

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
Surrebuttal Testimony of

ROBERT R. MUDRA, CFA

Director – Rates and Financial Analysis
Nicor Gas Company

November 5, 2008

OFFICIAL FILE
I.C.C. Docket No. 08-0363
NICOR Exhibit No. 48.0-48.11
Witness Robert Mudra Corr.
Date 11/18/08 Reporter AAS

TABLE OF CONTENTS

	Page
I. Introduction and Witness Qualifications.....	1
A. Witness Identification.....	1
B. Purpose of Surrebuttal Testimony and Summary of Conclusions.....	1
C. Itemized Attachments.....	2
II. Embedded Cost of Service Study.....	3
III. Revenue Allocation.....	8
IV. Nicor Gas' Rate Design.....	10
A. Rate 1 – Residential Service.....	11
1. Rate Design.....	11
2. Rate Charges.....	12
B. Rate 4 – General Service, and Rate 74 – General Transportation Service.....	23
1. Rate Structure.....	23
2. Rate Charges.....	24
C. Rate 5 – Seasonal Use Service, and Rate 75 – Seasonal Use Transportation.....	25
D. Rate 6 – Large General Service, and Rate 76 – Large General Transportation Service.....	28
E. Rate 7 – Large Volume Service, and Rate 77 – Large Volume Transportation Service.....	29
F. Determination of Transportation Service Charges.....	30
V. Terms and Conditions.....	36
VI. Storage Banking Service and Related Calculations.....	40
A. SBS Entitlement (28 Days).....	40
B. SBS Charge Calculation.....	44
1. Storage Withdrawal Factor – Storage Withdrawal Constant.....	49
2. Rates 6 and 7 – Gas Supply Component (1).....	53
VII. Storage Balance Transfers.....	54
A. Rider 13 Super Pooling.....	55
VIII. Proposed Changes to Existing Riders 2 and 8.....	57
IX. Proposed New Riders.....	59
A. Rider 28 – Volume Balancing Adjustment.....	59
B. Rider 29 – Energy Efficiency Plan.....	66
X. Customer Select and Rider 25 Issues.....	66
XI. Conclusion.....	67

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 **Q. Are you the same Robert R. Mudra that provided direct and rebuttal testimony in**
10 **this matter?**

11 A. Yes.

12 **B. PURPOSE OF SURREBUTTAL TESTIMONY AND SUMMARY OF**
13 **CONCLUSIONS**

14 **Q. What are the purposes of your surrebuttal testimony?**

15 A. The purposes of my surrebuttal testimony are as follows:

- 16 (1) To present the Company's revised proposed revenue allocation of its base rate
17 revenue requirement to its rate classes;
- 18 (2) To present just and reasonable charges for utility services that are based on Nicor
19 Gas' revised proposed base rate revenue requirement and cost of service study;
- 20 (3) To present the Company's proposed revisions to Nicor Gas' tariff sheets,
21 including revisions to its rates and riders;

22 (4) To respond to the rebuttal testimony of Illinois Commerce Commission (the
 23 “Commission” or “ICC”) Staff (“Staff”) witnesses Dianna Hathhorn (Staff Ex.
 24 15.0), Burma C. Jones (Staff Ex. 16.0), Peter Lazare (Staff Ex. 20.0), Christopher
 25 L. Boggs (Staff Ex. 21.0), and David Sackett (Staff Ex. 24.0); Attorney General
 26 and Citizens Utility Board (“AG/CUB”) witness Scott J. Rubin (AG/CUB
 27 Ex. 5.0); Illinois Industrial Energy Consumers (“IIEC”) witness Dr. Alan
 28 Rosenberg (IIEC Ex. 2.0); Constellation NewEnergy, Inc. (“CNE”) witnesses
 29 Darcy A. Fabrizius (CNE-Gas Ex. 3.0) and Lisa A. Rozumialski (CNE-Gas
 30 Ex. 4.0); and Vanguard Energy Services (“Vanguard”) witness Neil Anderson
 31 (VES Ex. 2.0).

32 **C. ITEMIZED ATTACHMENTS**

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

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

- 35 • Nicor Gas Exhibit 48.1 contains an updated version of Nicor Gas’ Schedule of
 36 Rates, which reflects the proposed new and revised tariff sheets that Nicor Gas
 37 has filed with the Commission and that are the subject of this proceeding.
- 38 • Nicor Gas Exhibit 48.2 shows in “legislative” style the differences between the
 39 revised tariff sheets and the Nicor Gas tariffs currently on file.
- 40 • Nicor Gas Exhibit 48.3, entitled “Comparison of Present and Proposed Rates,” is
 41 an updated version of the Company’s Schedule A-3 submitted under Part 285 of
 42 the Commission’s rules, 83 Ill. Adm. Code Part 285. This exhibit shows, among
 43 other things, revenues under existing rates as well as under the Company’s
 44 proposed rates and rate design.
- 45 • Nicor Gas Exhibit 48.4, entitled “Summary of Changes from Present to Proposed
 46 Charges,” shows current and proposed charges by rate class.
- 47 • Nicor Gas Exhibit 48.5, entitled “Allocation of Proposed Revenue Adjustments to
 48 Base Rates,” shows the current and proposed revenues by rate class.

- 49 • Nicor Gas Exhibit 48.6, entitled “Jurisdictional Operating Revenues at Proposed
50 Rates,” shows the Company’s forecasted billing determinants associated with
51 each base rate classification and the proposed charges designed to collect the
52 proposed base rate revenue requirement.
- 53 • Nicor Gas Exhibit 48.7, entitled “Annual Bill Comparison Rate 1, Residential
54 Service,” shows bill impacts between current and proposed rates for a typical
55 space heating customer for a calendar year under normal usage conditions.
- 56 • Nicor Gas Exhibit 48.8, entitled “Storage Banking Service and Related
57 Calculations”, illustrates the SBS Entitlement, Storage Deliverability Component
58 factor and under different storage capacity assumptions.
- 59 • Nicor Gas Exhibit 48.9, the Company’s responses to recent data requests CB
60 4.01- 4.09 from Staff witness Boggs.
- 61 • Nicor Gas Exhibit 48.10, entitled “Rider VBA Illustration using CUB/AG Exhibit
62 5.02 and 5.03 Data” which illustrates the mechanics of Rider VBA under
63 CUB/AG data assumptions and Staff’s “Full Decoupling” Rider VBA formulas.
- 64 • Nicor Gas Exhibit 48.11 contains corrected versions of Tables 4, 5 and 7 from my
65 rebuttal testimony.

66 **II. EMBEDDED COST OF SERVICE STUDY**

67 **Q. Is Nicor Gas’ Embedded Cost of Service Study (“ECOSS”), as presented by Nicor**
68 **Gas witness Alan Heintz (Nicor Gas Ex. 49.01), appropriate for the purpose of**
69 **establishing rates in this proceeding?**

70 A. Yes.

71 **Q. Does the ECOSS now reflect the allocation of gas storage losses as discussed by IIEC**
72 **witness Dr. Rosenberg and Staff witness Sackett?**

73 A. Yes.

74 **Q. Staff witness Sackett has recommended that “the increase in the cost of service**
75 **study (“ECOSS”), except the sales customers’ share of gas storage losses, should be**

76 **incorporated into the SBS charge calculation.” (Sackett Reb., Staff Ex. 24.0, 3:63-**
77 **65). Has this concern been reflected in the final ECOSS and the Storage Banking**
78 **Service (“SBS”) charge calculation?**

79 A. Yes. The final ECOSS presented by Mr. Heintz on surrebuttal and the revised SBS
80 charge address Mr. Sackett’s concerns.

81 **Q. Does the Company agree with Staff witness Lazare’s proposal that the Company be**
82 **directed in its next rate case to prepare an allocator within its ECOSS for gas**
83 **service lines that reflect the level of investment in services by customer class?**
84 **(Lazare Reb., Staff Ex. 20.0, 10:209-11:233).**

85 A Yes.

86 **Q. Are there any outstanding issues related to the ECOSS?**

87 A. Yes. IIEC witness Dr. Rosenberg proposes to reallocate volume-related costs within the
88 ECOSS based on the demand allocation factors from the Company’s Modified
89 Distribution Main (“MDM”) study.

90 **Q. Did any party to this proceeding support Dr. Rosenberg’s proposal?**

91 A. No.

92 **Q. Please provide a brief description of the MDM study.**

93 A. The MDM study performed by Nicor Gas was done precisely in the same manner as the
94 MDM study approved in the Company’s last two rate cases, Docket No. 04-0779 (the
95 “2004 Rate Case”) and in Docket No. 95-0219. Nicor Gas’ MDM study determines the
96 proportion of peak-day gas flows by main size and rate class and uses these proportions
97 to allocate distribution main costs to its various rate classes. The resulting cost allocation

98 was presented in Nicor Gas Exhibit 14.5 and was used within the ECOSS to allocate the
99 peak-day demand-related portion (approximately 77%) of distribution main costs to the
100 customer classes. The remaining 23% of the costs are allocated based on the annual
101 volumes used by each rate class as discussed further by Mr. Heintz. (Heintz Sur., Nicor
102 Gas Ex. 49.0).

103 **Q. What is your understanding of Dr. Rosenberg's proposal?**

104 A. Dr. Rosenberg's proposal is based on the assumption that the annual volume flows by
105 main size and rate class are in the same proportion to peak-day volume flows by main
106 size and rate class. (Rosenberg Reb., IIEC Ex. 2.0, 24:499-509). Dr. Rosenberg accepts
107 this assumption, while recognizing that it may not be exact, and he asks the parties and
108 the Commission to change the existing volume-related allocation of distribution main
109 costs (which is based on actual volume by rate class) to match a peak-day allocation
110 methodology from the MDM study.

111 **Q. Does Nicor Gas agree that it would be appropriate for allocating main costs to use**
112 **the exact same percentage of cost allocations on volume-related costs as were**
113 **applied to demand-related costs?**

114 A. No. Nicor Gas recommends that it first conduct a study to determine if Dr. Rosenberg's
115 proposal is appropriate before deviating from the MDM and ECOSS volume allocation
116 methodologies approved in the 2004 Rate Case. (Mudra Reb., Nicor Gas Ex. 29.0, 4:85-
117 88). The MDM study was prepared based on a detailed analysis of customer accounts
118 and it identified the peak-day gas flow by customer and by main size, but it did not
119 analyze annual volume flows by customer and main size. Nicor Gas does not believe that
120 Dr. Rosenberg should assume that the 130 peak-day percentage allocation factors utilized

121 within the MDM study would necessarily produce the exact same result as 130 annual
122 volume percentage allocation factors without first conducting a study. Furthermore,
123 given the fact that residential customers have a relatively low load factor (lower average
124 use as compared to their peak day use) and industrial customers have a relatively high
125 load factor (higher average use as compared to their peak day use), it is reasonable to
126 assume that an allocation based on peak-day volumes from the MDM study may be
127 different than an allocation based on annual consumption.

128 **Q. Has Nicor Gas reviewed what potential cost shifts would occur if Dr. Rosenberg's**
129 **proposal is accepted by the Commission?**

130 A. Mr. Heintz has conducted an initial analysis of the impact of Dr. Rosenberg's proposal on
131 the final revised ECOSS, which indicates that approximately \$8.3 million of revenue
132 requirement would be shifted from non-residential customer classes to the residential
133 class. (Heintz Sur., Nicor Gas Ex. 49.0).

134 **Q. Does Nicor Gas reject Dr. Rosenberg's proposal based on the cost-shifting between**
135 **rate classes that would result?**

136 A. No. The Company rejects Dr. Rosenberg's proposal because his assumption that peak-
137 day gas flows are exactly equal to annual gas flows by rate class and main size is
138 unproven. The fact that his proposed cost allocation methodology would result in a \$8.3
139 million cost shift from non-residential customer classes to residential customers is not in
140 and of itself a problem, if Dr. Rosenberg's proposed allocation factors are correct.
141 However, in my opinion, the magnitude of the cost shift and the fact that his hypothesis is
142 unproven highlights the need for careful analysis before the Commission can reach any

143 conclusion on this matter. Furthermore, Mr. Heintz also disagrees with Dr. Rosenberg's
144 proposal at this time. (Heintz Sur., Nicor Gas Ex. 49.0).

145 **Q. Dr. Rosenberg states that the Commission should not wait until Nicor Gas' next rate**
146 **case to implement his proposal because of the uncertainty over when Nicor Gas may**
147 **file its next rate case. (Rosenberg Reb., IIEC Ex. 2.0, 22:462-66). How does Nicor**
148 **Gas respond to this concern?**

149 A. Nicor Gas' ECOSS was prepared using a Commission approved volume-allocation
150 methodology that uses actual annual volumes by rate class which can be estimated with a
151 relatively strong degree of certainty. In contrast, Dr. Rosenberg's proposal is untested.
152 Moreover, it is often the case that issues arise in one rate case that will need attention
153 before the next rate case. While I cannot predict exactly when Nicor Gas will file its next
154 rate case, I should note that it has been less than four years between the filing of this
155 proceeding and Nicor Gas' last rate case filing.

156 **Q. What does Nicor Gas propose with respect to Dr. Rosenberg's proposal?**

157 A. Given that Nicor Gas' proposed ECOSS was developed in the same manner as approved
158 in the 2004 Rate Case, and that volume-related costs have been allocated based on well-
159 known rate class volumes, Nicor Gas recommends that the Commission reject
160 Dr. Rosenberg's proposal at this time. However, as an alternative, Nicor Gas would not
161 be opposed to the Commission directing Nicor Gas to study Dr. Rosenberg's proposal
162 and present its findings in pre-filed testimony with the filing of its next rate case.

163 **III. REVENUE ALLOCATION**

164 **Q What is the total base rate revenue requirement that Nicor Gas has used in its**
165 **ECOSS to be allocated to its rate classes?**

166 A. The ECOSS, presented by Mr. Heintz , used the same revenue requirement of
167 \$688,832,000 that Nicor Gas proposed in its rebuttal testimony. (See Heintz Sur., Nicor
168 Gas Ex. 49.0; Heintz Reb., Nicor Gas 30.0). While Nicor Gas has proposed a slightly
169 lower revenue requirement on surrebuttal, the change of \$629,000, discussed by
170 Company witness James Gorenz , would have *de minimis* impact on the revenue
171 allocation described below. (Gorenz Sur., Nicor Gas Ex. 45.0). The Company will make
172 a compliance filing at the end of this proceeding that will incorporate all of the changes
173 specified in the Commission's final order.

174 **Q. What are the issues that exist with respect to the allocation of Nicor Gas' approved**
175 **revenue requirements among the various rate classes?**

176 A. Dr. Rosenberg has raised two issues related to revenue allocations. First, he objects to
177 Nicor Gas' proposal to limit the increase to Rate 1, Residential Service to 97.5% of its
178 cost of service and recommends that the Commission order that the revenue allocation be
179 set at equalized rates of return for all classes. (Rosenberg Reb., IIEC Ex. 2.0, 2:35-38).
180 Second, he argues that any increase to non-residential classes be limited, on a percentage
181 increase basis, to no more than twice the overall allowed percentage increase. (*Id.*,
182 8:153-54).

183 **Q. What is Nicor Gas' position on limiting the increase to residential customers?**

184 A. Nicor Gas believes that its proposal to limit the increase on residential customers is
185 consistent with the Commission's order in the 2004 Rate Case and moves residential
186 rates gradually from 95% of cost of service which resulted from the order in the 2004
187 Rate Case to 97.5% of cost of service in this case. However, Nicor Gas also recognizes
188 that applying the principle of gradualism, as discussed in my direct testimony (Mudra
189 Dir., Nicor Gas Ex. 14.0, 5:114-23), will moderate the rate increase to one class of
190 customers though it will not eliminate interclass rate subsidies. Limiting the proposed
191 revenue increase to the residential class will create a cross subsidy flowing from the non-
192 residential rate classes to the residential customer class of approximately \$12 million per
193 year. (See Nicor Gas Ex. 48.5, ln. 2, Col. F minus Col. D). Nicor Gas proposes to
194 eliminate this cross subsidy in its next general rate case; however, it also believes the
195 Commission should carefully review this issue and the Company would not object if the
196 Commission determined that now is the appropriate time to eliminate the cross subsidy.

197 **Q. Did any other party offer testimony on this issue?**

198 A. Staff witness Lazare agreed with Nicor Gas' proposal to limit the increase to 97.5% of
199 cost of service in their respective direct testimonies but did not address the issue in their
200 rebuttal testimonies. (See Lazare Dir., Staff Ex. 7.0, 29:618-20, 29:633-30:653).

201 **Q. Assuming that the Commission orders residential rates to be set at the 97.5% of cost**
202 **of service, what is Nicor Gas' position on limiting increases to non-residential rate**
203 **classes to no more than twice the overall rate increase, as proposed by**
204 **Dr. Rosenberg?**

205 A. Using the updated ECOSS provided by Mr. Heintz and recovering the remaining revenue
206 deficiency from the other rate classes (except contract service Rates 17 and 19) based on

207 their portion of cost of service, only one class receives an increase slightly greater than
208 twice the overall rate increase. (Nicor Gas Ex. 48.3). The total increase requested by
209 Nicor Gas is 25.9% (Nicor Gas Ex. 48.3, Row 15, Col. G), which would be 51.8% when
210 doubled. The highest increase proposed by Nicor Gas after allocating the residential
211 short-fall is 54.3% to the Rate 77 customer class. Limiting this increase to only 51.8%
212 would reduce the Rate 77 revenue requirement by only about \$178,000 per year.
213 Consequently, Nicor Gas sees no compelling need for the Commission to accept
214 Dr. Rosenberg's proposal. However, if it chooses to do so, the Commission should direct
215 the Company as to which other rate class(es), excluding contract service Rates 17 and 19,
216 should be required to make up the shortfall.

217 **Q. Have there been any updates to Nicor Gas' proposed revenue allocation since the**
218 **Company filed rebuttal testimony on September 25, 2008?**

219 A. Yes. The revenue allocation has been updated to reflect the modifications to the ECOSS,
220 as discussed further in the surrebuttal testimony of Mr. Heintz (Nicor Gas Ex. 49.0) and
221 is presented in Nicor Gas Exhibit 49.5. Additionally, as a result of the Memorandum of
222 Understanding between Nicor Gas and Customer Select Gas Suppliers, \$1.7 million of
223 revenue previously received from Rider 16, Supplier Aggregation Service, has been
224 allocated to Sales rates. This change is also reflected in the ECOSS.

225 **IV. NICOR GAS' RATE DESIGN**

226 **Q. Is there an exhibit showing the proposed charges?**

227 A. Yes. Nicor Gas Exhibit 48.4 presents the current and proposed charges for Nicor Gas.

228 **A. RATE 1 – RESIDENTIAL SERVICE**229 **1. RATE DESIGN**230 **Q. What is Nicor Gas’ proposal for its Residential Rate 1 design?**

231 A. Nicor Gas is proposing a residential rate structure that includes a monthly customer
232 charge and two distribution blocks consisting of the first 20 therms and any therm use
233 above 20 therms. It is proposing this structure recognizing the importance of recovering
234 more of its fixed cost of service through its fixed monthly customer charge and thereby
235 gradually eliminating the existing three-tiered declining block distribution charge
236 structure. Nicor Gas’ Residential Rate 1 design represents an interim step toward
237 recovering its fixed costs through its fixed monthly customer charges and then utilizing a
238 single distribution charge to recover the Company’s remaining volumetric costs.

239 **Q. Which, if any, parties proposed alternative rate structures and what are they?**

240 A. Staff witness Lazare proposes a monthly customer charge with a single flat distribution
241 charge. (Lazare Dir., Staff Ex. 7.0, 42:916-19). As an alternative, Mr. Lazare proposes a
242 monthly customer charge with a two-step distribution charge block design. (*Id.*, 43:931-
243 34). AG/CUB witness Rubin recommends maintaining Nicor Gas’ existing three-step
244 distribution charges and proposes “that the Commission increase each element of Nicor’s
245 residential rates (the customer charge and three distribution block charges) by the same
246 percentage increase as the residential class’s overall rate increase.” (Rubin Dir.,
247 CUB/AG Ex. 3.0, 18:367-69). Further, Mr. Rubin states on rebuttal “that each residential
248 base rate element should be increased by the same percentage to achieve the portion of
249 the revenue requirement assigned to the residential class.” (Rubin Reb., CUB/AG
250 Ex. 5.0, 3:49-51).

251 **Q. What is Nicor Gas' response to Mr. Lazare's proposed single distribution charge**
252 **design for the residential class or, as an alternative, a two-step rate block with his**
253 **proposed monthly customer charge?**

254 A. Nicor Gas obviously agrees with Mr. Lazare that it could move to a two-step distribution
255 charge at this time as it has made that very proposal in this proceeding. However, as
256 explained in my rebuttal testimony, Nicor Gas does not agree with moving to a flat
257 distribution charge while a large portion of the Company's fixed costs are still being
258 recovered through Rate 1 volumetric distribution charges. (Mudra Reb., Nicor Gas
259 Ex. 29.0, 10:212-24).

260 2. RATE CHARGES

261 **Q. What are Nicor Gas' proposed charges for residential service?**

262 A. Nicor Gas is proposing a monthly customer charge of \$13.55, a charge of \$0.1392 for the
263 first 20 therms used by the customer and \$0.0519 for all additional therms.

264 **Q. How did Nicor Gas determine its monthly customer charge?**

265 A. Nicor Gas recognized that in order to recover all its fixed costs of service through a
266 monthly customer charge it would require \$18.66 per month charge as compared to its
267 current charge of \$8.40 and, in the interest of gradualism, moved to a point half way
268 between the two in this proceeding, for a charge of \$13.55 per month.

269 **Q. What do Mr. Lazare and Mr. Rubin propose for monthly customer charges and**
270 **how were the charges determined?**

271 A. Mr. Lazare's proposed monthly customer charge is \$10.65 and is based on the same cost
272 of service study and revenue allocation as Nicor Gas proposed in direct testimony, but he

273 only includes those costs designated as “customer costs” within the ECOSS and excludes
274 the other non-volumetric or fixed costs identified in the ECOSS. Mr. Rubin’s proposed
275 monthly customer charge is based on Nicor Gas’ proposed residential revenue
276 requirement and would result in a monthly customer charge of \$11.13 per month (\$8.40
277 current charge times 1.325 equals \$11.13) in light of his proposal to increase all Rate 1
278 charges by the same percentage increase as Nicor Gas proposes for Rate 1 in this case
279 (32.5%).

280 **Q. Does Nicor Gas object to Mr. Lazare’s proposed monthly customer charge and, if**
281 **so, why?**

282 A. Yes. Mr. Lazare recommends that only those costs designated as customer costs be
283 recovered through the monthly customer charge. (Lazare Dir., Staff Ex. 7.0: 40:867-68).
284 This approach would leave 87.5% of Nicor Gas’ non-volumetric fixed costs to be
285 recovered on a volumetric basis through its distribution charges. Nicor Gas believes its
286 proposal to recover more of its fixed cost of service through its monthly customer charges
287 is entirely consistent with recent Commission decisions to aide utilities in recovering
288 their fixed costs and insulating their fixed-cost recovery from uncertain changes in
289 weather and declining use per customer resulting from increased conservation.

290 **Q. Which Commission orders support Nicor Gas’ proposed rate design?**

291 A. In Peoples Gas and North Shore Gas Company (consolidated Dockets Nos. 07-0241 and
292 07-0242) (the “Peoples Gas Rate Case”), the Commission approved a four-year Rider
293 VBA pilot program, which ensures that the utilities will recover no more and no less than
294 100% of the proportion of fixed costs that continue to be embedded within their
295 residential and small commercial volumetric distribution charges despite changes in

296 customer consumption levels through symmetrical adjustments to future customer bills.

297 Specifically, the Commission found that:

298 Rider VBA is appropriate as it reflects the particulars of declining
299 and variable customer usage patterns and the concomitant revenue
300 recovery impacts of Peoples Gas and North Shore. In our view,
301 this evidence of usage patterns and margin recovery fluctuations
302 calls for a regulatory response.

303 Peoples Gas Rate Case Order at 148. Nicor Gas faces these same issues of declining and
304 variable customer usage and also proposes to implement Rider EEP which, without the
305 proper rate design, would impede Nicor Gas' ability to recover its just and reasonable
306 revenue requirement. The rationale and support for Nicor Gas' proposed Rider VBA and
307 Energy Efficiency Plan are discussed in more detail by Nicor Gas witnesses Gerald
308 O'Connor (Nicor Gas Exs. 12.0, 27.0, and 46.0) and Kristine Nichols (Nicor Gas
309 Exs. 13.0, 28.0, and 47.0).

310 Further, in Ameren's recent rate case (Docket No. 07-0585 to 07-0590 Consol.)
311 (the "Ameren Rate Case"), the Commission order indicated that:

312 [a]n alternative to Rider VBA that would still promote fixed cost
313 recovery by the utility is recovery of a greater proportion of fixed
314 delivery costs through the fixed monthly customer charge to all
315 affected customers. AIU makes this suggestion and notes that
316 under this method, utilities could not over-or under-recover their
317 Commission-approved base rate revenue requirement with changes
318 in sales. AIU adds that this alternative would also send proper
319 price signals to customers. The Commission concurs with these
320 statements and notes further that this alternative arguably decreases
321 any disincentive AIU may perceive to implementing gas efficiency
322 programs.

323 Ameren Rate Case Order at 237. The Commission then ordered that:

324 AIU should modify its monthly customer charges for these classes
325 [GDS-1 Residential Gas Delivery Service and GDS-2 Small

326 General Gas Delivery Service] to recover 80% of the fixed
327 delivery services costs approved in this proceeding.

328 *Id.* at 237. Furthermore, when referring to the Peoples Gas Rate Case Order, the Ameren
329 Rate Case Order states:

330 From this decision, it is evident that the Commission is willing to
331 consider alternatives to the traditional method of recovering a
332 portion of fixed costs through the volume based portion of the bill.

333 Ameren Rate Case Order at 236.

334 **Q. What does Mr. Lazare have to say about the import of the Commission's prior**
335 **decisions on the design of the customer charge?**

336 A. Mr. Lazare states that "[t]here is no question that recent decisions by the Commission
337 have favored the recovery of demand costs in customer charges. However, those
338 decisions are not binding on the current docket." (Lazare Reb., Staff Ex. 20.0, 12:249-
339 51).

340 **Q. Should the Commission consider its prior decisions in resolving how much of Nicor**
341 **Gas' fixed costs may be recovered through the monthly customer charge in this**
342 **case?**

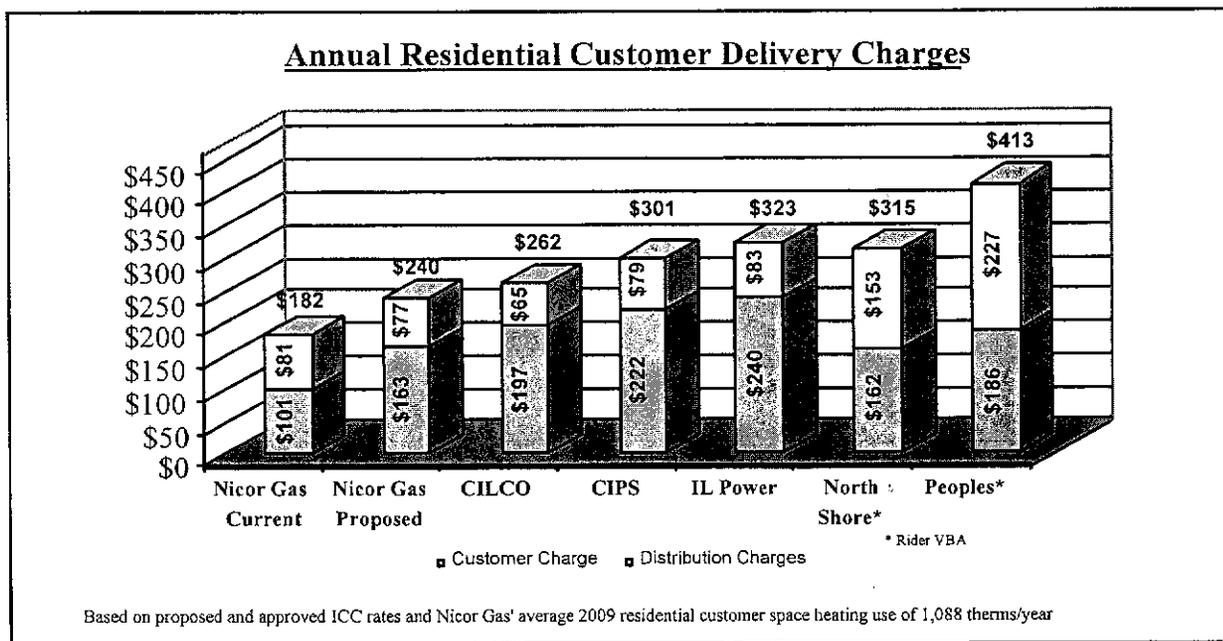
343 A. Yes. As the Commission stated in the Peoples Gas Rate Case Order, "[i]n every situation
344 where it is reasonable to do so, the Commission will consider its own past practice in
345 resolving an issue." Peoples Gas Rate Case Order at 199. Nicor Gas has presented a
346 compelling argument against Mr. Lazare's objections to Nicor Gas' proposed Rate 1
347 design. (*See* Mudra Reb., Nicor Gas Ex. 29.0, 8:166-20:420; Lazare Dir., Staff Ex. 7.0,
348 31:663-43:940). The Company believes its proposal is consistent with the general rate

349 design policy of the Commission as supported by its Orders in the Peoples Gas Rate Case
 350 and the Ameren Rate Case.

351 **Q. What portion of annual residential revenue is attributable to the monthly customer**
 352 **charge for Peoples Gas, North Shore Gas and the Ameren utilities?**

353 A. As shown on Chart 1 below, the Ameren utilities recover a significant portion of their
 354 annual residential revenue through the monthly customer charge, which represents 80%
 355 of their fixed delivery service costs. Peoples Gas and North Shore utilize Rider VBA to
 356 recover 100% of their remaining fixed costs which are still embedded within their
 357 volumetric distribution charges. As shown below in Chart 1, this explains why Peoples
 358 Gas and North Shore Gas do not recover as much through their monthly customer
 359 charges as the Ameren utilities even though they receive 100% recovery of their
 360 remaining fixed costs through Rider VBA.

361 **Chart 1:**



362

363 Q. How does the Nicor Gas' proposed monthly customer charge for residential service
364 compare with those of other Illinois gas utilities?

365 A. As shown in Table 1 below, Nicor Gas' proposed monthly customer charge would place
366 it in the middle of the range of current monthly customer charges for other gas utilities in
367 Illinois.

368 **Table 1:**

369 **Residential Monthly Customer Charges for Illinois Gas Utilities**

Utility	Monthly Customer Charge
Ameren IP	\$19.97
Ameren CIPS	18.51
Ameren CILCO	16.42
Peoples Gas Light & Coke Company	15.50
Illinois Gas Company – Proposed Docket 08-0482	13.75
Nicor Gas Company – Proposed Docket 08-0363	13.55
North Shore Gas Company	13.50
Illinois Gas Company	12.00
Mt. Carmel Public Utility Company	11.50
AG/CUB witness Rubin	11.13
Consumers Gas Company	10.91
Staff witness Lazare	10.65
MidAmerican Energy Company	10.50
Atmos Energy Corporation	9.90
<i>Nicor Gas Company (Current Charges)</i>	<i>8.40</i>

370 Q. What is Nicor Gas' view of Mr. Lazare's alternative rate design?

371 A. Mr. Lazare's alternative design proposes the same low monthly customer charge as in his
372 initial recommendation, although his alternative design utilizes a two-step distribution
373 block structure rather than his initial single distribution charge proposal. Under this

374 alternative, Nicor Gas would also be subject to more risk of not recovering its fixed cost
375 of service than today because of the increase in the last step of the distribution charge.

376 **Q. Should the Commission approve either of Mr. Lazare's rate design proposals?**

377 A. No. Neither Mr. Lazare's initial or alternative proposals appreciate that the Commission
378 has recognized in the Peoples Gas Rate Case and the Ameren Rate case the need for
379 natural gas utilities to recover their fixed costs of service through fixed charges or a VBA
380 rider. Mr. Lazare's proposals intentionally reduce Nicor Gas' ability to recover its fixed
381 costs of service even when compared to its current rates. Therefore, the Commission
382 should reject both of Mr. Lazare's proposed residential rate designs and approve Nicor
383 Gas' recommended rate design, including Rider VBA, or a rate design that is consistent
384 with the Commission's findings in the Ameren Rate Case by allowing Nicor Gas to
385 recover at least \$13.55 in its monthly customer charge, and at least 80% of its fixed non-
386 volumetric costs through its monthly customer charge since Nicor Gas' ECOSS has
387 shown that 94% of its cost of service is fixed and only 6% dependent on annual volumes.

388 **Q. Why should the Commission also reject Mr. Rubin's proposed flat percentage**
389 **increase in the monthly customer charge and distribution rates?**

390 A Mr. Rubin's proposal is overly simplistic and also ignores the results of the ECOSS,
391 which indicates that 94% of the residential cost of service is driven by fixed costs and not
392 volume-related costs. As with Mr. Lazare's proposal, it does not move in the direction of
393 recovering more fixed costs through fixed charges and fails to recognize the
394 Commission's support of this principle as stated above. Furthermore, Mr. Rubin's
395 proposal has not recognized Nicor Gas' just and reasonable request to recover its fixed
396 costs as illustrated later in response to his claims about Rider VBA.

397 **Q. How did Nicor Gas determine the proposed charges for its distribution blocks?**

398 A. It maintained the same tail-block charge of \$0.0519 per therm, eliminated the second
399 block therm charge, then adjusted the first block therm charge, which, along with the
400 \$13.55 monthly customer charge, obtained its revenue requirements. It should be noted
401 that Nicor Gas' proposal will produce understandable and consistent impacts on customer
402 bills. (Mudra Reb., Nicor Gas Ex. 29.0, 12:241-42). The Company's proposal stands in
403 stark contrast to the more dramatic rate designs of Mr. Rubin and Mr. Lazare which will
404 suppress monthly customer charges below levels required for the adequate recovery of
405 fixed costs and raise volumetric distribution charges that may result in significantly
406 higher cost increases on customers who use natural gas.

407 **Q. In the event the final approved revenue requirements for Rate 1 are lower than**
408 **those proposed by Nicor Gas, how would Nicor Gas propose to adjust its charges?**

409 A. That would depend on the Commission's decision on Nicor Gas' proposed Rider VBA.
410 If the Commission approves Rider VBA, Nicor Gas would propose to take any revenue
411 requirement reduction by maintaining the \$13.55 monthly customer charge, then
412 lowering the first block charge as needed but to no less than \$0.0519. If an additional
413 reduction is needed, then it would be applied across all therms.

414 If the Commission does not approve Rider VBA, Nicor Gas requests that the
415 Commission approve a monthly customer charge that recovers at least 80% of the
416 Company's fixed delivery service costs, similar to that ordered by the Commission in the
417 Ameren Rate Case (Order at 237), but no less than the Company's proposed \$13.55.
418 Further reductions to Nicor Gas' proposed charges, if necessary, would come from

419 reducing the first block charge to \$0.0519 and then reducing the charge for all therms, as
420 needed.

421 **Q. How did Mr. Lazare determine his distribution charges?**

422 A. He simply subtracted the monthly customer charge revenue from the revenue requirement
423 and divided it by Rate 1 deliveries. For his alternative proposal, he proportionally
424 increased the current charges to get the necessary revenue.

425 **Q. Did Mr. Lazare or Mr. Rubin propose any method to adjust their charges if a
426 different revenue requirement is approved in this case?**

427 A. No.

428 **Q. Mr. Rubin claims that “[i]t is apparent from this information that Nicor is
429 proposing to recover more from low-use customers and relatively little from high-
430 use customers. Not only is this far from ‘reasonable’ in my opinion, but it is
431 contrary to the reasons why Nicor claims it needs a rate increase in this case.”
432 (Rubin Reb., AG/CUB Ex. 5.0, 2:35-38). How does Nicor Gas respond to
433 Mr. Rubin’s concerns?**

434 A. First, Nicor Gas is proposing to recover more of its fixed costs through its fixed charges
435 from all residential customers through higher monthly customer charges and not more
436 from low-use customers or less from higher usage customers because it leaves its tail
437 block charge unchanged at \$.0519 per therm. Second, almost any increase in the
438 customer charge to a very small non-heating customer can result in a high percentage
439 increase. To bolster his position, Mr. Rubin cites to the smallest 0.21% of Nicor Gas’
440 non-heating customers, using only 11 therms per year on average, when he complains of

441 a 60% increase. (Rubin Reb., AG/CUB Ex. 5.0, 2:25-26; Ex. 5.01). However, one must
442 consider both the actual economic impact on the customer – which is only \$5.13 per
443 month and quite reasonable - and the number of affected customers which is small.
444 Third, Mr. Rubin never defines what “reasonable” is in his opinion and proposes a rate
445 design which increases tail block charges which can have a much larger dollar increase
446 on customers than Nicor Gas’ proposed rate design. Fourth, Mr. Rubin has not
447 considered that the reason for the increase is due to improved rate design. Fifth, Mr.
448 Rubin has not considered the Commission’s movement toward recovering more fixed
449 costs through fixed charges.

450 **Q. With respect to conservation issues raised by Mr. Lazare, are his rate design**
451 **proposals, which increase distribution charges to allow the ratepayers in “financial**
452 **distress” to better control their usage, at odds with the utility’s request to recover its**
453 **fixed cost of service? (Lazare Dir., Staff Ex. 7.0, 39:849-55; Lazare Reb., Staff**
454 **Ex. 20.0, 22:481-510).**

455 **A.** Yes. The Commission has properly recognized the importance of energy efficiency
456 programs by implementing them in the recent Peoples Gas, North Shore Gas and Ameren
457 rate cases, and Nicor Gas proposes Rider EEP in this case. However, in this proceeding,
458 Mr. Lazare intends to raise distribution charges to encourage conservation through his
459 proposed rate designs. (Lazare Reb., Staff Ex. 20, 16:342-49). He further believes that
460 raising customer charges would reduce the ability of “ratepayers in financial distress” to
461 control their natural gas costs. (Lazare Dir., Staff Ex. 7.0, 39:849-55). Although
462 Mr. Lazare’s designs would enable all customers, and not just those in financial distress,

463 to avoid paying for the fixed cost-of-service based revenue requirements. His proposal
464 does so at the expense of the utility.

465 In the Peoples Gas Rate Case, the Commission stated:

466 In the final analysis, we are simply unable to approve only those
467 measures that benefit ratepayers and wholly ignore what the
468 impacts of these benefits will have on the Utilities. To do so could
469 well be unlawful as this Commission is put to the obligation of
470 balancing both the interests of consumers and the interests of the
471 Utilities. See BPI, 146 Ill. 2d 175, 208 (1991) (stating that the
472 Commission is charged with setting rates which are just and
473 reasonable not only to the ratepayers but to the utility and its
474 shareholders). Under the whole of the balancing process, we find
475 it sound and reasonable to approve Rider VBA.

476 Peoples Gas Rate Case Order at 152.

477 **Q. Mr. Lazare asserts that “a cost that is allocated on the basis of demand is not a**
478 **customer cost but rather a demand-related cost to be recovered in variable**
479 **charges.” Based on this assertion, he disagrees with the Company’s argument that**
480 **directly allocated distribution mains costs may be recovered within the monthly**
481 **customer charge. (Lazare Reb., Staff Ex. 20.0, 22:481-23:510). How does Nicor Gas**
482 **respond?**

483 **A.** Nicor Gas’ investment in its gas distribution mains network is fixed. (Mudra Reb., Nicor
484 Gas Ex. 29.0, 14:291-317). Natural gas mains are sized based on long-term demand
485 requirements and the residential customer class has been assigned the appropriate portion
486 of the fixed investment cost in distribution mains costs through ECOSS and the MDM
487 study. Therefore, recognizing that Nicor Gas’ investment in distribution mains is fixed
488 and its investment will not vary based on the volume of gas delivered each year it is
489 appropriate to recover a portion of these costs—which have been directly allocated within

490 the MDN study—within the customer charge and treat them as a common cost. The
491 ECOSS has used the Average and Peak method and also allocates a portion of these costs
492 based on volume and Nicor Gas has not proposed to include those costs within the
493 monthly customer charges.

494 Mr. Lazare must recognize that his proposal to recover what he views as demand-
495 related charges through higher volumetric distribution rates is not a pure substitute for
496 demand-based rates, which are uncommon for residential consumers. Nicor Gas does not
497 utilize demand meters for its residential customers and, even if it did, the Company's
498 long-term investment in distribution mains cost would not vary each year based on
499 changing customer demand but only changes based on long-term capacity requirements.
500 Attempting to recover these costs through volumetric distribution charges also fails to
501 recognize that the actual facilities required to serve each residential customer (gas main
502 size, service size and meter size) are remarkably similar regardless of the customer's
503 annual natural gas consumption. (See Mudra Reb., Nicor Gas Ex. 29.0, 16:336-17:357).
504 Finally, limiting cost recovery to only customer costs is contrary to the Commission's
505 recent decision in the Ameren Rate Case and does not recognize that Rider VBA was
506 approved in the Peoples Gas Rate Case for the express purpose of recovering no more
507 and no less than any remaining fixed costs embedded within the volumetric distribution
508 charges.

509 **B. RATE 4 – GENERAL SERVICE, AND RATE 74 – GENERAL**
510 **TRANSPORTATION SERVICE**

511 **1. RATE STRUCTURE**

512 **Q. Does Nicor Gas propose any changes to the structure of Rate 4 or Rate 74?**

513 A. No. Nicor Gas proposes to maintain the three monthly customer charges based on the
514 customer's meter size and the three-step distribution therm blocks.

515 **Q. Has any party proposed an alternative rate design?**

516 A. Only Staff witness Lazare proposes a change to the structure of these rates. As he
517 proposed for residential service, he would maintain the three monthly customer charges,
518 but with a single distribution block or, in the alternative, two-step distribution therm
519 blocks. (Lazare Dir., Staff Exs. 7.0, 7.04 and 7.06).

520 **Q. Does Nicor Gas agree with Mr. Lazare's proposed rate structure?**

521 A. No. For the reasons set forth in my rebuttal testimony, the Commission should reject
522 Mr. Lazare's proposal. (Mudra Reb., Nicor Gas Ex. 29.0, 20:421-21:441). Basically,
523 there is just too much variability of use among customers on this rate to reduce the
524 number of distribution blocks. Additionally, the three blocks with declining charges
525 reflect the economies of scale that arise from serving larger customers. Finally, Mr.
526 Lazare's proposal has the potential to adversely impact larger Rate 4 and Rate 74
527 customers with higher annual increases than Nicor Gas has proposed. Therefore, the
528 Company recommends that the Commission reject both Mr. Lazare's flat distribution
529 design and his alternative.

530 **2. RATE CHARGES**

531 **Q. How did Nicor Gas determine its Rate 4 and Rate 74 charges?**

532 A. It first allocated 50% of the proposed revenue requirement to the monthly customer
533 charges by increasing the current charges by an equal percentage. It then recovered the
534 remaining revenue requirement, which in this case resulted in a distribution rate decrease,

535 in the charges in the first two blocks. Nicor Gas is proposing to keep the current tail-
536 block charges the same for Rates 4 and 74.

537 To determine the Rate 74 distribution charges, Nicor Gas subtracted the storage
538 costs and uncollectible expenses allocated to Rate 74 from the Rate 4 charges. Since
539 Nicor Gas proposes to maintain the tail-block charge, it needed to adjust the first two
540 blocks to reflect additional revenue from the tail-block. A final adjustment was made to
541 the first two block charges to obtain the proper revenues.

542 **Q. In the event the final revenue requirements for Rate 4 and 74 are lower than Nicor**
543 **Gas proposed, how does Nicor Gas propose to adjust its charges?**

544 A. Nicor Gas proposes to maintain the proposed monthly customer charges and tail-block
545 charges. Any revenue reduction would be taken by appropriate adjustments to the
546 charges for the first two distribution blocks.

547 **Q. Did Mr. Lazare propose charges for Rates 4 and 74 in the same manner as he did**
548 **for the residential customers?**

549 A. Yes. The Commission should reject his charges for the same reasons it should reject his
550 residential service charges.

551 **Q. Did Mr. Lazare propose a method of adjusting his proposed charges to reflect the**
552 **final revenue requirement approved in this case?**

553 A. No.

554 **C. RATE 5 – SEASONAL USE SERVICE, AND RATE 75 – SEASONAL USE**
555 **TRANSPORTATION**

556 **Q. How did Nicor Gas determine its proposed charges for Rates 5 and 75?**

557 A. It first increased the three monthly customer charges by the same percentage as the Rate
558 4 and Rate 74 customer charges. The remaining revenue requirement was then added to
559 the per therm charges on a per therm basis. The determination of the Rate 75 charges
560 were done in the same manner as for Rates 4 and 74, first starting with Rate 5 charges
561 and then subtracting out storage and uncollectible expenses.

562 **Q. In the event the revenue requirement is less than that proposed by Nicor Gas, how**
563 **would Nicor Gas adjust its Rates 5 and 75 charges?**

564 A. Nicor Gas proposes to adjust only the per therm charges to obtain the proper revenue
565 requirements and maintain its proposed monthly customer charges.

566 **Q. Has any party raised an issue related to the design of Rates 5 and 75?**

567 A. Yes. Staff witness Sackett recommends that the Commission accept Vanguard witness
568 Anderson's proposal to increase the annual therm limit use for eligibility from 250,000
569 therms to 1.5 million therms. (Sackett Reb., Staff Ex. 24.0, 41:883-86; Anderson Dir.,
570 VES Ex. 1.0, 5:102-6:136). This recommendation ignores Nicor Gas' many concerns
571 with the proposal detailed in my rebuttal testimony, which include the fact that Rates 4
572 and 74 were not designed for customers using volumes as high as 1.5 million annual
573 therms. (Mudra Reb., Nicor Gas Ex. 29.0, 22:453-23:483). Moreover, Mr. Anderson
574 recognizes in his rebuttal testimony Nicor Gas' concern that changing to the 1.5 million
575 therm limit would mix customers from two different rate classes (Rates 4 and 74 with
576 Rates 6 and 76) that have considerably different cost of service profiles. (Anderson Reb.,
577 VES Ex. 2.0, 1:15-2:17). Accordingly, Mr. Anderson has reduced his recommended
578 annual limit to 700,000 therms which would then only impact customers currently on
579 Rate 4, General Service and Rate 74, General Transportation Service. (*Id.*, 1:14-15).

580 Q. **Should the Commission accept either of the therm levels proposed by Mr. Sackett or**
581 **Mr. Anderson?**

582 A. No. As described in my rebuttal testimony, only about 10% of those customers eligible
583 for Rates 5 and 75 have decided to take seasonal rate service. (Mudra Reb., Nicor Gas
584 Ex. 29.0, 22:453-23:483).

585 Q. **What problem is caused by switching?**

586 A. In this circumstance rate switching is voluntary, so expanding the limit would again result
587 in potential misallocation of costs to these two rates classes, and consequently all rate
588 classes, as was the result in the 2004 Rate Case when Nicor Gas assumed that all 870
589 eligible customers would participate.

590 It makes no sense to do a cost of service study for Rates 5 and 75 already
591 knowing that 790 eligible customers that did not switch to Rates 5 or 75 would again
592 have to be included in the study. As stated in my rebuttal testimony, the overestimating
593 of the demand for seasonal use rates in the 2004 Rate Case caused Nicor Gas' final
594 ECOSS in that case to incorrectly allocate costs between Rates 4, 5, 74 and 75. (Mudra
595 Reb., Nicor Gas Ex. 29.0, 22:471-74). Based on its actual experience, Nicor Gas has now
596 properly forecasted the numbers of Rates 5 and 75 customers that it can expect during the
597 2009 test-year during this proceeding. Expanding enrollment applicability now to
598 include customers using up to 700,000 or 1.5 million therms annually, recognizing that
599 few, if any, of these customers would actually subscribe to Rates 5 and 75 services, only
600 serves to add inconsistencies to the Company's rate design and cost allocation principles.
601 Nicor Gas believes that neither Mr. Anderson nor Mr. Sackett have shown any evidence
602 that there is a demand by seasonal use customers to expand beyond the Company's

603 current level. The Commission should reject Mr. Sackett's careless review of this issue
604 as it will result in a misallocation of costs between rate classes. The Commission should
605 also reject Mr. Anderson's proposal because Nicor Gas agreed to offer a seasonal use rate
606 as a settlement with an intervening party in its 2004 rate case but that only 85 customers
607 are currently served under Rates 5 and 75. Mr. Anderson has not shown any demand for
608 the seasonal rates and any hypothetical expansion would likely result in misallocation of
609 costs to all rate classes in Nicor Gas' ECOSS.

610 **D. RATE 6 – LARGE GENERAL SERVICE, AND RATE 76 – LARGE**
611 **GENERAL TRANSPORTATION SERVICE**

612 **Q. How did Nicor Gas determine its proposed charges for Rates 6 and 76 and how**
613 **would it adjust its charges in the event a lower revenue requirement is determined**
614 **at the end of this proceeding?**

615 A. Rates 6 and 76 have a monthly customer charge and a single distribution charge. Nicor
616 Gas included the revenue increase for these customers within the monthly customer
617 charge. In the event a lower revenue requirement is allocated to these rate classes, Nicor
618 Gas would propose to only adjust the monthly customer charge.

619 **Q. What proposals for Rates 6 and 76 were made by Mr. Lazare? (Lazare Dir., Staff**
620 **Exs. 7.0, 7.04 and 7.06).**

621 A. Mr. Lazare does not specifically discuss his proposed rate design for Rates 6 and 76 in
622 his testimony, but he presents the proposed charges in Staff Exhibits 7.04 and 7.06. Mr.
623 Lazare proposes to increase Rate 6 customer charges to either \$726 or \$728 under his
624 proposed initial and alternate designs and Rate 76 to \$751 per month. Furthermore, he
625 proposes to increase the existing Rate 6 single distribution charge from 2.66 cents per

626 therm to 4 cents per therm. It appears that Mr. Lazare proposes to establish the monthly
627 customer charge to only recover customer costs from the ECOSS and then increase the
628 single distribution charge. He made no proposals related to how the charges should be
629 adjusted for a lower revenue requirement.

630 **Q. Why should the Commission reject Mr. Lazare's proposals?**

631 A. The Commission should reject Mr. Lazare's proposals for all the reasons stated above
632 with respect to residential service rates.

633 **E. RATE 7 – LARGE VOLUME SERVICE, AND RATE 77 – LARGE**
634 **VOLUME TRANSPORTATION SERVICE**

635 **Q. How did Nicor Gas determine its proposed charges for Rates 7 and 77 and how**
636 **would it adjust its charges in the event a lower revenue requirement is determined**
637 **at the end of this proceeding?**

638 A. Rates 7 and 77 have a monthly customer charge, a two-step distribution demand block
639 and a single distribution charge. Nicor Gas first increased the current monthly customer
640 charge by the same percentage as that for Rates 6 and 76 because of the similarity
641 between these rate classes with respect to fixed costs. The remaining revenue
642 requirements were then added to the existing demand charges on a cents per therm basis.
643 No change was made to the existing distribution charge.

644 In the event a lower revenue requirement is allocated to these rate classes, Nicor
645 Gas would propose to make the same adjustments as was done for its original proposal by
646 increasing the monthly customer charge the same percentage as for Rates 6 and 76 and
647 then make any remaining adjustment to the demand charges.

648 **F. DETERMINATION OF TRANSPORTATION SERVICE CHARGES**

649 **Q. What is the issue related to the determination of Transportation service Rates 74,**
650 **75, 76 and 77?**

651 A. IIEC witness Dr. Rosenberg disagrees with Nicor Gas' allocation of storage costs
652 (excluding storage losses and top gas) to Transportation service rates based on the full
653 cost allocation as opposed to the amount of storage the customers actually purchase.
654 (Rosenberg Reb., IIEC Ex. 2.0, 1:16-2:19).

655 **Q. How is storage allocated to these rate classes in Nicor Gas' ECOSS?**

656 A. The ECOSS allocates all storage costs (excluding storage losses and top gas) based on
657 the rate class' portion of peak-day use. It essentially assumes that each rate class is
658 allocated an equal portion of storage capacity of 28 times its peak-day and further
659 assumes that each rate class will use its allocated storage.

660 **Q. What is Dr. Rosenberg's concern about this storage allocation?**

661 A. I believe his point is that customers served under these rate classes are entitled to select
662 the amount of storage they want, which in total may be different than the 28 days
663 allocated to the rate class, and that should be the basis for the cost allocation.

664 **Q. Does Nicor Gas agree with his concern?**

665 A. No. It is proper to allocate the costs and design the rates based on the fact that each
666 Transportation rate class has the opportunity to take a full 28 days of storage capacity.
667 Each year, Transportation customers have the opportunity to select how much of the 28
668 days they wish to use. Nicor Gas believes it is proper to allocate the full storage costs to

669 these customers because each year customers have the opportunity to get the full 28 days
670 of capacity.

671 **Q. Dr. Rosenberg uses Rate 77 as an example of his problem with the cost allocation.**
672 **Do you agree with his example? (Rosenberg Reb., IIEC Ex. 2.0, 16:325-32).**

673 A. Yes. Rate 77 base rate charges are slightly higher because Rate 77 customers do not
674 select all 28 days of storage capacity. In the ECOSS, Rate 77 customers are allocated
675 \$2,591,000 of storage costs assuming they use all the capacity made available to them.
676 (Nicor Gas Ex. 49.1, Sch. E, p. 1). However, they currently only purchase \$2,580,000
677 worth of storage capacity (614,312,000 therms of capacity times \$0.0042) a difference of
678 \$11,000. The difference is still recovered from Rate 77 customers.

679 **Q. Why is it appropriate to recover the remaining \$11,000 from Rate 77?**

680 A. Nicor Gas' cost of service study assumes that Transportation customers will use 100% of
681 their allocated storage. As shown above, Rate 77 customers take 99.6% of their
682 allocation (\$2,580,000 divided by \$2,591,000). Nicor Gas believes that it is appropriate
683 to allocate 100% because each year Rate 77 customers can select 100% of their storage
684 allocation. Moreover, Nicor Gas' method gives them an amount each year that is
685 consistent with what Sales customers and Customer Select customers receive. Nicor Gas
686 believes that its method is fair and reasonable and consistent with the cost principles for a
687 cost of service study.

688 **Q. How do the other Transportation service rates compare to the Rate 77 allocation of**
689 **storage costs versus the amount purchased?**

690 A. Table 2 below shows the storage allocation cost from the ECOSS versus the amount of
 691 revenue based on the proposed billing units and charge. Table 2 shows that, on an
 692 individual rate basis, Rates 75 and 77 purchase somewhat less than their ECOSS
 693 allocation and Rates 74 and 76 purchase more than the ECOSS allocation. The combined
 694 rates purchase slightly more than the ECOSS storage allocation. This is because the
 695 ECOSS uses the more precise 27.5 days of storage capacity whereas Nicor Gas rounds
 696 this up to 28 days of storage entitlement to the Transportation service rates. Under Dr.
 697 Rosenberg's proposal, the ECOSS would allocate more storage costs to Rates 74 and 76
 698 and slightly less to Rates 75 and 77.

699 **Table 2:**

Comparison of Transportation Storage Cost Allocation and Purchase Selections						
\$ in 000's						
Line No.	Rate	Storage ECOSS ⁽¹⁾	Storage Purchased ⁽²⁾	Difference	Percent Difference	
1	Rate 77	\$ 2,591	\$ 2,580	\$ (11)	-0.42%	
2	Rate 76	\$ 2,946	\$ 3,045	\$ 99	3.36%	
3	Rates 74/75	\$ 7,853	\$ 8,033	\$ 180	2.29%	
4	Total	\$ 13,390	\$ 13,658	\$ 268	2.00%	
⁽¹⁾ Nicor Gas Ex. 49.1, Schedule E, Page 1 of 1.						
⁽²⁾ Nicor Gas Ex. 48.6, pages 3, 4 and 5.						

700 **Q. Would it be appropriate to accept Dr. Rosenberg's proposal to use the amount**
 701 **purchased in allocating storage costs?**

702 A. As shown above, the customers on Transportation service rates do purchase all of the
 703 amount allocated and in fact even more than what is in the ECOSS because of the
 704 rounding of the number of days of storage allocated to these rates. Implementing Dr.
 705 Rosenberg's proposal would shift the cost responsibility among the four rate classes and

706 should, in some manner, reduce the cost to Sales service. Nicor Gas would not be
707 opposed to making the allocation changes **if and only if**, the amount of storage allocated
708 to Transportation customers remains at the current level of 28 times a customer's
709 Maximum Daily Contract Quantity ("MDCQ").

710 **Q. Why is it important that the quantity allocated to Transportation remain at 28 times**
711 **the MDCQ?**

712 A. As explained in detail in Nicor Gas witness Gary Bartlett's direct testimony and as
713 discussed later in this testimony, the Commission will need to decide the proper amount
714 of storage to be allocated to Transportation customers, either the current 28 storage days
715 as proposed by Nicor Gas or 31 storage days as proposed by some intervenors. Dr.
716 Rosenberg's testimony makes no allowance for adjusting the Company's Storage
717 Banking Service ("SBS") billing determinants if a larger amount of storage is allocated to
718 Transportation customers but he does recommend a lower price, \$0.0038 versus \$0.0042.
719 Consequently, under Dr. Rosenberg's proposal there would be a significant under
720 collection of storage costs for Transportation customers.

721 For example, using the Rate 77 data above, the billing determinants of
722 614,312,000 would be multiplied by \$0.0038 getting only \$2,334,000 of revenue.
723 However, with 31 storage days, customers would have access to much more storage
724 capacity and would logically purchase more capacity so the billing determinants need to
725 be increased to reflect the increased purchases. Dr. Rosenberg does not mention this
726 problem in his testimony. If the Commission were to agree with Dr. Rosenberg to use
727 storage purchases to allocate costs and not the ECOSS allocation for a storage capacity,

728 the Commission needs to order Nicor Gas to make a corresponding increase to the SBS
729 billing determinants.

730 **Q. What is Nicor Gas' recommendation for increasing the SBS billing determinants if**
731 **the Commission determines the 31 days of storage capacity is appropriate for**
732 **Transportation customers?**

733 A. The record clearly shows that allocation of 100% of the available capacity to each of the
734 rate classes is the most reasonable forecast for what will be selected.

735 **Q. What is the Company's recommendation?**

736 A. The Commission should reject Dr. Rosenberg's proposal and maintain Nicor Gas'
737 method of allocating and recovering costs from each Transportation rate based on the
738 assumption that each rate class uses what it is made available to them. However, if the
739 Commission were to accept Dr. Rosenberg's position and allocate storage costs based on
740 purchases, and also determines a storage capacity different than the current 28 days, then
741 it should order Nicor Gas to adjust the SBS billing determinants to recover 100% of the
742 cost allocation from each class. The 100% of available storage capacity is the best
743 allocation, not knowing how much these classes will actually select if more storage
744 capacity is available. The table below demonstrates Transportation customers' historical
745 desire to elect their full SBS Entitlement.

746 **Table 3:**

**Transportation Customer SBS Allocations
Rates (74,75,76,77 and Rider 25)**

YEAR	Therms Requested SBS	Therms Allowed SBS	SBS Days*	26 Days SBS
2001	314,259,183	314,259,183	25.1	319,283,562
2002	323,800,998	319,726,384	26.0	319,283,562
2003	282,645,732	282,645,732	25.7	286,342,914
2004	321,351,617	302,074,952	26.1	301,240,836
2005	332,945,589	297,319,116	26.1	295,799,426

* 26 Days of SBS allowed until 2006

YEAR	Therms Requested SBS	Therms Allowed SBS	SBS Days	28 Days SBS
2006	351,300,698	306,017,298	28.2	303,424,408
2007	360,735,819	296,257,556	28.0	296,176,720
2008	379,414,289	312,215,304	28.1	311,102,820

- 747
- 748 **Q. What proposals for Rates 7 and 77 were made by Mr. Lazare? (Lazare Dir., Staff**
- 749 **Exs. 7.0, 7.04 and 7.06).**
- 750 A. Mr. Lazare proposes to increase Rate 7 customer charge to \$1,330 or \$1,332 and
- 751 proposes either flat demand charges for all units of demand initially or declining block
- 752 demand charges at levels which are higher than Nicor Gas' proposed rates. Furthermore,
- 753 Mr. Lazare's primary rate design includes dramatically increasing the tail block of the
- 754 Rate 77 demand charge from 4.32 cents per therm to 29 cents per therm requirement.
- 755 **Q. Should the Commission reject Mr. Lazare's Rate 7 and Rate 77 proposals?**
- 756 A. Yes. Overall, Mr. Lazare's proposals shift too many costs into Rates 7 and 77 demand
- 757 and commodity charges while proposing lower monthly customer charges than the
- 758 Company has proposed and should be rejected. His proposal, as pointed out by Dr.
- 759 Rosenberg, does not reflect the declining costs or economies of scale that are attributable

760 to large customers with high load factors and who use large volumes of natural gas.
761 (Rosenberg Reb., IIEC Ex. 2.0, 25:523-28:585). Consequently, the Company agrees with
762 Dr. Rosenberg that the Commission should reject Mr. Lazare's proposal.

763 **Q. Do you have any general observations on the rate designs presented in this case?**

764 A. Yes. Overall, Nicor Gas has presented a well-reasoned set of rate designs for all
765 customer classes that gradually increase the recovery of fixed costs through fixed
766 charges, consistent with recent Commission policy. When reviewed as a complete set,
767 and in comparison to the alternative designs proposed by Mr. Lazare, Nicor Gas'
768 proposed rate design will produce just and reasonable charges for all of its customer
769 classes.

770 **V. TERMS AND CONDITIONS**

771 **Q. Staff witness Boggs considered a number of modifications to Nicor Gas' Terms and**
772 **Conditions. (Boggs Dir., Staff Ex. 8.0, 10:203-24:475). Are there items on which**
773 **Nicor Gas and Mr. Boggs are now in agreement?**

774 A. Yes. After reviewing Nicor Gas' responses to his various data requests, Mr. Boggs has
775 accepted Nicor Gas' proposals to: (1) increase the charges for service pipe installations
776 above the free allowance; (2) increase the service reconnection charge to \$42.00;
777 (3) eliminate the Company's bi-monthly billing program; and (4) eliminate the
778 Company's vertical riser program. (Boggs Reb., Staff Ex. 21.0, 6:118-10:206).
779 Additionally, Nicor Gas accepts Mr. Boggs' recommendation to charge \$408.50 for
780 damages to plastic service pipes instead of the \$410.00 originally proposed by Nicor Gas.

- 781 **Q. Mr. Boggs also accepted Nicor Gas' proposal to increase its Non-Sufficient Funds**
782 **("NSF") from \$16.00 to \$25.00, which would recover the costs associated with NSF**
783 **items as well as include an economic incentive for customers to pay with proper**
784 **instruments. (Boggs Reb., Staff Ex. 21.0, 6:111-16). Does any other party object to**
785 **Nicor Gas proposed NSF charge?**
- 786 A. Yes. AG/CUB witness Rubin continues to dispute the need for Nicor Gas to increase its
787 NSF charge to \$25.00 given the small change in Nicor Gas' costs associated with NSFs.
788 (Rubin Reb., AG/CUB Ex. 5.0, 3:57-4:79).
- 789 **Q. Does Nicor Gas agree with Mr. Rubin's assessment of the Company's proposed NSF**
790 **fee?**
- 791 A. No. For all the reasons provided in rebuttal testimony, the Commission should approve
792 Nicor Gas' proposed \$25.00 NSF charge. (Mudra Reb., Nicor Gas Ex. 29.0, 28:598-
793 29:629). The proposed fee is consistent with the Commission's determinations in the
794 Peoples Gas Rate Case (Order at 261) and the MidAmerican Energy case (Docket No.
795 99-0534) to establish a NSF fee of \$25.00 and finding that the increase "would serve to
796 discourage payment with checks that are not valid." Peoples Gas Rate Case Order at 261.
797 Nicor Gas proposes to increase its NSF fee to the exact same prevailing rate of \$25.00
798 per NSF check in this proceeding and believes this amount would similarly act as an
799 incentive for customers to make proper remittance to the Company.
- 800 **Q. Did Vanguard witness Anderson initially make a recommendation to change the**
801 **Company's MDCQ calculation period during this proceeding? If so, how are the**
802 **MDCQs used by Transportation customers and the Company?**

803 Yes. Mr. Anderson recommended that the Company use only the “most complete winter
804 season, December through March.” (Anderson Dir., VES Ex. 1.0, 7:142). The MDCQs
805 are used to identify the maximum amount of Storage Banking Service capacity a
806 customer may elect (SBS Entitlement multiplied by MDCQ equals maximum amount of
807 Storage Banking Service capacity) and Firm Backup Service (“FBS”) quantities.
808 Furthermore, customers may elect to purchase anywhere from one MDCQ day to the
809 maximum outlined in Nicor Gas’ tariff Sheet 50.1.

810 **Q. Did Nicor Gas respond to Mr. Anderson on rebuttal and do Transportation**
811 **customers already have the opportunity to request changes in their MDCQs at any**
812 **time during the year?**

813 A. Yes. Nicor Gas responded to Mr. Anderson’s inquiry on rebuttal. (Mudra Reb., Nicor
814 Gas Ex. 29.0, 30:648-31:672). Annually, by March 1st, Nicor Gas notifies customers of
815 their new MDCQs, which are based on the complete prior year (and not just on a
816 December through March period), and Transportation customers are subsequently able to
817 request changes to the SBS capacity or FBS quantity by April 1st. The Company
818 evaluates all of the customers requested amounts and notifies them of the availability of
819 their request in late April, customers can then plan for the new amounts to be effective
820 June 1st. It is important to note that Transportation customers already are able to request
821 changes in their MDCQ levels, either upward or downward, at any time during the year
822 which provides them ample flexibility to request changes as needed. (Mudra Reb., Nicor
823 Gas Ex. 29.0, 31:665-72).

824 **Q. Did Mr. Anderson subsequently raise this issue again in his rebuttal testimony?**

825 A. No.

826 **Q. In his rebuttal testimony, Staff witness Sackett picks up on this issue and**
827 **recommends “that the [MDCQ] calculation be made late enough to include the most**
828 **recent heating season and that any other tariff requirements that need to be shifted**
829 **to make this possible be ordered” and “that the entire year May through April**
830 **should be used to account for those customers with seasonal usage pattern that may**
831 **use very little gas during the winter.” (Sackett Reb., Staff Ex. 24.0, 38:815-22).**
832 **Does the Company believe Mr. Sackett’s recommendation has merit?**

833 **A.** No. First, Mr. Sackett has not explained how changing the evaluation period to May 1st
834 of one year through April 31st of the following year would permit enough time for the
835 Company to undertake all of its required calculation, analysis and notification procedures
836 or for Transportation customers to select their SBS capacities and have them available for
837 use by June 1st. If the calculation process were started on May 1st, Nicor Gas would not
838 be able to notify Transportation customers of their new MDCQs until late June.
839 Transportation customers would then need to request changes and SBS levels by August
840 1st and customers would then be notified of the status of their requests by late August to
841 be effective in October 1st. Based on Mr. Sackett’s proposal, analysis and notification
842 timeline, Transportation customers would not be able to benefit from any changes to their
843 MDCQs until after the storage injection season is over. Second, Nicor Gas’ current
844 process already includes a full calendar year which accounts for customers that have
845 seasonal usage patterns and is better than using only three months as originally proposed
846 by Vanguard. Finally, Nicor Gas’ current process has worked well for many years, it is
847 not aware of any problems with the current process and it provides Transportation
848 customers with ample flexibility to requests changes in their MDCQs at any time during

849 the year. Therefore, the Commission should not order any changes in this process,
850 because doing so could create a number of unforeseen problems for the Company and its
851 Transportation customers alike.

852 **Q. The Company proposes a clarification to the heading in its Terms and Conditions,**
853 **Sheet No. 49, which addresses a concern of Staff witness Sackett. Please explain the**
854 **nature of this clarification.**

855 A. In data request DAS 7.08, Staff witness Sackett asked for a direct citation in the
856 Company's rebuttal testimony for the designation of the "Maximum Daily Nomination"
857 as being applicable year-around. In response to that data request, the Company proposes
858 to change its Sheet No. 49, denoting a change in the heading from "Daily Nomination
859 Limits" to "Maximum Daily Nominations." (See Nicor Gas Ex. 48.2).

860 **VI. STORAGE BANKING SERVICE AND RELATED CALCULATIONS**

861 **A. SBS ENTITLEMENT (28 DAYS)**

862 **Q. From a rate design perspective, what are the key objectives associated with the SBS**
863 **Entitlement computation?**

864 A. Two of Nicor Gas' key objectives are to establish (1) just and reasonable charges for
865 utility services and (2) equity between the rate classes. Nicor Gas recognizes the interests
866 of Transportation customers and their desire for more storage capacity; however, it
867 cannot ignore its obligation to provide all of its customer classes with an equal and fair
868 opportunity to access its available storage capacity. Nicor Gas will not receive a lower or
869 higher revenue requirement by establishing either lower or higher SBS Entitlement
870 figures of 28 days or 31 days respectively. Furthermore, as discussed later, Nicor Gas

871 will not receive higher or lower revenue requirements by establishing a SBS charge of
872 either \$.0042 per therm of capacity with a corresponding 28 day SBS Entitlement or
873 \$.0038 per therm of capacity with a corresponding 31 day SBS Entitlement (these
874 corresponding calculations are shown on Nicor Gas Ex. 28.8, lines 5 through 8). Nicor
875 Gas is permitted to recover its storage revenue requirement through a combination of its
876 Sales service base rates 1, 4, 5, 6 and 7, SBS charges from Transportation customers and
877 through Rider 5, Storage Service Cost Recovery. Nicor Gas' objective in this case is
878 simply to develop just and reasonable rates and to treat all of its customer classes fairly.

879 **Q. Has Staff witness Sackett incorrectly described Nicor Gas' formula to calculate the**
880 **number of peak days of storage capacity ("SBS Entitlement") that Nicor Gas has**
881 **available for all Sales, Transportation and Customer Select customers? (Sackett**
882 **Reb., Staff Ex. 24.0, 19:383-94).**

883 A. Yes. Nicor Gas determined the number of peak days of storage capacity available to all
884 Sales, Transportation and Customer Select customers as illustrated in my rebuttal
885 testimony. (Mudra Reb., Nicor Gas Ex 29.0, 39:852-53). It was determined by dividing
886 1,346,330,000 therms of storage capacity by 49,000,000 peak day therms which resulted
887 in 27.5 peak days of capacity (which was then rounded to 28 days). Mr. Sackett's
888 testimony is completely wrong. (Sackett Reb., Staff Ex. 24.0, 19:385-95). CNE witness
889 Fabrizius gets this issue right in her rebuttal testimony. (Fabrizius Reb., CNE-Gas
890 Ex. 3.0, 6:117-19). Mr. Sackett's references to DAS 7.22(f) and CNE 2.01 only illustrate
891 that he has confused a portion of the formula used for computing the 0.018 component of
892 the Storage Withdrawal Factor ("SWF") formula with the SBS Entitlement calculation
893 which produced 28 days. Mr. Sackett should reference Nicor Gas' response to data

894 request DAS 4.03 Exhibit 4 and note that line 3 illustrates the computation of the 28 days
895 of storage and line 8 illustrates the calculation that was used to derive the 0.018 factor
896 (1.8%). Finally, his reference to the response to data request IIEC 2.02 supports the fact
897 that Nicor Gas arrived at 28 peak days exactly as described above and the fact that
898 IIEC 2.02 was a corrected response has nothing to do with the calculations or assertions
899 Mr. Sackett presented in his rebuttal testimony. (Sackett Reb., Staff Ex. 24.0, 19:383-
900 95).

901 **Q. Has Nicor Gas properly computed that 28 peak days of storage capacity are**
902 **available to all Sales, Customer Select and Transportation customers?**

903 A. Yes. Mr. Bartlett testifies that 134.6 Bcf (1,346,330,000 therms) represents the
904 maximum amount of non-coincident on system storage capacity that is available for all of
905 Nicor Gas' customers in the 2009 test year. Because Nicor Gas' 2009 test-year peak day
906 is 4.9 Bcf (49,000,000 therms), it has $134.6 \text{ Bcf} / 4.9 \text{ Bcf} = 27.5$ which is rounded to 28
907 peak days of storage capacity, which Transportation customers should be entitled to elect
908 through the SBS. Simply put, Nicor Gas is providing a capacity-based Storage Banking
909 Service to its customers which is dependent upon the amount of storage capacity which
910 can be utilized by and sold to its customers—and this amount is 134.6 Bcf.

911 **Q. Can you provide a simplified illustration of the SBS Entitlement issue?**

912 A. Yes. For example, if a grocer wanted to sell an equal share of 135 lbs of bananas to three
913 customers it's clear that each customer should only be allowed to purchase 45 lbs of
914 bananas (135 lbs divided by three customers = 45 lbs per customer). In Nicor Gas' case,
915 it has 134.6 Bcf of storage capacity available for sale and a 4.9 Bcf peak day; therefore,

916 to be fair, it can offer 134.6 Bcf of storage divided by 4.9 Bcf or approximately 28 peak
917 days of storage capacity.

918 If the grocer were to mistakenly use 150 lbs of bananas in his calculations he
919 would incorrectly conclude that he could offer 50 lbs of bananas to each customer
920 (150 lbs divided by three customers = 50 lbs per customer). If the first two customers
921 come in to the store first and each pick up their 50 lbs of bananas then the grocer will
922 only have 35 lbs of bananas left for his last customer (135 lbs minus 100 lbs = 35 lbs).
923 The last customer will not be happy when she arrives and finds that she can only
924 purchase 35 lbs of bananas when she was hoping to get an equal share of the bananas. In
925 fact, the first two customers have made off with 10 lbs of her bananas.

926 In Nicor Gas' case, using 149.7 Bcf of storage capacity would incorrectly enable
927 the Transportation and Customer Select customers to come into the store first and pick up
928 31 peak days of storage capacity because these customers are granted the right ("SBS
929 Entitlement") to purchase up to 31 peak days of capacity in their tariffs. Sales customers
930 do not receive a specific SBS Entitlement within their tariffs and can only utilize the
931 actual, available storage capacity that the Transportation and Customer Select customers
932 do not utilize so they will come into the store last and can only pick up the remaining
933 capacity. Therefore, by fairly determining the SBS Entitlement based on the maximum
934 amount of non-coincident storage capacity, which is operationally available, of
935 134.6 Bcf, then Transportation, Customer Select and Sales customers will all have equal
936 access to Nicor Gas' 28 peak days of storage capacity. From a ratemaking perspective,
937 Nicor Gas' objective is only to establish fairness within the SBS Entitlement calculation

938 process. An illustration of the SBS Entitlement calculations under Nicor Gas' proposal
939 and the other parties in this case is illustrated on Nicor Gas Exhibit 48.8, lines 1-4.

940 **Q. Does Staff witness Sackett recognize that Nicor Gas only has 134.6 Bcf of storage**
941 **capacity that is operationally available? Further, does he recognize that over-**
942 **allocating SBS rights to Transportation and Customer Select customers would have**
943 **a detrimental impact on Sales customers? (Sackett Reb., Staff Ex. 24.0, 20:416-21**
944 **and 21:434-41).**

945 A. It is unclear. Mr. Sackett recommends that if the Commission should decide to base the
946 SBS Entitlement on the amount of capacity that is operationally available then it should
947 use a four-year average of the annual non-coincident peaks of 137.2 Bcf. (Sackett Reb.,
948 Staff Ex. 24.0, 21:434-41).

949 **B. SBS CHARGE CALCULATION**

950 **Q. How does Nicor Gas respond to Mr. Sackett's characterization of the purpose of the**
951 **SBS charge and that "[t]he SBS Charge is a method of allocating the storage**
952 **revenue requirement for underground storage costs between sales and**
953 **transportation customers. It has nothing to do with how much the utility should**
954 **recover for its gas storage costs excluding top gas." (Sackett Reb., Staff Ex. 24.0,**
955 **26:548-52).**

956 A. I would not characterize the situation in this fashion. First, the storage revenue
957 requirement is determined by the ECOSS. It is actually within the ECOSS that the
958 storage revenue requirement is allocated to the rate classes and it is not allocated through
959 the SBS charge as Mr. Sackett suggests. Second, the SBS charge does have a great deal

960 to do with how much the utility should recover for its gas storage costs, excluding top gas
961 and gas storage losses, on a per unit basis. Therefore, the SBS charge is a meaningful
962 charge that must be established correctly in order to properly price each unit of storage
963 capacity.

964 **Q. Does it make sense to base the SBS charge on 149.7 Bcf of storage capacity as**
965 **witnesses Ms. Fabrizius, Dr. Rosenberg and Mr. Sackett have suggested? (Fabrizius**
966 **Reb., CNE-Gas Ex. 3.0, 14:288-92; Rosenberg Reb., IIEC Ex. 2.0, 29:616-17;**
967 **Sackett Reb., Staff Ex. 24.0, 27:580-28:590).**

968 A. No. Nicor Gas is selling an equal number of units of actual, usable, storage capacity to
969 its customers of 134.6 Bcf which is the maximum amount of storage capacity that is
970 operationally available and therefore represents the maximum amount that Sales,
971 Transportation and Customer Select customers can use. If the SBS charge is based on
972 149.7 Bcf units of capacity then the service will be under-priced at \$.0038 per therm of
973 capacity per month rather than at \$.0042 per therm of capacity per month as shown on
974 Nicor Gas Exhibit 48.8, row 8.

975 **Q. Can you provide a simplified illustration of the SBS charge calculation issue?**

976 A. Yes. For example, using our prior example of the grocer who has 135 lbs of bananas to
977 sell and assuming that the grocer's costs and profit total \$80.00, then it is evident that the
978 grocer would sell the bananas for about \$.59 per pound ($\$80.00 \div 135 \text{ lbs} = \$.59$
979 per pound). If the grocer priced the bananas using something other than the actual
980 number of pounds of bananas he had available for sale, lets say 150 pounds rather than
981 135 pounds, then he would under-price his product at only \$.53 per pound ($\80.00
982 $\div 150 \text{ lbs} = \$.53$ per pound). When the grocer sells all of his product or

983 135 pounds of bananas at \$.53 cents per pound he will only receive \$71.50 which is less
984 than his revenue requirement of \$80.00

985 In this case, if a Transportation customer has a peak day MDCQ (Maximum Daily
986 Contract Quantity) of 5,000 therms then he would be entitled to 5,000 therms multiplied
987 by 28 days which equals 140,000 therms of SBS capacity. Likewise, he would pay the
988 proposed capacity-based charge of \$.0042 per therm of capacity each month or 140,000
989 therms times \$.0042 per month equals \$588 per month. The customer pays this capacity-
990 based charge regardless of how much or how little he has in storage. However, if the
991 Company were to utilize 149.7 Bcf of capacity, and that capacity is not operationally
992 available as discussed by Mr. Bartlett (Nicor Gas Ex. 38.0), then the price of the SBS
993 capacity would only be \$.0038 per therm (as shown on Nicor Gas Exhibit 48.8, line 8
994 using the other figure of 149.7 Bcf of capacity).

995 With an SBS Entitlement based on 149.7 Bcf, the Transportation customer would
996 now receive 31 days of storage capacity (Nicor Gas Exhibit 48.8, line 4 with 149.7 Bcf of
997 capacity) and receive access to 155,000 therms of storage capacity (31 days times 5,000
998 therm MDCQ) but would continue to pay only about \$588 per month (\$.0038 times
999 155,000 therms). Clearly, the Transportation customer has received an extra three days
1000 of SBS capacity (31 days minus 28 days equals 3 days) or 15,000 therms of additional
1001 storage capacity (155,000 therms minus 140,000 therms equals 15,000 therms) for free
1002 because he has not paid any more for the service than \$588 per month, which is what
1003 should have been paid if Nicor Gas' proposed SBS Entitlement of 28 days and proposed
1004 SBS charge of \$.0042 per unit of capacity were accepted by the Commission.

- 1005 **Q. Has Dr. Rosenberg identified an error in your rebuttal testimony regarding the**
1006 **amount of storage capacity that is allocated to Transportation customers?**
1007 **(Rosenberg Reb., IIEC Ex. 2.0, 33:692-34:712).**
- 1008 A. Yes. In response to data request IIEC 1.12, Nicor Gas had previously informed IIEC that
1009 its Transportation customers have the rights to approximately 35.6 Bcf of storage
1010 capacity in total and that figure included all customers on Rider 25 and Rates 74, 75, 76,
1011 77 and Rates 17 and 19. However, in Nicor Gas Exhibit 29.0, page 42, Table 5, line 2,
1012 Nicor Gas utilized 35 Bcf (35,000,000 therms) but it should have shown only the
1013 amounts applicable to Rates 74, 75, 76, 77 and Rider 25 customers which is about
1014 312,592,000 therms (31.2 Bcf) on line 2, and line 4 should have shown amounts utilized
1015 by Rates 17 and 19 separately of 43,736,000 therms (4.37 Bcf) for a total of
1016 approximately 35.6 Bcf for Transportation customers. These figures reflect the correct
1017 information that should have been shown in Tables 4, 5 and 7 in my rebuttal testimony.
1018 (*See also* Nicor Gas Ex. 48.11). This would reduce my earlier estimate of about 5.0 Bcf
1019 of additional storage capacity that would be granted to Transportation and Customer
1020 Select customers with a 31 day SBS Entitlement to approximately 4.65 Bcf of additional
1021 capacity. (Mudra Reb., Nicor Gas Ex. 29.0, 42:880 Line 5).
- 1022 **Q. After updating the Tables you mentioned above, what is the Company's response to**
1023 **Dr. Rosenberg's discussion about over-allocating storage capacity to**
1024 **Transportation customers and under-allocating storage to Sales customers?**
1025 **(Rosenberg Reb., IIEC Ex. 2.0, 33:692-34:712).**
- 1026 A. Dr. Rosenberg asserts that I have neglected the fact that Transportation customers would
1027 pay for their additional capacity; however, I have shown that paying for more capacity at

1028 a lower rate and ultimately paying the same amount per month is not, in fact, paying any
 1029 more for that capacity. For example, if Transportation customers on Rates 74, 75, 76, 77
 1030 and Rider 25 are entitled to receive an incorrect SBS Entitlement of 31 days and an
 1031 artificially low rate of \$.0038 per therm then they would pay approximately \$15.7 million
 1032 per year for 346,084,000 therms of capacity (31 days). This is approximately the same
 1033 amount they would pay per month if they had received 28 days of capacity or
 1034 312,592,000 therms priced at the correct rate of \$.0042 per therm per month or about
 1035 \$15.7 million per month. Therefore, it is clear that these Transportation customers
 1036 (excluding Customer Select and Rates 17 and 19) would receive about 3.3 Bcf of
 1037 capacity for free if the SBS Entitlement is set at 31 days and the SBS charge is lowered to
 1038 \$.0038 per therm. Nicor Gas has not earned any incremental new contribution to its fixed
 1039 cost of storage because the Transportation customers have paid the same price while
 1040 receiving 3.3 Bcf of capacity for free. The following table is a simple illustration of the
 1041 above discussion showing the revenue differences for the two scenarios.

1042 **Table 4:**

Transportation Customer SBS Revenues (Rates 74, 75, 76, 77 and Rider 25)			
Line #		Nicor	IIEC/CNE/Staff
1	SBS Entitlement (Days) Rounded	28	31
2	MDCQs – Transportation (Therms)	11,164,000	11,164,000
3	Transportation Storage Capacity (Ln 1 x Ln 2)	312,592,000 Therms	346,084,000
4	SBS Charge	\$ 0.0042	\$ 0.0038
5	Annual SBS Revenues (Ln 3 x Ln 4 x 12)	\$ 15,758,809	\$ 15,687,030

1043 Dr. Rosenberg states that Transportation customers only cycle a fraction of the
 1044 maximum storage capacity to which they are entitled. However, the issue of SBS
 1045 Entitlement rights is about assigning equal storage capacity rights to customers.

1046 Therefore, if a Transportation customer elects not to fully cycle their SBS Entitlement
1047 that does not change the fact that allocating 31 peak day rights to Transportation
1048 customers would leave Sales customers with less than their fair share.

1049 Finally, Dr. Rosenberg asserts that Nicor Gas is cycling less than its maximum
1050 storage capacity. Once again, the key issue regarding allocation of SBS Entitlement
1051 rights is to allocate an equal number of days of capacity to all customers. Nicor Gas
1052 proposes to allocate capacity based on the maximum amount of non-coincident storage
1053 capacity of 134.6 Bcf, which is different than the amount that may be cycled if
1054 Transportation customers or Nicor Gas does not fully cycle its inventory.

1055 **1. STORAGE WITHDRAWAL FACTOR – STORAGE**
1056 **WITHDRAWAL CONSTANT**

1057 **Q. Does Mr. Sackett recommend that Nicor Gas refer to the 0.018 factor which Nicor**
1058 **Gas proposed as the “Storage Withdrawal Constant” (“SWC”) and would Nicor**
1059 **Gas agree to this change? (Sackett Reb., Staff Ex. 24.0, 29:615-26).**

1060 **A.** Yes. Although I would note that this “constant” can change in future rate cases and that
1061 it was discussed under the heading of “Storage Withdrawal Rights” in the Order in the
1062 2004 Rate Case Order. (Order at 121-26).

1063 **Q. Please describe the real purpose of the “Storage Withdrawal Constant” that is**
1064 **discussed by Mr. Sackett (Sackett Reb., Staff Ex. 24.0, 29:615-26) and**
1065 **Ms. Fabrizius (Fabrizius Reb., CNE Ex. 3.0, 21:438-23:489).**

1066 **A.** The real purpose of the computation should be to derive a constant that when multiplied
1067 by the SBS Entitlement days approved in this proceeding yields a result that is
1068 approximately equal to the proportion of gas which can be withdrawn from Nicor Gas’

1069 storage field on a Critical Day. For example, since Nicor Gas' system can withdrawal
1070 approximately 51% from storage on a peak day (25,000,000 therms from storage /
1071 49,000,000 peak day therms equals 51%) then a Transportation customer should be able
1072 to withdrawal 51% of their Peak Day from storage on a Critical Day or Operational Flow
1073 Order ("OFO") Shortage Day provided that their SWF factor is equal to 1.0 because they
1074 have met the storage fill requirements as described in the Terms and Conditions. (Nicor
1075 Gas Ex. 48.2, Sheet No. 50).

1076 **Q. Can you please give an example of how this would work for an individual**
1077 **Transportation customer?**

1078 A. Yes. For example, if a customer had a peak day load of 2,000 therms (MDCQ = 2,000)
1079 and she elected 28 days of SBS capacity then she would receive 56,000 therms of storage
1080 capacity (2,000 therms times 28 days equals 56,000 therms). In other words, she has
1081 received an amount of storage capacity which is equivalent to 28 peak days. Therefore,
1082 on a Critical Day or OFO shortage Day Nicor Gas would expect her to use her MDCQ of
1083 2,000 therms but would only like her to withdrawal no more than 1,020 therms from
1084 storage (2,000 X 0.51). Based on a storage capacity of 56,000 therms (MDCQ times 28
1085 days) multiplied by a factor of 0.0182 she should be able to withdraw about 1,019.2
1086 therms.

1087 **Q. What was the method Nicor Gas initially proposed to calculate this factor in this**
1088 **case?**

1089 A. Nicor Gas originally proposed to compute this factor based on a computation that used
1090 the "rounded" number of peak days of storage (28 days) in the following formula which
1091 was rounded to 0.018.

1092 Factor = $\frac{2.5 \text{ Bcf Peak Day Storage Capability}}{(28 \text{ SBS Days} \times 4.9 \text{ Peak Days})} = 0.0182$
 1093

1094 **Q. Does this method produce the intended result?**

1095 A. Yes. It is the approximate amount derived when multiplying 0.018 times 28 days equals
 1096 50.4%; however, because the factor is currently only carried to three places past the
 1097 decimal it does not reach the full 51% target.

1098 **Q. Does this method differ from the equation cited by Ms. Fabrizius (Fabrizius Reb.,**
 1099 **CNE-Gas Ex. 3.0, 22:469) and used in the 2004 Rate Case (Order at 121)?**

1100 A. Yes. Ms. Fabrizius has correctly pointed out that 149.74 Bcf was used in the
 1101 denominator in the 2004 Rate Case rather than the product of 28 days times 5.258 Bcf
 1102 which had been used in the Company's models in 2004 which I had believed were used
 1103 in the 2004 Rate Case. As shown by Ms. Fabrizius, both of these methods produced a
 1104 factor of .017 when rounded to three places past the decimal which contributed to the
 1105 confusion. The only difference between the formulas is that one method uses the
 1106 rounded number of days of storage which is granted to Transportation customers and the
 1107 other method uses the actual amount of storage capacity. (Fabrizius Reb., CNE-Gas
 1108 Ex. 3.0, 22:460-72).

1109 **Q. Should the Storage Deliverability Component necessarily be a contentious issue in**
 1110 **this proceeding?**

1111 A. No. There is disagreement about how much SBS capacity is available (136.4 Bcf or
 1112 149.7 Bcf); however, I believe there can be agreement on how much Nicor Gas can
 1113 withdraw from storage on a Critical Day and Nicor Gas intends to grant Transportation
 1114 customers their full rights to withdraw approximately the same proportion of their peak

1115 day MDCQ as the Nicor Gas system can withdraw on a Critical Day or about 51% as
1116 discussed earlier.

1117 **Q. What does Ms. Fabrizio recommended the Commission do about the computation**
1118 **of this factor? (Fabrizius Reb., CNE-Gas Ex. 3.0, 23:491-99).**

1119 A Ms. Fabrizio recommends the Commission use “peak day send-out (amount of gas
1120 withdrawn from storage on a peak day) divided by the peak non-coincident work gas
1121 capacity.” (Fabrizius Reb., CNE-Gas Ex. 3.0, 23:491-99). Although she has not
1122 provided a numerical example, I believe she would like the Commission to use 2.5 Bcf
1123 divided by 149.7 Bcf which equals a “Storage Withdrawal Constant” of .0167 and she
1124 would like a corresponding SBS Entitlement of 31 peak days. Although a factor of .0167
1125 is close to the correct value if an SBS Entitlement of 31 days is granted to Transportation
1126 customers it still does not exactly equal 51% when multiplied by 31 days (.0167 times 31
1127 days equals 51.77%). Furthermore, if the Commission approves 134.6 Bcf then the
1128 result, under Ms. Fabrizio’s method, would be 2.5 Bcf divided by 134.6 Bcf which equals
1129 .0186 which when multiplied by a 28 day SBS Entitlement would equal 52.08%.
1130 Therefore, under either approach the result approaches 51%, but does not secure the most
1131 accurate answer.

1132 **Q. What is the Company’s “Storage Withdrawal Constant” factor proposal?**

1133 A. As shown on Nicor Gas Exhibit 48.8, lines 9-13, the Company’s proposes for the
1134 Commission to divide the proportion of deliveries that Nicor Gas can pull out of storage
1135 on a peak day (2.5 Bcf divided by 4.9 Bcf) which equals approximately 51% by the
1136 number of SBS Entitlement days granted by the Commission to Transportation customers
1137 in this proceeding. If the Commission grants 28 days, as shown in Nicor Gas Exhibit

1138 48.8, column A, then it should set the "Storage Withdrawal Constant" at 0.0182 (Nicor
1139 Gas Ex. 48.8, ln. 13, col. A), which when multiplied by 28 peak days will naturally equal
1140 51%. Likewise, if the Commission were to approve a 31 day SBS Entitlement, as shown
1141 in Column B, then it should establish the Storage Withdrawal Component at 0.0165
1142 which when multiplied by 31 peak days will naturally equal 51%. Nicor Gas will
1143 propose to complete the necessary computer programming to extend this factor to four
1144 places past the decimal, which it would do before November 1, 2009, and then
1145 Transportation customers would receive the correct amount of storage deliverability on
1146 Critical Days and OFO shortage days.

1147 **2. RATES 6 AND 7 – GAS SUPPLY COMPONENT (1)**

1148 **Q. Does Nicor Gas' proposed computation of the Storage Withdrawal Constant of**
1149 **0.0182 using the method outlined in Nicor Gas Exhibit 48.8 have implications for**
1150 **Sales service Rates 6 and 7 and Rider 25, Firm Transportation Service customers?**

1151 **A.** Yes. As shown on Nicor Gas Exhibit 48.8, rows 14-16, the Gas Supply Component (1)
1152 should be reduced from Nicor Gas' initial proposal of .50 to .49. The purpose of this
1153 factor is to reflect the proportion of pipeline deliveries (in decimal form) which is equal
1154 one minus the proportion of storage deliveries. As shown on lines 15 and 16, this factor
1155 would be 1.0 minus .51 equals .49. This factor is used to determine gas supply cost for
1156 customers served under Rates 6 and 7 and Rider 25.

1157 **Q. In his direct testimony, Staff witness Boggs expressed a reluctance to accept Nicor**
1158 **Gas' proposed change in the Company's Gas Supply Cost multiplier used for Rider**
1159 **25, Firm Transportation Service customers. (Boggs Reb., Staff Ex. 21.0, 10:189-96).**
1160 **Has Mr. Boggs now accepted the proposed change?**

1161 A. Yes. Nicor Gas provided Mr. Boggs with additional information on how the multiplier is
1162 developed and its relation to other transportation service provisions. Specifically, Nicor
1163 Gas provided data supporting its proposed revision that the Gas Supply Cost multiplier
1164 should be lowered from 0.53 to 0.50 on Sheet Nos. 12, 13 and 76. Based on this
1165 information, Mr. Boggs now accepts Nicor Gas' 0.50 factor. (Boggs Reb., Staff Ex. 21.0,
1166 10:189-96).

1167 **Q. Based on the revised computations shown on Nicor Gas Exhibit 48.8 (Line 15),**
1168 **should the Commission approve a Gas Supply Component (1) factor of .49 rather**
1169 **than the .50 which was originally proposed by the Company.**

1170 A. Yes.

1171 **VII. STORAGE BALANCE TRANSFERS**

1172 **Q. Vanguard witness Anderson (Anderson Reb., VES Ex. 2.0, 2:26-36) and Staff**
1173 **witness Sackett (Sackett Reb., Staff Ex. 24.0, 36:771-37:794) propose that Nicor Gas**
1174 **allow the trading of storage balances essentially at any time. What are Nicor Gas'**
1175 **current provisions for trading storage balances?**

1176 A. Storage balance trading is currently allowed when a customer is in an excess storage
1177 position, meaning it has more gas in storage than its allowable storage capacity. The
1178 existing provision allows a customer to avoid reoccurring excess storage balance
1179 penalties of \$0.10 per therm. This is the only condition a customer would suffer an
1180 economic penalty based on the amount of therms of gas in storage.

1181 **Q. Why does Nicor Gas oppose the proposals by Vanguard and Staff regarding storage**
1182 **balances trading?**

1183 A. Neither Mr. Anderson nor Mr. Sackett have provided any useful analysis supporting the
1184 proposed change. They have not shown any widespread demand for the change, how
1185 much trading may take place, how many employees Nicor Gas may need if in fact there
1186 is a demand for trading. There has been no analysis to justify an open-ended trading
1187 proposal, especially when the current provision allows for trading when and only when
1188 there can be a penalty for excess storage balances. Finally, this proposal may enable
1189 Suppliers to trade gas multiple times in order to meet storage capacity targets in order to
1190 game the system which would be counter productive to Nicor Gas' existing transportation
1191 tariff provisions.

1192 Nicor Gas is in the business of delivering gas. Allowing storage to be traded on
1193 any day for any reason is a non-utility service that most likely would benefit suppliers
1194 and only a handful of customers. Nicor Gas believes the suppliers will attempt to profit
1195 by buying and selling storage gas numerous times although this service is not necessary
1196 as a basic component of Nicor Gas' transportation service. Under this scenario, Nicor
1197 Gas essentially becomes a "back-office" for suppliers trying to wheel and deal storage
1198 supplies. Moreover, allowing storage balance trading for all transportation customers, in
1199 conditions where no economic hardship exists, increases the probability that a supplier,
1200 acting as the customer's agent, would transfer gas away from a customer's storage
1201 inventory gas which he has previously paid for which might create customer problems.

1202 **A. RIDER 13 SUPER POOLING**

1203 **Q. CNE witness Rozumialski recommends the concept of super pooling for commonly-**
1204 **managed groups on Critical Days. (Rozumialski Reb., CNE-Gas Ex. 4.0, 11:204-**

1205 **17:356). Staff witness Sackett agrees. (Sackett Reb., Staff Ex. 24.0, 39:845-48).**

1206 **Please summarize Ms. Rozumialski's request.**

1207 A. Ms. Rozumialski requests that, on a Critical Day, Nicor Gas look at commonly-managed
1208 pools in aggregate before assessing the Company's \$6.00 penalty for unauthorized gas
1209 use. To implement this proposal the Company would have to net all gas deliveries and
1210 storage balances for every customer across all of the Supplier's groups before
1211 determining whether or not to assess the Company's Unauthorized Use Charge. Further,
1212 the Company would be tasked with performing this function for each and every supplier.

1213 **Q. Please explain how the Company proposes to resolve CNE's super pooling concern.**

1214 A. Nicor Gas proposes to offer a process whereby the Company would subsequently waive
1215 the penalty portion of the Unauthorized Use Charge on a Critical Day for commonly-
1216 managed Rider 13 non-common ownership groups. The Supplier would be required to
1217 review their prior month bills during which an Unauthorized Use Charge occurred and
1218 would provide Nicor Gas with sufficient documentation, on a form that Nicor Gas will
1219 develop (in conjunction with Rider 13 suppliers), that would illustrate that their other
1220 Rider 13 groups had excess deliveries of sufficient quantity to alleviate all or a portion of
1221 the unauthorized use condition. The penalty charge that would be waived is currently
1222 \$6.00 for each therm of Unauthorized Use of Company-supplied gas. Assuming the
1223 Supplier is correct, a credit for the penalty charge of \$6.00 per therm would then be
1224 applied to the Supplier's account in a subsequent billing period.

1225 The Company does not propose this alternative for other types of customer groups
1226 outside of Rider 13 for the reasons cited by Nicor Gas previously. (Mudra Reb., Nicor
1227 Gas Ex. 29.0, 34:724-35:744). All charges and purchases of Company-supplied gas,