

REVISED DIRECT TESTIMONY

of

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Illinois Commerce Commission

Northern Illinois Gas Company

d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

September 10, 2008

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Contents

I. WITNESS QUALIFICATIONS	1
II. PURPOSE OF TESTIMONY AND BACKGROUND INFORMATION.....	2
III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	3
IV. TARIFF REVISIONS AFFECTING TRANSPORTATION CUSTOMERS	5
A. REDUCTION OF MAXIMUM DAILY NOMINATION ("MDN")	6
B. DAILY NOMINATION LIMITS ("DNL")	16
C. STORAGE BANKING SERVICE ("SBS") CHARGE.....	20
D. UNACCOUNTED-FOR GAS ADJUSTMENT AND STORAGE LOSS ADJUSTMENT FACTORS	24
V. TARIFF REVISIONS AFFECTING CUSTOMER SELECT CUSTOMERS	26
A. CUSTOMER SELECT BALANCING CHARGE ("CSBC")	26
Figure 1	7
Figure 2	10
Figure 3	17
Figure 4	21
Figure 5	21
Figure 6	23
Figure 7	25

1 **I. Witness Qualifications**

2 **Q. State your name and business address.**

3 A. David A. Sackett, Illinois Commerce Commission, 527 East Capitol Avenue,
4 Springfield, Illinois, 62701.

5

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

7 A. I am employed by the Illinois Commerce Commission ("Commission" or "ICC") as
8 an Economic Analyst in the Policy Program of the Energy Division.

9

10 **Q. What are your responsibilities within the Energy Division – Policy
11 Program?**

12 A. I provide economic analysis and advise the Commission and other staff members
13 on issues involving the natural gas and electric utility industries. I review tariff
14 filings and make recommendations to the Commission concerning those filings. I
15 provide testimony in Commission proceedings. In selected cases, I may be
16 called on to act as an assistant to Commissioners or to administrative law judges.

17

18 **Q. State your educational background.**

19 A. I graduated from Kankakee Community College with an Associate of Science
20 degree in Arts and Sciences in 1998. I graduated with highest honors from
21 Illinois State University with a Bachelor of Science degree in Economics and
22 History in 2000. I obtained a Master of Science degree in Applied Economics

23 from Illinois State University in the Electric, Natural Gas and Telecommunications
24 Economics sequence¹ in 2002. I also completed an internship at the Illinois
25 Commerce Commission in the Energy Division in 2001.

26

27 **Q. Describe your professional experience.**

28 A. Since July 2007, I have been an Economic Analyst in the Policy Program of the
29 Commission's Energy Division. While employed by the Commission, I have
30 reviewed several docketed proceedings before the Commission; Docket Nos. 07-
31 0585-0590 (cons.) was the first case in which I provided expert testimony. Prior
32 to coming to the Commission, I was an instructor at Illinois State University from
33 2003 to 2006, where I taught various courses in economics and statistics to
34 undergraduate students. I am a Captain in the Marine Corps Reserve and have
35 served since 1993. I am currently the Executive Officer for an infantry company
36 in Terre Haute, Indiana and have deployed twice to Iraq.

37

38 **II. Purpose of Testimony and Background Information**

39 **Q. What is the subject matter of your direct testimony?**

40 A. This testimony concerns Northern Illinois Gas Company d/b/a Nicor Gas
41 Company ("Nicor Gas" or "the Company") and its Proposed General Increase in
42 Gas Rates. These proposals include changes to Nicor Gas' gas transportation

¹ The Electricity, Natural Gas, and Telecommunications Sequence is a structured program that combines training in basic economic theory and statistical methods with specialized training in the theory, history and institutions of the economics of regulation. ISU website: <http://www.econ.ilstu.edu/grad/program.htm>.

43 services as set forth in Rates 74, 75, 76, and 77 and through Rider 25, Rates 4,
44 5, 6, and 7. Nicor Gas alleges that it needs to make these changes because the
45 decisions of its transportation customers often run counter to the optimal
46 operation of its system. Nicor Gas has proposed to reduce the Maximum Daily
47 Nomination ("MDN") that a customer receives for the months of July – October if
48 it does not cycle all of its gas from storage, and reduce the daily nomination limits
49 ("DNL") for the months of March and April. In addition, Nicor Gas has proposed
50 to change its calculation methodology for its Storage Banking Service ("SBS")
51 charge.

52

53 **III. Summary of Conclusions and Recommendations**

54 **Q. Please summarize your conclusions and recommendations.**

55 A. I have several general conclusions. I conclude that some of the changes that
56 Nicor Gas proposes to make in transportation services reduce the value of these
57 services to transportation customers. I conclude that Nicor Gas' argument
58 regarding the reduction in the need for pipeline delivery caps is not supported in
59 its testimony and that the Commission should give no weight to this premise. I
60 have eight recommendations for this case:

- 61 1. Nicor Gas' proposal to reduce the MDN should be rejected.
- 62 2. Nicor Gas' proposal to reduce the daily nomination limits DNL should be rejected.
- 63 3. The definition of the term MDN in the tariff should be expanded to refer to all
64 months instead of just April through October and should include the DNL.

- 65 4. The tariff language that Nicor gas is using to impose caps be consolidated to the
66 transportation service terms and conditions and that Nicor Gas issue caps only as
67 Operational Flow Orders ("OFO").
- 68 5. The transportation terms and conditions of this tariff should be revised as follows:
69 "the Company shallmay accept anticipated monthly usage provided it is
70 substantiated by the Customer."
- 71 6. Nicor Gas' proposal to change the manner in which it calculates its Storage
72 Banking Service ("SBS") charge should be rejected.
- 73 7. The increases in the cost of service study ("ECOSS") should be incorporated in to
74 the calculation.
- 75 8. The Customer Select Balancing Charge methodology should be revised to reflect a
76 reduced allocation of the costs of off-system assets by Customer Select customers.

77

78 **Q. Do you have any other concerns?**

79 A. Yes. There are three issues for which I was unable to complete my analysis. In
80 order to complete my analysis, I request that Nicor Gas provide additional
81 information:

- 82 1. Nicor Gas raises the issue of the effect that transportation customers' economic
83 actions have on the Purchased Gas Adjustment ("PGA"), Rider 6. Allegedly, these
84 customers use their flexibility to buy gas to the detriment of sales customers who
85 are precluded from the same advantageous purchasing. This is a legitimate
86 concern of the Commission and should be examined in Nicor Gas' rebuttal case.

- 87 2. Nicor Gas raises concerns regarding operational considerations with respect to the
88 effects of transportation customers' actions that run counter to Nicor Gas' attempts
89 to empty its storage fields. These concerns merit further review in its rebuttal
90 testimony.
- 91 3. The Unaccounted-For Gas Adjustment factor and the 2% adjustment factor for
92 losses associated with its on-system storage fields are not sufficiently supported by
93 the record in this case. I recommend that Nicor Gas demonstrate its methodologies
94 for determination, calculation, allocation and recovery of the Unaccounted-For Gas
95 Adjustment factor and the 2% adjustment factor for losses associated with its on-
96 system storage fields by all entities using that capacity

97

98 **IV. Tariff Revisions Affecting Transportation Customers**

99 **Q. Please summarize Nicor Gas' proposed revisions to its transportation**
100 **services.**

- 101 A. Nicor Gas has proposed to make certain changes to its rates and services for
102 transportation customers, as provided for in Rates 74, 75, 76, and 77 and, through
103 Rider 25, Rates 4, 5, 6, and 7. The changes to which I object are: reducing the
104 Maximum Daily Nomination ("MDN") for the months of July – October that a
105 customer receives if it does not cycle all of its gas from storage, and changes to the
106 Daily Nomination Limits ("DNL") for the months of March and April. Nicor Gas also
107 proposes to change how it calculates its Storage Banking Service ("SBS") charge.
108 (Co. Ex. 14.0, pp. 23-25)

109

110 **A. Reduction of Maximum Daily Nomination ("MDN")**

111 **Q. Please summarize Nicor Gas' current calculation of MDN.**

112 A. The MDN is "the maximum amount of gas that a customer can nominate for
113 delivery into Nicor Gas' system on a day. It is currently calculated for each month
114 April through October by adding (1) the customer's historical monthly usage for the
115 month, and (2) 25% of the customer's SBS capacity, with the resulting volume then
116 converted to a daily rate by dividing it by the number of days in the month." (Co. Ex.
117 4.0, p. 24) Nicor Gas claims two reasons for its proposed changes to its
118 nomination terms and conditions: 1) to enable the local distribution company
119 ("LDC") to effectively manage its storage fields and 2) to reduce the need to impose
120 caps on deliveries to its system on interstate pipelines. (Co. Ex. 4.0, pp. 18-19.)

121

122 **Q. How does Nicor Gas propose to change the manner in which MDN is**
123 **calculated?**

124 A. Nicor Gas proposes to change its method of calculating MDN for the months July to
125 October by using the *net* capacity remaining to be filled on April 30 instead of the
126 entire capacity allocated to each individual customer. (Co. Ex. 4.0, p. 24) See
127 Figure 1 below for a comparison of current and proposed MDN. Nicor Gas is using
128 the calculation of MDN as an incentive to cycle gas which is necessary and
129 beneficial for the Company to do in its aquifer storage fields. By linking injection
130 rights, which is essentially what MDN represents, to balance on April 30, Nicor Gas

131 is providing transportation customers an incentive to cycle gas out of their storage
 132 banks. The cycling discussion is dealt with in greater detail below.
 133

MDN (and DNL) Comparison		
Month	Current	Nicor Gas Proposed
Jan	2 times MDCQ	2 times MDCQ
Feb	2 times MDCQ	2 times MDCQ
May	HU+25% of SBS	HU+25% of SBS
Jun	HU+25% of SBS	HU+25% of SBS
Jul	HU+25% of SBS	HU+25% of RSBS
Aug	HU+25% of SBS	HU+25% of RSBS
Sep	HU+25% of SBS	HU+25% of RSBS
Oct	HU+25% of SBS	HU+25% of RSBS
Nov	2 times MDCQ	2 times MDCQ
Dec	2 times MDCQ	2 times MDCQ
HU	Daily Average of Monthly Historic Usage from Previous Year	
RSBS	Residual SBS = (Max SBS – Actual SBS on April 30)	

134 **Figure 1**

135 **Q. What effect would Nicor Gas' proposal to reduce MDN have had in the past**
 136 **five years?**

137 **A.** Because this incentive was not in effect, it is impossible to track what the effect
 138 *would* have been, i.e., transportation customers might have increased their cycling
 139 in response to this measure in order to prevent the loss of MDN. However, in
 140 response to Staff DR DAS 1.12, Nicor Gas witness Bartlett calculated what the
 141 average reduction in MDN for the months of July to October for transportation
 142 customers would have been given the actual SBS balances for the past five years

143 as 23%. It is unlikely that this measure would actually reduce MDN by this much
144 because transportation customers will likely cycle their banks more in response to
145 this incentive. However, this requirement to cycle is also a loss of flexibility.
146

147 **Q. How does Nicor Gas justify this change in the MDN calculation?**

148 A. Nicor Gas advances two reasons as to why it must change the MDN calculation: 1)
149 that it is appropriate because of the intent behind the design of the calculation, and
150 2) that this measure will reduce the need for Nicor Gas to put caps on the level of
151 deliveries allowed from various pipelines. (Co. Ex. 4.0, pp. 25-26)
152

153 **Q. How does Nicor Gas characterize the intent of the design to justify this
154 change in the manner in which MDN is calculated?**

155 A. Nicor Gas witness Bartlett states that "If a customer starts an injection season with
156 an inventory balance greater than zero, that customer would then have less open
157 capacity to fill over the summer and, therefore, should not require as high a level of
158 injection rights over the season in order to fill that capacity." (Co. Ex. 4.0, p. 25)
159

160 **Q. What assumption does Nicor Gas make to reach the conclusion that a
161 customer should not have as high a level of injection rights over the season?**

162 A. This assumes that the reason behind that allocation of MDN was simply to allow
163 transportation customers to fill their storage banks. "Daily injection rights currently
164 determined by using the entire amount of capacity in the MDN calculation are

165 predicated on the assumption that customers begin their injection season with an
166 inventory balance of zero in their accounts." (Co. Ex. 4.0, p. 25)

167

168 **Q. Has Nicor Gas substantiated this premise?**

169 A. No. Nicor has not shown that its assumption is correct. In response to Staff DR
170 4.01, Nicor Gas provided a citation to Docket No. 88-0277 where the Commission
171 allegedly approved Nicor Gas' proposal to calculate the MDN in its current form. I
172 found no reference to "MDN" in that order but there was a provision on page 47 that
173 stated that "a monthly injection restriction equal to 25% of transportation customer's
174 storage limit will be applicable during the months of March through November."
175 (Order, Docket No. 88-0277, June 21, 1989, p. 47) In fact, it appears that just the
176 opposite is the case because the Commission clearly linked the injection limit to the
177 entire capacity which it set at twenty times Maximum Daily Contract Quantity
178 ("MDCQ").

179

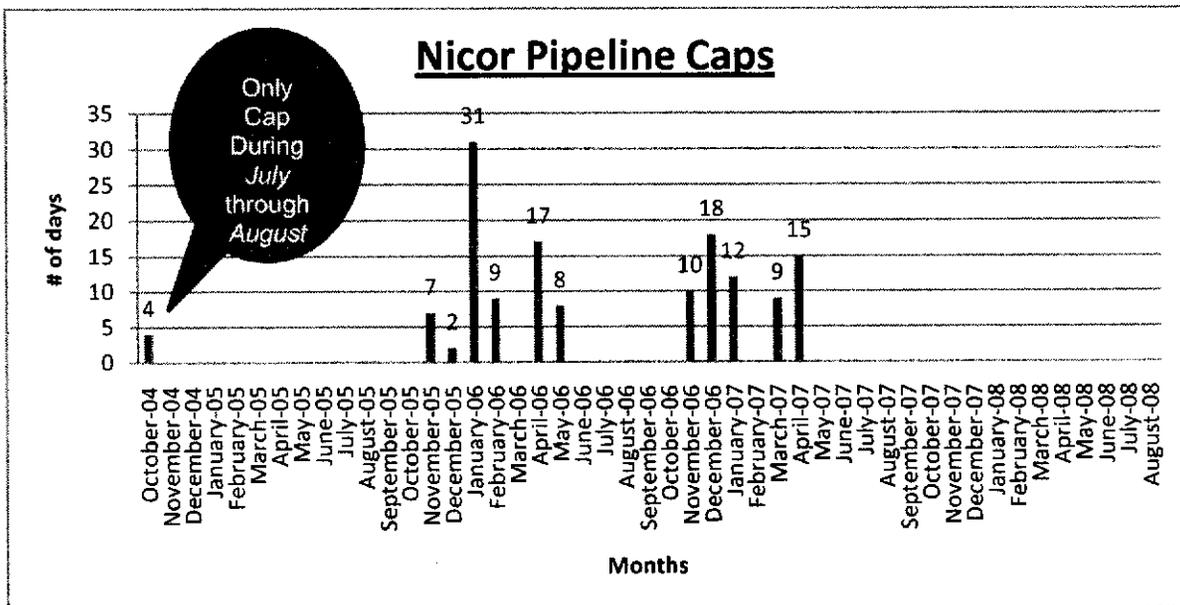
180 **Q. What issue do you see with regard to Nicor Gas' conclusion?**

181 A. I do not agree that the sole function of MDN is to allow customers to fill only that
182 storage which is empty. The tariff provides for the flexibility to fill total storage
183 capacity more than 2 times (25% per month for 7 months of the injection season as
184 well as injection rights of 2 times MDCQ during the withdrawal season). Clearly,
185 part of the purpose for the MDN is to give customers significantly more flexibility
186 than just filling their SBS during the injection season.

187

188 **Q. How does Nicor Gas use delivery caps to justify this change in the manner in**
 189 **which MDN is calculated?**

190 A. Nicor Gas witness Bartlett argues that this reduction in MDN will reduce the need to
 191 impose caps on interstate pipelines delivery during the *injection* season. (Co. Ex.
 192 4.0, p. 25) However, as illustrated in Figure 2 below, the vast majority of the caps
 193 occurred during the *withdrawal* season (November through April), not the injection
 194 season (May through October). There have been only 4 days of caps during the
 195 months of July through October in the past 4 years and they all occurred during
 196 October 2004. Nicor Gas has not demonstrated that the changes proposed here
 197 will have any effect on Caps during injection months. In any case, Nicor Gas has
 198 imposed no caps in the past 16 months, so the reduction of calls for summer caps
 199 does not appear to be a significant benefit to transportation customers.



200
 201

Figure 2

202 **Q. How does Nicor Gas justify imposing delivery caps?**

203 A. Despite the fact that Nicor Gas followed its Operational Flow Orders (“OFOs”)
204 procedures when calling the caps, Nicor Gas claims that caps are not OFOs. It has
205 a clear tariff authority to declare OFOs. In its response to Staff DR 4.04, Nicor Gas
206 cites the 1st Revised Sheet No. 45 of Nicor Gas’ tariff as its tariff authority. This
207 page of the tariff is not in the Transportation service terms and conditions. No
208 mention of these caps exists in the OFO and Critical day sections of the
209 transportation terms and conditions.

210

211 **Q. What do you recommend with regard to Nicor Gas’ delivery caps?**

212 A. I recommend that the tariff language that Nicor gas is using to impose caps be
213 consolidated to the transportation service terms and conditions and that Nicor Gas
214 issue caps only as Operational Flow Orders (“OFO”). This will ensure protection of
215 all parties.

216

217 **Q. Has Nicor Gas shown that these caps are harmful to transportation
218 customers?**

219 A. No. Nicor Gas witness claimed in his direct testimony that Nicor Gas had contact
220 from transportation customers complaining about how disruptive these caps were.
221 (Co Ex. 4.0, p. 25) In its supplemental response to Staff DR 1.02, Nicor Gas stated
222 that it had “phone conversations and discussions” and submitted a single email

223 from a customer back in 2004 that was complaining about negative impressions
224 regarding the Nicor Gas' rules for priority of supply.

225

226 **Q. How does cycling affect MDN in Nicor Gas' proposal?**

227 A. The Company indicates that customers who fully cycle their inventory will receive
228 the highest MDN allowance. Those transportation customers that fully cycle their
229 banks will receive an allowance equal to the current level.

230

231 **Q. How does Nicor Gas tie the use of cycling to the change in the manner in
232 which MDN is calculated?**

233 A. Nicor Gas witnesses Bartlett explains that customers who do not fully cycle do not
234 have as much open space or capacity to fill and concludes that those customers do
235 not need as high of level of injection rights. (Co. Ex. 4.0, pp. 26-27)

236

237 **Q. What is the historical context of this cycling issue?**

238 A. In Nicor Gas' previous rate case, ICC Docket No. 04-0779, Nicor Gas proposed to
239 place both an injection and withdrawal target to encourage customers to achieve
240 cycling of their banks.

241

242 **Q. What did the Commission determine in Docket No. 04-0779 with regard to
243 cycling requirements proposed by Nicor Gas in that case?**

244 A. In Docket No. 04-0779, the Commission determined that cycling requirements for
245 transportation customers were not necessary:

246 The record does not support Nicor Gas' proposed requirement that
247 Transportation customers reduce storage volumes to 10% by April 1.
248 While the Commission does not question Nicor Gas' need to fully
249 cycle its storage fields, it is not clear Transportation customers, or
250 Nicor Gas for that matter, need to reduce storage volumes to 10% by
251 April 1. That Nicor Gas will benefit from the cooperation from
252 Transportation customers in ensuring that storage is nearly full before
253 the winter season is clear. Imposing the additional requirement that
254 Transportation customers nearly empty storage capacity by April 1,
255 however, is not warranted. The record shows that historically, Nicor
256 Gas has not routinely reduced storage volumes to 10%, or nearly
257 10%, by April 1. Additionally, the other parties have convinced the
258 Commission that, to the extent Nicor Gas actually needs to reduce
259 the amount of gas in storage after the end of the winter heating
260 season, Nicor Gas should be able to accomplish this without placing
261 this additional withdrawal burden on Transportation customers at this
262 time. Finally, the interveners raised a legitimate concern that
263 combining a withdrawal target with the injection target might be
264 particularly burdensome for Transportation customers.
265 (Order, Docket No. 04-0779, September 20, 2005, p. 146)
266

267 **Q. What rationale did the Commission use to reject Nicor Gas' proposed cycling**
268 **requirements?**

269 A. The Commission listed three reasons why it rejected Nicor Gas' proposal in the last
270 case. First, Nicor Gas' own performance did not match its requirements for
271 transportation customers. Second, Nicor Gas can accomplish its goals through
272 other means. Finally, the Commission was concerned about these changes being
273 implemented along with other changes and the subsequent burden.

274

275 **Q. Are these reasons relevant to Nicor Gas' current proposal?**

276 A. Yes. Nicor Gas is essentially revisiting the cycling issue again and, while not
277 making it a "requirement" in this case, it is setting incentives in place that will
278 decrease flexibility of its transportation customers if they do not do as Nicor Gas
279 wishes them to do. Therefore, all three of these concerns are relevant and should
280 be considered. It is still not clear that Nicor Gas cycles its own storage fields
281 completely. There are also other means at Nicor Gas' disposal to deal with cycling
282 related issues. Additionally, Nicor Gas is not proposing this in a vacuum but rather
283 in conjunction with the injection targets already in effect as well as the proposal to
284 change the DNL for March and April.

285

286 **Q. What effect does Nicor Gas' claim about what would occur if it allowed**
287 **customers who did not fully cycle the same MDN rights as customers who do**
288 **fully cycle?**

289 A. Nicor claims that it would experience lost storage field performance or lost buying
290 opportunities that result from transportation customers buying gas and injecting it
291 when economically beneficial. (Co Ex. 4.0, pp.26-28, Co. Responses to Staff DR
292 1.07 and 4.02)

293

294 **Q. Do you agree?**

295 A. I do not agree that there will necessarily be a decrease in performance. However, it
296 is reasonable that when transportation customers purchase gas and inject that gas
297 into their banks, that the LDC cannot buy as much gas for sales customers.

298

299 **Q. Has Nicor Gas established any costs that accrue to sales customers as a**
300 **result of either lost storage field performance or lost buying opportunities**
301 **that result from transportation customers buying gas and injecting it when**
302 **economically beneficial?**

303 A. No. In response to Illinois Industrial Energy Consumers ("IIEC") DR 1.09, Nicor
304 Gas states that "the Company has not conducted or commissioned any studies,
305 investigations or analyses directed toward trying to determine the impact of
306 Transportation customers' use of SBS on the cost of purchased gas for sales
307 customers. Nicor Gas has not estimated the cost to sales customers." This is
308 problematic because this information is central to Nicor's argument for reducing
309 flexibility. In its absence, there is no basis to determine that the reductions are
310 appropriate. Nicor Gas did provide a response to Staff DR 4.02 in which it stated
311 that "Nicor Gas' storage fields have not experienced a reduction in their physical
312 ability to store, receive or deliver gas in the last five years because of focused
313 operating practices and maintenance programs." However, Nicor Gas did provide
314 an estimation of the economic impact of transportation customers buying gas and
315 injecting it when economically beneficial as part of this response. I have not had
316 the opportunity to evaluate the data and conclusions provided by Nicor Gas.

317

318 **Q. What do you recommend with regard to Nicor Gas' proposed changes to its**
319 **MDN?**

320 A. I recommend that the proposed reduction in MDN be rejected. Nicor Gas has not
321 demonstrated the need for it. There is clearly a loss of flexibility here for
322 transportation customers and Nicor Gas should not be allowed to reduce the MDN
323 in the absence of a demonstration that the current terms cause harm to the system
324 or to sales customers.

325

326 **Q. Do you recommend any changes to MDN?**

327 A. Yes. I recommend that that the definition of MDN be expanded to refer to all
328 months instead of just April through October and to include the DNL, in it tariffs.
329 This will simplify the tariff since the terms have lost their distinction because there
330 are now five different calculations being proposed by Nicor Gas instead of just two.

331

332 **B. Daily Nomination Limits ("DNL")**

333 **Q. Please summarize Nicor Gas' current calculation of DNL.**

334 A. Nicor Gas currently allows for nominations of 2 times Maximum Daily Contract
335 Quantity ("MDCQ") for November through March. The method for April limits
336 nominations to the simple daily average of the historic usage from the previous
337 April plus 25% of the customer's SBS capacity. (Co. Ex. 4.0, p. 28) See Figure 3
338 below for a comparison of current and proposed nomination limits.

339

340

MDN (and DNL) Comparison		
Month	Current	Nicor Gas Proposed
HU	Daily Average of Monthly <u>H</u> istoric <u>U</u> sage from Previous Year	

341

Figure 3

342

343 **Q. How does Nicor Gas propose to change the manner in which DNL is**
344 **calculated?**

345 A. Nicor Gas proposes to have two new methods for determining DNL for the months
346 of March and April. The method for March would be limiting nominations to 150%
347 of the historic usage from the previous March, and the method for April would be
348 limiting nominations to 110% of the historic usage from the previous April. (Co. Ex.
349 4.0, pp. 28-29) See Figure 3 above for a comparison of current and proposed
350 nomination limits.

351

352 **Q. What effect would this proposed change have had in the past five years on**
353 **the flexibility of transportation customers?**

354 A. Since these calculations are independent of customer actions, it is possible to track
355 what the effect of this tariff provision would have retrospectively. In response to
356 Staff DR DAS 1.13, Nicor Gas witness Bartlett calculated that the average
357 reduction in the daily nomination limits for transportation customers for the past five

358 years for the month of March would have been 69% and the same average for April
359 would have been 41%. These are significant reductions.

360

361 **Q. How does Nicor Gas justify this change in how DNL is calculated?**

362 A. Nicor Gas offers two reasons. The first is operational and the second is the
363 issuance of caps. The "caps" argument has been addressed above. Although
364 there have been more caps during March and April than the injection season (See
365 Figure 2 above), there have not been *any* caps in the past 16 months. Therefore, I
366 conclude that Nicor Gas wishes to make these changes for purely operational
367 considerations.

368

369 **Q. What operational considerations does Nicor Gas use to justify this change?**

370 A. Nicor Gas argues that the actions of transportation customers run counter to the
371 Company's operational needs. (Co. Ex. 4.0, p. 21) According to Nicor Gas, as the
372 LDC is attempting to bring its storage field inventories down and cycle the fields,
373 transportation customers, acting on economic impulse, are injecting gas into their
374 banks. Nicor Gas claims that this is interfering with its ability to accomplish its
375 cycling goals. (Co. Ex. 4.0, p. 28 and Co. Ex. 4.2) Nicor Gas also points out that
376 this behavior is an economic response, precludes LDC purchases of gas and costs
377 sales customer through the PGA. (Co Ex. 4.0, pp.26-28, Co. Responses to Staff
378 DR 1.07 and 4.02)

379

380 **Q. How does Nicor Gas change its treatment of the month of April from its last**
381 **case?**

382 A. In the past rate case Docket No 04-0779, Nicor Gas proposed to have cycling
383 requirements as noted above. In that case, the month in question came after the
384 cycling target of April 1 and would have to have been considered an injection month
385 by transportation customers. Nicor Gas has not shown what has changed since
386 that case that makes April now a withdrawal month.

387

388 **Q. What do you recommend with regard to Nicor Gas' proposed changes to its**
389 **DNL?**

390 A. I recommend that Nicor Gas' proposal to change the methodology to calculate the
391 DNL should be rejected. The proposal would reduce flexibility for Transportation
392 Customers and Nicor Gas has not demonstrated that a change is necessary.

393

394 **Q. Do you have any other recommendations regarding the revision proposed by**
395 **Nicor Gas?**

396 A. Yes. Nicor Gas witness Bartlett states that "if a customer has issues on a particular
397 day with the daily nomination limit (*i.e.*, a customer expects to have usage greater
398 than their stated MDN), the Company will address the problem to the benefit of the
399 customer." (Co. Ex. 4.0, p. 28) However, the current and proposed tariffs state that
400 "the Company may accept anticipated monthly usage provided it is substantiated
401 by the Customer." (Ill.C.C. No. 16 – Gas, 6th Revised Sheet No. 49) This language

402 gives the company the *right* to accept more than the MDN but not the *obligation*,
403 even when the customer can substantiate the need. I recommend that this
404 exception be explicitly stated in the tariff and that the transportation terms and
405 conditions of this tariff should be revised as follows: "the Company ~~shall~~may accept
406 anticipated monthly usage provided it is substantiated by the Customer." This
407 guarantee becomes even more important if the Commission approves Nicor Gas'
408 proposal, as the lost DNL will increase the number of times that customers will have
409 to request exceptions.

410

411 **C. Storage Banking Service ("SBS") Charge**

412 **Q. Please summarize the method that Nicor Gas' currently uses to calculate**
413 **its SBS charge.**

414 A. Nicor Gas currently calculates its SBS charge as the total storage revenue
415 requirement (excluding top gas) divided by the non-coincident peak capacity of the
416 system. (Co. Ex. 14.0, pp. 23-25) Nicor Gas was ordered in its previous rate case
417 to calculate the SBS charge using this methodology. (Order, Docket No. 04-0779,
418 September 20, 2005, p. 138)

419

420 **Q. How does Nicor Gas propose to change the manner in which its SBS charge**
421 **is calculated?**

422 A. Nicor Gas proposes to increase the SBS charge by 76% due in part to increasing
423 costs allocated to it and partially due to a change in the method of calculation. This

424 increase results from an increase of 58% in the storage capacity costs from the
425 ECOSS (numerator) and a 10% reduction in the storage cycling capacity
426 (denominator: from theoretical capacity to expected capacity). (Co. Supp. Rev.
427 Resp. to Staff DR DAS 2.06 Supp. Ex. 1) Figure 4 shows the current calculation of
428 the SBS charge. Figure 5 shows the Company's proposed calculation.

$$\frac{\left(\frac{\$52,505,000}{1,497,400,000} \right)}{12} = \frac{\$.0351}{12} = \$.0029$$

429 **Figure 4**

$$\frac{\left(\frac{\$83,186,000}{1,346,330,000} \right)}{12} = \frac{\$.0618}{12} = \$.0051$$

430 **Figure 5**

431

432 **Q. How does Nicor Gas justify this change in how the SBS) Charge is**
433 **calculated?**

434 A. Nicor Gas witness Mudra claims that the "SBS charge is appropriately based upon
435 the amount of storage the Company expects to cycle because transportation
436 customers are entitled to cycle their entire storage capacity and Nicor Gas prefers
437 them to do so." (Co. Ex. 14.0, pp. 24-25)

438

439 **Q. Do you agree with the Company's rationale?**

440 A. No. Nicor Gas is attempting to calculate this charge based on actual cycling to
441 recover what is essentially a capacity-based charge.

442

443 **Q. Has Nicor Gas made a similar proposal in the past?**

444 A. Yes. In Nicor Gas' previous rate case (Docket No. 04-0779), Nicor Gas proposed
445 the same methodology that it is proposing here and it was rejected.

446

447 **Q. What did the Commission determine in Docket No. 04-0779 with regard to the**
448 **calculation of the SBS charge proposed by Nicor Gas in that case?**

449 A. The Commission determined that the calculation of the SBS charge should reflect
450 total capacity. "The tariffs filed by Nicor Gas, after the conclusion of this
451 proceeding, should include an SBS charge that reflects the Commission's decision
452 regarding the embedded cost of service less the cost of top gas, divided by the
453 working gas in storage, 149.74 Bcf." (Order, Docket No. 04-0779, September 20,
454 2005, p. 138)

455

456 **Q. What rationale did the Commission use to determine that the SBS charge**
457 **should be based on the capacity instead of expected cycling in Docket No.**
458 **04-0779?**

459 A. The Commission determined that the SBS charge should reflect actual capacity
460 instead of Nicor Gas' expected cycling. "The Commission believes that the SBS
461 entitlement charge, by its very nature, is a capacity charge, not a usage or
462 volumetric charge...It would be inappropriate to base this capacity charge on the
463 volume of gas that Nicor Gas expects to be drawn out of storage. Instead, the

464 capacity charge should be based upon the entire capacity of working gas in
465 storage." (Order, Docket No. 04-0779, September 20, 2005, p. 138) The SBS
466 charge (and the associated revenue requirement) is recovered by multiplying the
467 charge by the *capacity* that a transportation customer elects regardless of how that
468 customer actually uses its capacity. Therefore, the charge should reflect the same.

469

470 **Q. What would the SBS charge be if it followed the method currently in effect?**

471 A. If Nicor Gas were to calculate the SBS charge using its amount of \$83,186,000 for
472 the storage capacity costs found in the ECOSS and the theoretical capacity of
473 149.74 Bcf, the charge would be \$0.0046 per therm as shown in Figure 6. (Co.
474 Supp. Resp. to Staff DR DAS 2.06 and Supp. Ex. 2)

475

$$\frac{\left(\frac{\$83,186,000}{1,497,400,000} \right)}{12} = \frac{\$.0556}{12} = \$.0046$$

476

Figure 6

477

478 **Q. What do you recommend for Nicor Gas' proposed changes to its SBS**
479 **charge?**

480 A. I recommend that this change in methodology be rejected as Nicor Gas has not
481 provided any new rationale that the Commission did not already reject in the past
482 rate case.

483

484 **Q. Do you have any recommendation regarding the Company's proposal to**
485 **incorporate the increases in ECOSS into the formula?**

486 A. According to Nicor Gas' response to Staff DR 3.06, the increase is "due to
487 increased operating maintenance, administrative, general, depreciation and tax
488 (other than income tax) expenses." I recommend that the increases in the ECOSS
489 should be incorporated into the calculation.

490

491 **D. Unaccounted-For Gas Adjustment and Storage Loss Adjustment Factors**

492 **Q. What is Nicor Gas' Unaccounted-For Gas Adjustment Factor ("UFGA") and**
493 **how is it used?**

494 A. Nicor Gas calculates the UFGA annually. The UFGA is a way to ensure that
495 transportation customers pay for unaccounted-for gas. According to its
496 Transportations and Storage Provisions under the Terms and Conditions of its tariff,
497 "All Customer-owned gas delivered to the Company shall be reduced by the
498 unaccounted-for gas percentage determined annually for the most recent 12
499 months ended June 30 to be effective the following September 1." (ILL.C.C. No. 16
500 – GAS, 5th Revised Sheet No. 47.) The UFGA is a *variable* factor.

501

502 **Q. What is the forecast UFGA for the 2009 test year?**

503 A. Currently, Nicor Gas has estimated the UFGA as 1.8% for the test year. (Co. Resp.
504 to Staff DR ENG 1.10)

505

506 **Q. What has the UFGA been for the past five years?**

507 A. Nicor Gas states in its response to Staff DR ENG. 1.10 that the UFGA for each of
508 the past five heating seasons as well as the forecast amounts are shown in Figure
509 7 below. This varies from year to year.

Unaccounted-For Gas Adjustment Factor 2003/04 – 2008/09	
2003/04	1.52%
2004/05	1.63%
2005/06	1.53%
2006/07	2.23%
2007/08*	1.8%
2008/09*	1.8%
*Forecast by averaging the past three "observed" years	

510 **Figure 7**

511

512 **Q. Please summarize Nicor Gas' 2% adjustment factor for storage losses.**

513 A. Nicor Gas reduces all gas withdrawn from its on-system storage fields by 2%
514 adjustment factor. This factor, which I call the Storage Loss Adjustment ("SLA")
515 Factor, has been the same 2% since it came into effect in the 1960s. (Co. Resp. to
516 Staff DR ENG 1.02)

517

518 **Q. What are Staff's concerns regarding these Factors?**

519 A. Staff is concerned with the calculation of these factors, their breakdown between
520 different types of costs, and the allocation of recovery between sales and
521 transportation customers. At this point, Nicor Gas has not answered questions
522 regarding these factors with sufficient detail to enable Staff to develop its position.
523 For further treatment of these issues, see Staff Ex. 2.0 and 9.0.

524

525 **Q. What do you recommend with regard to Nicor Gas' UFGA and SLA Factors?**

526 A. While Staff agrees that an UFGA and SLA are appropriate cost recovery
527 mechanisms, Nicor Gas must demonstrate that its methodologies and data to
528 determine, calculate, allocate and recover the UFGA and SLA factors for losses
529 associated with its on-system storage fields by all entities using that capacity are
530 correct and supported. To date, it has not done so. The Commission should not
531 approve these elements of the tariff until the Company can support them.

532

533 **V. Tariff Revisions Affecting Customer Select Customers**

534 **A. Customer Select Balancing Charge ("CSBC")**

535 **Q. Please summarize Nicor Gas' current calculation of the CSBC.**

536 A. Nicor Gas calculates the CSBC in its Rider 6 filing.² It is applied to all Customer
537 Select customers and reflects a proportional allocation of the costs of off-system

² Currently, the CSBC is 1.97 cents per therm and has traditionally been about 2 cents per therm.
(http://www.nicorinc.com/en_us/commercial/gas_rates_and_costs/Rider%20%206%20History.pdf)

538 storage resources or "upstream capacity" to the sales customers. (Co. Ex. 14.0, p.
539 25)

540

541 **Q. Does Nicor Gas propose to change the manner in which the CSBC is**
542 **calculated?**

543 A. No.

544

545 **Q. What did the Commission determine in Docket No. 04-0779 with regard to the**
546 **calculation of the CSBC proposed by Nicor Gas in that case?**

547 A. In Docket No. 04-0779, the Commission determined that the CSBC should not be
548 zero, but the Commission was not convinced that usage of upstream storage
549 capacity by sales and Customer Select customers were equal.

550 While it is not clear that Customer Select customers benefit from
551 Nicor Gas' upstream capacity to the same extent Sales customers
552 do, it is clear that Customer Select customers benefit from those
553 assets and should be assessed a Customer Select Balancing
554 Charge. Thus, of the two proposed Customer Select Balancing
555 Charges in the record, zero and Nicor Gas' proposed charge, the
556 Commission finds Nicor Gas' proposed charge the most appropriate
557 for purposes of this proceeding.

558 Finally, the Commission directs Nicor Gas, in the prefiled testimony
559 accompanying its next rate increase filing, to address the level of
560 balancing charges Customer Select customers should be assessed
561 in light of the benefits those customers receive from Nicor Gas'
562 upstream capacity. That testimony should contain a comparison of
563 the benefits that Nicor Gas' upstream capacity provides to Customer
564 Select customers and Sales customers, as well as the associated
565 levels of charges.

566 (Order, Docket No. 04-0779, September 20, 2005, p. 170)

567 Nicor Gas complies only marginally with this last requirement and makes no
568 mention of the Commission's directive.

569

570 **Q. How does Nicor Gas justify its treatment of Customer Select customers with**
571 **regard to upstream resources?**

572 A. Nicor Gas witness Mudra states that the reason that Customer Select customers
573 receive an equal allocation of the costs of these upstream resources is because
574 Nicor Gas uses those resources to balance the system daily for all customers.

575 Customer Select customers should be allocated the same pro-rata
576 share of Nicor Gas' upstream capacity charges as those customers
577 purchasing directly from the Company (Sales customers). Nicor Gas
578 uses its upstream capacity daily to balance the aggregate supply and
579 demand for both its Sales and Customer Select customers.

580 Customer Select customers currently receive the same per therm
581 allocation of purchased interstate pipeline balancing service costs as
582 the Sales customers. ...Customer Select customers pay the CSBC
583 charge per therm ...in the "Customer Select Charge" line item on their
584 bills. Sales customers pay the same cost per therm each month,
585 which is included in Nicor Gas' Rider 6 – Gas Supply Cost
586 (Co. Ex. 14.0, p. 25)

587

588 **Q. What issues concern you regarding Nicor Gas' treatment of the Customer**
589 **Select Balancing Charges?**

590 A. I am concerned that the Company is charging Customer Select customers costs
591 equal to sales customers without showing that they receive the same level of
592 benefits from these resources. Nicor Gas' "comparison of the benefits that Nicor
593 Gas' upstream capacity provides to Customer Select customers and Sales
594 customers" is that "Nicor Gas uses its upstream capacity daily to balance the

595 aggregate supply and demand for both its Sales and Customer Select customers.”
596 (Co. Ex. 14.0, p. 25) To say that both parties use a set of assets is not to say that
597 they make equal use of them.

598

599 **Q. Do transportation customers use these assets equally?**

600 A. No. Those assets are used to balance the entire system, to be sure. However,
601 Customer Select marketers are balanced daily. Moreover, the off-system
602 resources shown here represent a source of supply for sales customers. While
603 Customer Select customers may make use of these resources for temporary
604 source of supply, they do not use these assets to bring in their annual requirements
605 as sales customers do.

606

607 **Q. What do you recommend for the Customer Select Balancing Charges?**

608 A. Because these assets are used by sales customers as a source of supply, and CS
609 customers do balance on a daily basis, they should not bear the full cost of using
610 those assets. Therefore, I recommend that a new methodology be developed in
611 the instant case that reflects a reduced allocation of these costs to CS customers.
612 This methodology must determine how much leased storage each set of
613 customers uses and apply that percentage to Customer Select Balancing
614 Charges. I invite Nicor Gas and the interveners to propose what the methodology
615 should be used. I also invite Nicor Gas to provide a more thorough treatment of
616 this charge in its rebuttal case. At a minimum, Nicor Gas should demonstrate its

617 contention that CS customers use these resources equally with sales customers,
618 rather than just stating it.

619

620 **Q. Does this conclude your prepared direct testimony?**

621 **A. Yes.**

VERIFICATION

I, David Sackett, being first duly sworn, depose and state that I am a Economic Analyst III in the Policy Program of the Energy Division of the Illinois Commerce Commission; that I sponsor the foregoing Revised Direct Testimony of David Sackett; that I have personal knowledge of the information stated in the foregoing Revised Direct Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

David A. Sackett

Illinois Commerce Commission

Subscribed and sworn to before me
this 10th day of September, 2008.

Lisa Bowman
Notary Public

