Docket No. 08-0363
ICC Staff Exhibit 24.0R2

SECOND REVISED REBUTTAL TESTIMONY

of

DAVID SACKETT

Economic Analyst
Policy Program
Energy Division
Illinois Commerce Commission

Northern Illinois Gas Company

d/b/a Nicor Gas Company

Proposed General Increase in Gas Rates

Docket No. 08-0363

November 19, 2008

OFFICIAL FILE
I.C.C. DOCKET NO. 08-0363
Staff Exhibit No. 24.0R2
Witness
Date 11/19/08 Reporter TC

Contents

I. WITNESS QUALIFICATIONS 1

II. PURPOSE OF TESTIMONY AND BACKGROUND INFORMATION 1

III. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS 2

IV. TARIFF REVISIONS AFFECTING TRANSPORTATION CUSTOMERS 5

A. PROPOSED REDUCTIONS IN NOMINATION RIGHTS 6

1. Reduction of Maximum Daily Nominations ("MDN") in the months of July through October 10

2. Reduction of Maximum Daily Nominations ("MDN") in the months of March and April 13

B. CALCULATIONS THAT NICOR GAS PROPOSES TO CHANGE FROM DOCKET NO. 04-0779 15

1. SBS entitlement 23

2. Storage Banking Service ("SBS") Charge 25

3. Storage Withdrawal Factor 29

C. COSTS ASSOCIATED WITH STORAGE AND SYSTEM LOSSES 31

1. Storage Loss Adjustment ("SLA") Factor 31

2. Unaccounted-For Gas Adjustment ("UFGA") 33

D. OTHER OPERATIONAL ISSUES 34

1. Intra-day nominations 34

2. Trading of stored gas 36

3. Timing of MDCQ 37

4. Super-pooling on Critical Days 38

5. Seasonal usage maximum 40

V. TARIFF REVISIONS AFFECTING CUSTOMER SELECT CUSTOMERS 41

A. CUSTOMER SELECT BALANCING CHARGE ("CSBC") 41

B. CARRYING COST OF CAPITAL FOR WORKING GAS 45

C. CUSTOMER SELECT ADMINISTRATIVE FEE 46

D. ACCESS TO NICOR GAS ASSETS 46

E. AFFILIATE ACCESS ISSUES 47

1. Use of Nicor's Gas website for advertising 48

2. Use of Nicor Gas Call Centers for affiliate marketing 50

3. Gas Line Comfort Guard ("GLCG") program 51

4. Third-Party Billing Service *51*

I. Witness Qualifications

Q. State your name and business address.

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

Q. Are you the same David Sackett who previously testified in this proceeding?

A. Yes.

II. Purpose of Testimony and Background Information

Q. What is the subject matter of your rebuttal testimony?

A. The purpose of this testimony is to clarify the issues and Staff's positions on those issues relating to Nicor Gas' provision of transportation service. This testimony concerns Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or "Company") and its Proposed General Increase in Gas Rates. I discuss changes to transportation service that Nicor Gas claims that it needs to make because it alleges the decisions of transportation customers often run counter to the optimal operation of its system. Specifically, Nicor Gas has proposed to reduce the Maximum Daily Nomination ("MDN") that a customer receives for the months of July – October if it does not cycle all of its gas from storage, and to reduce the MDN for the months of March and April. In addition, Nicor Gas has proposed to change its calculation methodology for its Storage Banking Service ("SBS") entitlement, SBS charge and the Storage Withdrawal Factor ("SWF"). I am also going to respond to the direct testimony of interveners

in this case. Specifically, I address the testimony of Illinois Industrial Energy Consumers ("IIEC") witness Dr. Alan Rosenberg (IIEC Ex. 1.0), Constellation NewEnergy – Gas Division ("CNE") witnesses Ms. Darcy Fabrizius (CNE Ex. 1.0) and Ms. Lisa Rozmialski (CNE Ex. 2.0), Vanguard Energy Services ("VES") witness Mr. Neil Anderson (VES Ex. 1.0), and Customer Select Gas Suppliers ("CSGS") witness Mr. James L. Crist (CSGS Ex. 1.0). I also discuss affiliate transaction issues raised by Coalition for Equal Access and Fair Utility Rates ("CEAFUR") witness Mr. Arnold Schramel, which are of concern.

III. Summary of Conclusions and Recommendations

Q. Please summarize your conclusions and recommendations.

A. I have several general conclusions. I conclude that some of the changes that Nicor Gas proposes to make in transportation services reduce the value of these services to transportation customers. I conclude that Nicor Gas' arguments regarding the cost to sales customers from transportation customers and the capacity comparisons are not supported in its testimony and that the Commission should reject these proposed changes. I have sixteen recommendations for this case:

1. The reductions in Maximum Daily Nominations ("MDN") in July through October should be rejected by the Commission. The Commission addressed this issue in the Company's last rate case Docket No. 04-0779 ("04-0779"), and the Company has provided no new evidence that warrants changing the earlier decision. In fact, the only *new* support provided by Nicor Gas is the argument that decreasing

injection rights during July through October may reduce the need for Nicor Gas to issue delivery caps on interstate pipeline; Staff and CNE have pointed out that these caps are not occurring during the affected months.

2. The proposed reductions in MDN in March and April should be rejected by the Commission. The evidence provided by Nicor Gas does not provide compelling proof that transportation customers' actions impose an economic cost on sales customers. Nor is there support provided by Nicor Gas for the argument that decreasing nomination rights during March and April may reduce the need for Nicor Gas to issue delivery caps on interstate pipeline; Staff and CNE have pointed out that there have not been any caps in the past 16 months.
3. The definition of the term MDN in the tariff should be expanded. Nicor Gas should change the tariff heading from "Daily Nomination Limits" to "Maximum Daily Nominations" to clarify that all the limits contained in that section are in fact MDNs.
4. Nicor Gas' proposal to change the capacity with which it calculates its Storage Banking Service ("SBS") entitlement, SBS charge, and the Storage Withdrawal Factor ("SWF") should be rejected.
5. The increases in the cost of service study ("ECOSS"), except the sales customers' share of gas storage losses, should be incorporated into the SBS charge calculation.
6. The Commission should order a thorough study to evaluate how Nicor Gas utilizes its storage fields. Nicor Gas is not using these fields to their rated capacity of 150 Bcf. The study should consider both economic and operational costs and benefits

to the Company and to sales customers. Additionally, I recommend that a further investigation of this issue be conducted in the next PGA case.

7. The sales customers' share of gas storage losses should not be allocated in the ECOSS to the base rates of any classes of transportation customers.
8. Nicor Gas should develop a new methodology to allocate gas storage losses to sales customers based on relative net *injections* during injection months
9. Nicor Gas should recover the Unaccounted-For Gas Adjustment ("UFGA") from Hub deliveries. The UFGA should be recalculated to include estimated Hub deliveries in the denominator. This lowers the UFGA, but it would recover storage and system losses from more customers.
10. Nicor Gas should implement a pilot program to provide the evening nomination (6 PM) on a firm basis and the Intra-day 1 nomination (10 AM) on a best-efforts basis to allow a determination of the effects and feasibility of this service. This pilot program would provide a measured step toward balancing the flexibility clearly enjoyed by Nicor Gas while not burdening Nicor Gas with an unworkable solution and would enable a more thorough analysis in a subsequent rate proceeding. In its surrebuttal, Nicor Gas should provide a cost estimate of providing this increased service.
11. Nicor Gas should provide for trading of stored gas under the same circumstances that the Commission approved for Peoples Gas and North Shore Gas in Docket Nos. 07-0240/07-0241. (Cons.)
12. The Maximum Daily Contract Quantity ("MDCQ") calculation which determines the storage and demand charges for larger customers should include data from the

most recent heating season along with any other tariff changes that needed to accommodate this. The entire year (May through April) should be used to account for those customers using very little gas during the winter.

13. Super-pooling, whereby all of a marketer's groups are pooled into one large pool to take advantage of diversity should be allowed in the determination of Critical Day ("CD") penalties. If the Commission allows Nicor Gas' proposed MDN reductions are approved, i.e., the cycling target, the provision of super-pooling is needed for consistency.

14. The seasonal usage annual maximum should be increased from 250,000 therms to 1.5 million therms.

15. The Memorandum of Understanding ("MOU") between Nicor Gas and CSGS should be approved by the Commission as regards the Customer Select administrative fee, the carrying cost of working gas and access to Nicor Gas assets.

16. Nicor Gas' operating agreements with its affiliates should be reopened as recommended by Staff witness Hathhorn. (ICC Staff Exhibit 15.0)

IV. <u>Tariff Revisions Affecting Transportation Customers</u>

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

A. Nicor Gas has proposed to make certain changes to its rates and services for transportation customers, as provided for in Rates 74, 75, 76, and 77 and, through Rider 25, Rates 4, 5, 6, and 7. Notably, those changes are: a reduction to the

Maximum Daily Nomination ("MDN") for the months of July – October and for the months of March and April for customers who do not completely cycle all of their gas from storage. Nicor Gas also proposes to change how it calculates its Storage Banking Service ("SBS") entitlement, SBS charge, and the Storage Withdrawal Factor ("SWF") by changing the capacity being divided from the total non-coincident working gas capacity ordered by the Commission in the last rate case of 149.7 Bcf to Nicor Gas' targeted (or planned) maximum working gas inventory which it claims is the operationally available capacity of 134.6 Bcf.

A. <u>Proposed reductions in nomination rights</u>

Q. What changes to Maximum Daily Nomination ("MDN") has Nicor Gas proposed?

A. Nicor Gas has proposed to change the MDN for its transportation customers in two different periods for two different reasons. These reductions would reduce nominating flexibility for transportation customers. Nicor Gas witness Bartlett bases his rebuttal case on the argument that the actions of transportation customers negatively affect sales customers by raising their gas costs. (Co. Ex.19.0, pp.14-15)

Q. How did Nicor Gas justify its assertions?

A. Nicor Gas Witness Bartlett sponsors Co. Exhibit 19.3 that purports to demonstrate the cost to sales customers when transportation customers use their flexibility to not follow Nicor Gas' operational cycling requirements. Nicor Gas asserts that there is a balance that must be reached between the flexibility given to transportation

138 customers and the flexibility that the LDC has to balance the system and secure the
139 lowest prices for sales customers. Nicor Gas further asserts that the proper
140 balance has not been achieved and its proposals will correct that at this time. (Co.
141 Ex. 19.0, p. 16)
142
143 **Q. What concerns do you have with regard to Co. Exhibit 19.3?**
144 A. Mr. Bartlett's Exhibit 19.3 attempts to put a dollar estimate on the lost flexibility that
145 sales customers allegedly incur when transportation customers use their storage
146 assets differently than is optimal. The analysis is based on Nicor Gas' storage
147 cycling plan which is a daily estimate of what injections and withdrawals might be
148 like during the cycle. However, the exhibit fails to show what he claims that it
149 shows. It is based on faulty analysis and assumptions and fails to account for the
150 actions of sales customers. For example, Nicor Gas' analysis looks at deviations of
151 transportation customers' portion of a plan formulated by Nicor Gas before the start
152 of the withdrawal season. Actual field withdrawals properly deviate from scheduled
153 withdrawals as the Company reacts to weather and other demand conditions over
154 the winter. Withdrawals (or gas use) of sales and transportation customers both
155 deviate from the plan, often in the same direction. I have four criticisms of the
156 analysis as enumerated below.
157 1. The plan is formulated by Nicor Gas and is not shared with transportation
158 customers. Mr. Bartlett's analysis holds transportation customers to a standard that
159 they do not know, are not required by any tariff to maintain, and that somehow
160 transportation customers have a part of this plan that is theirs. The analysis

appears to assume that deviations from this plan are deliberate and made for economic reasons as opposed to many exogenous variables. Therefore, the expectation is that there must be a rigid adherence to the plan.

2. However, the plan is purely hypothetical. It is not a reasonable estimate of what is expected. In addition, gas use or gas withdrawals within the plan are very volatile from day-to-day, even erratic due to simulated peak days. This volatility projected by the plan makes a daily comparison gas use/withdrawals projected by the plan with actual gas use/withdrawals of little value.

3. Nicor Gas does not even adhere to the plan itself. It is clear from Co. Ex. 19.3 that Nicor Gas does not follow the plan on a daily basis. However, Mr. Bartlett has made no effort to compare Nicor Gas' deviations from the plan for sales customers and the Hub on a similar basis (or in a similar manner).

4. Deviations from the plan on the part of transportation customers do not necessarily mean that Nicor Gas is precluded from making purchases, i.e., it may be that Nicor Gas would have made no purchases at the daily price regardless of the actions of the transportation customers. The majority of Nicor Gas purchase volumes are determined before the start of the month. According to the Company response to Data Request ("DR") DAS 6.11, "the daily purchase requirements are driven primarily by operational requirements." So Nicor Gas purchases would not necessarily be precluded by transportation customers' activity.

Q. Did you consider the cost impacts for sales customers that were provided in Mr. Bartlett's response to Staff DR 4.02 for your direct testimony?

A. Yes. Upon receipt, I reviewed the response briefly and determined it was flawed. I was unable to incorporate a thorough review of the information provided in response to DR DAS 4.02 in my direct testimony because it was received from the Company on August 26, 2008, just *one day* before my direct testimony was due. (Co. Response to Staff DR 7.05) A thorough review of his analysis does not cause me to change my conclusions from my direct testimony.

Q. Do you have any other concerns with regard to Nicor Gas' rebuttal testimony on the reduction of the MDN for transportation customers?

A. Yes. Mr. Bartlett states that none of the Interveners or Staff has shown that the reduction in MDN would cause a detriment to transportation customers. (Co. Ex. 19.0, p. 20) Nicor Gas' own calculations clearly show that transportation customers lose flexibility. Nicor Gas response to DR DAS 1.12 shows transportation customers would average a 23% loss in injection rights and its response to DR DAS 1.13 shows an even larger average loss of 69% in nomination rights during March and 41% in April. The loss of rights is a detriment to transportation customers. The Commission is clear that, all other things being equal, it wants to *expand* flexibility for transportation customers. (Order, Docket No. 04-0779, September 20, 2005, p.131)

1. Reduction of Maximum Daily Nominations ("MDN") in the months of July through October.

Q. What did Nicor Gas propose with regard to the MDN in the months of July through October?

A. Nicor Gas proposed to reduce MDN in these months proportionally to a customer's remaining SBS inventory at the end of April. Under Nicor Gas' proposal, for each percentage of its storage bank that is not empty on April 30th, the customer loses one percent of its storage injection rights during July through October.

Q. Is this the same basic proposal Nicor Gas made in its last rate case?

A. Yes. Nicor Gas proposed a similar cycling incentive in the previous case. Attachment A is the two tariff sheets that Nicor Gas proposed in 04-0779. Nicor Gas's current proposal, while not defined as a "cycling requirement" in the tariff, is more of a requirement as was proposed in the last rate case. The Commission should reject it in the instant case as well.

Q. How does the current proposal differ from Nicor Gas' proposal in 04-0779?

A. There are three differences between the two proposals: the date of calculation, the date of effect and the grace window that applied in the previous proposal.

224

	Calculation Date	Months affected	Grace Window	Target
04-0779	April 1st	May - October	10%	90%
08-0363	April 30th	July - October	None	100%

225 **Table 1**

226 **Q. What differences between the proposals did Nicor Gas address?**

227 A. The date of calculation is now April 30th instead of April 1st. Also, the date effective
228 for this is now only July through October because Nicor Gas claims that it cannot
229 provide accurate information to those customers in time for them to act accordingly
230 for the months of May and June. (Co. Ex. 4 0, p. 26) This later date provides a
231 benefit to transportation customers as they are not subject to penalties until July
232 rather than May. However, this should not imply that this proposal is not more
233 stringent.

234

235 **Q. Which differences between the proposals did Nicor Gas *not* address?**

236 A. The Company is proposing a more stringently applied penalty than the one rejected
237 in the last case. Nicor Gas does not now call its current proposal a cycling
238 requirement, but it is basically the same reductions in MDN as that rate case, only it
239 has now eliminated the 10% grace window. In 04-0779, Nicor Gas proposed that
240 the injection rights should be tied to a "target" for customers to cycle 90% of their
241 SBS capacity. That "target" has increased to 100% in the current proposal. Now

Nicor Gas has proposed the same loss of injection rights but no grace window. The Company has failed to show why the Commission should approve a *more restrictive* tariff provision than it properly rejected in the last case.

If banks were cycled down to this level...	Nicor Proposed 04-0779 storage injection rights would be...	Approved 04-0779 storage injection rights would be...	Nicor Proposed 08-0363 storage injection rights would be...	Staff *alternative* proposal 08-0363 storage injection rights would be...
5 %	100%	100%	95%	100%
25 %	75%	100%	75%	87.5%%

Table 2

Q. What do you recommend with regard to reduction in MDN for July through October?

A. I continue to recommend that these proposed changes be rejected by the Commission. As is discussed above, the Commission already ruled on this issue in 04-0779, and the Company has provided no evidence that warrants changing the earlier decision. In fact, the only new support provided by Nicor Gas is the argument that decreasing injection rights during July through October may reduce the need for Nicor Gas to issue delivery caps on interstate pipeline; Staff and CNE

have pointed out that these caps are not even happening during the affected months.

Q. What do you recommend with regard to reduction in MDN for July through October if the Commission finds Nicor Gas' testimony about the need to fully cycle and the cost to sales customers to be compelling?

A. Rather than fully adopting Nicor Gas' proposal, I recommend that the Commission take a measured step to address these problems. This is an issue where reducing flexibility by too much is harmful to transportation service. Therefore, I recommend that the reduction in injection rights proposed by Nicor Gas be cut in half and the 10% grace window that Nicor Gas proposed in the last case be applied before any injections rights are lost (See Table 2 above).

2. <u>Reduction of Maximum Daily Nominations ("MDN") in the months of March and April.</u>

Q. What did Staff and Intervenors recommend in direct testimony with regard to Nicor Gas' proposal to reduce MDN?

A. Staff and Intervenors recommended that the Commission reject the proposal to reduce MDN in March through April.

Q. How did Nicor Gas respond to this recommendation?

A. In its rebuttal testimony, the only objections were to my dismissal of the potential reduction in the need for pipeline caps and the evidence provided in Co. Exhibit 19.3. I addressed that issue above. (Co. Ex. 19.0, pp.17-18)

Q. What do you recommend with regard to reduction of MDN during the months of March and April?

A. I continue to recommend that these proposed changes be rejected by the Commission. The evidence provided by Nicor Gas does not provide compelling evidence that transportation customers' actions impose an economic cost to sales customers. Nor is there substance to the argument provided by Nicor Gas that decreasing nomination rights during March and April may reduce the need for Nicor Gas to issue delivery caps on interstate pipelines; Staff and CNE have pointed out that there have not been any caps in the past 16 months. (Staff Ex.11.0R, p. 10, CNE Ex. 1.0, p. 30)

Q. What do you recommend with regard to reduction in MDN for March and April if the Commission finds Nicor Gas' testimony about the need to fully cycle and the cost to sales customers is compelling?

A. As above, I recommend that the Commission take a measured step to address these problems. Again, this is an issue where reducing flexibility by too much is harmful to transportation customers. Therefore, I recommend that the reduction in nomination rights proposed by Nicor Gas be cut in half in the same manner as proposed for the July- October period.

299

300 **Q. Did Nicor accept your recommendation that a single terminology was**
301 **appropriate to describe the maximum amount that Transportation**
302 **customers could nominate each day of the year?**
303 A. Yes. Nicor Gas witness Bartlett stated in his rebuttal testimony that Nicor Gas had
304 accepted my recommendation and that a single term, Maximum Daily Nomination
305 ("MDN") would be reflected in the revised tariffs. He also stated that Mr. Mudra
306 would address this change in his rebuttal testimony (Co. Ex. 19.0, p. 21). However,
307 Mr. Mudra does not mention Nicor Gas' acceptance, and the revised tariff sheets
308 do not include the change. Staff asked in DR DAS 7.08 whether this was an
309 oversight by the Company. Nicor Gas responded by stating that the Company was
310 also willing to change the tariff heading from "Daily Nomination Limits" to "Maximum
311 Daily Nominations" to clarify that all the limits contained in that section were in fact
312 MDNs. I find this acceptable.
313

314 **B. <u>Calculations that Nicor Gas proposes to change from Docket No. 04-0779</u>**
315 **Q. What changes has Nicor Gas effectively proposed to make to the Storage**
316 **Banking Service?**
317 A. There are three inter-related issues that revolve around the Storage Banking
318 calculations ordered in Nicor Gas' last rate case, 04-0779. These calculations
319 include the Storage Banking Service ("SBS") entitlement (how we divide the
320 capacity), the SBS Charge (what we charge per unit of that entitlement) and the

Storage Withdrawal Factor ("SWF") (how much gas can be withdrawn on a Critical Day ("CD")).

Q. What issue lies at the heart of the disagreement between Nicor Gas and Staff, Interveners and the Commission regarding the SBS?

A. The central question that must be answered before any other issues can be addressed is: what level of storage is to be allocated. In 04-0779, the Commission chose the Company's maximum non-coincident working gas in its storage fields as the amount of storage. The maximum non-coincident working gas in storage is the total of the maximum amounts of gas in storage in each of its fields during the withdrawal season. In this proceeding, Nicor Gas implied that it was not changing these calculations. (Co. Ex. 29.0, p. 37) However, rather than changing the allocations as the previously approved formulas would imply, Nicor Gas implicitly proposes to change the formula inputs as well as the formulas themselves. This results in the storage allocation being smaller than simply applying updated numbers to the formulas from the last rate case. The effect of Nicor Gas' changes in the formula is to maintain the present levels of storage for transportation customers.

Q. What value does Nicor Gas propose to use for the level of storage to be allocated?

A. Nicor Gas proposed using the operationally available capacity. Mr. Bartlett states in rebuttal that

> the various Intervenors appear to be confusing a rate making concept (capacity) with the allocation of an operational capability. If the 149.74 Bcf were to be used in calculating the SBS charges and in the allocation of storage capacity, then Transportation customers will receive a greater allocation of storage, and pay less per therm for that capacity, since the actual annual operational capability of the storage fields remains at the approximate 135 Bcf level. (Co. Ex. 19.0, pp. 12-13)

According to Co. Response to DR DAS 6.07, Nicor Gas has been deliberately decreasing the maximum level of its working gas inventory (Attachment G also supports this).

Q. What are the differences between the various proposals in the last rate case and this case?

A. The information shown below in Table 1 lists a comparison of the different proposals in 04-0779 and in this case. Staff and Intervenors support the Commission's non-coincident peak working gas number from the last rate case and that those methods should be applied to the data in this case as well. Nicor Gas argues that in each case, the Commission decided in error, and as such, the methodology should be changed. (Co Response to DR DAS 7.18)

365

	04 Nicor Gas Proposed		04 ICC Approved		08 Nicor Gas Proposed		08 Staff / CNE Proposed	
SBS Allocation	Expected Cycling	120 Bcf	Peak non-coincident WG Cap.	149.7 Bcf	Operationally Available Capacity	134.6 Bcf	Peak non-coincident WG Cap.	149.7 Bcf
	Peak Design Day	5.3 Bcf	Peak Design Day	5.3 Bcf	Peak Design Day	4.9 Bcf	Peak Design Day	4.9 Bcf
SBS Charge	Storage costs minus top gas	$52.5 million	Storage costs minus top gas	$52.5 million	Storage costs minus top gas	$67.9 million	Storage costs minus top gas	$67.9 million
	Expected Cycling	120 Bcf	Peak non-coincident WG Cap.	149.7 Bcf	Operationally Available Capacity	134.6 Bcf	Peak non-coincident WG Cap.	149.7 Bcf
SWF	Est PD from storage	2.5 Bcf	Est PD from storage	2.5 Bcf	Est PD from storage	2.5 Bcf	Est PD from storage	2.5 Bcf
	Expected Cycling	120 Bcf	Peak non-coincident WG Cap.	149.7 Bcf	SBS Allocation	137.2 Bcf	Peak non-coincident WG Cap.	149.7 Bcf

366 **Table 3**

367

368 **Q. Why is Nicor Gas' proposed "targeted" cycling storage capacity measure**
369 **incorrect?**

370 A. In 04-0779, Nicor Gas specifically proposed to use 120 Bcf of "expected" cycling
371 in all three of these calculations and in each case, the Commission rejected that
372 proposal, choosing instead to use the non-coincident peak top gas. The
373 Commission rejected Nicor Gas' proposed SBS entitlement and SBS charge
374 based on "expected" cycling of 120 Bcf. Actual cycling for the test year of 2005
375 was 124 Bcf (Co Response to DR DAS 6.08) and then it increased to 125 in 2006,
376 and then 128 for 2007 (Co Response to DR IIEC 6.01) and 130 for 2008. (Co
377 Response to DR DAS 7.19, estimated). If the Commission had followed Nicor
378 Gas' proposal, it would have clearly under-estimated the amount of available
379 storage and over-charged transportation customers. This illustrates part of the

problem with using an expected or targeted amount. It is dependent arbitrary decisions on the part of the local distribution company ("LDC").

Q. How does Mr. Mudra calculate the SBS Capacity Allocation?

A. To determine the SBS capacity allocation, Mr. Mudra multiplied 28, the number of days of MDCQ currently allocated, by 4.9 Bcf, the peak design day, and he arrived at 137.2 Bcf. (Nicor Gas Response to DR DAS 7.22f, provided as Attachment B and Co Response to DR CNE 2.01 is provided as Attachment C) He then divides the SBS Capacity Allocation by the peak design day of 4.9 to get the SBS entitlement of 28 days. (Co Response to DR IIEC 2.02 Corrected is provided as Attachment D) This is a circular calculation because (See Equation 1) he uses the SBS entitlement to calculate the SBS Capacity Allocation and then uses the result to calculate the SBS entitlement. It is no surprise that he gets 28 days.

$$28 * 4.9\ Bcf = \frac{137.2\ Bcf}{4.9\ Bcf} = 28$$

Equation 1

Q. Is Mr. Bartlett inconsistent as well?

A. Yes. Mr. Bartlett's position in this proceeding is partially inconsistent with his position in the last rate case. Mr. Bartlett testified in 04-0779 that "the Company maintains gas storage fields with a total capacity determined recently to be 466.266 Bcf. Of this amount, 149.740 Bcf is available to be filled by top gas, that is, gas that can be injected and effectively recovered during a storage cycle."

402 (Docket No. 04-0779, Co. Ex. 8.0, p. 38) He also argued that the expected
403 cycling amount was the appropriate measure.
404
405 **Q. What evidence did Mr. Bartlett provide in 04-0779 to show that 149.740 Bcf**
406 **was the correct capacity in his fields?**
407 A. To provide substance for that, Mr. Bartlett provided as an exhibit in that case an
408 engineering consultant's study performed in 2004 on Nicor Gas storage fields to
409 determine the actual amount of working gas (Docket No. 04-0779, Co. Ex. 8.3,
410 Summary is provided as Attachment E). Again, that total was shown to be
411 149.74 Bcf. In this case, Mr. Bartlett testified that Nicor Gas's total inventory
412 target has improved the field performance. (Co. Ex. 19.0, p.12) Considering
413 improved field performance combined with the decrease in the peak design day, I
414 find it hard to not to justify staying with the higher amount of storage capacity.
415
416 **Q. Is there evidence that the 134.6 Bcf is not even a maximum?**
417 A. Yes. In Attachment F, which is Nicor Gas' Response to DR 7.18, Mr. Mudra states
418 that the non- coincident level of 134.6 Bcf. working gas in storage for 2005 through
419 2007 was 138.9, 135.0 and 134. 1 which indicates that in two of those three years,
420 the capacity was above that amount operationally available. This is confirmed in
421 Attachment G.
422
423 **Q. Does Nicor Gas arrive at the correct capacity to use in this case?**

A. No. In the last rate case, Nicor Gas argued that the SBS charges and SBS entitlement and rights should be based on expected usage not capacity. This argument was properly rejected by the Commission. Nicor Gas began to make the same argument in direct (Co. Ex. 14.0, p. 24) but revised its argument to a new capacity-like concept (Attachment C and Co. Ex. 29, pp. 45-46). Without any historical basis for it, Mr. Mudra has made a tautological computation with no practical application. The Commission should not accept Nicor Gas' new argument simply because Nicor Gas has changed from an expected cycling to a capacity argument in this case.

Q. What do you recommend if the Commission adopts Nicor Gas' measure of the amount of storage to be divided in the calculation of the SBS entitlement?

A. If the Commission is interested in finding a new capacity that is operationally available, the amount that should be used is the average of the annual non-coincident peaks from the last four years, which is 137.2 Bcf[1] This is the average of the maximum physical top gas inventories for Nicor Gas' storage fields for the past four years. Using this average eliminates the data from before the re-classification of 7 Bcf of top gas to base gas that occurred in 2004. (See Attachment H)

[1] (This is not related to the same amount that was calculated using the method that Mr. Mudra used to determine the "Storage Banking Service Allocation").

Q. What other general concerns do you have with regard to Nicor Gas' use of its storage fields?

A. Nicor Gas is not running its storage fields at their rated capacity of 150 Bcf, and as a result, customers cannot benefit from the natural hedge that the 15 Bcf that Nicor Gas intentionally elects not to cycle would provide. This 15 Bcf which Nicor Gas chooses not to cycle is a much higher amount than the 5 Bcf amount that Nicor Gas is concerned will be over-allocated to transportation and Customer Select customers (See Co. Ex. 29.0, p. 40, l. 868).

Q. Why are you concerned?

A. Nicor Gas does not appear to take into consideration the economic benefits but rather only operational issues ("performance") when it optimizes its fields. It should instead optimize the fields for total costs and total benefits. Discounting the economic value of the foregone capacity leads to under-utilization of the fields.

Q. What do you recommend with regard to how Nicor Gas utilizes its storage fields?

A. I recommend that the Commission order Nicor Gas to conduct a thorough study to evaluate the utilization of Nicor Gas storage fields from both an economic and a performance perspective. Additionally, I recommend that an investigation of this issue be conducted in the next PGA case.

465 1. **SBS entitlement**

466 **Q. What did CNE propose with regard to the SBS entitlement?**

467 A. CNE recommends that the SBS entitlement be extended to 31 days. (CNE Ex. 1.0,
468 p. 16)
469

470 **Q. What rationale did CNE use to justify this recommendation?**

471 A. CNE justified this proposal based on the fact that the allocation method approved
472 by the Commission in 04-0779 includes the peak day; and the peak day has fallen
473 from 5.3 Bcf to 4.9 Bcf. (Co. Response to DR DAS 6.10) Therefore, by holding the
474 fields' capacity constant, the would result in a higher allocation of peak days for all
475 customers, including transportation customers, resulting in an increased SBS
476 entitlement of 31 days.
477

478 **Q. What do you recommend with regard to SBS entitlement?**

479 A. I recommend that the SBS entitlement be updated from 04-0779 to reflect the new
480 peak design day of 4.9 Bcf the effect of which would be to allocate 31 peak days to
481 Transportation customers. However, as noted above, I have offered an alternative
482 for the Commission.
483

484 **Q. What is the basis for your recommendation?**

485 A. SBS entitlement is predicated on equal access to on-on-system storage assets.
486 The entitlement is determined by dividing the Working gas capacity by the peak
487 design day capacity to find the number of peak days that can be delivered from

storage. At the time of the last rate since the peak day for the system was 5.3 Bcf; the Company could essentially meet 28 peak days from its non-coincident peak working gas of 149.74 Bcf. Transportation customers were allowed to access an equal number of days from the storage so 149.74 Bcf divided by 5.258 Bcf/ day equals 28 days. This translates into 28 times Maximum Daily Contract Quantity ("MDCQ") of storage capacity per customer.

Q. How does the decrease in the peak design day affect the entitlement here?

A. With a peak design day of 4.9 Bcf, the number of peak days of capacity that can be delivered is 149.74Bcf divided by 4.9 Bcf/Day or 31days.

Q. Does the Company agree with your recommendation?

A. No. Mr. Mudra provides and example that he claims shows three more days of capacity for transportation customers means three days less for sales customers. However, he is able to achieve this result because he is not comparing the before and after effects. Mr. Mudra is doing an *apples-to-oranges* comparison. Nicor Gas is using the same methodology as all other parties, just a different capacity. Nicor Gas attempts to shift the focus from the change in the size of the peak days to the size of the Company's non-coincident working gas in its storage fields that is being divided by arguing that the outcome is unfair to sales customers. Mr. Mudra objects to the *outcome* of the methodology. But he is proposing to use the same established method of allocating the capacity.

Q. How does his example depart from an apples-to-apples comparison?

A. If he had used the "expected cycling" capacity definition, used by Mr. Mudra in his example, then the allotment would have been 23 days, or five less than approved in the last rate case.

Q. Has the Company challenged using the peak day throughput to determine the number of days of storage available?

A. No. In fact, Nicor Gas supported the allocator in 04-0779 where Mr. Bartlett testified that "Nicor Gas conducted an analysis of SBS capability and eligible SBS customers' demand using the same methodology as was used and approved in the '95 Rate Case. *This remains an appropriate and reasonable method to allocate available storage to SBS customers.*" (Docket No. 04-0779, Co. Ex. 8.0, p. 23, emphasis added).

2. <u>Storage Banking Service ("SBS") Charge</u>

Q. What is the issue with regard to the SBS charge?

A. The issue is once again the value to be used for capacity. This value is used to divide the Storage costs less Nicor Gas' working gas cost to obtain the SBS charge. No party contests that once the capacity measure is chosen, then the method for setting the charge is linked to that value. This is consistent with the Commission's decision in Docket No. 04-0779. Nicor Gas continues to use their Operationally Available Capacity figure of 136.4, while others propose using peak non-coincident working gas capacity of 149.7 as the divisor.

Q. How is the cost-per unit determined?

A. The SBS charge is calculated by dividing the storage cost net of Nicor Top Gas cost divided the capacity of working gas in the storage fields.

Q. What does Nicor Gas say about the differences in the existing and proposed calculation methods of the SBS charge?

A. Mr. Mudra says he is using the same "basic method" to calculate the SBS charge. (Co. Ex. 29.0, p. 37). He quotes the Docket No. 04-0779 order and concludes that since Nicor Gas is still linking the SBS charge to the calculation of the Storage Capacity Allocation, there is no change. Mr. Mudra has misstated Nicor Gas' proposal as no change from the methods the Commission mandated in the last rate case.

Q. What is the purpose of the SBS charge?

A. The SBS charge is a method of *allocating* the storage revenue requirement for underground storage costs between the sales and transportation customers. It has nothing to do with how much the utility should recover for its gas storage costs excluding top gas. These costs are recovered from sales customers through their base rates. They are not recovered through the base rates of transportation customers.

556 **Q. What did Staff and Intervenors propose with regard to the SBS charge?**

557 A. Both Staff and CNE point to Nicor Gas' lack of clarity with regard to the SBS
558 charge. There are actually many issues where Nicor Gas essentially changes the
559 methodology it uses by not updating the inputs in its formulas to reflect current data.

560

561 **Q. How did Nicor Gas present the SBS charge in its direct case?**

562 A. Mr. Mudra testified in his direct testimony that the Storage revenue requirement
563 excluded gas storage losses.

564 To determine the SBS charge, the ECOSS was consulted, which shows the
565 total storage revenue requirement of $83,186,000, excluding the cycled "top"
566 storage inventory and the corresponding gas storage losses (or lost and
567 unaccounted for gas) within the storage field operations...Top storage
568 inventory and the associated gas storage losses should properly be
569 excluded from the cost calculation as transportation customers provide their
570 own top gas inventory.
571 (Co. Ex. 14.0, pp. 24-25)

572

573 **Q. What do you recommend with regard to the SBS charge?**

574 A. I recommend that the numerator should properly exclude the sales portion of the
575 2% Gas losses that the Commission ordered in Docket No. 04-0779 be removed
576 from the PGA and recovered exclusively from Sales customers through their base
577 rates. After adjusting for this reduced storage costs, the new charge would be
578 $0.0038 per therm.

579

580 **Q. What is the basis for your recommendation?**

581 A. After receiving Nicor Gas' response to DRs ENG 1.26 and 1.28, it became evident
582 that the storage revenue requirement in this case includes the sales customers'

portion of the 2% storage gas losses. The SBS charge that corresponds to the amount approved in 04-0779 would require that Nicor Gas remove $15.23 million so that the storage revenue requirement excluding top gas is $67.9 million. It would be inappropriate to recover any of the sales customers' portion from transportation customers. Transportation customers are already paying the in-kind repayment of their portion of those losses (to include the Hub) and they should not be forced to pay for the sales customers' portion as well. Therefore, Staff revises its calculation of the SBS charge to $0.0038 per therm.

Q. What was the treatment of gas storage losses in Docket No. 04-0779?

A. The currently approved methodology does not include any consideration for those losses.

> Staff's proposal is to move to base rates the expenses associated with the 2% withdrawal factor as to Sales customers, while to continue to permit Nicor Gas to recover the expenses associated with the 2% withdrawal factor through the lost-and-unaccounted-for adjustment as to Transportation customers...Staff's position is adopted *in toto*.
> (Order, Docket No. 04-0779, pp. 38, 40)

Q. Did Nicor Gas admit its proposed treatment of gas storage losses was incorrect in this case?

A. Yes. Nicor Gas admitted an inadvertent inclusion of those costs in the storage revenue requirement. In rebuttal, those costs were removed from the SBS calculation yielding an uncontested numerator of $67.9 million. (Co. Ex. 29.0, p. 37)

Q. Did Nicor Gas also remove these costs from the transportation customers' base rates in the ECOSS?

A. Not that I can tell. In rebuttal, those costs were removed from the SBS calculation but remained allocated to transportation customers in their base rates in the Nicor Gas response to IIEC 5.10, the revised ECOSS. These should be removed from the base rates of the transportation customers.

3. <u>Storage Withdrawal Factor</u>

Q. Do you have any recommendations to clarify the discussion surrounding the Storage Withdrawal Factor ("SWF")?

A. Yes. The SWF is calculated by multiplying the 0.017 *constant*, the Storage Withdrawal Constant ("SWC"), by the percentage of SBS capacity filled in each individual transportation customer's bank on November 1st, the Storage withdrawal Multiplier ("SWM"). The current tariff reference to the SWF is to the combination of both the SWC and SWM and, therefore, is a value unique to each transportation customer. Some parties refer to the *constant* 0.017 as the Storage Withdrawal Factor ("SWF"). This is technically incorrect. For the sake of clarity, I recommend that Nicor Gas use the term Storage Withdrawal Constant (SWC) to refer to this Commission determined value.

Q. What did IIEC propose with regard to the calculation of the SWF?

A. IIEC suggests that Nicor Gas calculate the SWF by using the maximum inventory achieved during a 30-day window between October 15th and November 15th to

631 determine whether the customer has complied with the intent of the Commission's
632 Docket No. 04-0779 directive to fill up their storage Banks before the end of the
633 injection season.
634
635 **Q. What rationale did it use to justify this recommendation?**
636 A. Since the intent here is to have the inventory filled up heading into the withdrawal
637 season, IIEC reasons that this change will induce that result but will make the
638 deadline less rigid. Dr. Rosenberg notes that Nicor Gas does not fill its fields right
639 on November 1st. (IIEC Ex. 1.0, p. 22)
640
641 **Q. How did Nicor Gas respond to IIEC's recommendation?**
642 A. Nicor Gas objected to this recommendation stating that it cannot wait until the 15th
643 of November because it can call a Critical Day beginning on November 1st and thus
644 it must have a SWM to allow for calculation of the SWF for those 15 days of
645 November. (Co. Ex. 19.0, pp.46-47) However, a subsequent DR response showed
646 that Nicor Gas uses a SWF of one for the month of November until the true values
647 can be determined. (Co. Response to DR DAS 7.20)
648
649 **Q. What do you recommend with regard to the Storage Withdrawal Multiplier**
650 **("SWM") calculation window?**
651 A. I believe that the Commission should reject the IIEC recommendation instead of
652 having Nicor Gas calculate a SWM on November 1st for the period October 15th to
653 November 1st that would be in effect during the month of November and then a

654 second on November 15th for the period November 1st November 15th that would be
655 in effect for the rest of the withdrawal season.
656
657 **Q. What is the basis for your recommendation?**
658 A. I agree with the Company that this is impractical given the metering and billing
659 constraints. It also conflicts with the proposed trading of stored gas which I support
660 and which would address IIEC's concerns as they could buy gas before from other
661 transportation customers to help them meet the target.
662
663 **C. <u>Costs associated with storage and system losses</u>**
664 **1. <u>Storage Loss Adjustment ("SLA") Factor</u>**
665 **Q. Did you request Nicor Gas to provide information with respect to the SLA**
666 **factor?**
667 A. Yes. I asked Nicor Gas to clarify the methodology that it used to calculate its gas
668 storage losses, to allocate those costs amongst the customer classes and to
669 recover those costs.
670
671 **Q. Did Nicor Gas' response to your request raise any concerns?**
672 A. Yes. It is clear from the additional information that has come forth from Nicor Gas
673 that its methodology does not properly charge the Hub customers for any storage
674 losses.
675
676 **Q. Has the 2% factor been sufficiently verified by Nicor Gas?**

A. No. See the testimony of Mr. Anderson (Staff Ex. 22.0, pp.10-16).

Q. How does Nicor calculate its gas storage losses?

A. Nicor Gas calculates its 2% storage loss adjustment ("SLA") factor by multiplying the SLA by the metered *gross* withdrawals from its storage fields. This yields a volumetric measure of the gas lost in the storage fields (Co. Response to DS ENG 1.25).

Q. Aside from the problems from using a constant 2% factor, are there any other issues regarding the allocation of these costs?

A. The manner that Nicor Gas *allocates* the recovery of its losses is that it calculates the allocation based on *net* withdrawals. (Co. Response to DR ENG 1.26, provided as Attachment H) Nicor Gas claims that it cannot measure the *gross* withdrawals of its customer groups. Nicor Gas calculates the proportional net withdrawals of transportation, Hub and sales customers for the test year. Once it has determined what each of these three groups should be responsible for, it recovers the sales customers' portion through base rates through Account 823 Gas Losses as a test year cost. However, Hub customers are not assessed any of these costs and the remainder of costs are recovered from transportation customers through the Unaccounted-For Gas Adjustment ("UFGA").

Q. What is your specific concern about the allocation method chosen by Nicor Gas?

700 A. Nicor Gas' methodology allocates losses associated with gross withdrawals during
701 months that have net *injections* to its storage fields (May through October)
702 completely to transportation customers, despite the fact that those customers have
703 net injections just as sales customers do. There is no basis for choosing net
704 withdrawals as opposed to net injections, or average or maximum balances as a
705 measure for fairly allocating the recovery of those losses.
706
707 **Q. What do you recommend with regard to the SLA?**
708 A. Nicor Gas should be ordered to develop and file with the Commission a new
709 methodology that recovers gas storage losses from Hub customers and reduces
710 the volume that is recovered from transportation customers through the UFGA.
711
712 **2. <u>Unaccounted-For Gas Adjustment ("UFGA")</u>**
713 **Q. Did you request Nicor provide information regard to the UFGA?**
714 A. Yes. I asked Nicor Gas to clarify the methodology that it used to calculate its
715 UFGA, to allocate those costs amongst the customer classes and to recover those
716 costs. In response to DR DAS 6.01 Nicor Gas provided an explanation as to the
717 how the UFGA is calculated. (See also Attachment H) Attachment H also
718 describes the process for recovering the UFGA. Nicor Gas reasons the Hub is
719 exempt because "virtually all FERC interstate and Rate 21 Intrastate Hub storage
720 volumes are scheduled directly of through an interstate pipeline to on-system
721 customers" (Co. Response to DR DAS 6.06). Nicor Gas uses the UFGA to recover

722 in-kind the *storage* gas losses. The UFGA is applied to *deliveries* to the system.[2]
723 (Attachment H)
724
725 **Q. What do you recommend with regard to the UFGA?**
726 A. I recommend that Nicor Gas be ordered to recover the UFGA from Hub deliveries.
727 The UFGA should be recalculated to include estimated Hub deliveries in the
728 denominator. This would result in a lower UFGA that would recover storage and
729 system losses from more customers.
730
731 **Q. What is the basis for your recommendation?**
732 A. The UFGA appears to be a fair method of allocating the losses associated with
733 system and storage losses. However, it is not the most accurate reflection of the
734 actual usage of the system and storage fields. A better method would be to split
735 the loss calculations and to recover the storage losses based on bank activity and
736 the system losses from deliveries. Also, it is clear that Nicor Gas does not allocate
737 any of that *system* loss to the Hub (Attachment H).
738
739 **D. <u>Other operational issues</u>**
740 **1. <u>Intra-day nominations</u>**
741 **Q. What did CNE propose with regard to intra-day nominations?**

---

[2] Over time withdrawals equal injections and injections are defined as deliveries minus usage. Therefore, deliveries must be greater than net withdrawals.