

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)

Rebuttal Testimony of

KEVIN W. KIRBY

Vice President – Customer Care
Nicor Gas Company

September 25, 2008

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TABLE OF CONTENTS

	Page
I. Introduction.....	1
II. Purpose of Rebuttal Testimony.....	1
III. Summary of Conclusions.....	1
IV. Attachments to Rebuttal Testimony.....	2
V. Uncollectible Expense and Charge-Off.....	3
VI. Operating Expenses	7
VII. Bi-Monthly Billing Program.....	15
VIII. Nicor Gas' Collection Efforts	17
IX. Transportation Customer Recommendations.....	22
X. Customer Data Analysis	23
XI. Conclusion	26

1 **I. INTRODUCTION**

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

3 A. Kevin W. Kirby, Nicor Gas Company (“Nicor Gas” or the “Company”), 1844 Ferry
4 Road, Naperville, Illinois 60563.

5 **Q. Are you the same Kevin W. Kirby who submitted direct testimony on behalf of**
6 **Nicor Gas in this Docket?**

7 A. Yes.

8 **II. PURPOSE OF REBUTTAL TESTIMONY**

9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purposes of my testimony is to respond to the direct testimony of Illinois Commerce
11 Commission (the “Commission” or “ICC”) Staff witnesses Dianna Hathhorn, Burma
12 Jones, Christopher Boggs and Peter Lazare; the Office of the Illinois Attorney General
13 (“AG”) and Citizens Utility Board (“CUB”) (collectively “AG/CUB”) witnesses David
14 Effron and Scott Rubin; and Vanguard Energy Services (“VES”) witness Neil Anderson.

15 **III. SUMMARY OF CONCLUSIONS**

16 **Q. Please summarize your conclusions.**

17 A. I conclude the following:

- 18 • The upward trend in the amount of charge-off reflects the Company’s experience
19 over the last several years: that economic conditions, when coupled with the
20 historic highs and volatility in gas costs, results in increased charge-off and a
21 corresponding increase in uncollectible expense. This upward trend has proven
22 resistant to improvements in collection efforts.
- 23 • Operating Expenses, including those included in Account 903 - Customer
24 Records and Collections Expense, are prudent and reasonable. Among the

25 expenses included in Account 903 are those attributable to the increase in postage
26 related to Nicor Gas' elimination of the summer billing program. Expenses from
27 Nicor Gas' participation in the Salvation Army "Sharing" program should be
28 allowed as a legitimate Charitable Contribution. The "Sharing" program has
29 proven effective at helping customers who have difficulty paying their bills, and
30 the Company's participation in the program also supports its efforts in controlling
31 uncollectible expense.

32 • Nicor Gas is committed to controlling customer charge-off, as demonstrated by
33 the effectiveness of its debt collection practices and continued initiatives designed
34 to assist its customers in paying their bills.

35 • The elimination of the Summer Billing Program and bi-monthly billing program
36 is essential to the success of the Day Sales Outstanding ("DSO") reduction
37 project, reducing DSO by 10 days and to achieving the cash working capital
38 savings, the substantial benefit of which is included in rate base.

39 • VES witness Anderson proposed modifications to Nicor Gas' practices should be
40 rejected, because the Company's current systems cannot effectively accommodate
41 open imbalance trading of gas in storage for Transportation customers.

42 • The analysis of consumption data performed by AG/CUB witness Rubin is fatally
43 flawed, and Mr. Rubin's resultant derived from conclusions Nicor Gas' customer
44 count must be rejected.

45 **IV. ATTACHMENTS TO REBUTTAL TESTIMONY**

46 **Q. Please identify the exhibit(s) attached to your rebuttal testimony.**

47 **A.** I am sponsoring the following exhibits:

48 • Nicor Gas Ex. 21.1 is a chart illustrating the trend in charge-off over the last
49 7 years;

50 • Nicor Gas Ex. 21.2 is a report on the Nicor Gas Sharing program as administered
51 by the Salvation Army;

52 • Nicor Gas Ex. 21.3 documents Nicor Gas' "Billing Every Customer Every
53 Month" program, or "BECEM," which is the nickname conferred upon the
54 Company's elimination of the Summer Billing program and bi-monthly program.
55 Exhibit 21.3 was provided in response to data request Staff CB 2.05;

- 56 • Nicor Gas Ex. 21.4 documents additional credit and collection efforts, and was
57 provided by the Company in response to data request Staff DLH 18.02;
- 58 • Nicor Gas Ex. 21.5 explains improvements and changes to our credit and
59 collections procedures, and was provided in response to data request AG 3.56(e)
60 as Exhibit 2; and
- 61 • Nicor Gas Ex. 21.6 is a comparison of Nicor Gas' charge off as a percent of
62 revenue to other Midwest utilities.

63 **V. UNCOLLECTIBLE EXPENSE AND CHARGE-OFF**

64 **Q. Have you read the testimony of AG/CUB witness Mr. Efron?**

65 A. Yes. My testimony will address those parts of Mr. Efron's testimony in which he
66 disputes the Company's projected test year uncollectible rate of 2.25% and the rate of
67 charge-off upon which the forecasted uncollectible rate depends. (Efron Dir., AG/CUB
68 Ex. 1.0, 22:10-25:3). Specifically, my testimony addresses the level of charge-off
69 experienced by the Company and used to forecast the uncollectible rate.

70 **Q. Do you agree with Mr. Efron regarding his determination of the Company's**
71 **uncollectible accounts rate? (Efron Dir., AG/CUB Ex. 1.0, 24:4-25:3).**

72 A. No. Mr. Efron's contention that the Company inappropriately assumed an upward trend
73 in charge-off for 2008 and 2009 is just plain wrong and he provides no support for his
74 contention. As discussed in my direct testimony, my responsibilities include the
75 Company's credit and collections function; therefore, I am very familiar with the
76 management, collection and tracking of charge-off and overdue accounts receivables.
77 The Company's forecasted charge-off is entirely appropriate based upon my experience.
78 The direct testimony of Mr. Jim Gorenz addresses the methodology the Company uses in

79 calculating the uncollectible expense rate from the level of Company charge-off.

80 (Gorenz Dir., Nicor Gas Ex. 11.0, 22:471-79).

81 **Q. Does Nicor Gas expect the rate of charge-off to increase?**

82 A. Yes. The rate of charge-off has increased over the past seven (7) years; and I fully expect
83 the rate to continue increase in the future, despite the Company's aggressive collection
84 activities. Nicor Gas Exhibit 21.1 to my testimony is a chart that documents the trend
85 and forecasted estimate of charge-off. The continued increase in the rate of charge-off is
86 attributable to volatile and continued high gas costs, combined with the downward trend
87 of the economy, including the growing level of mortgage foreclosures. It has been my
88 observation that these factors create a "cumulative effect" on the levels of customer
89 charge-off. This is evidenced through the continued rise of charge-off year over year
90 since the volatility and historical highs in gas costs began earlier this decade.

91 **Q. What is charge-off and how does it relate to Uncollectible Expense?**

92 A. Charge-off is the write-off of past due accounts receivable that are determined to be
93 uncollectible. The amount of charge-off is used by the Company's accountants in
94 determining the appropriate Uncollectible Expense, as described in the direct testimony
95 of Mr. Gorenz. (Gorenz Dir., Nicor Gas Ex. 11.0, 22:471-79).

96 **Q. Please explain what you mean when you refer to the "cumulative effect" of volatile
97 and sustained high gas costs?**

98 A. It has been my experience that a number of customers with receivables that end up as
99 charge-off have carried a balance over several years. Higher and often fluctuating gas
100 costs contribute to and exacerbate this effect. In many cases, a customer becomes past

101 due because the amount of the bill is higher than expected as a result of higher gas costs.
102 The customer attempts to work through payment plans and utilizes other rights available
103 under Part 280 of the Illinois Administrative Code. Many customers use deferred
104 payment plans and other legal means as provided under Part 280 to defer disconnection.
105 Once the winter sets in, the disconnect moratorium, as required by Part 280, prevents the
106 Company from disconnecting the customer through the winter. When the following
107 spring arrives, the customer may attempt to continue to defer disconnection, but at some
108 point is likely to be disconnected. At this point, the customer's uncollectible balance has
109 grown. A second factor that contributes to this "cumulative effect" is the reconnection
110 program as provided by Part 280. A customer who has been disconnected has the right to
111 return to service in the fall by paying 1/3 of that customer's outstanding balance and
112 entering into payment arrangements for the remaining balance. Many of these customers
113 fail to complete the deferred payment arrangements. By the time the customer defaults,
114 the winter moratorium has arrived, and the customer avoids disconnection until the
115 following spring, where once again, their uncollectible balance has increased.

116 **Q. Why does Mr. Effron's analysis, which looks to charge-off rates in 2006 and 2007,**
117 **provide an inadequate picture of the bad debt climate that the Company is**
118 **experiencing? (Effron Dir., AG/CUB Ex. 1.0, 24:4-17).**

119 A. Mr. Effron's calculations, which purport to provide a "more than adequate"
120 representation of any trend in charge-off or bad debt by looking to 2006 and 2007 (Effron
121 Dir., AG/CUB Ex. 1.0, 24:11-17), ignore the ongoing "cumulative effect" of volatile and
122 historically high gas costs and the realities of the current economic climate.

123 **Q. Do you have any reason to believe that the upward trend in the charge-off rate will**
124 **end in the near future?**

125 A. No. In fact, the Company's current projections suggest that the number of charge-off and
126 amount of bad debt will continue to increase, and that the 2.25% rate assigned to
127 uncollectible expense is reasonable.

128 Mr. Effron states: "[i]t is true that the actual charge-off rate (the net charge-off
129 divided by revenues) of 2.03% in 2007 was higher than the rate in recent years.

130 However, I do not believe that the experience in any particular single year definitively
131 establishes the existence of a trend." (Effron Dir., AG/CUB Ex. 1.0, 23:7-10).

132 Mr. Effron suggests that "the 2007 experience was such an outlier compared to other
133 recent years." (*Id.*, 23:16-18). Mr. Effron ignores the impact of the poor economy and
134 the "cumulative effect" of volatile and sustained higher gas costs that have continued in
135 2008. Nicor Gas Exhibit 21.1 demonstrates the long-term trend of increased charge-off
136 attributable to volatile and increasingly higher gas costs.

137 **Q. Staff witness Diana Hathhorn addresses the uncollectible expense rate as well.**
138 **(Hathhorn Dir., Staff Ex. 2.0, 10:223-11:239). Do you agree with her testimony on**
139 **this issue?**

140 A. Like the testimony of Mr. Effron, Ms. Hathhorn's testimony is premised upon some
141 assumptions regarding the level of charge-off and uncollectibles that are contradicted by
142 the Company's experience.

143 **Q. What assumptions does Ms. Hathhorn make regarding charge-off and uncollectible**
144 **expense?**

145 A. Like Mr. Effron, Ms. Hathhorn does not fully recognize the upward trend in bad debt and
146 charge-off that has been experienced by the Company. Ms. Hathhorn proposes to reduce
147 the uncollectibles rate to 2.02%, a rate which Ms. Hathhorn states “is appropriate to
148 address the Company’s concerns regarding economic uncertainty and gas markets since it
149 is nearly identical to the 2008 rate which includes a provision to increase gross-charge
150 offs, which directly affect uncollectibles expense, for a contingency factor due to the
151 weakened economy and higher cost of natural gas.” (Hathhorn Dir., Staff Ex. 2.0,
152 11:232-39, referring to the Company’s responses to DLH 15.01 and DLH 21.02). This
153 recommendation does not account for the very real and worsening trend that we have
154 seen over the past seven (7) years in charge-off and the “cumulative effect” on
155 customers’ balances resulting from increased gas costs.

156 **VI. OPERATING EXPENSES**

157 **Q. AG/CUB witness Effron’s testimony addresses several areas within the Company’s**
158 **operating expenses that he suggests should be adjusted. (Effron Dir., AG/CUB**
159 **Ex. 1.0, 26:4-27:12). Are you familiar with this testimony?**

160 A. Yes. Mr. Effron’s recommended adjustments include a significant decrease in the
161 forecast of expenses charged to Account 903, Customer Records and Collections. As
162 Mr. Effron notes, this account includes costs associated with customer billing,
163 accounting, collections, and records. (*Id.*, 26:8-9). I am responsible for the Executive
164 leadership of these functions within the Company.

165 **Q. Do you agree with Mr. Effron's recommendations concerning Account 903?**

166 A. No. Mr. Effron questions the forecasted increase for the test year, stating that the
167 forecasted expense level represents an increase of 25% over the actual expense incurred
168 in 2007. (Effron Dir., AG/CUB Ex. 1.0, 26:14-16). Mr. Effron does acknowledge that a
169 large portion of this increase appropriately stems from the increase in postage related to
170 Nicor Gas' elimination of the summer billing program as described in my direct
171 testimony. (Kirby Dir., Nicor Gas Ex. 6.0, 9:181-91).

172 Mr. Effron states that "annual growth of 5% per year should be more than
173 adequate to allow for inflation and normal system growth from 2007 to 2009." (Effron
174 Dir., AG/CUB Ex. 1.0, 27:1-3). Mr. Effron provides no support for this statement, and
175 no discernable basis for his opinion that 5% is an appropriate increase. Nor does
176 Mr. Effron offer any suggestions addressing what services or activities related to
177 customer billing, accounting, collections, and records should be eliminated. It should be
178 noted that Nicor Gas has a long history of being very efficient and cost effective. As
179 stated in the direct testimony of Mr. D'Alessandro, Nicor Gas ranks number one as
180 having the lowest cost O&M & Administration & Sales & Customer expense per
181 customer, including uncollectible expense (Account 904). (D'Alessandro Dir., Nicor Gas
182 Ex. 3.0, 12:241-54).

183 **Q. What operations are included in the expense categories of Account 903?**

184 A. There are six major operations that are included in the expense categories of Account
185 903. These include Field Operations Dispatching; Credit, Collections, Field Collections
186 and Remittance; Customer Contact, Call Center, Correspondence and Training;

187 Corporate Postage; Billing Services, Gas Transportation, Quality Assurance and
188 Miscellaneous Administration; and Vehicle Costs and Fuel.

189 **Q. How have the major expense categories in Account 903 changed for the 2009 test**
190 **year as compared to 2007?**

191 A. The table below highlights the changes in the major expense categories in Account 903:

192

Expense Category	2007 \$MM	2009 \$MM	Difference \$MM
Field Operations Dispatching	\$2.01	\$2.31	\$0.30
Credit, Collections, Field Collections and Remittance	\$6.58	\$8.15	\$1.57
Customer Contact, Call Center, Correspondence and Training	\$8.43	\$10.19	\$1.76
Corporate Postage	\$6.90	\$9.20	\$2.30
Billing Services, Gas Transportation, Billing Quality Assurance and Misc Administration	\$4.34	\$5.27	\$0.93
Vehicle Costs and Fuel	\$1.84	\$2.52	\$0.68
Total	\$30.10	\$37.64	\$7.54

193 **Q. What are the reasons for the increase in Account 903, Field Operations**
194 **Dispatching?**

195 A. The increase of \$300,000 to Field Operations Dispatching is due to the necessary addition
196 of one (1) management resource, payroll increases for the current staff and an increase in
197 clerical overtime hours to support field efforts. Denial of this critical expense will result
198 in degradation of field response times and customer response.

199 **Q. What are the reasons for the increase in Account 903, Credit, Collections and Field**
200 **Collections and Remittance?**

201 A. The increase of approximately \$1,570,000 to credit, collections and field collections and
202 remittance includes additional headcount of six (6), and additional contractor and
203 administration expense. This increase is critical to support the various programs and
204 actions necessary to control the increase in charge-off and to process customer payments,
205 as explained in detail below, and as stated in my direct testimony (Kirby Dir., Nicor Gas
206 Ex. 6.0, 18:382-409). Denial of this expense will result in a degradation of the
207 Company's ability to slow the increase in charge-off and will result in higher
208 uncollectible expense.

209 **Q. What are the reasons for the increase in Account 903, Customer Contact, Customer**
210 **Call Center, Customer Contact Training and Customer Correspondence?**

211 A. The increase of approximately \$1,760,000 in expense for customer contact, customer
212 call center, customer contact training and customer correspondence activity is critical to
213 provide appropriate customer service to the Company's 2.2 million customers.
214 Fluctuating and increasingly high gas costs result in more customer calls, e-mails, billing
215 inquires and correspondence, and this trend is expected to continue. Increased credit and
216 collection activities also result in more customer calls, correspondence and transactions.
217 This expense includes fifteen (15) in additional headcount needed. Of this expense,
218 approximately \$1,400,000 of the \$1,760,000 increase is due to higher contractor costs.
219 Of this increase in contractor costs, approximately \$725,000 is due to a higher cost per
220 call (\$2.82 vs. \$0.95) and approximately \$675,000 is due to more calls being handled by
221 the contractors. The contracted price per call of \$2.82 is less than Nicor Gas' internal

222 cost per call of approximately \$3.00 and is a prudent expenditure, especially when call
223 volume is higher due to volatile and increasingly high gas costs.

224 Approximately \$360,000 of the approximately \$1,760,000 is required for
225 additional labor, training, supervision and telecommunications expense. Denial of this
226 critical expense will result in degradation of customer service response times.

227 **Q. What are the reasons for the increase in Account 903, Corporate Postage?**

228 A. The additional \$2,300,000 in corporate postage is necessary for Nicor Gas to mail utility
229 bills, collection letters and other customer correspondence. Postage is a significant
230 expense for Nicor Gas. As Mr. Effron identified, there is an increase attributable the
231 additional postage expense for the elimination of the summer and bi-monthly billing
232 program. Of this approximately \$2,300,000, approximately \$1,500,000 is due to the
233 additional postage needed for the elimination of the summer and bi-monthly billing
234 program. The United States Postal Service has increased postage rates since 2007, which
235 accounts for approximately \$800,000 in expense.

236 **Q. What are the reasons for the increase in Account 903, Billing Services, Special**
237 **Services, Gas Transportation, Billing Quality Assurance and Miscellaneous**
238 **Administration?**

239 A. The increase of approximately \$930,000 in expense to billing services, special services,
240 gas transportation, billing quality assurance and miscellaneous administration is
241 necessary to support Nicor Gas' billing function. Increases include additional headcount
242 of three (3) and additional expense for eliminating the summer billing program and
243 implanting the new bill format as described in my direct testimony. (Kirby Dir., Ex. 6.0,

244 9:192-94). These programs require additional expense for printing, material and handling
245 of the additional bill volume and the new larger bill format. Also included in this
246 expense category is project management expense for the various process improvement
247 projects, including the DSO project. Denial of these expenses would not allow the
248 Company to capture the substantial benefit of the DSO project on the reduction of cash
249 working capital, which is already included in the rate base. Further, the Company should
250 be allowed to recover its prudent and reasonable expenses incurred in the elimination of
251 the summer billing program, elimination of bi-monthly billing and the implementation
252 new bill format.

253 **Q. What are the reasons for the increase in Account 903, Vehicle Costs and Fuel?**

254 A. The increase of approximately \$680,000 is for the increase in fuel and vehicle cost for the
255 Customer Care function.

256 **Q. What is your conclusion regarding the requested expenses for Account 903,
257 Customer Records and Collections?**

258 A. Mr. Effron's proposed adjustment to Account 903 should be rejected. These Account
259 903 expenses are prudent and necessary for Nicor Gas to continue to provide customer
260 service, timely and accurate utility billing, aggressive and effective credit and collection
261 practices and projects to reduce DSO.

262 **Q. Staff witness Burma Jones recommends adjusting a number of expenses relating to
263 Charitable Contributions. (Jones Dir., Staff Ex. 3.0, 7:126- 8:159). Are you familiar
264 with her recommendations?**

265 A. Yes. Among Ms. Jones' recommendations is a proposed adjustment to contributions to
266 the Salvation Army - Chicago. (*Id.*, 7:126-34).

267 **Q. Do you agree with Ms. Jones proposed removal of contribution to the Salvation**
268 **Army - Chicago? (Jones Dir., Staff Ex. 3.0, 8:135-43).**

269 A. No. I do not agree with the proposed reduction to the Salvation Army – Chicago. This
270 donation supports the Nicor Gas Sharing program, which is administered by the Salvation
271 Army. Nicor Gas Sharing has been a long-standing program that assists customers
272 experiencing financial challenges, especially low-income customers who do not qualify
273 for Federal Energy assistance (LIHEAP) with payment of their gas bills. Interestingly,
274 AG/CUB witness Mr. Rubin opines in his testimony that Nicor Gas does not do enough
275 to assist low-income customers. (Rubin Dir., AG/CUB Ex. 2.0. 10:222-28). Yet,
276 Ms. Jones proposes that the contributions should be denied.

277 The Sharing Program further benefits customers by encouraging and rewarding
278 responsibility. Sharing requires the customer to make a partial payment on their past due
279 balance before Sharing issues the grant. An average of approximately 2,000 customers
280 annually receive a Sharing grant. In many cases, these grants allow the customer to get
281 their gas service reconnected after it has been terminated for non-payment. Senior
282 citizens on fixed incomes are a particular group of customers who benefit from Sharing
283 because customers over the age of 65 as well as disabled customers receive a larger grant.
284 Nicor Gas Exhibit 21.2 shows the number of customers who have benefited from
285 Sharing, as well as the financial assistance provided.

286 Over that last five years, customer donations to the program have declined, most
287 likely due to the higher cost of natural gas, while the need amongst our financially

288 challenged customers has grown. Ms. Jones opines that this is a matching program and
289 that ratepayers would be paying twice. (Jones Dir., Staff Ex. 3.0, 8:414-43). She is
290 mistaken for three reasons. First, Nicor Gas is committed to financially supporting the
291 Sharing program regardless of customer donations. In fact, through August of 2008,
292 Nicor Gas has already pledged more than \$183,000 in donations to the Salvation Army
293 for Sharing, while customer donations have only reached approximately \$81,000. The
294 projected 2008-year end donations from customers are not expected to exceed an
295 estimated \$125,000. Second, the customer and employee donations are voluntary.
296 Customers and Nicor Gas employees donate to Sharing for philanthropic reasons and a
297 desire to assist fellow Northern Illinoisans who are in need, just as a customer may
298 support other charities that Nicor Gas may coincidentally support. A third point missed
299 by Ms. Jones is that Sharing grants given to Nicor Gas customers reduce past due
300 balances which reduces uncollectibles. This, in turn, benefits ratepayers. Additionally,
301 in the recent Peoples Gas rate case, there was no adjustment made to Peoples Gas' cost of
302 service for Charitable Contributions. *Peoples Gas*, Docket No. 07-0241 (consol.), Order
303 (Feb. 5, 2008). Peoples Gas' Charitable Contributions included a program called "Add-
304 a-Dollar" or "Share the Warmth," which is its own matching program with the Salvation
305 Army, similar to Nicor Gas' Sharing program. Schedule C-7 of Peoples Gas' Part 285
306 filing identified contributions to Share the Warmth totaling \$400,000. *Id.* § 285.3070,
307 Sch. C-7, p. 11-13, fn. 3 (filed March 9, 2007).

308 **Q. What is the planned donation to the Salvation Army in 2009?**

309 A. The amount budgeted for support of Salvation Army Sharing is \$220,000. The planned
310 donation for 2009 is \$175,000 and the balance of \$45,000 is an administration fee to

311 assist the Salvation Army with administering the program. The Salvation Army donation
312 should not be disallowed as Ms. Jones suggests.

313 **VII. BI-MONTHLY BILLING PROGRAM.**

314 **Q. In the direct testimony of Christopher Boggs, Staff recommends disallowing the**
315 **elimination of the bi-monthly billing program because the Company's proposal is**
316 **unsupported. (Boggs Dir., Staff Ex. 8.0, 15:288-303). Do you agree with this**
317 **recommendation?**

318 A. No, I do not agree with Mr. Boggs recommendation against allowing the elimination of
319 the bi-monthly billing program. Mr. Boggs acknowledges that his recommendation to
320 disallow the removal of the bi-monthly billing program from the Company's tariffs may
321 be subject to reconsideration if the Company's response to data requests and rebuttal
322 testimony provides support for its proposed elimination of the program. (Boggs Dir.,
323 Staff Ex. 8.0, 15:293-303). Because the Company has explained and supplemented its
324 proposal as described in my direct testimony, Mr. Boggs should reconsider his
325 recommendation and allow the tariff books to be amended to reflect the elimination of the
326 bi-monthly billing program based.

327 The bi-monthly billing program is described in my direct testimony (Kirby Dir.,
328 Nicor Gas Ex. 6.0, 9:181-91), and in response to data request number CB 2.05 (Nicor Gas
329 Ex. 21.3). In his direct testimony, Mr. Boggs states that it should be disallowed because
330 the program was "rarely utilized." (Boggs Dir., Staff Ex. 8.0, 15:290-94). This is not
331 true. Every summer since this program was implemented, a majority of our residential
332 and small commercial customers were placed into what was called "summer billing,"
333 where these customers received 10 bills a year instead of 12: two bills over the summer

334 months, covering 60 days each. Customers did have the option of opting out, but most
335 customers did not avail themselves of this option. As described in Nicor Gas Exhibit
336 21.3, when gas costs were low, this was a cost-effective program. With sustained high
337 gas costs, this program became a source of customer dissatisfaction as the 60 day bills
338 were much higher than in the past.

339 Another part of the bi-monthly billing program was the budget plan. Under this
340 program, budget plan customers received six bills a year, with two payment stubs in each
341 envelope, one payment due in 21 days, and the other due the following month. There
342 was not an option available for customers to opt out of this program. This led to
343 customer confusion. Eliminating bi-monthly billing helped simplify billing for the
344 customers, assisted customers during these times of high gas costs, and aligned Nicor
345 Gas' billing frequency with that of all of the other regulated utilities in the state.

346 As noted above, a majority of the Company's customers were served under the
347 program, so it certainly was not unpopulated or rarely utilized. "Customer
348 Dissatisfaction" may be a more precise term for describing the customers' reactions to
349 large, consolidated gas bills and confusing billing intervals. As Mr. Boggs noted, at the
350 time he prepared his direct testimony, he had yet to review supporting documentation that
351 he had requested of the Company pursuant to data request. (Boggs Dir., Ex. 8.0, 15:300-
352 03). The information provided since the filing of Mr. Boggs's testimony fully supports
353 the discontinuation of the bi-monthly billing program and the removal of the program
354 from the Company tariffs.

355 As discussed in my direct testimony, elimination of the summer billing program
356 and bi-monthly billing program is essential to the success of the DSO reduction project,

357 in reducing DSO by 10 days, and to achieve the cash working capital savings included in
358 rate base.

359 **VIII. NICOR GAS' COLLECTION EFFORTS**

360 **Q. Have you read the testimony of Staff witness Peter Lazare? (Lazare Dir., Staff**
361 **Ex. 7.0).**

362 A. Yes. I have reviewed Mr. Lazare's testimony, in which Mr. Lazare questions Nicor Gas'
363 commitment to address its uncollectibles problem. (Lazare Dir., Staff Ex. 7.0, 13:246-
364 64).

365 **Q. Is Nicor Gas committed to reducing its uncollectibles?**

366 A. Absolutely. Mr. Lazare's testimony on this subject is simply wrong. Nicor Gas has had
367 a long-standing practice of being operationally efficient, including controlling
368 uncollectibles. As noted in Mr. D'Alessandro's direct testimony (D'Alessandro Dir.,
369 Nicor Gas Ex. 3.0, 12:241-54), benchmarking studies show that Nicor Gas routinely
370 ranks number one in lowest operating expense per customer, including customer care
371 (Account 903) and uncollectible expense (Account 904). I do not agree with Mr. Lazare
372 that we have not increased our efforts to address rising uncollectibles. Quite to the
373 contrary, Nicor Gas has been extremely aggressive over the years in implementing
374 additional processes and programs to increase collections and reduce the rate of increase
375 in past due uncollectibles. Many of these improvements are described in my direct
376 testimony. (Kirby Dir., Nicor Gas Ex. 6.0, 18:383-19:404). The Company's collection
377 initiatives were also described in the Company's data request responses, included with
378 this testimony as Nicor Gas Exhibits 21.4 and 21.5. Mr. Lazare points to one metric—

379 disconnections—and incorrectly draws the conclusion that because less disconnections
380 occurred in 2007 that Nicor Gas has not being effective in collection efforts.

381 **Q. What role do disconnections of service for non-payment play in the Company’s**
382 **collection efforts?**

383 A. Disconnection of gas service for non-payment is one of many tools utilized by utilities in
384 the control of customer charge-off and prior to the advent of new technology was one of
385 the only tools available.

386 **Q. What is the Company’s response to Mr. Lazare’s conclusion regarding the impact**
387 **of the number of the Company’s disconnections on charge-off?**

388 A. Mr. Lazare misses the point and his conclusion does not square with operating realities.
389 Disconnection of gas service due to non-payment does not guarantee collection of the
390 debt. In fact, on average, 30% to 35% of accounts that are disconnected for non-
391 payment, never pay their past due amount and end up charging off as uncollectible. As I
392 previously described, the “cumulative effect” increases a customer’s final balance, and as
393 stated in my direct testimony, charge off often occurs when a customer moves away and
394 fails to pay their final balance. (Kirby Dir., Nicor Ex. 6.0, 16:343-48). In addition, there
395 is a rising trend in customers filing for bankruptcy protection, which results in their past
396 due balance immediately being charged off, thus increasing uncollectibles expense.

397 The primary objective in controlling uncollectibles is to get the customer to **pay**
398 their past due balance. In mid 2006, as a result of new capabilities under the Customer
399 Care & Billing system (“CC&B”) that went into use in April of 2006, Nicor Gas began to
400 implement a series of automated phone campaigns, as noted in my direct testimony and

401 as acknowledged by Mr. Lazare. (Lazare Dir., Staff Ex. 7.0, 13:266-14:272). These
402 campaigns target customers in the various stages of the collection process. Each call
403 allows the customer the opportunity to press a key and be automatically connected to our
404 payment vendor, who is able to take immediate payment by credit card or electronic
405 check. A final call is made right before disconnection. This new program **increased**
406 collections and **reduced** the need to disconnect some of the customers that we would
407 have been forced to disconnect in the past. Since inception, we have performed more
408 than 4,240,000 automated telephone contacts and collected over \$198,600,000 in past due
409 balances.

410 Disconnecting a customer for non-payment is the Company's last resort.
411 Disconnection is very costly, and ideally, the Company only wants to disconnect if it is
412 believed that there is a high likelihood that a customer will not pay their balance.
413 Conversely, convincing a customer to pay their past due balance prior to disconnection is
414 very cost effective and a good business practice.

415 **Q. Have there been any other technological improvements resulting from the new**
416 **CC&B system related to disconnections for non-payment?**

417 A. Yes. The new CC&B system also allowed the installation of technology that has
418 improved our effectiveness in identifying customers who are at a higher risk of not
419 paying their balance. We began to phase in this technology in early 2008. This has
420 provided us with a targeted list of higher risk customers. With this risk identification
421 process in place, we are able better identify a customer who is most likely not going to be
422 enticed to make a payment. This has resulted in the higher risk customers being

423 disconnected sooner, which puts less past-due billings at risk, and reduces charge-off and
424 uncollectible expense

425 **Q. What are the Company's forecasted disconnection numbers?**

426 A. Through August of 2008 Nicor Gas has disconnected 67,300 customers for non-payment.
427 We estimate we will disconnect almost 80,000 by year's end and will most likely have
428 to disconnect well over 80,000 customers in 2009.

429 **Q. Have any other recent programs been implemented that serve to demonstrate Nicor
430 Gas' commitment to controlling charge-off?**

431 A. Yes. Another significant improvement recently implemented is a program to increase
432 recoveries from customers who voluntarily disconnect their service when moving out of a
433 premise. This program involves using a credit score from Experian and then utilizing
434 different collection methods based on the customer's risk profile. Early results are
435 promising.

436 **Q. Criticism similar to Mr. Lazare's can be found in the testimony of Mr. Scott Rubin.
437 (Rubin Dir., AG/CUB Ex. 2.0, 10:229-11:241). Mr. Rubin suggests that the
438 Company has insufficient programs to help low income and payment troubled
439 customers, and should evaluate and revise its customer assistance programs as a
440 means of controlling uncollectible expense. (Id.). Do you agree with Mr. Rubin's
441 contention?**

442 A. I do not agree with Mr. Rubin's opinion that the increase in charge-off and resulting
443 uncollectibles is due to Nicor Gas not doing enough for low income customers.
444 Mr. Rubin's arguments are wrong for several reasons. First, Mr. Rubin assumes that

445 rising uncollectibles are solely due to low income customers. (*Id.*, 10:222-35). This is
446 just not true. As previously stated, a significant part of uncollectibles is due to customers
447 who move away and fail to pay their entire bill. Many, if not most, of these customers
448 would not be considered “low income.” In addition, customers who file for bankruptcy
449 protection tend to have incomes well above the poverty level. I am not an economist, but
450 my experience leads me to believe that many customers who are in foreclosure, and who
451 stop paying their utility bills, also may not be considered low-income customers either.

452 Secondly, I disagree with Mr. Rubin’s suggestion that we have few programs for
453 assisting low income or payment-troubled customers. (*Id.*). The Nicor Gas Sharing
454 program, which is administered by the Salvation Army and is discussed above, is a long-
455 standing program that assists customers with financial challenges, and especially those
456 customers who earn just a little too much income to qualify for Federal Energy
457 assistance. Nicor Gas Exhibit 21.2 shows the number of customers who have benefited
458 from Sharing. Nicor Gas and its employees have a long history of caring for the local
459 community by supporting programs such as Salvation Army Sharing, the United Way,
460 March of Dimes and Volunteer day.

461 Nicor Gas was the first utility in Illinois to take extra proactive steps to inform
462 and encourage customers who are eligible for Federal Energy Assistance and
463 reconnection programs to apply for them. Not only does Nicor Gas mail a letter to each
464 eligible customer, but also we take the extra step of making phone calls to previous
465 recipients of assistance. This insures that any customer eligible for assistance is aware of
466 the programs available to them.

467 **Q. How does Nicor Gas compare to its peers in terms of Collections success?**

468 A. As previously stated, and as demonstrated in Mr. D'Alessandro's direct testimony, Nicor
469 Gas ranks number one in having the lowest operating costs per customer including
470 expense for uncollectibles. This encompasses Customer Expense account 90300 and
471 uncollectibles expense account 90400. When you compare Nicor Gas to other Midwest
472 gas utilities, Nicor Gas has lower uncollectibles as a percentage of revenue for the years
473 2006 and 2007, as illustrated in Nicor Gas Exhibit 21.6.

474 Over all, I believe Nicor Gas is extremely effective in controlling the rise in
475 uncollectibles in spite of the external challenges of a worsening economy and volatile and
476 sustained high gas costs and does a better job than other Midwest gas companies.
477 Accordingly, the criticisms of Messrs. Lazare and Rubin fail to square with the
478 Company's actual operations.

479 **IX. TRANSPORTATION CUSTOMER RECOMMENDATIONS**

480 **Q. What is the role of Customer Care in the provision of services to Transportation**
481 **customers?**

482 A. The Gas Transportation Customer Service Center is a department under the responsibility
483 of the Vice President of Customer Care. Services that are provided to Transportation
484 customers include contract handling, nominations, and billing inquires. A request to
485 transfer excess storage gas or to add an account to a group is a typical of a transaction
486 that Gas Transportation would handle for a transportation customer.

487 **Q. Have you reviewed the testimony of one of Nicor Gas' transportation customers,**
488 **Vanguard Energy Services?**

489 A. Yes. VES witness Anderson recommends requiring Nicor Gas to expand imbalance
490 trading, "permitting customers to openly imbalance trade their gas in storage."
491 (Anderson Dir., VES Ex. 1.0, 4:44-51).

492 **Q. Do you support Mr. Anderson's recommendation?**

493 A. No. The complexities of billing the Gas Transportation groups would significantly
494 increase with the addition of storage transfers. Implementing this recommendation would
495 create significant billing, accounting and control issues. Currently, all the Gas
496 Transportation daily read groups are billed in a two-day period. Allowing storage
497 transfers would cause billing delays and create accounting issues. In addition, the system
498 used to bill these Gas Transportation customers is called the Special Billing System (SB).
499 This system was not upgraded at the time the CC&B system was installed in 2006. The
500 SB system is a 20 year old legacy system that is difficult and risky to modify, as would
501 be required if we implemented Mr. Anderson's recommendation. Finally, because
502 implementing Mr. Anderson's recommendation would affect not only Vanguard, but
503 other transportation customers as well, any discussion of suggested improvements to the
504 handling of transportation customer services may be best addressed by all involved
505 outside of the rate case.

506 **X. CUSTOMER DATA ANALYSIS**

507 **Q. In his direct testimony, AG/CUB witness Rubin makes certain conclusions based on**
508 **an analysis of residential customer data provided by Nicor Gas. (Rubin Dir.,**
509 **AG/CUB Ex. 3.0, 3:70-4:85). Have you any comments regarding his analysis?**

510 A. Yes. In response to a data request, Mr. Rubin was provided with large quantities of data
511 from the Customer Care & Billing (CC&B) system, which supports the Customer Care
512 function. Mr. Rubin, by his own testimony, had limited time to prepare his analysis, and
513 perhaps the limited time was the cause of the significant errors made in his sampling.
514 (*Id.*, 4:76-81). The Company objected to the data request, in part because of the large and
515 unwieldy nature of data that was responsive to his request. Mr. Rubin appears to have
516 addressed the difficulties anticipated by the Company by abbreviating his analysis in the
517 interest of time-constraints. (Rubin Dir., AG/CUB Ex. 3.0, 4:fn2). Nonetheless, Mr.
518 Rubin asserts his conclusions without caveat, and specifically, he asserts that his
519 conclusions properly rely upon a count of 1.3 million residential customers even though
520 Nicor Gas reports 1,958,838 residential customers. (*Id.*, 4:75-81).

521 **Q. Why is there such a discrepancy in the number of residential customers?**

522 A. Nicor Gas defines a customer as someone with an active utility service agreement at the
523 end of a calendar month. In Mr. Rubin's testimony, he states that his analysis indicates a
524 difference of 180,000 between billing data for bills issued during a month and the
525 average number as reported by Nicor Gas⁶. (Rubin Dir., AG/CUB Ex. 3.0, 12:255-
526 13:263). He ignores several reasons for this, such as (1) many customers billed every
527 other month including those on budget plan, or bi-monthly billing, (2) some customers
528 are billed multiple times during a month, and (3) some customers billed during a month
529 are no longer active at month-end. Mr. Rubin compounded his error by eliminating
530 approximately 500,000 records to "simplify his analysis." (*Id.*, 4:77). The bulk of this
531 eliminated group are those who were not customers for the entire 24-month period of his
532 analysis. Given that Nicor Gas has a significant number of customers who move each

533 year; it is not surprising that he is left with an unrepresentative sample of 1.3 million
534 customers upon which to base his flawed analysis.

535 In addition, the information relied upon by Mr. Rubin was provided in response to
536 a data request which specifically asked for consumption data by month, which was
537 provided. It appears that Mr. Rubin tried to convert that information into customer count
538 data. This cannot be accomplished with the consumption data information for many
539 reasons. The information provided was billed consumption, not billed and unbilled data
540 that we use in our forecasting data. Not every customer is billed every month. For
541 example, a customer who was billed bi-monthly, such as a Budget Plan or Summer Bi-
542 monthly customer, would be included in the customer count each month, but only have
543 one billing record for two months of consumption. As I have explained in my testimony,
544 Nicor Gas has recently eliminated bi-monthly billing. At the point it was eliminated,
545 Nicor Gas had approximately 350,000 bi-monthly Budget Plan customers and
546 approximately 1,400,000 Summer Bi-monthly customers. Each of these, in Mr. Rubin's
547 evaluation, would have counted for only 6/12 and 10/12 of a customer respectively.

548 Several other similar situations would cause inaccuracies in the way Mr. Rubin
549 attempted to calculate customer count. These include all bills that were for a period of
550 time greater than 30 days. This routinely happens when there is a billing exception, a
551 cancel and rebill, or even the start up of a new account.

552 Mr. Rubin makes another error when he eliminates any billed consumption of
553 zero. There are many customers that do not use gas for a month or more, such as heat use
554 only customers and seasonal users. They are still considered a customer and receive a
555 monthly customer charge. Mr. Rubin also eliminated what he considered duplicates,

556 meaning more than one billing record a month. Mr. Rubin's conclusion that Nicor Gas
557 has 1,300,000 residential customers, rather than the Company's stated number of
558 1,958,838 residential customers, is based upon an analysis so flawed as to require that the
559 conclusion be disregarded.

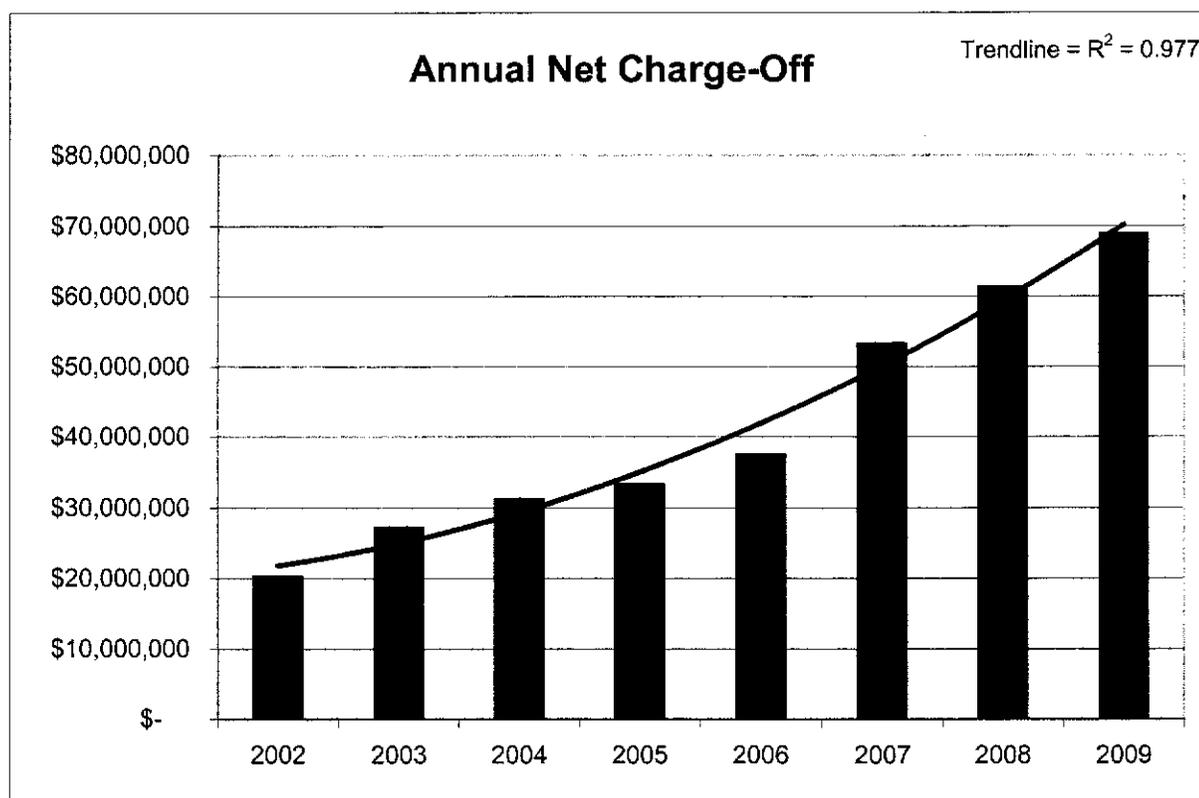
560 **XI. CONCLUSION**

561 **Q. Does this conclude your rebuttal testimony?**

562 **A. Yes.**

**NICOR GAS COMPANY
COMPARISON OF ANNUAL CHARGE-OFF**

Year	Charge-Off	Annual % Change
2002	\$ 20,278,891	
2003	\$ 27,215,130	34%
2004	\$ 31,250,815	15%
2005	\$ 33,290,994	7%
2006	\$ 37,498,171	13%
2007	\$ 53,294,580	42%
2008	\$ 61,300,000	15%
2009	\$ 68,900,000	12%
CAGR		34%



SHARING CONTRIBUTIONS AND PAYMENTS
For the Year 2008

Month	SHARING CONTRIBUTIONS										SHARING PAYMENTS					Salvation Army Ending Balance
	Employee Payroll Contributions	Number of Direct Contributions	Direct Contributions	Debits to Salvation Army	Monthend Credits to Acct	Customer Contributions	Total* Contributions	Running Account Bal	Corporate Match	Contributions Sent	Returns Recorded by The Salvation Army	Direct Contributions to the Salvation Army	Applications Processed	Payments Applied	Number of Payments	
2003	\$ 3,802.00	12	\$ 2,591.89	\$ (8,619.00)	\$ 8,473.00	\$ 163,682.08	\$ 169,929.97	\$ 255,085.34	\$ 200,000.00	\$ -	\$ 8,807.00	\$ 6,404.70	\$ 309,274.00	2,021	\$ 178,775.07	
2004	\$ 3,282.00	10	\$ 3,614.30	\$ (21,352.00)	\$ 21,811.00	\$ 154,328.38	\$ (93,401.66)	\$ 161,683.68	\$ 200,000.00	\$ 255,085.34	\$ 20,752.00	\$ 1,879.70	\$ 293,496.00	1,860	\$ 363,393.11	
2005	\$ 2,489.50	20	\$ 4,251.75	\$ (300,618.96)	\$ 2,570.00	\$ 146,445.82	\$ (144,861.89)	\$ 16,821.79	\$ 161,683.68	\$ 450,157.37	\$ 2,194.00	\$ 2,599.20	\$ 261,686.00	1,437	\$ 556,658.68	
2006	\$ 2,059.50	8	\$ 1,208.57	\$ (134,413.13)	\$ 2,546.00	\$ 128,069.67	\$ (529.39)	\$ 16,292.40	\$ 60,139.09	\$ 131,367.13	\$ 2,257.00	\$ 7,174.45	\$ 411,794.00	1,798	\$ 345,802.35	
2007	\$ 1,705.50	14	\$ 2,250.00	\$ (151,042.66)	\$ 6,923.00	\$ 133,837.60	\$ (6,326.56)	\$ 9,965.84	\$ 140,146.16	\$ 144,119.66	\$ 6,923.00	\$ 17,989.05	\$ 472,746.00	1,922	\$ 182,234.22	
Beginning Balance								\$ 9,965.84								
January	\$ 187.50					\$ 10,733.63	\$ 10,921.13	\$ 20,886.97			\$ -	\$ 125.00	\$ 17,448.00	66	\$ 164,911.22	
February	\$ 125.00					\$ 10,358.01	\$ 10,483.01	\$ 31,369.98			\$ -	\$ 275.00	\$ 40,054.00	199	\$ 125,132.22	
March	\$ 124.50					\$ 10,057.20	\$ (21,186.28)	\$ 10,181.70			\$ -	\$ -	\$ 60,467.00	472	\$ 64,665.22	
April (1)	\$ 124.00				\$ 18,513.00	\$ 10,262.15	\$ 28,895.15	\$ 39,080.85	\$ 30,932.48	\$ 31,369.98	\$ -	\$ -	\$ 129,441.00	494	\$ (2,473.32)	
May	\$ 124.00				\$ (18,513.00)	\$ 10,179.04	\$ (8,747.81)	\$ 10,333.04	\$ 127,339.15	\$ 20,537.85	\$ -	\$ -	\$ 51,548.00	407	\$ 93,855.68	
June	\$ 124.00					\$ 8,128.30	\$ 9,252.30	\$ 19,585.34			\$ -	\$ -	\$ 92,496.00		\$ 1,359.68	
July	\$ 186.00					\$ 10,648.07	\$ (8,751.27)	\$ 10,834.07			\$ -	\$ -	\$ 19,585.34		\$ 1,359.68	
August	\$ 124.00					\$ 9,296.35	\$ (2,924.31)	\$ 7,909.76	\$ 25,000.00	\$ 7,909.76	\$ -	\$ -	\$ 19,585.34		\$ 1,359.68	
September								\$ 7,909.76			\$ -	\$ -	\$ 12,344.66		\$ 1,359.68	
October								\$ 7,909.76			\$ -	\$ -	\$ 19,585.34		\$ 1,359.68	
November								\$ 7,909.76			\$ -	\$ -	\$ 34,269.44		\$ 34,269.44	
December								\$ 7,909.76			\$ -	\$ -	\$ 34,269.44		\$ 34,269.44	
2008	\$ 1,119.00	0	\$ -	\$ (83,837.83)	\$ -	\$ 80,662.75	\$ (2,056.08)	\$ 7,909.76	\$ 183,271.63	\$ 91,747.59	\$ -	\$ 400.00	\$ 423,384.00	1,638	\$ 34,269.44	
Historical Total	\$ 175,542	15,482	\$ 510,988	\$ (999,884)	\$ 42,323	\$ 6,365,065	\$ 6,156,968	\$ 7,910	\$ 945,241	\$ 1,072,477	\$ 40,933	\$ 36,447	\$ 13,309,839	76,067	\$ 34,269.44	

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
CB Second Set of Data Requests

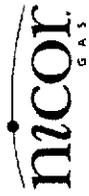
Nicor Gas Ex. 21.3
Page 1 of 7

CB 2.05 Q. Referring to Company witness Mudra's direct testimony (Co. Ex. 14.0 pg. 52), please provide an explanation of the reasons the Company's proposal to eliminate the bi-monthly billing program. Also provide documentation of the Company's analysis, and all work papers.

CB 2.05 A. Please see the Direct Testimony of Kevin Kirby (Nicor Gas Exhibit 6.0, page 9, lines 182 - 191) for a discussion on the elimination of the bi-monthly/summer billing program. The attached Exhibit 1 is a copy of *Nicor Gas Initiative - Billing Every Customer Every Month* which justified this program elimination.

Witness: Kevin W. Kirby

Nicor Gas Initiative Billing Every Customer Every Month (BECEM)



Objective – De-Customize Billing Plans

- Bill Every (Nicor Gas) Customer Every Month (BECEM):
 - Begin billing budget plan customers monthly
 - Eliminate our summer billing policy by billing every customer between June to October instead of every other month

- The analysis shows that the total Nicor after tax cost to achieve is breakeven.

Customers are Confused by Both Summer Billing and Budget Billing

- I haven't received my bill yet. (bi-monthly billing during the summer)
- Why am I getting a 2-month bill? (bi-monthly billing during the summer)
- I received a 2-month bill so how am I suppose to know how much my bill was for last month. (you have to explain the bill...meter reading breakdown and billing breakdown.
- Why did I receive two coupons? (budget plan)
- I'm on the Budget Plan and I lost my other coupon can you send me another one?
- I'm on the Budget Plan and I get my bill every 2-months. Why can't I get my bill monthly?

This is a good time to move to a consistent billing pattern

- Higher gas costs are amplifying the cash flow and credit effects of these programs
- The percent of customers with vanilla billing continued to decrease and billing complexity has increased
- 3rd party billing occurs on the first budget bill only, causing customer confusion
- Reevaluation of the budget plan amounts as currently programmed results in many customers getting a different bill amount every other time they are billed
- Waiting 60 days in the summer to resolve a billing problem may result in the new bill not being issued for another 60 days
- Delayed bills increased due to the customized programming across a 60 day cycle
- Not reinforcing our desired customer behavior, get a bill/pay a bill every month as a 'top of mind' message
- CSR's ability to quickly answer customer inquiries hampered by overly customized billing plans

Helping our customers can help our operations and support our VOC efforts

- Increase cash flow by getting summer billing \$\$ in the door faster
- Increase direct mail marketing opportunities
- Increase credit control (e.g. summer billing customers with less than \$100 arrears would be included, accelerate deposit requests billing more frequently)
- Reduce call volume and customer confusion
- Risk reductions in IT by reducing CC&B complexity in coding and testing (e.g. when migrating new code, doing technical upgrades and patches)
- Maximize operational efficiencies with the Special Services labor force

Key Next Steps

- 3rd and 4th Quarter 2007
 - Get approval to change the policy to BECEM
 - Get approval to increase annual budget costs
 - Get approval to decommission code, test and implement in the first quarter of 2008
- 1st Quarter 2008
 - IT changes coded, tested and migrated
 - Budget Plan customers begin receiving monthly bills
 - Create a multi-pronged approach to communication
 - Customers (bill messages, VRU)
 - Employees (newsletters, emails)
 - ICC (notification, work with Rates on messaging)
- 2nd Quarter 2008
 - All Nicor customers receive monthly bills going forward

**Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
DLH Eighteenth Set of Data Requests**

DLH 18.02 Q. Referring to Nicor Gas Ex. 3.0, page 28, lines 597-598, provide a full description of the Company's "focused and aggressive collection efforts." Include copies of any Company policies, any analysis conducted of the Company's collection efforts, or other similar evidence concerning the Company's collection efforts. Also fully describe any changes in collection efforts or policies since the Company's last rate case.

DLH 18.02 A. Please refer to Nicor Gas Exhibit 6.0, pages 18-19, lines 383-404 for a description of activities.

Further, Nicor Gas utilizes many proactive actions to prompt customers to pay past due balances. These include:

- Multiple automatic phone contact campaigns including:
 - Customer falls into arrears
 - Pre-disconnection
 - Right after a customer defaults on a payment plan
 - Informing customers of energy assistance availability
- Multiple live agent phone contact campaigns including:
 - Customer is severely past due
 - Commercial and Industrial customers past due
- Aggressive disconnection of service as allowed by part 280
- Requirement for full arrears and deposit before restoration of service as allowed per part 280
- Full File Credit reporting to TransUnion
- Filing suit in state court and placing a lien on the past due customers property where significant balances remain unpaid
- Skip Tracing former customers, who have relocated, and who have charged off balances
- Positive ID verification at time of new service establishment
- Utilizing third party collection agents to recover charge off amounts
- Attempting to collect past due arrears whenever a customer calls into the Nicor Gas call center

Witness: Kevin W. Kirby

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

- AG 3.56 Q. Please provide historical bad debt amounts for 1999 through 2008. Please provide the following information for each company:
- a) Excel file calculations, with all formula intact, supporting all the data displayed.
 - b) Additional information required to update this chart to include 2006 data.
 - c) State and describe each change in company policies and procedures or ICC rules with respect to credit and collections and other factors impacted uncollectible levels during the period 1998 through 2007, to date.
 - d) Provide complete copies of all studies, reports, analyses, workpapers, projections and other documents associated with each change identified in your response to part c, above.
 - e) What percentage of total gross revenues was written off as uncollectible in each year 1998 through 2007?

- AG 3.56 A.
- a) b) e) See attached Exhibit 1 which provides the historical bad debt amounts for 1999 through June 30, 2008 and the information requested in a), b) and e) above.
 - c) All of Nicor Gas' policies and procedures comply with ICC rules. The Company continues to review and enhance credit and collection procedures and actions. See attached Exhibit 2 for a history of credit and collection programs for 1998-2008. Also refer to Nicor Gas' responses to Staff data requests DLH 18.02, 18.10, and 18.11 and Exhibit 1 of the response to Staff data request JMO 3.01.
 - d) See attached Exhibits 3, 4, 5, 6, 7, 8, 9 and 10.

Witness: a) b) e): James M. Gorenz
c) d): Kevin W. Kirby

Nicor Gas Collection practices and procedures 1998 – 2008

- All Nicor Gas Collection practices and procedures comply with Illinois Administrative Code Part 280

Prior to 1998

- Deposit are billed and collected per Illinois Administrative Code Part 280
 - Disconnection for non-payment
 - Customers in arrears are mailed a disconnect notice (red letter)
 - Customers can pay their bill by US Mail or in person at approximately 100 authorized payment centers
 - Customers who are entitled to payment arraignments, as outlined in Illinois Administrative Code Part 280, can avoid disconnection by entering into a deferred payment arraignment
 - Customers who qualify for a “Medical Certificate”, as outlined in Illinois Administrative Code Part 280, can avoid disconnection
 - Customers who failed to pay or enter into payment arraignments are subject to disconnection
 - Nicor Gas relies on old technology, specifically the 25 year old Customer System (CIS) which offered very limited functionality

1998

- The medical certificate program is improved with the addition of a requirement that Physician certification being faxed from Physician directly to Nicor Gas. (as allowed under Illinois Administrative Code Part 280)
- A new collection campaign is implemented where a third party vendor would perform phone calls to active residential customers reminding them that their gas bill is past due
- A centralized correspondence department is formed to assist in identifying customers using fraudulent information to obtain service
- Full file credit bureau reporting is implemented for all residential customers
- Skip tracing abilities are improved by the purchase of customer identification information from a national credit bureau – also referred to as “data scrubbing”
- Implement new process for return mail notification to identify customers who skipped on their account
- Increase disconnection for non payment efficiencies by adding contractors to perform disconnections
- The restoration after turn off for non-payment policy is made stricter. Full payment (as allowed under Illinois Administrative Code Part 280) is now required in lieu of partial payment.
- Improvements are made to the internal skip tracing programs to better identify matches on similar spelled customer names.
- Reduce opportunity for potential customer fraud by adding a third party blocking campaign for those premises with a previous off for non payment account.

1999

- Added new payment option for customers – A Nicor Gas customer care specialist is able to take an electronic check payment over the phone
- New proactive collections program developed with the addition of on site collections personnel for delinquent commercial and residential customers
- Enhanced collection agency performance by adding a commercial collection agency specializing in commercial debt
- Add new program called POS ID – this program obtains a credit score on a new customers and based on the customers score, bills a security deposit
- Encourage customers to participate in LIHEAP program for debt forgiveness

2000

- Add skip tracing functionality using LexisNexis system
- Add skip tracing functionality with the Utility shared database
- Improve skip tracing abilities by purchasing updated customer identification information from a national credit bureau – also referred to as “data scrubbing”
- Created new LIHEAP - 1/3 program- (pilot)

2001

- New payment option is available to customers by allowing them to also pay with a credit card. The customer pays a convince fee to a third part processor
- Create new process to enhance collection recoveries on payments made with checks that are returned non sufficient funds
- Comply with the military personnel relief program.

2002

- Implement a part of the new CC&B system to increase credit and collection functionality (known as “Cordaptix” or the “Credit Project”)
- Add legal lien program for residential customers with large delinquent balances – A judgment in court is obtained and a lien is placed on their property
- Implement new incentive phone collections – phone collections made on residential delinquent customers and the employee is paid an incentive based on successful collections
- Improve management of collection agents by implementing electronic invoice payment

2003

- Improve authorized payment agent network by utilizing new processing vendor – technology has ability to identify NSF check quicker
- Add a new surety bond program for commercial customers requiring a deposit
- Enhance the incentive phone collections by adding collections on delinquent commercial customers
- Implement new program for the final bill. Final bills sent to collection agencies sooner

2004

- Create Contracts Dept
 - Implement commercial contract program
 - Implement new Landlord Contract – documents the landlord/tenant account relationships.
- Additional professional staff added to credit and collections team
- New Sharing program matching campaign implemented
- Enhanced collections with the State of Illinois. Developed a new process to notify State officials.

2005

- Add ability for customers to make a payment on the Nicor gas website
- Increase collections through E- Mail campaign to customers with past due balances
- Add collection campaign for landlord/tenant contracts
- Add new collection campaign for commercial contracts
- Add collection campaign for large C&I customers
- Enhance the final bill collection process by adding to the incentive campaign - pilot
- Connect to the State of Illinois LIHEAP.Net system
- Enhanced overall collections on customers with delinquent balances - work with internal departments for the "Dialing for dollars" campaign
- New Company return check policy defined
- Add LIHEAP immanent disconnect program
- Credit policy orders updated.

2006

- The rest of the CC&B system is installed as part of the “n’able” project – this is a significant event – this system replaced the 40 year old Billing system and 30 year old customer service system. Collection activities are significantly curtailed for the first six months of 2006 in order to implement the system
- New CC&B system brings significant new technology and functionality to the collection area. A new field dispatch system is also installed at the same time. These new systems allow the following:
 - Expand on the POS ID for new customers - fully implemented
 - New computer generated collection phone call campaign- customers who are scheduled for disconnection for non payment – program allows customer to press a key and be automatically connected to the credit card and electronic check vendor
 - New computer generated collection phone call campaign- customers who are defaulting on budget payment plan - program allows customer to press a key and be automatically connected to the credit card and electronic check vendor
 - New computer generated collection phone call campaign- customers who are eligible to apply for LIHEAP – gives them information on how to apply

- New "live" person collection phone call campaign implemented with a third party collection agent – collects on customers whose delinquent balance is over 120 days old
- The co-applicant customer name is added to bill

2007

- New collection cycle for ready for charge off – additional skip tracing performed by Nicor Gas Call Center personnel
- New collection cycle for ready for charge off phone collection campaign
- New internal final bill collections with Customer Care Specialist
- New delinquent builder campaign
- New computer generated collection phone call campaign- customers who are defaulting on deferred payment plan - program allows customer to press a key and be automatically connected to the credit card and electronic check vendor
- New computer generated collection phone call campaign- customers with a final bill and arrears - program allows customer to press a key and be automatically connected to the credit card and electronic check vendor
- New computer generated collection phone call campaign- customers with a final bill only - program allows customer to press a key and be automatically connected to the credit card and electronic check vendor
- Add top 100 Residential and commercial delinquency severance program
- New master meter collection campaign added
- New active commercial delinquencies sent to collection agency - pilot program

2008

- New vendor chosen to increase customer payments by lowering customer convenience charge for credit card and check by phone payments
- New payment option available to customers – payment with debit cards
- Add efficiencies by centralizing the scheduling and dispatching of accounts to be turned off for non payment
- Implement technology to identify higher risk customers for priority disconnection for non-payment – these are also referred to as “Smart Cuts”. These “smart cuts” allow Nicor Gas to disconnect higher risk customers sooner – thus reducing the dollars at risk
 - Add “smart cut” severance cycle for customers defaulting on deferred payment arraignments and have failed to pay after automatic phone call
 - Add “smart cut” severance cycle for those customers who have paid with multiple NSF check
 - Add “smart cut” severance cycle for cycle for customers who have previously filed bankruptcy and are now past due on their post bankruptcy account
- Expand on the final bill collection cycle - Final Bill Scoring system implemented – integrated with Experian - attempt internal collections before account is sent to a collection agency or legal process

**PROVISION EXPENSE TO
REVENUE RATIO 2007 PEER
DATA**

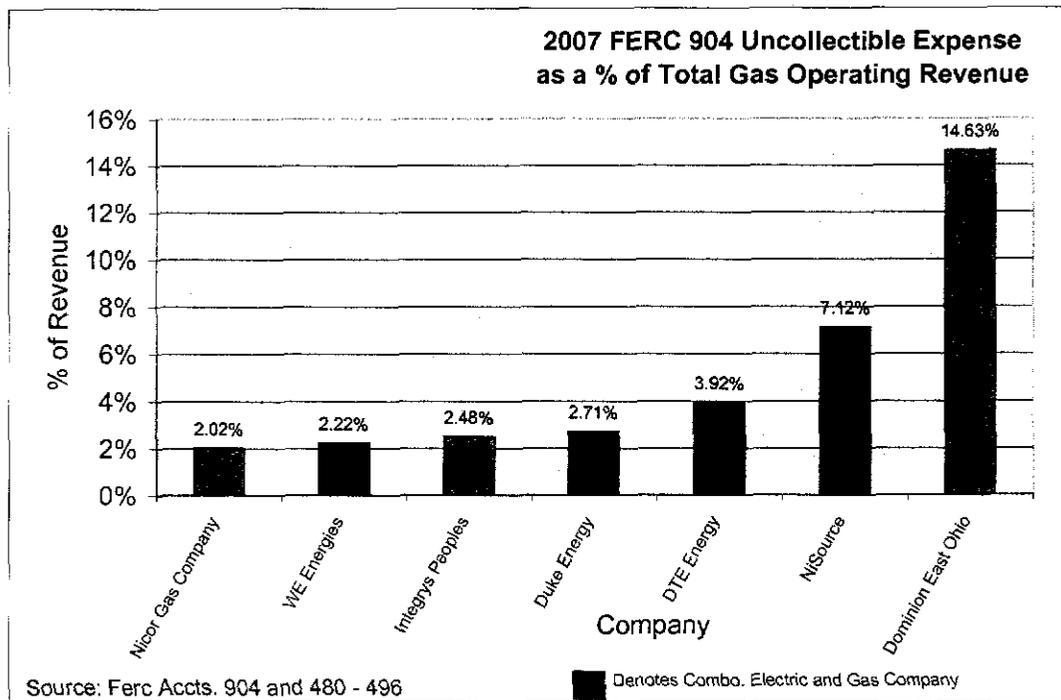
Data Source:

FERC Acct 904

FERC Accts 480 - 496

Total Gas Operating
Revenues Net of
Provision

REGIONAL PEER	Alternate name	Combo?	Uncollectible to Revenue Ratio	Uncollectible Accts	Provision
Nicor Gas Company		No	2.02%	\$ 52,973,824	\$ 2,627,495,273
WE Energies		Yes	2.22%	\$ 32,899,885	\$ 1,481,207,753
Integrys Peoples	People's Gas	No	2.48%	\$ 36,915,061	\$ 1,486,967,430
Duke Energy	Cnergy	Yes	2.71%	\$ 15,885,123	\$ 586,535,911
DTE Energy	Michcon	Yes	3.92%	\$ 69,662,762	\$ 1,776,392,995
NiSource	Columbia Gas of Ohio	Yes	7.12%	\$ 100,814,916	\$ 1,415,308,684
Dominion East Ohio		No	14.63%	\$ 158,369,203	\$ 1,082,276,873



**PROVISION EXPENSE TO
REVENUE RATIO 2006 PEER
DATA**

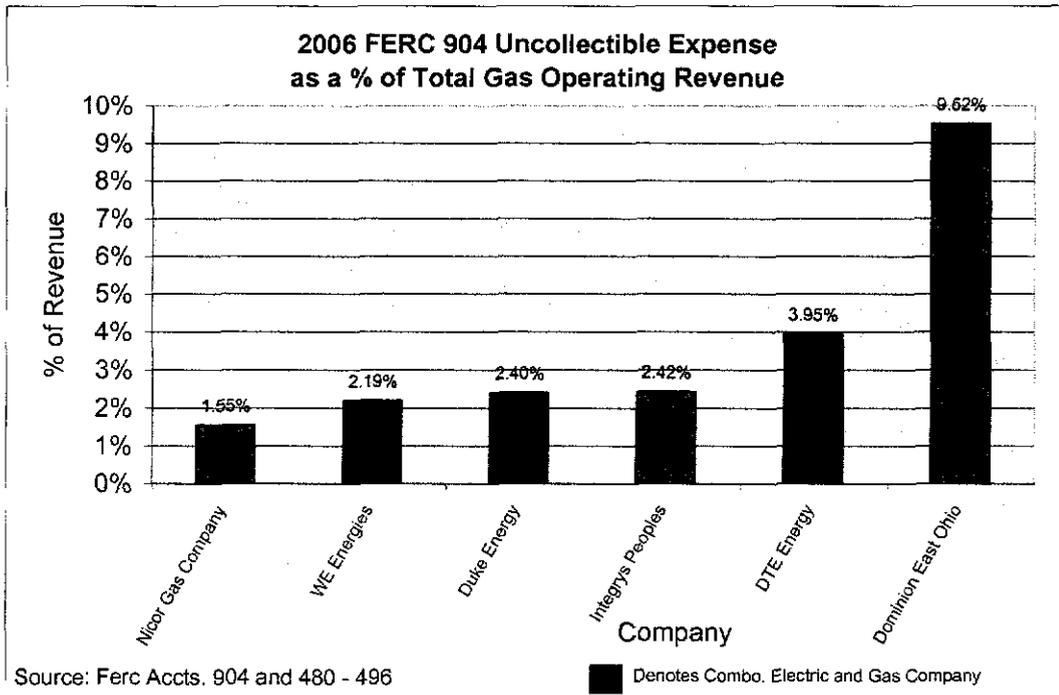
Data Source:

FERC Acct 904

FERC Accts 480 - 496

Total Gas Operating
Revenues Net of
Provision

REGIONAL PEER	Alternate name	Combo?	Uncollectible to Revenue Ratio	Uncollectible Accts	Provision
Nicor Gas Company		No	1.55%	\$ 38,058,000	\$ 2,453,322,005
WE Energies		Yes	2.19%	\$ 31,143,738	\$ 1,419,879,857
Duke Energy	Cinergy	Yes	2.40%	\$ 16,364,712	\$ 682,197,974
Integrys Peoples	People's Gas	No	2.42%	\$ 34,619,281	\$ 1,428,129,463
DTE Energy	Michcon	Yes	3.95%	\$ 73,730,364	\$ 1,868,640,820
Dominion East Ohio		No	9.52%	\$ 119,617,972	\$ 1,257,042,742



**PROVISION EXPENSE TO
REVENUE RATIO 2006 and 2007
PEER DATA**

Data Source:

FERC Acct 904

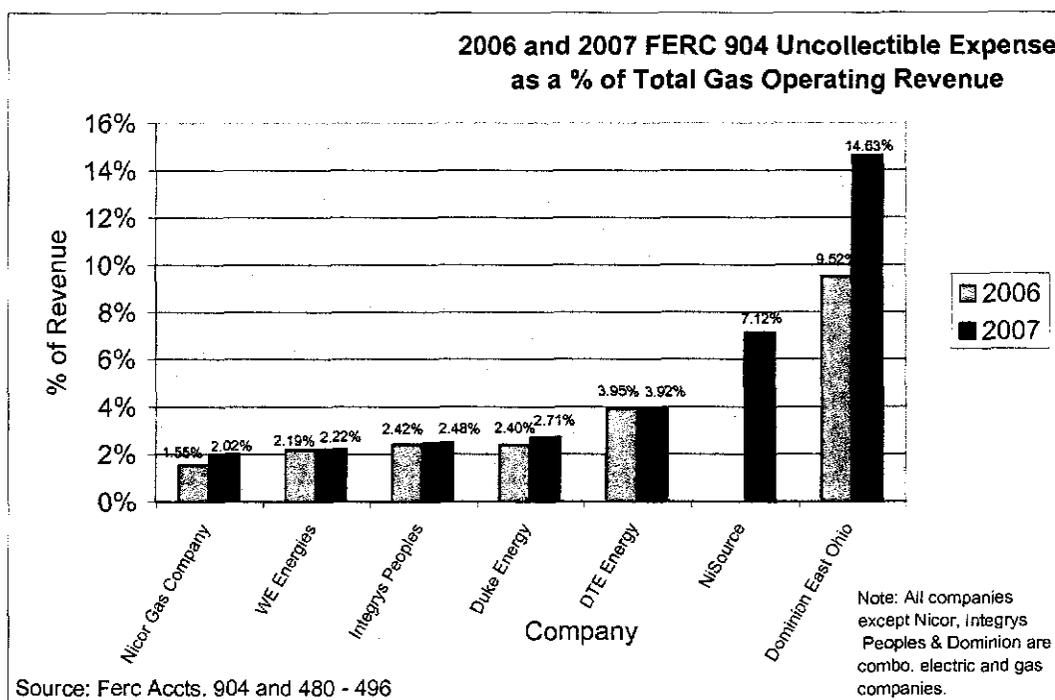
FERC Accts 480 - 496

Total Gas Operating
Revenues Net of
Provision

2007	Alternate name	Combo?	Uncollectible to Revenue Ratio	Uncollectible Accts	Provision
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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)

AFFIDAVIT

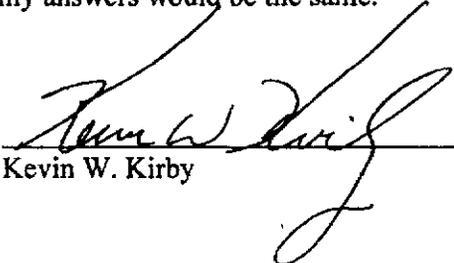
I, Kevin W. Kirby, under oath, hereby swear to the following:

1. I am the Vice President, Customer Care for Nicor Gas Company;
2. I prepared prefiled Rebuttal Testimony on behalf of Northern Illinois Gas

Company, d/b/a Nicor Gas Company, submitted as Nicor Gas Ex. 21.0, including Exhibits 21.1 through 21.6, and filed on September 25, 2008;

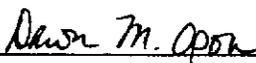
3. I have personal knowledge of all the fact in my Rebuttal Testimony, and the answers set forth in my Rebuttal Testimony are to the best of my knowledge, true and correct;
and

4. If asked those same questions today, my answers would be the same.



Kevin W. Kirby

Subscribed and sworn to before me
this 24th day of September, 2008.



Notary Public

