate customer classes within the ECOSS. The results of the MDM study are
171 contained within Nicor Gas Exhibit 14.5.

172 **Q. Has the Commission previously used an MDM study for the purpose of allocating**
173 **main-related costs to customer classes?**

174 A. Yes. The Commission has used the MDM study in each of Nicor Gas' last two rate cases
175 (Docket Nos. 95-0219 and 04-0779) to properly allocate main-related costs to the
176 appropriate cost-causing rate classes.

177 **Q. What process was used by Nicor Gas to prepare the MDM study?**

178 A. First, Nicor Gas generated a random sample of Rate 1 (residential) customers and another
179 random sample of Rates 4 and 74 (small non-residential) customers. For each of these
180 customer groups, the peak day use and the size of distribution main from which the
181 customers are receiving service were recorded. Next, Nicor Gas researched each of the
182 Company's largest customers currently served under Rates 5, 6, 17, 75, 76 and 77 to
183 determine the same information. The resulting analysis is set forth in a table in Nicor
184 Gas Exhibit 14.5 showing the use of each size of distribution main on a peak day by rate
185 classification. This process is consistent with the process used to prepare the MDM study
186 in the 2004 Rate Case.

187 **VII. REVENUE REQUIREMENT AND ALLOCATION**

188 **Q. How does the Company define the terms "total revenue requirement" and "base**
189 **rate revenue requirement"?**

190 A. The “total revenue requirement” is the amount of total revenue that Nicor Gas should be
191 allowed to collect from its customers to have an opportunity to earn its required rate of
192 return on its investment in rate base and to recover its costs.

193 The “base rate revenue requirement” represents Nicor Gas’ total revenue
194 requirement less revenues recovered under Rider 2 – Franchise Cost Adjustment, Rider 6
195 – Gas Supply Cost, Rider 7 – Governmental Agency Compensation Adjustment, and
196 Rider 12 – Environmental Cost Recovery and Other Revenues that are designated to be
197 collected through Nicor Gas’ tariff charges for service established in this proceeding.

198 **Q. Has the Company calculated its total revenue requirement and its base rate revenue**
199 **requirement?**

200 A. Yes. The Company has submitted and supported its proposed total revenue requirement
201 through the direct testimony of Nicor Gas witness James M. Gorenz. (Nicor Gas
202 Ex. 11.0). As Mr. Gorenz explains, the Company’s proposed total revenue requirement is
203 \$3,010,978,000, which is the sum of its proposed net operating income of \$141,431,000
204 plus its proposed operating expenses, after adjustments and including income taxes, of
205 \$2,869,547,000. The Company’s proposed base rate revenue requirement under the
206 proposed rate design is \$687,566,000, which is the sum of its proposed net operating
207 income of \$141,431,000 plus its proposed operating expenses, after adjustments and
208 including income taxes, of \$566,439,000, less its proposed other revenues of
209 \$20,304,000. The “non-base rate” portion of the Company’s total revenue requirement is
210 \$2,323,412,000 and will be recovered through the Company’s Rider 6 – Gas Supply Cost
211 (\$2,278,386,000), Rider 12 – Environmental Cost Recovery (\$15,049,000) and Other

212 Revenues (\$20,304,000), and Rider 2 – Franchise Cost Adjustment (\$9,673,000).

213 Together this results in a revenue deficiency of \$140,286,000.

214 **Q. How were the proposed base rate revenue requirements for the residential and non-**
215 **residential rate classes determined?**

216 A. Nicor Gas first examined the ECOSS, which allocates costs to the appropriate rate classes
217 that cause the costs. Nicor Gas then determined the corresponding base rate revenue
218 requirements necessary to achieve an equalized rate of return by rate class. The findings
219 indicated that approximately \$476,938,000 of the proposed total \$687,566,000 base rate
220 revenue requirement should come from the residential class with the remaining
221 \$210,628,000 coming from the non-residential classes and through Rider 13 – Supplier
222 Transportation Service and Rider 16 – Supplier Aggregation Service. Because the
223 residential customer class was only assigned 95% of the approved embedded cost of
224 service in the 2004 Rate Case, and in an effort to move the residential class closer to its
225 cost of service, the Company proposes to assign the residential customer class 97.5% of
226 its cost of service in this proceeding. The resulting residential base rate revenue
227 requirement then was rounded to approximately \$465,000,000 through the rate design
228 process with the remaining \$222,566,000 to be collected from the non-residential rate
229 classes and through Riders 13 and 16.

230 **Q. Were new base rate revenue requirements established for the contract service**
231 **customers, Rates 17 and 19 (Contract Service and Contract Service for Electric**
232 **Generation)?**

233 A. No. The proposed rate design appropriately recognizes that, while the relevant portion of
234 Nicor Gas' base rate revenue requirement should be assigned to Rates 17 and 19, the

235 charges for Rates 17 and 19 are already established in long-term negotiated contracts and
236 should not be changed in this proceeding. Therefore, the current level (\$9,234,000) of
237 base rate revenues from Rates 17 and 19 customers is expected to continue in the 2009
238 test year.

239 **Q. How much of the base rate revenue requirement was allocated to the remaining**
240 **non-residential customer classes?**

241 A. The Company forecasts recovering approximately \$9,234,000 from Rates 17 and 19 and
242 \$1,982,000 from Riders 13 and 16 for a subtotal of approximately \$11,216,000.
243 Therefore, approximately \$211,350,000 of the \$222,566,000 of the base rate revenue
244 requirement was allocated to the remaining non-residential customer classes (Rates 4, 74,
245 5, 75, 6, 76, 7 and 77).

246 **Q. How was the \$211,350,000 base rate revenue requirement allocated among the**
247 **remaining non-residential customer classes?**

248 A. The \$211,350,000 non-residential base rate revenue requirement was initially allocated to
249 each individual rate classification using the Equalized Percent Embedded Cost ("EPEC")
250 method and then adjusted within the companion rate classification to develop the final
251 proposed revenue allocation. Nicor Gas Exhibit 14.6 shows the proposed base rate
252 revenue requirement in Column H. The EPEC method initially allocated the proposed
253 revenues (Column E) in the same proportion as the ECOSS results (Column C),
254 excluding Rates 17 and 19 revenues. For example, Rate 4 was initially allocated
255 \$129,969,000 (rounded) or 61.5% (Column E) because that class received 61.5% of the
256 non-residential ECOSS total, excluding Rates 17 and 19 revenues (Column C). Then,
257 after reviewing the combined revenue allocation for the companion Rates 4 and 74, the

258 combined revenue for these classifications was set approximately at the ECOSS
259 percentage while adjusting the allocation between Rates 4 and 74. Also, the revenue
260 allocation to Rates 5 and 75 was moderated to match the revenue increase to Rates 4, 74,
261 5 and 75 as a group. Finally, the combined rate classes of Rates 6 and 76 and Rates 7 and
262 77 each received the same proportion of the revenue allocation as the ECOSS results.

263 **Q. Is the EPEC method a fair method to allocate the remaining base rate revenue**
264 **requirement among the non-residential customer classes?**

265 A. Yes. The EPEC method utilizes the same proportions as derived from the ECOSS;
266 therefore, it fairly allocates the remaining revenue requirement among the non-residential
267 customer classes in a manner that preserves the relative cost of service proportions
268 between the classes. However, as described above, the Company also took into
269 consideration the magnitude of EPEC increase to each individual rate classification, as
270 well as the increases within the companion rates, before finalizing the proposed revenue
271 allocation. The final proposed revenue allocation by rate classification was designed to
272 balance the allocations among similar and companion rate classifications while taking
273 into account the impact on each individual rate classification.

274 **VIII. RATE DESIGN OBJECTIVES**

275 **Q. You previously indicated that there are four major objectives of the rate design in**
276 **this case. What are they?**

277 A. The Company's four rate design objectives are (1) recovery of revenue requirement,
278 (2) creating cost-based rates, (3) equity and equalized rates of return across rate classes,

279 and (4) recovery of fixed costs through fixed monthly service charges. I will discuss each
280 below in detail.

281 **A. RECOVERY OF REVENUE REQUIREMENT**

282 **Q. Please describe the Company's rate design objective of recovery of revenue**
283 **requirement.**

284 A. The Company must have an opportunity to recover its just and reasonable base rate
285 revenue requirement. Rates that do not permit such recovery are not just and reasonable.
286 Further, those rates are not sustainable. If a utility is not given a fair opportunity to
287 recover its base rate revenue requirements, utilities and consumers will all suffer from the
288 costs and inefficiency of an ineffective regulatory process.

289 Based upon the Company's proposed total revenue requirement discussed above,
290 the first step of base rate design was to develop a means for recovering the \$687,566,000
291 base rate revenue requirement through just and reasonable base rates. The Company's
292 proposed rate design appropriately allocates the base rate revenue requirement of
293 \$687,566,000 to its base rates, the customer classes, and their respective charges. (See
294 Nicor Gas Exs. 14.3 and 14.7).

295 **B. CREATING COST-BASED RATES**

296 **Q. Please describe the Company's rate design objective of creating cost-based rates.**

297 A. Nicor Gas' objective is to develop a rate design that allocates the recovery of the utility's
298 revenue requirement to rates, customer classes, and charges in a manner that fairly and
299 accurately reflects the causation of those costs.

300 In order to achieve this objective, the Company employed an updated ECOSS
301 together with its proposed rate design to allocate costs by rate class.

302 **C. EQUITY AND EQUALIZED RATES OF RETURN ACROSS RATE**
303 **CLASSES**

304 **Q. Please describe the Company's rate design objective of equity and equalized rates of**
305 **return across rate classes.**

306 A. Nicor Gas serves a broad range of customer classes including residential, commercial and
307 large industrial customers. In addition to designing cost-based rates, the Company
308 attempts to design rates that provide an equalized rate of return by rate class in order to
309 maintain equality between and within the customer classes and to avoid rate subsidies.

310 As a matter of fairness to all the Company's customers, Nicor Gas attempts to move each
311 customer class closer to an equalized rate of return by rate class while reducing or
312 removing any existing interclass rate subsidies. For example, if one class of customer
313 pays less than its cost of service, an interclass rate subsidy is created whereby another
314 class of customer must pay more than its cost of service. The Company's proposed rate
315 design moves towards eliminating these interclass rate subsidies.

316 **D. RECOVERY OF FIXED COSTS THROUGH FIXED MONTHLY**
317 **SERVICE CHARGES**

318 **Q. Please describe the Company's rate design objective of recovery of fixed costs**
319 **through fixed monthly service charges.**

320 A. The costs associated with delivering natural gas to customers are largely fixed costs,
321 which are a product of Nicor Gas' fixed investment in distribution facilities (gas main,
322 gas services, meters, regulators, service trucks, equipment, etc.). These fixed costs

323 should be recovered through fixed charges rather than through volumetric distribution
324 charges. Historically, utilities have recovered a significant amount of their fixed costs
325 through volumetric distribution charges; however, such a rate design can cause instability
326 in customer bills, over or under-recovery of the utility fixed costs, and can send
327 inaccurate price signals to customers regarding the true cost structure of utility delivery
328 service. The Company's proposed rate design addresses some of these problems by
329 recovering more of its fixed costs through fixed monthly charges. In addition, the
330 Company proposes to implement Rider VBA – Volume Balancing Adjustment (“Rider
331 VBA”), which periodically adjusts customer bills to more effectively recover the
332 remaining fixed costs included in the “per therm” volumetric distribution charges.

333 **IX. NICOR GAS' RATE DESIGN**

334 **Q. How did the Company meet the rate design objectives discussed above?**

335 A. The proposed rate design was prepared based upon the results of the ECOSS, which
336 properly assigned costs to the customer rate classes causing the costs. The ECOSS
337 determined the appropriate level of revenue requirement needed to achieve an equalized
338 rate of return by rate class. The Company then utilized the results of the ECOSS to move
339 the existing rates closer to cost of service. In doing so, the Company employed the
340 principle of gradualism by allocating a greater percentage of costs to Rate 1 (Residential
341 Service) than the Commission approved in the 2004 Rate Case. However, even with this
342 change, the allocation of costs to Rate 1 is still less than its full cost of service.

343 **Q. How does the current rate design compare to the proposed rate design?**

344 A. As compared to the Company's existing rates, the proposed rate design seeks to recover a
345 greater percentage of the Company's fixed costs through its fixed monthly customer
346 charges, consistent with the rate design objectives identified above. In general, collecting
347 fixed costs through fixed charges is a superior rate design principle because fixed costs
348 by definition do not vary with the annual volume of natural gas delivered. Therefore,
349 fixed costs can be more effectively recovered through fixed monthly customer charges
350 rather than through uncertain future levels of volumetric gas deliveries.

351 **Q. Is a straight-fixed variable ("SFV") rate design an acceptable method of recovering**
352 **fixed costs through fixed monthly charges?**

353 A. Yes. A SFV rate design could be used to recover all fixed costs such as customer and
354 demand-related costs through fixed monthly charges, with any remaining volumetric-
355 related costs recovered through volumetric charges.

356 **Q. Has the Company computed what the Rate 1 charges would be under a SFV rate**
357 **design?**

358 A. Yes. Assuming full allocation of costs to the Rate 1 residential class, a SFV rate design
359 would result in a monthly residential customer charge of \$18.66 per month and a
360 distribution charge of \$.014 per therm. It is important to note that the ECOSS, in
361 conjunction with the A&P method, classifies approximately 94% of the cost of serving
362 residential customers as non-volumetric costs. Therefore, a SFV rate design would be an
363 appropriate method of recovering these non-volumetric costs in accordance with the rate
364 design objectives identified above.

365 **Q. Would the Company support the Commission's consideration of a SFV rate design**
366 **in this proceeding?**

367 A. Yes. Although the Company has not initially proposed a SFV rate design, the Company
368 believes that it would improve the recovery of fixed costs through fixed charges, thereby
369 sending more accurate price signals to customers. The Company's proposed rate design
370 moves toward a SFV rate design by increasing its monthly customer charges in tandem
371 with implementing Rider VBA.

372 **Q. What are the advantages and disadvantages to moving directly to a SFV rate design**
373 **at this time?**

374 A. If the Commission were to consider a SFV rate design, the Company would not need to
375 implement Rider VBA, which may lead to the advantages of reducing the administrative
376 resources attendant with implementing the rider and generating more simplified customer
377 billing. On the other hand, the residential monthly customer charge would increase from
378 \$8.40 to \$18.66 under SFV rates, which is an increase of \$10.26 per month. SFV rates,
379 therefore, would increase the customer charge by almost twice as much as the Company's
380 proposed increase of \$5.15 per month, while also reducing the volumetric distribution
381 charge. In either case, the average residential space heating customer would pay
382 approximately the same amount per year in base rates for natural gas delivery service.

383 **X. PROPOSED RATE CLASS CHARGES**

384 **A. RATE 1: RESIDENTIAL SERVICE**

385 **Q. Given a base rate revenue requirement allocation of \$465,000,000 to the Rate 1**
386 **customer class, how were charges for that customer class determined?**

387 A. First, the customer charge for the Rate 1 customer class, which is currently \$8.40, was
 388 increased to move the Rate 1 customer charge toward the SFV monthly customer charge
 389 of \$18.66. Specifically, half of the \$10.26 difference between the SFV monthly customer
 390 charge and the Company's current customer charge , or \$5.13, was added to \$8.40 to
 391 yield \$13.53, which was then rounded to the proposed \$13.55 monthly customer charge.
 392 This change advances the objective of recovering more fixed costs through fixed charges.
 393 As shown below, the proposed monthly customer charge is in line with existing, and
 394 proposed, residential monthly customer charges of other major gas utilities in Illinois.

Residential Monthly Customer Charges

	Monthly <u>Charge</u>
Peoples Gas – Rate 1	\$15.50
Ameren – CILCO Rate 510 (Proposed)	\$15.00
Ameren – CIPS Rate 1 (Proposed)	\$15.00
Ameren – IP Rate 51 (Proposed)	\$15.00
Nicor Gas – Rate 1 (Proposed)	\$13.55
North Shore Gas – Rate 1	\$13.50

395 Second, due to the negligible price difference between the existing second block
 396 at \$.0579 per therm and the existing third block at \$.0519 per therm, the second block
 397 was eliminated to form one tail block for all usage over 20 therms per month. The over
 398 20 therm rate was set at \$.0519 per therm. The elimination of one rate step also
 399 continues to gradually move the rate design toward a SFV rate design. Finally, charges
 400 in the first block, which cover a majority of the typical residential customer's monthly
 401 base (non-heat) use, were reduced from \$.1473 per therm to \$.1271 per therm to recover
 402 the remaining base rate revenue requirement.

403 **Q. What is the impact of the proposed charges for a typical residential space heating**
404 **customer?**

405 A. Nicor Gas Exhibits 14.8 and 14.9 show comparisons of costs for residential customers
406 with an annual normal use of 1,088 therms and at various monthly therm use. The
407 comparison for the normal space heat customer use of 1,088 therms shows that, the
408 customer would have an increase of \$55.48 per year, or approximately \$4.62 per month,
409 for base rate charges alone. If forecasted gas supply costs, environmental cost recovery
410 charges and state mandated taxes are included, the proposed base rates would result in an
411 increase of about 4.5% per year on that customer's total energy bill.

412 **B. NON-RESIDENTIAL RATES**

413 **Q. How are the current non-residential rates structured?**

414 A. The non-residential base rates are currently structured within four sets of "companion"
415 rates. The companion rates are:

- 416 (1) Rate 4 – General Service and Rate 74 – General Transportation Service
417 (2) Rate 5 – Seasonal Use Service and Rate 75 – Seasonal Use Transportation Service
418 (3) Rate 6 – Large General Service and Rate 76 – Large General Transportation
419 Service
420 (4) Rate 7 – Large Volume Service and Rate 77 – Large Volume Transportation
421 Service

422 Rates 4, 5, 6 and 7 are traditional "Sales" service rates that automatically enable
423 customers to purchase 100% of their natural gas supplies directly from Nicor Gas. The
424 Sales rates include the cost of Nicor Gas' storage services within the base rates.
425 Customers served under these rates may also elect to purchase some or all of their natural

426 gas supplies from a third-party marketer while retaining 100% firm natural gas supply
427 backup from Nicor Gas. These customers are served under Rates 4, 5, 6 or 7 with Rider
428 25 – Firm Transportation Service.

429 Rates 74, 75, 76 and 77 are “Transportation” service rates that enable customers
430 to purchase their natural gas supplies directly from third-party suppliers. These
431 customers are able to purchase up to 28 Maximum Daily Contract Quantity (“MDCQ”)
432 days of SBS capacity and also are able to elect the specific proportion of Firm Backup
433 Service they require from 0% to 100% from Nicor Gas. In general, the annual customer
434 delivery requirements increase with higher rate classifications. A monthly bill
435 comparison for the non-residential rates can be found in Nicor Gas Exhibit 14.9.

436 **Q. How were the base rate charges for the companion rates developed?**

437 A. The base rate charges for the companion rate classes were developed together as accepted
438 by the Commission in Nicor Gas’ last two rate cases. (Docket Nos. 04-0779 and 95-
439 0219).

440 **Q. How did the rate design process for Rates 4, 74, 5 and 75 begin?**

441 A. Rates 4, 74, 5 and 75 all have similar monthly customer charge structures that are based
442 upon the meter class size (either A, B or C) required to serve the customer. Initially, the
443 allocated revenue requirement for these classes was grouped together before determining
444 the respective revenue allocation and rate design for each companion rate classification.
445 Any applicable transportation Administrative Charge and Recording Device Charge
446 revenues were deducted before determining the base rate revenue requirement for each
447 companion rate class (Rates 4 and 74) and (Rates 5 and 75), and any Transportation

448 Service Credits provided under the Customer Select program were added to the revenue
449 requirement.

450 **Q. How were base rate charges developed for Rates 4 and 74?**

451 A. Based upon the results of the ECOSS, the Customer and Distribution Main costs support
452 recovering 66% of the revenue requirement through the monthly customer charge. To
453 move the rate design closer to the ECOSS results, approximately 50% of the Rates 4 and
454 74 revenue requirement (excluding transportation Administrative Charge and Recording
455 Device Charge revenues) was allocated to the monthly customer charges. The increase
456 was allocated in equal proportions to all three meter class sizes to achieve the base rate
457 revenue requirement. The forecasted distribution charge revenue requirement for Rates
458 4, 74, 5 and 75 then needed only to be slightly reduced in the first two blocks to recover
459 the remaining base rate revenue requirement, while permitting the existing tail block to
460 remain the same for Rate 4. Finally, after removing the storage and uncollectible credits
461 from Rates 74 and 75, the rate blocks were again adjusted to retain the same tail block of
462 \$.0349 per therm for Rate 74.

463 **Q. How were base rate charges developed for Rates 5 and 75?**

464 A. The EPEC revenue allocation to Rates 4, 74, 5 and 75, as a group, resulted in a 12.6%
465 increase to current revenues. Therefore, due to the limited number of seasonal use
466 customers (85 total customers) taking service under these rates, the revenue increase was
467 set at no more than 12.6% to match the rate of increase to Rates 4, 74, 5 and 75 as a
468 group. This further moderated the rate of increase that would have been allocated as a
469 result of the ECOSS alone. After deducting applicable transportation Administrative
470 Charge and Recording Device Charge revenues and adding Transportation Service

471 Credits, the resulting revenue requirement was \$442,000 for Rates 5 and 75. Next, the
472 monthly customer charges were increased for Meter Classes A, B and C in the same
473 proportion as the increases for Rates 4 and 74. Finally, the remaining revenue
474 requirement was allocated to the distribution charges and the appropriate storage and
475 uncollectible credits were removed from Rate 75, with balancing adjustments, resulting
476 in the final Rates 5 and 75 charges.

477 **Q. How were base rate charges developed for Rates 6 and 76?**

478 A. Rates 6 and 76 are structured with monthly customer charges and flat distribution service
479 charges for all therms delivered. These companion rates were designed together to
480 approximate the \$14,576,000 base rate revenue allocation derived from the EPEC
481 method, excluding the forecasted transportation Administrative Charge revenues and
482 rounding adjustments. Based on the results of the ECOSS, the monthly customer charge
483 should increase to recover a greater proportion of the fixed cost of service. Therefore, the
484 revenue requirement increase was allocated to the monthly customer charge for the
485 combined rate classes while maintaining the existing distribution charges for Rates 6 and
486 76 of \$.0266 \$ and \$.0189 per therm, respectively.

487 **Q. How were base rate charges developed for Rates 7 and 77?**

488 A. Rates 7 and 77 are structured with monthly customer charges, a two-tiered demand
489 charge and a flat distribution service charge for all therms delivered. These companion
490 rates were designed together to approximate the \$11,426,000 base rate revenue allocation
491 derived from the EPEC method, excluding the forecasted transportation Administrative
492 Charge revenues and rounding adjustments. The increases to the monthly customer
493 charges for Rates 7 and 77 were limited to match the increase to Rates 6 and 76 while

494 maintaining the existing distribution charge of \$.0052 per therm. The Rate 7 demand
 495 charges were designed to recover the remaining revenue requirement. The Rate 77
 496 demand charges were increased in approximately the same proportions as the Rate 7
 497 demand charges. The resulting rate structure for Rates 7 and 77 recovers more fixed
 498 costs through fixed customer and demand charges while retaining the existing flat
 499 distribution charge.

500 **Q. Why was the Minimum Monthly Charge for Rates 7 and 77 increased?**

501 A. The Minimum Monthly Charge for Rate 7 was increased from \$7,800 to \$9,300 per
 502 month and for Rate 77 was increased from \$8,100 to \$9,500 per month. The purpose of
 503 the Minimum Monthly Charge is to maintain the current customer distribution by rate
 504 class to ensure effective recovery of the base rate revenue requirement approved in this
 505 case. Although there are no customers currently served under Rate 7, the Rates 7 and 77
 506 Minimum Monthly Charges should be increased to maintain the current distinction
 507 between Rates 6 and 76 and Rates 7 and 77 based upon energy load profile.

508 **XI. PROPOSED TRANSPORTATION CHARGES**

509 **Q. What changes are proposed for the Company's Transportation Charges?**

510 A. The Company proposes to update the following charges and factors:

- 511 • Storage Banking Service
- 512 • Individual and Group Administration Charges
- 513 • Recording Device Charges
- 514 • Group Change Fees
- 515 • Transportation Service Credit ("TSC")
- 516 • Storage Withdrawal Factor ("SWF")
- 517 • Gas Supply Cost/Demand Gas Cost

518 **Q. Other than reflecting its changed cost of service as you have testified, does Nicor**
519 **Gas propose any revisions to its standard end-user transportation tariffs, i.e., Rates**
520 **74, 75, 76 and 77?**

521 A. Yes. The Company proposes updating the SBS charge to reflect current cost of service.
522 The Company also proposes changing the method of calculating a customer's Maximum
523 Daily Nomination ("MDN") and revising the daily nomination limit for the months of
524 March and April. Revisions relating to MDNs are discussed further in, and supported by,
525 the testimony of Mr. Bartlett. (Nicor Gas Ex. 4.0).

526 **Q. How was the SBS charge developed?**

527 A. Customers on transportation service rates, which purchase gas supplies from third parties,
528 are allowed to select a level of SBS capacity, within limits, and pay a separate charge for
529 that capacity. The proposed SBS charge was established using the ECOSS. To
530 determine the SBS charge, the ECOSS was consulted, which shows the total storage
531 revenue requirement of \$83,186,000, excluding the cycled "top" storage inventory and
532 the corresponding gas storage losses (or lost and unaccounted for gas) within the storage
533 field operations. (Nicor Gas Ex. 15.1, Sch. E, p. 1, ln. 17). The \$83,186,000 storage
534 revenue requirement was then divided by 1,346,330,000 therms, which is the amount of
535 top gas inventory the Company expects to cycle from storage. This calculation resulted
536 in an annual revenue requirement of storage capacity of 6.18 cents per therm, or .51 cents
537 per therm per month. The SBS charge is appropriately based upon the amount of storage
538 the Company expects to cycle because transportation customers are entitled to cycle their
539 entire storage capacity and Nicor Gas prefers them to do so.

540 **Q. Why should the value of the top storage inventory be excluded from the SBS**
541 **charge?**

542 A. Top storage inventory (or working gas) is the volume of natural gas in the reservoir that
543 is available to the marketplace for cycling and is above the level of “base” gas. Base gas
544 is the volume of gas utilized as permanent inventory to maintain adequate pressure and
545 deliverability rates throughout the withdrawal season. Top storage inventory and the
546 associated gas storage losses should properly be excluded from the cost calculation as
547 transportation customers provide their own top gas inventory.

548 **Q. What level of system balancing charges should small volume transportation**
549 **customers (Customer Select customers) be assessed in light of the benefits those**
550 **customers receive from Nicor Gas’ upstream capacity?**

551 A. Customer Select customers should be allocated the same pro-rata share of Nicor Gas’
552 upstream capacity charges as those customers purchasing directly from the Company
553 (Sales customers). Nicor Gas uses its upstream capacity daily to balance the aggregate
554 supply and demand for both its Sales and Customer Select customers. Because Customer
555 Select customers are not required to have daily meter reading devices, the daily balancing
556 service alleviates the need for Customer Select suppliers to exactly match their supply to
557 customers’ demand.

558 **Q. How are Customer Select Balancing Charges (“CSBC”) currently allocated as**
559 **compared to Customer Select and Sales customers?**

560 A. Customer Select customers currently receive the same per therm allocation of purchased
561 interstate pipeline balancing service costs as the Sales customers. Pursuant to Rider 15 –

562 Customer Select, Customer Select customers pay the CSBC charge per therm (currently
563 about \$.02 per therm) each month, which is included in the "Customer Select Charge"
564 line item on their bills. Sales customers pay the same cost per therm each month, which
565 is included in Nicor Gas' Rider 6 – Gas Supply Cost.

566 **Q. Are there further changes to end-user transportation charges?**

567 A. Yes. Nicor Gas proposes to update the individual and group Administrative Charges,
568 Recording Device Charges and Group Change fees.

569 **Q. Please describe the proposed update of the individual and group Administrative**
570 **Charges in Rates 74 and 75.**

571 A. Currently, individual accounts pay a \$25.00 per account Administrative Charge. Group
572 accounts are charged \$7.00 per month per account, with a minimum group charge of
573 \$32.00. The Company proposes a \$23.00 per account per month charge for individual
574 accounts. The proposed group account charge is \$10.00 per month per account, with a
575 minimum charge of \$33.00

576 **Q. Please describe the rationale for Nicor Gas' proposed update of the individual and**
577 **group Administrative Charges.**

578 A. An increase in the numbers of individual transportation customers relative to the cost of
579 serving them resulted in a \$2.00 per month decrease in their monthly administrative
580 charges. Additionally, increased costs to provide administrative services on a per account
581 basis contributed to the \$3.00 per month increase for group accounts. The minimum
582 charge for a group was correspondingly raised to \$33.00, which represents the sum of the
583 individual and group monthly account charges.

584 **Q. Please describe the proposed update of the Recording Device Charges for Rates 74**
585 **and 75.**

586 A. Currently, the monthly Recording Device Charge is \$5.00 per month for diaphragm
587 meters and \$12.00 per month for all other meter types. The diaphragm meter charge
588 should be increased to \$10.00 per month and the charge for all-other meter types should
589 be increased to \$17.00 per month.

590 **Q. Please describe the rationale for Nicor Gas' proposed update of the Recording**
591 **Device Charges.**

592 A. The expenses associated with Recording Device Charges have increased relative to a
593 decreasing number of diaphragm metered transportation customers. The costs to serve
594 non-diaphragm metered customers continues to increase.

595 **Q. Are there any riders in which the transportation Administrative Charges and**
596 **Recording Device Charges also appear?**

597 A. Yes. These charges appear in Nicor Gas' Rider 25 – Firm Transportation Service.
598 Rider 25 must be updated to reflect the changes to Administrative Charges and Recording
599 Device Charges.

600 **Q. Are there any other charges included in Nicor Gas tariffs that should be updated?**

601 A. Yes. The Group Change Fee applicable when transportation customers change the
602 accounts included in a group should be increased from \$15.00 to \$25.00. This charge is
603 authorized by the Company's Terms and Conditions at Sheet No. 52. Also, the Group
604 Charge under Rider 13 should be increased from \$35.00 to \$95.00 per month.

605 **Q. Please describe the rationale for Nicor Gas' proposed update of the Group Change**
606 **Fee.**

607 A. The Group Change Fee has been updated to reflect the cost per unit of processing group
608 changes.

609 **Q. Please describe the rationale for Nicor Gas' proposed update of the Group Charge**
610 **under Rider 13.**

611 A. The number of accounts allowed in a Rider 13 group was increased from 50 accounts to
612 150 accounts in the 2004 Rate Case. As a result, the number of Rider 13 groups has
613 fallen from 242 groups to 96, although the average number of accounts within the groups
614 has grown. Therefore, the monthly charge per group should be updated to effectively
615 recover the cost.

616 **Q. Is Nicor Gas proposing a change to the TSC?**

617 A. Yes.

618 **Q. What is the TSC?**

619 A. The TSC, which applies to customers served under Riders 15 and 25, is comprised of a
620 credit for the Company's cost associated with bad debt ("Uncollectible Expense") of
621 \$.0058 per therm and a storage withdrawal adjustment credit of \$.0044 per therm for a
622 total of 1.02 cents per therm.

623 **Q. Should the TSC be updated within Riders 15 and 25 at this time?**

624 A. Yes. The TSC should be updated to reflect a credit for the Company's Uncollectible
625 Expense of \$.0127 and a storage withdrawal adjustment credit of \$.0062 per therm for a

626 total of \$.0189 per therm. Rider 15 – Sheet No. 75.1 and Rider 25 – Sheet No. 77 have
627 been updated to reflect the new TSC component credits.

628 **Q. Should the TSC applicable to Rate 6 customers within Rider 25 also be updated at**
629 **this time?**

630 A. Yes. Rate 6 customers taking service under Rider 25 currently receive a TSC of \$.0008
631 per therm. The Rate 6 TSC for the storage withdrawal adjustment has been updated to
632 \$.0015 per therm on Rider 25 – Sheet No. 77.

633 **Q. You indicated above that Nicor Gas is proposing to update SWF. What is a SWF?**

634 A. Customers that annually subscribe to Nicor Gas' SBS are required to fill their SBS
635 capacity to a minimum of 90% by November 1st of each year. Customers receive a
636 SWF, expressed as a numerical value not to exceed 1.0, which measures the extent to
637 which they have been successful in filling their storage to at least 90%. For example, a
638 SWF of 1.0 would indicate that the customer met their 90% storage fill target. The SWF
639 serves to reduce customers' storage withdrawal rights on any Critical Day or Operational
640 Flow Order ("OFO") Shortage Day.

641 **Q. Mathematically, how does the SWF reduce daily storage withdrawal rights?**

642 A. On a Critical Day or an OFO Shortage Day, withdrawals from storage are currently
643 limited to the product of the SWF multiplied by .017, which is then multiplied by SBS
644 capacity.

645 **Q. Should the .017 factor referenced above be updated?**

646 A. Yes. The .017 factor represents the daily proportion (1.7%) of peak day deliverability to
647 cycled storage capacity from the 2004 Rate Case. This factor should be updated to .018

648 (1.8%) based on 2009 test year data. The update to this factor is reflected in Rate 74 –
649 Sheet No. 21, Rate 75 – Sheet No. 21.6, Rate 76 – Sheet No. 24, Rate 77 – Sheet No. 27,
650 Terms and Conditions – Sheet Nos. 48 and 50, and Rider 13 – Sheet No. 72.

651 **Q. Does the .018 factor have any implications for Company-supplied Gas Supply cost**
652 **charges under Rates 6 and 7 or Rider 25?**

653 A. Yes. The first component in the Gas Supply cost charge under these tariffs should be
654 updated from .53 to .50 times the customer's MDCQ multiplied by the Demand Gas. The
655 .50 or 50% represents the appropriate portion of peak day pipeline demand given that 50%
656 can flow from storage on a critical day (.018 X 28 days storage = 50%). This figure has
657 been updated in Rate 6 – Sheet No. 12, Rate 7 – Sheet No. 13, and Rider 25 – Sheet No. 76.

658 **XII. PROPOSED CHANGES TO EXISTING RIDERS**

659 **Q. Does Nicor Gas propose any changes to its existing riders?**

660 A. Yes. Nicor Gas proposes to modify its existing Rider 2 – Franchise Cost Adjustment to
661 provide for annual updates to charges based upon the actual costs incurred. Further, the
662 Company proposes to modify its existing Rider 8 – Adjustments for Municipal and State
663 Utility Taxes to include taxes by other local governmental units. Finally, the Company
664 proposes to update two factors within its existing Rider 5 – Storage Service Cost
665 Recovery based on the results of the ECOSS.

666 **Q. Does any other Illinois public utility utilize a similar Franchise Cost recovery**
667 **mechanism?**

668 A. Yes. The Company's proposal is similar to Commonwealth Edison's ("ComEd") Rider
669 FCA – Franchise Cost Additions in the following respect: ComEd's Rider FCA uses the

670 dollar value of the electric service or other items provided without charge to the
671 municipality during the previous calendar year as published in their Form 21 ILCC
672 Annual Report to Commission.

673 **Q. Please describe the purpose of Rider 2.**

674 A. The purpose of Rider 2 is to recover the cost of reduced rate service or other monetary
675 contributions provided to local governmental units under a franchise or other similar
676 agreement with the Company. Accordingly, Rider 2 addresses only those customers
677 residing within the boundaries of each local governmental unit receiving such
678 compensation. These expenses are reflected in Account 927.

679 **Q. Why does Nicor Gas incur franchise expenses?**

680 A. Franchise and other similar agreements grant the Company the privilege of using local
681 governmental units' public rights-of-way for the delivery of gas within those
682 communities. The Company, in turn, compensates such local governmental units for
683 allowing access to the public rights-of-way.

684 **Q. As currently designed, is Rider 2 an effective cost recovery mechanism?**

685 A. No. Rider 2 requires prospective modification. Presently, Rider 2 directs costs to the
686 appropriate customers; however, it is not effective in fully recovering the actual franchise
687 costs. For example, in the 2004 Rate Case, the Commission approved recovery of \$7.9
688 million per year under Rider 2 beginning January 1, 2007 (Docket No. 04-0779, p. 188)
689 and Nicor Gas recovered \$7,938,000 in revenue under Rider 2 in 2007. However, actual
690 franchise costs totaled \$9,313,000 in 2007, which represents a 17.3% under-recovery of
691 costs totaling \$1,375,000. Without annual adjustments to the Rider 2 charges, the current

692 cost recovery mechanism can be significantly out of balance from year to year. Such an
693 imbalance means that ratepayers will either pay too much or too little relative to the
694 actual costs of the franchise services.

695 **Q. How does Nicor Gas propose to improve Rider 2?**

696 A. Nicor Gas proposes an adjustment in April of each year based on the actual costs of
697 providing reduced rate service or other monetary contribution to the local governmental
698 units during the previous calendar year. Furthermore, Nicor Gas proposes to continue to
699 recover its costs under Rider 2 on a per customer per month basis. Nicor Gas proposes to
700 file an information sheet with the Commission on or before April 20th of each year
701 specifying the applicable franchise cost adjustment charges to be effective during the
702 subsequent twelve months. Nicor Gas would continue to bill the Rider 2 charges
703 established in the 2004 Rate Case until such time as the new rider information sheet
704 could be filed with the Commission. A copy of the Company's proposed Rider 2 is
705 included as Sheet No. 55.51 in Nicor Gas Exhibit 14.1.

706 **Q. How does the Company propose to modify Rider 8 to include taxes by other local**
707 **governmental units?**

708 A. The Company proposes to modify Rider 8 to provide for collection of utility taxes
709 assessed by any unit of local government. Presently, Rider 8 provides for collection of
710 utility taxes imposed by municipalities but would not provide for collection of utility
711 taxes imposed by any county, township, special district or other non-municipal unit of
712 local government.

713 **Q. Why does the Company believe that including all local governmental units is**
714 **necessary at this time?**

715 A. In 2007, Cook County proposed a gross receipts tax on natural gas service; however, in
716 its current form, Rider 8 only allows for collection for Municipal and State Utility Taxes.
717 Therefore, the Company believes these changes are necessary to accommodate potential
718 future taxes of this nature.

719 **Q. Are there any other changes proposed within Rider 8?**

720 A. Yes. The Company also proposes to clarify its authority to collect payments resulting
721 from audit adjustments imposed by Municipalities, Local Governmental Units or the
722 State to offset the effect of any taxes remitted as a result of audit adjustments.

723 **Q. How should Rider 5 be updated to reflect the new ECOSS results?**

724 A. Rider 5 has two factors in its calculation based on the cost of service for storage:
725 (1) capacity cost of storage service, and (2) carrying cost of storage inventory. These
726 factors have been updated based on the new ECOSS results. The factor representing the
727 capacity cost of storage service has been increased from \$0.0351 to \$0.0618 per therm of
728 storage capacity. The factor representing the carrying cost of storage inventory has been
729 increased from \$0.0086 to \$0.0092 per therm of storage capacity.

730 **XIII. PROPOSED NEW RIDERS**

731 **Q. Does Nicor Gas propose any new riders?**

732 A. Yes. Nicor Gas proposes five new riders:

- 733 • Rider 26, Uncollectible Expense Adjustment ("Rider UEA");
734 • Rider 27, Company Use Adjustment ("Rider CUA");

- 735 • Rider 28, Volume Balancing Adjustment (“Rider VBA”);
736 • Rider 29, Energy Efficiency Plan (“Rider EEP”); and
737 • Rider 30, Qualifying Infrastructure Plant (“Rider QIP”).

738 Mr. O’Connor discusses the rationale for each rider. (Nicor Gas Ex. 12.0). Nicor Gas
739 witness Kristine J. Nichols discusses the Company’s proposed process to implement
740 Rider EEP. (Nicor Gas Ex. 13.0). For each of the new riders, I present the formulas, the
741 proposed billing mechanisms and associated definitions, as well as a description of the
742 reports that the Company proposes to file with the Commission.

743 **A. RIDER 26 – UNCOLLECTIBLE EXPENSE ADJUSTMENT**

744 **Q. What is the purpose of Rider UEA?**

745 A. The purpose of Rider UEA is (1) to recover the amount by which the Company’s actual
746 annual Uncollectible Expense in a calendar year exceeds 105% of the Uncollectible
747 Expense as determined by the Commission in the Company’s most recent rate case, or
748 (2) to refund the amount by which 95% of the Uncollectible Expense exceeds the
749 Company’s actual Uncollectible Expense in such calendar year. Rider UEA shall be
750 applicable to Rates 1, 4, 5, 74 and 75 and Riders 15 and 25.

751 **Q. Please explain how the Company’s proposed Rider UEA will operate.**

752 A. The Company is proposing to either recover from customers or credit to customers
753 amounts that fall outside of the 95% to 105% range specified in Rider UEA. If actual
754 Uncollectible Expense in the preceding year is less than 95% of the amount established in
755 Account 904, Uncollectible Accounts, in the Company’s most recent rate case, then the
756 Company would refund the difference to customers on a cents per therm basis during
757 April through December. Conversely, if actual Uncollectible Expense in the preceding

758 year is more than 105% of the amount established in the Company's most recent rate
759 case, then the Company would recover the difference from customers on a cents per
760 therm basis during April through December.

761 **Q. Please describe test year expenses related to Rider UEA.**

762 A. As discussed in Mr. O'Connor's testimony, the Company forecasts \$71.5 million of
763 Uncollectible Expense for the 2009 test year at proposed rates. (Nicor Gas Ex. 12.0).
764 Under to Rider UEA, customers would receive per therm charges if actual Uncollectible
765 Expense exceeds approximately \$75.1 million and per therm credits if actual
766 Uncollectible Expense falls below \$67.9 million in the preceding year.

767 **Q. How would the applicable per therm charge or credit be determined?**

768 A. Two separate, but similar, formulas would be used to determine the appropriate Rider
769 UEA adjustment: (1) the Sales Uncollectible Expense Adjustment ("SUEA") for Sales
770 customers served under Rates 1, 4 and 5; and (2) the Transportation Uncollectible
771 Expense Adjustment ("TUEA") for Transportation customers served under Rates 74 and
772 75, and Riders 15 and 25.

773 **Q. Why should Sales and Transportation customers receive different adjustments?**

774 A. Transportation customers currently receive a per therm credit within the TSC for the
775 commodity portion of bad debt, which already removes this cost from their base rates.
776 Therefore, under Rider UEA, Transportation customers only should receive credits or
777 charges associated with differences in the non-commodity portion of actual Uncollectible
778 Expense, as compared to rate case test year Uncollectible Expense amounts. Specifically,
779 Transportation customers would receive a Rider UEA credit based on the non-commodity

780 portion of Uncollectible Expense, which the Company proposes to establish at 31% in
781 this proceeding.

782 **Q. How would the TUEA be determined?**

783 A. Transportation customers would receive credits or refunds through the TUEA formula,
784 which has two key components:

785 First, Transportation customers would receive either (1) a per therm charge for
786 31% of the amount of Uncollectible Expense that is in excess of 105% of the amount
787 established in the Company's most recent rate case to reflect the non-commodity portion
788 of Uncollectible Expense, or (2) they would receive a per therm credit for 31% of the
789 amount by which actual Uncollectible Expense falls below 95% of the amount
790 established in the Company's most recent rate case to reflect the non-commodity
791 Uncollectible Expense reductions. This charge or credit is established based on all
792 forecasted therms to both Sales and Transportation customers over the April through
793 December effective period set forth in the rider ("Effective Period"), because all
794 customers share equally in the incremental non-commodity Uncollectible Expense or
795 credit on a per therm basis.

796 Second, an annual reconciliation adjustment ("ARA") is included in the TUEA
797 formula to adjust for any differences in the amounts billed during the prior Effective
798 Period and the TUEA Intended Amount, as defined in Rider UEA. The ARA
799 reconciliation component also includes the non-commodity related uncollectible
800 adjustment that is recovered as a portion of Sales customers' SUEA charges or credits.

801 **Q. How would the SUEA be determined?**

802 A. Sales customers purchase their natural gas supplies directly from Nicor Gas. Therefore,
803 they should share in both the commodity (69%) and non-commodity (31%) portions of
804 Uncollectible Expense or credit. The SUEA is composed of three key components.

805 First, Sales customers would receive (1) a per therm charge for 69% of the
806 amount of Uncollectible Expense that is in excess of 105% of the amount established in
807 the Company's most recent rate case to reflect their allocation of 100% of the
808 commodity-related Uncollectible Expense, or (2) they would receive a per therm credit
809 for 69% of the amount by which actual Uncollectible Expense falls below 95% of the
810 amount established in the Company's most recent rate case to reflect their allocation of
811 100% of the commodity-related Uncollectible Expense reductions. This charge or credit
812 is established based only on the forecasted therms to Sales customers over the April
813 through December.

814 Second, the TUEA is added to the SUEA to include the Sales customers'
815 allocation of non-commodity related Uncollectible Expense. Sales and Transportation
816 customers share equally in these charges or credits on a per therm basis because both
817 classes of customers will drive non-commodity related Uncollectible Expense or credit.

818 Third, an annual reconciliation component ("SARA") is included in the SUEA
819 formula to adjust for any differences in the amounts billed during the prior Effective
820 Period and the SUEA Intended Amount, as defined in Rider UEA. The SARA
821 reconciliation component does not include the TUEA because that component is
822 reconciled separately within the ARA.

823 **Q. Will Nicor Gas prepare an annual reconciliation for Rider UEA?**

824 A. Yes. An annual reconciliation will be conducted by the Company comparing the actual
825 dollar amount of the SUEA and TUEA charged or credited for the previous year and the
826 amount intended to be charged or credited under the SUEA Intended Amount and TUEA
827 Intended Amount, respectively. Any difference between these respective amounts will be
828 adjusted for interest at the rate established by the Commission under 83 Ill. Adm. Code §
829 280.70(e)(1) from the end of the Effective Period to the beginning of the following
830 Effective Period. The resulting reconciliation factors, SARA and ARA, will be included
831 in the SUEA and TUEA rates, filed by March 20th of each year, when Uncollectible
832 Expense falls outside of the specified 95% to 105% range. If actual Uncollectible
833 Expense is within plus or minus 5% of the amount established in Account 904,
834 Uncollectible Accounts, as approved by the Commission in the Company's most recent
835 rate case, then only applicable over or under-collections under SARA and ARA will be
836 credited or charged to customers, as outlined in Section (b)(i) on Sheet No. 79.1. (Nicor
837 Gas Ex. 14.1).

838 **B. RIDER 27 – COMPANY USE ADJUSTMENT**

839 **Q. What is the purpose of Rider CUA?**

840 A. The purpose of Rider CUA is to recover or refund the difference between the actual cost
841 incurred by the Company in a calendar year to purchase a specified quantity of gas for
842 certain operational uses ("Company Use") and the cost included in computation of the
843 Company's base rates in its most recent rate case for the purchase of gas for those
844 operational uses. Rider CUA only will charge for natural gas price differences between
845 rate case test year prices and the actual future costs (price per therm) incurred; it will not
846 charge for cost differences associated with changes in the volumes of natural gas

847 consumed for Company Use. Furthermore, if Rider CUA results in a charge, it will not
848 recover more than the Company's actual annual cost of Company Use gas during the
849 preceding year. Therefore, Rider CUA only will adjust for the unpredictable and volatile
850 cost of Company Use gas, which is described in more detail in the testimonies of
851 Mr. O'Connor (Nicor Gas Ex. 12.0) and Mr. Bartlett (Nicor Gas Ex. 4.0). Rider CUA
852 would apply to all rate classifications except Rates 17, 19 and 21.

853 **Q. What has prompted the need for Rider CUA?**

854 A. Due to an accounting change in the 2004 Rate Case, a significant portion of this cost (for
855 gas storage losses) was removed from the Company's gas supply cost recovery rider
856 (Rider 6) and placed into base rates. This change significantly increased the Company's
857 exposure to gas price volatility because it removed the Company's effective monthly
858 recovery of the cost under Rider 6. This cost is now recovered at the 2004 Rate Case test
859 year cost level. As explained by Mr. O'Connor, this cost is directly related to the volatile
860 and uncertain price of natural gas. (Nicor Gas Ex. 12.0).

861 **Q. Please explain how the Company's proposed Rider CUA will operate.**

862 A. The Company is proposing to recover or refund an appropriate amount per therm, during
863 April through December, to applicable service classifications based on (1) the prior
864 year's actual average cost per therm of Company Use gas, (2) the rate case level of
865 Company Use therms, and (3) the cost of Company Use gas included in Nicor Gas' most
866 recent rate case.

867 **Q. What are the components of Company Use gas?**

868 A. Company Use gas cost is comprised of three major components:

- 869 (1) Gas storage losses, for Sales customers, represents the normal lost and
 870 unaccounted for gas expense associated with operation of the Company's storage
 871 fields. This portion represents approximately 57% of the total 2009 test year
 872 Company Use volume or approximately \$15.2 million in costs.
- 873 (2) Compressor fuel, on behalf of all customers, is used in natural gas compressors
 874 that inject and withdraw gas from the Company's storage fields. This portion
 875 represents approximately 37% of the total 2009 test year Company Use volume,
 876 or approximately \$9.9 million in costs.
- 877 (3) Company facility use gas is used for applications such as space heating and water
 878 heating at Company facilities. This portion represents approximately 6% of the
 879 total 2009 test year Company Use volume, or approximately \$1.7 million in costs.

880 **Q How would the applicable per therm charge or credit be determined?**

881 A. Two separate, but similar, formulas would be used to determine the appropriate
 882 adjustment for (1) Sales customers on Rates 1, 4, 5, 6 and 7, and (2) Transportation
 883 customers on Rates 74, 75, 76 and 77, and Riders 15 and 25. Sales customers would
 884 receive credits or charges through the Sales Company Use Adjustment ("SCUA") and
 885 Transportation customers would receive credits or charges through the Transportation
 886 Company Use Adjustment ("TCUA").

887 **Q. Why should Transportation customers and Sales customers receive different**
 888 **Company Use Adjustment credits or debits?**

889 A. Transportation customers pay their share of gas storage losses in-kind through a lost and
 890 unaccounted for adjustment (reduction) to their third-party gas deliveries. Transportation
 891 customers currently receive a per therm credit within the TSC to remove the Sales
 892 customer portion gas storage losses from their base rates. Therefore, under the
 893 Company's Rider CUA proposal, Transportation customers should receive credits or
 894 charges for price variances relative to rate case test year levels only for compressor fuel

895 and general building use. Sales customers should receive credits or charges for price
896 variances relative to rate case test year levels for all three components of Company Use.

897 **Q. How would the Sales customer Company Use Adjustment be determined?**

898 A. Sales customers would be credited or refunded through the SCUA formula, which has
899 three key components.

900 First, the gas cost price difference for the Sales customer portion of gas storage
901 losses is determined. This portion is calculated as the difference between Nicor Gas'
902 prior-year actual average cost per therm of Company Use gas times the lesser of: (a) the
903 actual Company Use volumes used in computing the Sales customer portion of gas
904 storage losses within Account 823, or (b) the rate case test year volumes used in
905 computing the Sales customer portion of gas storage losses. The result of the
906 computation is reflected as the RCTSCT component of the SCUA formula on Sheet
907 No. 80.1. Next, the rate case cost for gas storage losses is subtracted from this amount.
908 Any cost differential is converted to cents per therm and then credited or charged to Sales
909 customers.

910 Second, Sales customers also would be credited or charged with any gas cost
911 price differences associated with compressor fuel use and power (Account 819) and
912 Company facility use (Account 932) at the same rate as Transportation customers
913 because these costs apply to all customers. Therefore, the TCUA term on Sheet No. 80.1
914 is added to the SCUA charge.

915 Third, a Sales customer annual reconciliation adjustment is included in the SCUA
916 formula to adjust for any differences in the amounts billed during the prior Effective
917 Period and the SCUA Intended Amount, as those terms are defined in Rider CUA. The

918 annual reconciliation component does not include the TCUA portion because that is
919 reconciled separately within the TCUA formula, which will be discussed next.

920 **Q. How would the Transportation customer Company Use Adjustment be determined?**

921 A. Transportation customers would be credited or refunded through the TCUA formula
922 which has two key components.

923 First, the gas cost price difference for compressor fuel and Company facility use
924 is determined. This portion is calculated as the difference between Nicor Gas' prior-year
925 actual average cost per therm of Company Use gas times the lesser of: (a) the actual
926 Company Use volumes for those applications, or (b) the rate case test year volumes. The
927 result of the computation is reflected as the RCCUT component in the TCUA formula.
928 Next, the rate case test year cost of Company Use for compressor fuel and Company
929 facility use is subtracted from this amount. Any cost differential is converted to cents per
930 therm and then credited or charged to Transportation customers.

931 Second, an annual reconciliation adjustment is included in the TCUA formula to
932 adjust for any differences in the amounts billed during the prior Effective Period and the
933 TCUA Intended Amount, as those terms are defined in Rider CUA. The annual
934 reconciliation component also includes that portion of the TCUA that is charged or
935 credited to Sales customers for compressor fuel and Company facility use.

936 **Q. Will Nicor Gas prepare an annual reconciliation for Rider CUA?**

937 A. Yes. An annual reconciliation will be conducted by the Company comparing the actual
938 dollar amount of the SCUA and TCUA, charged or credited, for the previous year and the
939 amount intended to be charged or credited under the SCUA Intended Amount and TCUA

940 Intended Amount, respectively. Any difference between these respective amounts will be
941 adjusted for interest at the rate established by the Commission under 83 Ill. Adm. Code
942 § 280.70(e)(1) from the end of such Effective Period to the beginning of the following
943 Effective Period. The resulting reconciliation factors will be included in the SCUA and
944 TCUA rates, filed by March 20th of each year, and effective April 1st through December
945 30th of the following year.

946 **C. RIDER 28 – VOLUME BALANCING ADJUSTMENT**

947 **Q. What is the purpose of Rider VBA?**

948 A. The purpose of Rider VBA is to adjust the collection of volumetric base rate revenues, on
949 a monthly basis, to match the level of volumetric base rate revenues per customer that are
950 approved in this proceeding. The adjustment ensures that Nicor Gas recovers no more
951 and no less than the approved volumetric base rate revenue per customer necessary to
952 recover the Commission approved volumetric distribution revenues that are contained in
953 the distribution charges for Rates 1, 4, and 74. Fundamentally, Rider VBA adjusts future
954 revenues to match the normal customer usage and rate case revenue assumptions
955 established for the test year and weather. The Company proposes to implement Rider
956 VBA on a pilot basis for a four-year period.

957 **Q. Has the Commission previously approved a similar volume balancing adjustment?**

958 A. Yes. In The Peoples Gas Light & Coke Company and North Shore Gas Company recent
959 rate cases, consolidated Docket Nos. 07-0241 and 07-0242 (“Peoples Gas Rate Case”),
960 the Commission approved a volume balancing adjustment.

961 **Q. Please explain how the Company’s proposed Rider VBA will operate.**

962 A. The Company's proposed Rider VBA will be applicable to its Rates 1, 4 and 74 and will
963 be computed and applied to customer bills on a monthly basis. The adjustment will be
964 computed using actual and rate case data from the second month prior to the effective
965 month of the adjustment. For example, the Rider VBA amount computed based on
966 October results will be applied to customer bills rendered in December. A baseline
967 distribution margin per customer by month, and average number of customers by month
968 for each applicable rate class, will be established in the Company's current rate case and
969 will be adjusted as necessary in future rate cases. A separate adjustment will be
970 computed for each service classification.

971 The adjustment will be determined each month by taking the difference between
972 the rate case baseline distribution margin per customer and the actual distribution margin
973 per customer in the second month prior to the effective month of the adjustment. The
974 difference will be multiplied by the percentage of fixed costs that are contained in the
975 volumetric distribution charges as approved in this proceeding and by the rate case
976 number of customers and divided by the number of therms estimated for the effective
977 month of the adjustment, yielding the monthly per therm adjustment. Any difference
978 between actual billed revenues arising from distribution charges plus the adjustment and
979 approved distribution margin under the rider will be reconciled on an annual basis and
980 amortized over a nine-month period beginning in April, with any resulting positive or
981 negative adjustment added to customer bills during that period.

982 **Q. Please describe the baseline distribution margin per customer and how it is to be**
983 **determined.**

984 A. The baseline distribution margin per customer is the Rate Case Margin (“RCM”) divided
985 by the Rate Case Customers (“RCC”) in Rider VBA. The RCM is the dollar amount of
986 distribution charge revenues approved by the Commission for each applicable service
987 classification. The RCC is the number of customers that underlie the rates approved by
988 the Commission for each applicable service classification. Taken together, RCM divided
989 by RCC is the average volumetric distribution charge revenue per customer for the
990 baseline or test year period.

991 **Q. Please describe the actual distribution margin per customer.**

992 A. The actual distribution margin per customer is the Actual Margin (“AM”) divided by the
993 Actual Customers (“AC”) in Rider VBA. The AM is the actual volumetric distribution
994 charge revenues billed for all applicable Rider VBA service classifications. The AC is
995 the actual number of customers billed the AM described above. Taken together, AM
996 divided by AC is the actual average volumetric distribution charge revenue billed per
997 customer.

998 **Q. Please describe the difference between the rate case baseline distribution margin per**
999 **customer and the actual distribution margin per customer.**

1000 A. The difference between the rate case baseline distribution margin per customer and the
1001 actual distribution margin per customer represents the shortfall or excess distribution
1002 revenue per customer collected after the rate case for the applicable service
1003 classifications. This excess or shortfall would be refunded or collected from customers
1004 through Rider VBA on a per therm basis. For example, if weather were warmer than
1005 normal or customer conservation levels were significant, then the actual distribution
1006 margin per customer would likely be lower than the approved rate case baseline

1007 distribution margin per customer. Conversely, if weather were colder than normal or
1008 customers were not conserving natural gas, then the actual distribution margin per
1009 customer would likely be higher than the approved rate case baseline distribution margin
1010 per customer. These two situations would result in Rider VBA charges, or credits,
1011 respectively.

1012 **Q. How are customer additions and losses handled within Rider VBA?**

1013 A. The baseline number of customers is held constant at 2009 test year levels. Nicor Gas
1014 would either gain its actual ("non-VBA") average distribution margin per customer for
1015 customer additions or lose its actual ("non-VBA") average distribution margin per
1016 customer for customer losses.

1017 **Q. Will Nicor Gas periodically provide reports and reconciliations to the Commission**
1018 **for Rider VBA?**

1019 A. Yes. The Company will file an information sheet with the Commission before the
1020 twentieth day of each month specifying the adjustments to be effective under Rider VBA
1021 for the effective month. Also, the Company will file an annual Reconciliation
1022 Adjustment statement with the Commission, no later than March 31.

1023 **Q. Will Rider VBA collect any amount other than the Commission approved**
1024 **proportion of Nicor Gas' volumetric base rate distribution margin for Rates 1, 4**
1025 **and 74?**

1026 A. No. The first term in Reconciliation Adjustment factor is the approved test year RCM for
1027 the applicable service classifications. The purpose of the annual reconciliation is to

1028 refund or credit customers such that only the Commission approved proportion of the
1029 volumetric distribution base rates is ultimately collected.

1030 **D. RIDER 29 – ENERGY EFFICIENCY PLAN**

1031 **Q. What is the function of Rider EEP?**

1032 A. The function of Rider EEP is to compute, on an annual basis, a monthly charge per
1033 customer for applicable service classifications so that the Company may recover the
1034 incremental expenses from the development and implementation of the Company's
1035 Energy Efficiency Plan ("Plan"). The Company proposes to implement Rider EEP on a
1036 pilot basis for a four-year period.

1037 **Q. Has the Commission previously approved an energy efficiency program similar to**
1038 **the Company's Energy Efficiency Plan?**

1039 A. Yes. In the Peoples Gas Rate Case, the Commission approved an energy efficiency
1040 program.

1041 **Q. Please explain how the Company's proposed Rider EEP will operate.**

1042 A. The Company's proposed Rider EEP will be applicable to Rates 1, 4 and 74, which are
1043 the rate classes eligible for the energy conservation and efficiency programs and the same
1044 classes subject to the Company's proposed Rider VBA. The monthly charges under
1045 Rider EEP will be derived from the amount budgeted for the Company's proposed
1046 Energy Efficiency Plan, as approved by the Commission in this proceeding, plus a
1047 "carry-over" amount discussed later.

1048 A per customer per month charge for each applicable service classification will be
1049 calculated each December, to be effective for the next year, based upon the Energy

1050 Efficiency Plan budget for the upcoming year divided by forecasted average numbers of
1051 customers for the same period (the "Effective Component") and converted to a per month
1052 charge. A reconciliation of the previous year will be made each April and amortized over
1053 the eight-month period from May through December. The reconciliation will include a
1054 reconciliation of the previous year's expenses, "carry-over" dollars and revenues arising
1055 from the Effective Component of Rider EEP, as well as a reconciliation of any prior year
1056 reconciliation adjustments. As budget dollars may not be fully expended while the Plan
1057 is building awareness in its initial years, the Company proposes to "carry over" up to
1058 75%, 50% and 25% of budget dollars into the second, third and fourth years of the pilot,
1059 respectively. The Company proposes to carry over up to 10% of budget dollars in year
1060 five and thereafter if the pilot is extended beyond its initial term.

1061 The Company will file with the Commission reports computing the Effective
1062 Component and computing the reconciliation adjustments.

1063 **Q. Has the Company designed Rider EEP to adapt to changes in legislation?**

1064 A. Yes. The Company has considered the impact new energy efficiency legislation may
1065 have on an approved Rider EEP. Legislation has been offered that may lead to a
1066 statewide energy efficiency initiative. Because the Company's customers may possibly
1067 fund energy efficiency programs under a statewide initiative, the Company would not
1068 want to burden its customers with the cost of multiple programs. For this reason, the
1069 Company proposes language in Rider EEP that will allow adjustments to, or elimination
1070 of, the funding of its Plan if and to the extent a statewide initiative comes to fruition.
1071 Ms. Nichols discusses the interaction between Rider EEP and any statewide initiative.
1072 (Nicor Gas Ex. 13.0).

1073 Q. **Are the Rider EEP expenses and charges reflected in the test year?**

1074 A. No. The expenses and revenues associated with Rider EEP are not reflected in the test
1075 year base rate revenue requirement.

1076 Q. **Please explain how the Annual Plan Budget (“APB”) shall be allocated between
1077 service classifications eligible to participate in the programs.**

1078 A. The APB is the total annual budget not to exceed \$13,000,000 or some lesser amount as
1079 approved by the Commission. The APB will be allocated 70% to Rate 1 (Residential
1080 Service) and 30% to the non-residential Rates 4 and 74 service classifications. If the
1081 Commission were to approve a \$13 million APB in this proceeding, then approximately
1082 \$9.1 million shall be allocated to Rate 1 and \$3.9 million to the combined non-residential
1083 service classifications, Rates 4 and 74. If the Commission were to approve a lesser
1084 amount, the Company would still propose allocating the amount 70% to residential
1085 service and 30% to non-residential service classifications.

1086 Q. **If Rider VBA were to go into effect, would the Company’s proposed Rider EEP
1087 require any modifications?**

1088 A. Yes. Rider EEP currently contains a Conservation Stabilization Adjustment (“CSA”) that
1089 provides for the recovery of forgone utility volumetric distribution revenues associated
1090 with the deemed natural gas energy savings outlined in the Plan. The CSA recovery
1091 mechanism should be removed from Rider EEP while Rider VBA is in effect.

1092 E. **RIDER 30 – QUALIFYING INFRASTRUCTURE PLANT**

1093 Q. **What is the purpose of Rider QIP?**

1094 A. The Company's proposed Rider QIP will provide a mechanism to foster accelerated
 1095 infrastructure replacement by allowing the Company to recover a return on, and
 1096 depreciation expense related to, the Company's investment in certain qualifying future
 1097 incremental cast iron main and copper service replacements. A QIP charge percentage
 1098 would be included on customer bills from April 1 through December 31 under all rate
 1099 classifications except Rates 17, 19 and 21.

1100 **Q. Please describe the investments that would be included in Rider QIP.**

- 1101 A. To be eligible for Rider QIP, plant additions must meet the following (7) criteria:
- 1102 (1) Plant additions must be installed to replace cast iron main or copper service lines.
- 1103 (2) Such replacements must be installed after the conclusion of the test year in the
 1104 Company's most recent rate case.
- 1105 (3) Such replacements must not have been included in the calculation of rate base in
 1106 the Company's most recent rate case.
- 1107 (4) The plant additions shall be included in 83 Ill. Adm. Code Part 505 accounts 376,
 1108 Distribution Mains, and 380, Services.
- 1109 (5) Only incremental cast iron main replacements above and beyond the first 15 miles
 1110 of main replacement may be classified as QIP in any calendar year.
- 1111 (6) Only incremental copper service replacements above and beyond the first 3,500
 1112 service replacements may be classified as QIP in any calendar year.
- 1113 (7) The maximum amount of investment that may be classified as QIP in any
 1114 calendar year shall be limited to \$20,000,000.

1115 **Q. Please describe how the Company's proposed Rider QIP would operate.**

1116 A. The Rider QIP percentage would be applied to base rate revenues, excluding revenues
 1117 collected under Riders 2, 6, 7, 8, 12, 26, 27, 28 and 29, for applicable service
 1118 classifications from April through December and be shown as a separate line item on the

1119 customer bills. The Company would file an Information Sheet with the Commission with
1120 the proposed QIP percentage by March 20th of each year for the upcoming April through
1121 December effective period set forth in the rider ("Effective Period").

1122 **Q. How would the QIP percentage be determined?**

1123 A. A single QIP percentage would be determined each year based on the proportion of the
1124 prior year's QIP, less accumulated depreciation, times a pre-tax return plus depreciation
1125 less operational savings divided by the forecasted QIP base rate revenues during April
1126 through December of the Effective Period. Applicable monthly base rate revenues would
1127 be multiplied by the QIP percentage and that amount would be added as a separate line
1128 item on customer bills. A reconciliation of the prior year's actual billed QIP charges with
1129 the costs that were intended to be recovered during the Effective Period will be
1130 conducted. Any reconciliation adjustments, including carrying costs at the rate
1131 established by the Commission under 83 Ill. Adm. Code § 297.70(e)(1), will be included
1132 in the QIP percentage.

1133 **Q. If the Commission were to approve Rider QIP, when would the first charge be**
1134 **applied to customer bills?**

1135 A. The first charge would be applied to customer bills in April of 2011, based on eligible
1136 investments made during 2010. Since accelerated investments in cast iron main and
1137 copper services line replacements are also included in the 2009 test year, only the
1138 incremental investments made in 2010 would be included in the first charge.

1139 **XIV. TERMS AND CONDITIONS**

1140 **Q. Does Nicor Gas propose any changes to charges and fees as stated in its Terms and**
 1141 **Conditions on file with the Commission?**

1142 **A.** Yes. There are several charges that need to be updated to reflect current costs.

1143 • The charge to a customer for damaging its non-steel service pipes, sized 1 1/8
 1144 inch or less, would be increased from \$360.00 to \$410.00.

1145 • The charge for returns of negotiable instruments for non-sufficient funds would
 1146 be increased from \$16.00 to \$25.00.

1147 • The charges per foot for installation of gas service pipe for residential and small
 1148 commercial customers (Meter Class A) exceeding the first 60 feet would be
 1149 increased according to the schedule contained in Sheet No. 41.

1150 • The charge for service reconnection after a discontinuation for non-payment of
 1151 service would increase from \$23.00 to \$42.00. However, as provided for under
 1152 the Commission's rules, a customer disconnected for credit reasons would
 1153 continue to automatically have one reconnection charge waived each year under
 1154 83 Ill. Adm. Code § 280.150. Nicor Gas' service reconnection charge has not
 1155 been increased since 1996 and should be updated to cover current costs.

1156 **Q. Does Nicor Gas propose any other changes to its Terms and Conditions in addition**
 1157 **to those stated above?**

1158 **A.** Yes.

1159 • The Company proposes to eliminate item (g) on Sheet No. 42, which applies to
 1160 buildings of at least four stories and provides that (1) underground service pipe
 1161 will be installed at no charge, and (2) the Company will own, operate and
 1162 maintain vertical gas risers within the building. The program is being eliminated
 1163 due to limited use over the past ten years.

1164 • The Company proposes to eliminate the "bimonthly" billing program described
 1165 on Sheet No. 39 and also discussed in the direct testimony of Nicor Gas witness
 1166 Kevin Kirby. (Nicor Gas Ex. 6.0).

- 1167 • The Company proposes to update Sheet No. 54 – Bill Format to include the
1168 proposed charges for Rate 1 (Residential Service).
- 1169 • The Company proposes to make a variety of “housekeeping” changes on Sheet
1170 Nos. 33, 34, 35.5, 38, 46, 50, 50.1 and 52.5 to further clarify or remove outdated
1171 language.
- 1172 **Q. Does Nicor Gas propose any other changes to its filed tariffs at this time?**
- 1173 **A. Yes.**
- 1174 • The Company proposes to update the Table of Contents (Sheet No. 1.5) to
1175 incorporate its proposed changes in this proceeding.
- 1176 • The Company proposes to update the list of municipalities and unincorporated
1177 contiguous territories to which the schedule of rates applies on Sheet Nos. 2
1178 through 9.
- 1179 • The Company proposes to standardize the language within its non-residential
1180 tariffs to indicate that the initial term shall commence when the Company begins
1181 to supply service, to clarify its telephone line requirements for daily metered
1182 Rates 6 and 7, and to make other miscellaneous “housekeeping” items updates on
1183 Sheet Nos. 11, 11.5, 12, 14, 21, 24 and 28.

1184 **XV. CONCLUSION**

1185 **Q. Does this conclude your direct testimony?**

1186 **A. Yes.**

**SCHEDULE OF RATES
FOR
GAS SERVICE
(ILL.C.C. No. 16)**

THIS SCHEDULE CANCELS THE FOLLOWING SCHEDULE IN ITS ENTIRETY:

Ill.C.C. No. 9, Schedule G (Gas)

Filed with the Illinois Commerce Commission on April 4, 1996
Issued pursuant to Order of the Illinois Commerce Commission
entered April 3, 1996 in Docket No. 95-0219

Effective April 11, 1996
Issued by - Kathleen L. Halloran
Vice President
Post Office Box 190
Aurora, Illinois 60507

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

Ill.C.C. No. 16 - Gas
17th Revised Sheet No. 1
(Canceling 16th Revised Sheet
No. 1, Effective July 11, 2007)

Table Of Contents

	<u>Sheet Number</u>
Table of Contents.....	1 and 1.5
*Municipalities And The Unincorporated Contiguous Territory To Which This Schedule Is Applicable.....	2, 3, 4, 5, 6, 7, 8 and 9
Rate 1 Residential Service.....	10
Rate 4 General Service.....	11
Rate 5 Seasonal Use Service.....	11.5
Rate 6 Large General Service.....	12
Rate 7 Large Volume Service.....	13 and 14
Rate 10 Compressed Natural Gas - Canceled.....	15
Rate 11 Energy Service - Canceled.....	16
Rate 17 Contract Service.....	17
Rate 19 Contract Service for Electric Generation.....	17.2
Rate 21 Intrastate Transportation and Storage Services....	17.51, 17.51.1, 17.52, 17.53, 17.53.1, 17.54 and 17.55
Rate 74 General Transportation Service.....	18, 19, 20 and 21
Rate 75 Seasonal Use Transportation Service.....	21.3, 21.4, 21.5 and 21.6
Rate 76 Large General Transportation Service.....	22, 23, 24 and 24.5
Rate 77 Large Volume Transportation Service.....	25, 26, 27 and 28
Rate 81 Energy Transportation Service - Canceled.....	29, 30, 31 and 32
Terms and Conditions	
General.....	33 and 34
Conditions of Service.....	35, 35.5 and 36
Billing and Maintenance of Credit.....	37, 38, 39 and 39.5
Extension of Distribution System.....	40, 41, 42, 42.1, 42.2 and 43
Limitations of Service.....	44 and 45
Transportation and Storage Provisions.....	46, 47, 48, 49, 50, 50.1, 51, 52, 52.5 and 53
Bill Format.....	54 and 55

(Continued On Sheet No. 1.5)

Filed with the Illinois Commerce Commission on April 29, 2008
Items in which there are changes are preceded by an asterisk (*)

Effective June 13, 2008
Issued by – Gerald P. O'Connor
Senior Vice President
Post Office Box 190
Aurora, Illinois 60507

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

Ill.C.C. No. 16 - Gas
1st Revised Sheet No. 1.5
(Canceling Original Sheet No.
1.5, Effective November 22,
2005)

Table Of Contents

(Continued From Sheet No. 1)

	<u>Sheet Number</u>
Rider 1 Customer Charge Adjustments.....	55.5
Rider 2 Franchise Cost Adjustment.....	55.51, 55.52, 55.53, 55.54, 55.55, 55.56 and 55.57
Rider 4 Gas Cost Performance Program - Canceled.....	55.7, 55.8, 55.9 and 55.9.1
Rider 5 Storage Service Cost Recovery	56 and 57
Rider 6 Gas Supply Cost.....	58, 59, 60, 61 and 62
Rider 7 Governmental Agency Compensation Adjustment	63 and 63.5
*Rider 8 Adjustments for Municipal and State Utility Taxes.....	64, 64.1 and 64.5
Rider 9 Air Conditioning Service - Canceled.....	65
Rider 10 Alternate Fuel Service - Canceled.....	66
Rider 11 Thermal Content of Gas Supplied.....	67
Rider 12 Environmental Cost Recovery	68, 69 and 70
Rider 13 Supplier Transportation Service	71 and 72
Rider 14 Controlled Attachment Plan.....	73, 74 and 75
Rider 15 Customer Select	75.1 and 75.2
Rider 16 Supplier Aggregation Service.....	75.3, 75.4, 75.5, 75.6, 75.7, 75.8, 75.9, 75.9.1 and 75.9.2
Rider 25 Firm Transportation Service	76, 77 and 78
*Rider 26 Uncollectible Expense Adjustment.....	79, 79.1, 79.2 and 79.3
*Rider 27 Company Use Adjustment	80, 80.1, 80.2 and 80.3
*Rider 28 Volume Balancing Adjustment.....	81, 81.1, 81.2 and 81.3
*Rider 29 Energy Efficiency Plan	82, 82.1, 82.2 and 82.3
*Rider 30 Qualifying Infrastructure Plant	83, 83.1, 83.2, 83.3 and 83.4

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Items in which there are changes are preceded by an asterisk (*)

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Aurora, Illinois 60507

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

Ill.C.C. No. 16 - Gas
3rd Revised Sheet No. 2
(Canceling 1st Revised Sheet No. 2,
Effective April 11, 1996)

**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

Territory To Which This Schedule Is Applicable.

This Schedule exhibits rates of the Northern Illinois Gas Company for supplying gas service. The rates shown herein apply to service rendered within the municipal limits of the Municipalities listed herein and the unincorporated contiguous territory, except that, where the Company is required to pay municipal compensation to a municipality, the Company shall have the right, subject to approval of the Illinois Commerce Commission, to add the amount of such compensation to the charges set forth in this Schedule for gas service within the corporate limits of such municipality.

<u>Municipality</u>	<u>County</u>	<u>Municipality</u>	<u>County</u>
Addison	DuPage	Benson	Woodford
Adeline	Ogle	Berkeley	Cook
Adrian (U)	Hancock	Berwyn	Cook
Afolkey (U)	Stephenson	*Big Rock	Kane
Alden Township (U)	McHenry	Biggsville	Henderson
Algonquin	McHenry	Binghampton (U)	Lee
Alsip	Cook	Bloomington	DuPage
Altorf (U)	Kankakee	Bloomington	McLean
Amboy	Lee	Blue Island	Cook
Anchor	McLean	Bolingbrook	Will
*Ancona (U)	Ogle/Stephenson	Bonfield	Kankakee
Antioch	Lake	Boulder Hill (U)	Kendall
Argyle (U)	Winnebago	Bourbonnais	Kankakee
Arlington Heights	Cook	Braceville	Grundy
Aroma Park	Kankakee	Bradley	Kankakee
Arrowsmith	McLean	Braidwood	Will
Ashkum	Iroquois	Bridgeview	Cook
Ashton	Lee	Bristol (U)	Kendall
Atlas (U)	Pike	Broadview	Cook
Aurora	Kane	Brookfield	Cook
Baileyville (U)	Ogle/Stephenson	Buckingham	Kankakee
Baker (U)	LaSalle	Buckley	Iroquois
Barrington	Cook/Lake	Buffalo Grove	Cook
Barrington Hills	Cook/Kane/Lake/McH.	Bull Valley	McHenry
Barrington Woods (U)	Cook/Lake	Burbank	Cook
Bartlett	Cook/DuPage	Burlington	Kane
Basco	Hancock	Burnham	Cook
Batavia	Kane	Burnside (U)	Hancock
Beaverville	Iroquois	Burr Ridge	DuPage
Bedford Park	Cook	Burton Bridge (U)	McHenry
Beecher	Will	Byron	Ogle
Belleflower	McLean	Cabery	Ford/Kankakee
Bellwood	Cook	Caledonia Township (U)	Boone
Belvidere	Boone	Calumet City	Cook
Bensenville	DuPage	Calumet Park	Cook

(U) Unincorporated

(Continued On Sheet No. 3)

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Post Office Box 190
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**Northern Illinois Gas Company
d/b/a/ Nicor Gas Company**

Ill.C.C. No. 16 - Gas
4th Revised Sheet No. 3
(Canceling 3rd Revised Sheet No. 3,
Effective November 22, 2005)

**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 2)

<u>Municipality</u>	<u>County</u>	<u>Municipality</u>	<u>County</u>
*Campton Hills	Kane	Crest Hill	Will
Campus	Livingston	Creston	Ogle
Capron	Boone	Crestwood	Cook
Carbon Hill	Grundy	Crete	Will
Carlock	McLean	Crooked Lake (U)	Lake
Carman (U)	Henderson	Cropsey (U)	McLean
Carol Stream	DuPage	Crystal Lake	McHenry
Carpentersville	Kane	Cullom	Livingston
Carthage	Hancock	Custer Park (U)	Will
Cary	McHenry	Dakota	Stephenson
Cedarville	Stephenson	Dallas City	Hancock
Chadwick	Carroll	Dana	LaSalle
Channahon	Will	Danforth	Iroquois
Channel Lake (U)	Lake	Danvers	McLean
Chatsworth	Livingston	Darien	DuPage
Chebance	Iroquois/Kankakee	Davis	Stephenson
Chemung Township (U)	McHenry	Davis Junction	Ogle
Chenoa	McLean	Daysville (U)	Ogle
Cherry Valley	Winnebago	Dayton (U)	LaSalle
Chicago (Annexed Areas)	Cook	Deep Lake (U)	Lake
Chicago Heights	Cook	Deer Creek	Tazewell
Chicago Ridge	Cook	Deer Grove	Whiteside
Cicero	Cook	Deer Park	Lake
Cissna Park	Iroquois	Deerfield	Cook
Clarendon Hills	DuPage	DeKalb	DeKalb
Clarksville (U)	McLean	Des Plaines	Cook
Clifton	Iroquois	Dewey (U)	Champaign
Coal City	Grundy	Diamond	Grundy
Coatsburg	Adams	Dixmoor	Cook
Colfax	McLean	Dixon	Lee
Columbus	Adams	Dolton	Cook
Colusa (U)	Hancock	Donovan	Iroquois
Como (U)	Whiteside	Downers Grove	DuPage
Compton	Lee	Downers Grove	DuPage
Congerville	Woodford	Township (U)	
Cooksville	McLean	Downs	McLean
Cornell	Livingston	Durand	Winnebago
Cortland	DeKalb	Dwight	Livingston
Country Club Hills	Cook	Earlville	LaSalle
Countryside	Cook	East Brooklyn	Grundy
Countryside Lake (U)	Lake	East Dubuque	JoDaviess
Crescent City	Iroquois	East Dundee	Kane

(U) Unincorporated

(Continued On Sheet No. 4)

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

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(Canceling 3rd Revised Sheet No.
4, Effective November 22, 2005)

**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 3)			
Municipality	County	Municipality	County
East Hannibal (U)	Pike	Frankfort	Will
East Hazel Crest	Cook	Franklin Grove	Lee
Echo Lake (U)	Lake	Franklin Park	Cook
El Dara	Pike	Freeport	Stephenson
El Paso	Woodford	Fremont Township (U)	Lake
Ela Township (U)	Lake	Galena	Jo Daviess
Elburn	Kane	Galt (U)	Whiteside
Eldena (U)	Jo Daviess	Garden Prairie (U)	Boone
Elgin	Cook/Kane	Gardner	Grundy
Elizabeth	Jo Daviess	Garfield (U)	LaSalle
Elk Grove Village	Cook	Geneseo	Henry
Elliott	Ford	Geneva	Kane
Ellsworth	McLean	Genoa	DeKalb
Elmhurst	DuPage	German Valley	Stephenson
Elmwood Park	Cook	Gibson City	Ford
Elvaston	Hancock	Gifford	Champaign
Elwood	Will	Gilberts	Kane
Emerson (U)	Whiteside	Gillum (U)	McLean
Emington	Livingston	Gilman	Iroquois
Eola (U)	DuPage	Gladstone	Henderson
Esmond (U)	DeKalb	Glen Ellyn	DuPage
Essex	Kankakee	Glendale Heights	DuPage
Evanston	Cook	Glenview	Cook
Evergreen Park	Cook	Glenwood	Cook
Fairbury	Livingston	Godley	Grundy/Will
Fall Creek (U)	Adams	Golf	Cook
Farmer City	DeWitt	Goodfield	Woodford
Ferris	Hancock	Grand Detour (U)	Ogle
Fisher	Champaign	Grand Ridge	LaSalle
Flanagan	Livingston	Grant Park	Kankakee
Flossmoor	Cook	Grass Lake (U)	Lake
Ford Heights	Cook	Graymont (U)	Livingston
Forest Lake (U)	Lake	Green Garden Township (U)	Will
Forest Park	Cook	Greenwood	McLean
Forest View	Cook	Gridley	McLean
Forrest	Livingston	Gulf Port	Henderson
Forreston	Ogle	*Gurnee	Lake
Fowler (U)	Adams	Guthrie (U)	Ford
Fox Lake	Lake	Hainesville	Lake
Fox Lake Hills (U)	Lake	Hamilton	Hancock
Fox River Grove	McHenry	Hampshire	Kane
		Hanover	Jo Daviess
		Hanover Park	Cook/DuPage

(U) Unincorporated

(Continued On Sheet No. 5)

**Northern Illinois Gas Company
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Ill.C.C. No. 16 - Gas
4th Revised Sheet No. 5
(Canceling 3rd Revised Sheet No.
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**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 4)

Municipality	County	Municipality	County
Harding (U)	LaSalle	Justice	Cook
Harmon	Lee	*Kaneville	Kane
Harmony (U)	McHenry	Kangley	LaSalle
Harrison (U)	Winnebago	Kankakee	Kankakee
Harvard	McHenry	Kappa	Woodford
Harvey	Cook	Kasbeer (U)	Bureau
Harwood Heights	Cook	Keeneyville (U)	DuPage
Hawthorn Woods	Lake	Kempton	Ford
Hazel Crest	Cook	Kenilworth	Cook
Hebron	McHenry	Kent Township (U)	Stephenson
Herbert (U)	Boone	Kernan (U)	LaSalle
Herscher	Kankakee	Kildeer	Lake
Hickory Hills	Cook	Kinderhook	Pike
Highland Lake (U)	DuPage	Kings (U)	Ogle
Hillcrest	Ogle	Kingston	DeKalb
Hillside	Cook	Kinsman	Grundy
Hinckley	DeKalb	Kirkland	DeKalb
Hinsdale	Cook/DuPage	LaFox (U)	Kane
Hodgkins	Cook	LaGrange	Cook
Hoffman Estates	Cook	LaGrange Highlands (U)	Cook
Holbrook (U)	Cook	LaGrange Park	Cook
Holcomb (U)	Ogle	LaHarpe	Hancock
Holiday Hills	McHenry	Lake Barrington	Lake
*Homer Glen	Will	Lake Bloomington (U)	Lake
Homer Township (U)	Will	Lake in the Hills	McHenry
Hometown	Cook	Lake Killarney (U)	McHenry
Homewood	Cook	Lake Villa	Lake
Hooppole	Henry	Lake Zurich	Lake
Hudson	McLean	Lakemoor	McHenry
Hull	Pike	Lakewood	McHenry
Huntley	McHenry	Lanark	Carroll
Indian Head Park	Cook	Lansing	Cook
Ingleside (U)	Lake	Lawrence (U)	McHenry
Inverness	Cook	Leaf River	Ogle
Iroquois	Iroquois	Lee	DeKalb/Lee
Irwin	Kankakee	Lee Center (U)	Lee
Island Lake	Lake/McHenry	Leeds (U)	LaSalle
Itasca	DuPage	Leland	LaSalle
Ivanhoe (U)	Cook/Lake/Will	Lemont	Cook
Johnsburg	McHenry	Lena	Stephenson
Joliet	Will	Leonore	LaSalle
Joliet Township (U)	Will	LeRoy	McLean
Joy	Mercer		

(U) Unincorporated

(Continued On Sheet No. 6)

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**Northern Illinois Gas Company
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Effective November 22, 2005)

**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 5)

Municipality	County	Municipality	County
Lexington	McLean	Mazon	Grundy
Liberty	Adams	McCook	Cook
Lightsville (U)	Ogle	McCullom Lake	McHenry
Lilly (U)	Tazewell	McHenry	McHenry
Lilymoor (U)	McHenry	McHenry Shores (U)	McHenry
Lily Lake	Kane	Meadows (U)	McLean
Lima	Adams	Media	Henderson
*Limestone	Kankakee	Medinah (U)	DuPage
Lincolnwood	Cook	Melrose Park	Cook
Lindenhurst	Lake	Melvin	Ford
Lindenwood (U)	Ogle	Mendon	Adams
Lisbon	Kendall	Mendota	LaSalle
Lisle	DuPage	Merrionette Park	Cook
Lockport	Will	Meyer (U)	Adams/Kankakee
Lockport Township (U)	Will	Midlothian	Cook
Loda	Iroquois	Millford	Iroquois
Lomax	Henderson	Millbrook	Kendall
Lombard	DuPage	Milledgeville	Carroll
Long Grove	Lake	Millington	Kendall
Long Lake (U)	Lake	Minonk	Woodford
Long Point	Livingston	Minooka	Grundy
Lorraine	Adams	Mokena	Will
Lotus (U)	Champaign	Momence	Kankakee
Loves Park	Winnebago	Monee	Will
Ludlow	Champaign	Monroe Center	Ogle
Lyndon	Whiteside	Montgomery	Kane
Lynwood	Cook	Mooseheart (U)	Kane
Lyons	Cook	Morris	Grundy
Machesney Park	Winnebago	Morrison	Whiteside
Mackinaw	Tazewell	Morton Grove	Cook
Malta	DeKalb	Mount. Carroll	Carroll
Manhattan	Will	Mt. Morris	Ogle
Manteno	Kankakee	Mount Prospect	Cook
Manville (U)	Livingston	Mundelein	Lake
Maple Park	Kane	Nachusa (U)	Lee
Marcelline (U)	Adams	Naperville	DuPage
Marengo	McHenry	Naplate	LaSalle
Markham	Cook	Nauvoo	Hancock
Marley (U)	Edgar	Nelson	Lee
Marseilles	LaSalle	New Bedford	Bureau
Martinton	Iroquois	New Canton	Pike
Matteson	Cook	New Hartford (U)	Pike
Maywood	Cook	New Lenox	Will

(U) Unincorporated

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Effective November 22, 2005)

**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 6)			
Municipality	County	Municipality	County
New Milford	Winnebago	Paxton	Ford
Newark	Kendall	Payson	Adams
Niles	Cook	Pearl City	Stephenson
Niota (U)	Cook	Pecatonica	Winnebago
Normal	McLean	Penfield (U)	Champaign
Normandy (U)	Bureau	Peotone	Will
Norridge	Cook	Phoenix	Cook
North Aurora	Kane	Pike (U)	Pike
North Barrington	Lake	Pingree Grove	Kane
North Riverside	Cook	Piper City	Ford
Northbrook	Cook	Pistakee Bay (U)	McHenry
Northfield	Cook	Pistakee Highlands (U)	McHenry
Northlake	Cook	Pittsfield	Pike
Norway (U)	LaSalle	Plainfield	Will
Norwood Park Township (U)	Cook	Plainfield Township (U)	Will
Oak Brook	Cook/DuPage	Plainville	Adams
Oak Forest	Cook	Plano	Kendall
Oak Lawn	Cook	Plato Center (U)	Kane
Oak Park	Cook	*Plattville	Kendall
Oakbrook Terrace	DuPage	Polo	Ogle
Oakwood Hills	McHenry	Pontiac	Livingston
Odell	Livingston	Pontoosuc	Hancock
Ohio	Bureau	Poplar Grove	Boone
Olympia Fields	Cook	*Port Barrington	McHenry
Onarga	Iroquois	Posen	Cook
Oquawka	Henderson	Potomac	Vermillion
Orangeville	Stephenson	Prairie Grove	McHenry
Oregon	Ogle	Prairie View (U)	Lake
Orland Hills	Cook	Prairieville (U)	Lee
Orland Park	Cook	Princeton	Bureau
Oswego	Kendall	Prophetstown	Whiteside
Ottawa	LaSalle	Prospect Heights	Cook
Palatine	Cook	Proviso Township (U)	Cook
Palatine Township (U)	Cook	Randolph Township (U)	McLean
Paloma (U)	Adams	Rankin	Vermillion
Palos Heights	Cook	Ransom	LaSalle
Palos Hills	Cook	Rantoul	Champaign
Palos Park	Cook	Raritan	Henderson
Papineau	Iroquois	Reddick	Kankakee/Livingston
Park Forest	Cook/Will	Resthaven (U)	Will
Park Ridge	Cook	Richmond	McHenry
Paw Paw	Lee	Richton Park	Cook
		Ridgefield (U)	McHenry

(U) Unincorporated

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**Northern Illinois Gas Company
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Ill.C.C. No. 16 - Gas
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**Municipalities And The Unincorporated Contiguous Territory
To Which This Schedule Is Applicable**

(Continued From Sheet No. 7)			
Municipality	County	Municipality	County
Ridgeville (U)	Iroquois	Shannon	Carroll
Ridott	Stephenson	Sheldon	Iroquois
*Ringwood	McHenry	Shepherd (U)	Pike
Ritchie (U)	Iroquois	Sheridan	LaSalle
River Forest	Cook	Shirland (U)	Winnebago
River Grove	Cook	Shirley (U)	McLean
Riverdale	Cook	Shorewood	Will
Riverside	Cook	Sibley	Ford
Robbins	Cook	Skokie	Cook
Rochelle	Ogle	Sleepy Hollow	Kane
Rock City	Stephenson	Solon Mills (U)	McHenry
Rock Falls	Whiteside	Somonauk	De Kalb
Rockdale	Will	South Barrington	Cook
Rockford	Winnebago	South Chicago Heights	Cook
Rockport (U)	Pike	South Elgin	Kane
Rolling Meadows	Cook	South Holland	Cook
Romeoville	Will	South Wilmington	Grundy
Roscoe	Winnebago	Spring Grove	McHenry
Roselle	DuPage	Stavanger (U)	LaSalle
Rosemont	Cook	Steger	Cook/Will
Round Grove (U)	Whiteside	Sterling	Whiteside
Round Lake	Lake	Steward	Lee
Round Lake Beach	Lake	Stickney	Cook
Round Lake Heights	Lake	Stickney Township (U)	Cook
Round Lake Park	Lake	Stillman Valley	Ogle
Rowe (U)	Livingston	Stockton	Jo Daviess
Sag (U)	Cook	Stone Park	Cook
St. Anne	Kankakee	Strawn	Livingston
St. Charles	Kane	Streamwood	Cook
St. George (U)	Kankakee	Streator	LaSalle/Livingston
Sandwich	De Kalb	Stronghurst	Henderson
Sauk Village	Cook	Sublette	Lee
Saunemin	Livingston	Sugar Grove	Kane
Saybrook	McLean	Summerhill (U)	Cook
Schaumburg	Cook	Summit	Cook
Schiller Park	Cook	Sun River Terrace	Kankakee
Secor	Woodford	Sutter (U)	Hancock
Seehorn (U)	Pike	Sycamore	De Kalb
Seneca	LaSalle	Sylvan Lake (U)	Lake
Serena (U)	LaSalle	Tampico	Whiteside
Seward (U)	Kendall	Terre Haute (U)	Henderson
Seward Township (U)	Kendall	Thawville	Iroquois
Shabbona	De Kalb	Thomasboro	Champaign

(U) Unincorporated

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