IIEC Exhibit 2.0

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY D/B/A NICOR GAS COMPANY	)	
	)	**DOCKET NO. 08-0363**
PROPOSED GENERAL INCREASE IN NATURAL GAS RATES	)	

Rebuttal Testimony and Exhibits of

Dr. Alan Rosenberg

On Behalf of

Illinois Industrial Energy Consumers

October 23, 2008
Project 8996

BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

STATE OF ILLINOIS

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Rebuttal Testimony of Alan Rosenberg

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Dr. Alan Rosenberg. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME DR. ALAN ROSENBERG WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A Yes.

Q WHAT ARE THE ISSUES DEALT WITH IN YOUR REBUTTAL TESTIMONY?

A This testimony concerns itself with eight issues raised or discussed in the direct testimony of the Illinois Commerce Commission (ICC or Commission) Staff and the rebuttal testimony of Nicor Gas Company (Nicor or Company):

1. The insistence of Nicor witness Mr. Mudra and Staff witness Mr. Lazare to continue the intentional subsidization of Rate 1 at the expense of the commercial, small business and industrial customers.

2. The inadvertent allocation of storage losses to transportation customers, who already pay for those losses in kind.

3. The Nicor position that storage costs should be allocated to transportation classes on the same basis that these costs are allocated to classes for whom storage is

bundled in the rates -- regardless of the amount of storage that these transportation customers actually take.

4. Nicor's refusal to extend the use of its Modified Distribution Main (MDM) engineering study to the portion of mains that are classified as average demand-related, thus improperly imputing usage of small diameter mains to customer classes who make little or no use of those size mains.

5. Mr. Lazare's rate design proposals for Rate 77.

6. The calculation of the Storage Banking Services (SBS) charge.

7. The amount of Nicor's total underground storage capacity that should be made available at a cost-based rate to Nicor's transportation customers.

8. The proposal to further restrict the ability of transportation customers to store gas.

Q WHOSE POSITIONS AND ASSERTIONS ARE YOU REFUTING OR RESPONDING TO IN THIS REBUTTAL TESTIMONY?

A I am rebutting the positions and conclusions of Nicor witnesses Mudra, Heintz and Bartlett, (Mudra, Nicor Ex. 29.0; Heintz, Nicor Ex. 30.0; Bartlett, Nicor Ex. 19.0) taken in their rebuttal testimonies, as well as some of the positions and rationale of ICC Staff witness Lazare. (Lazare, ICC Staff Ex. 7.0).

On the first issue, both Mr. Mudra and Mr. Lazare provide reasons for the continued subsidization of Rate 1 by the commercial and industrial customers of Nicor. I will show that those reasons either are not harmonious with sound regulation, or are applied selectively and not objectively.

On the second issue, I show that Mr. Heintz, in his rebuttal testimony, failed to fully correct for gas losses that were mislabeled and mishandled in his direct testimony and exhibits.

On the third issue, I demonstrate that, contrary to the assertions of Mr. Heintz and Mr. Mudra, the disconnect between the allocation of storage costs to unbundled customers, and setting of the SBS charge, can distort the results of the cost of service

study and lead to Nicor over-collecting distribution costs from these unbundled customers.

On the fourth issue, I explain why Mr. Mudra's response to my recommendation to extend the use of the MDM study is inadequate and unsupported.

On the fifth issue, I object to Mr. Lazare's recommendation for a ten-fold increase in the tail-block demand charge and show why it is not grounded in cost causation.

On the sixth issue, I refute Nicor's contention that it has not changed the formula for calculating the SBS charge and show the result of adherence to the formula approved by the ICC in Nicor's last rate case.

On the seventh issue, I refute Nicor's contention that reducing the allocation of storage capacity to transportation customers, vis-à-vis the formula approved by the Commission in the last case, is necessary in order to be fair to sales customers.

Finally, on the last issue, I counter Mr. Bartlett's contention that new restrictions on daily nominations are necessary. I also critique his Nicor Exhibit 19.3 that purports to show that storage activity by transportation customers is detrimental to sales customers.

The Issue of Whether or Not to Subsidize Rate 1 at the Expense of All Other Customers

Q WHAT IS THE CRUX OF THIS ISSUE?

A In the last Nicor rate case (Docket No. 04-0779), the ICC limited the increase to Rate 1 out of concern for rate impact to that class. In this case, Nicor witness Mudra and Staff witness Lazare want to continue that subsidization, although to a lesser degree.

Specifically, they recommend that the Rate 1 revenues be set to only 97.5% of the Rate 1 cost of service. (Nicor Ex. 29.0 at 4, and ICC Staff Ex. 7.0 at 29).

Q HOW DOES MR. LAZARE RATIONALIZE BRINGING RATE 1 ONLY PART OF THE WAY TO COST OF SERVICE, AND OVERCHARGING ALL THE OTHER RATE CLASSES AS A RESULT?

A Mr. Lazare attempts to rationalize this departure from cost-based rates on the grounds that:

- It (is) necessary to give some consideration to bill impacts;
- This approach is reasonable "given the economic difficulties encountered by Nicor customers;"
- Alongside the increase in gas costs, ratepayers are experiencing increases in other energy costs. (Lazare, ICC Staff Ex. 7.0 at 29).

Q DO YOU AGREE WITH MR. LAZARE'S OSTENSIBLE REASONS?

A No. First, let us focus on the last two of those three reasons, economic difficulty and the increase in other energy costs. The problem with those excuses to overcharge all other customers, is that they do not pertain exclusively to Rate 1 customers. Nor are those circumstances even applicable to all Rate 1 customers. There may very well be customers in Rate 1 that are encountering economic difficulties, but there may be other customers in Rate 1 that are doing perfectly well. The same can be said for the other customer classes – there may be some commercial and industrial businesses that are encountering economic difficulties, and there may be others that are not. Certainly, Mr. Lazare has not produced any economic studies that would shed any light on this. Thus, this rationale of "economic difficulty" does not apply to any single class, and thus is not a basis to discriminate one class from another.

Likewise, the increase in natural gas and electricity prices affects all customers, not just Rate 1 customers. Again, this may be a valid reason to curtail the overall increase awarded to Nicor, but it does not hold water as an excuse to discriminate among customer classes.

Q LET US RETURN TO THE FIRST OF MR. LAZARE'S OSTENSIBLE REASONS FOR RATE DISCRIMINATION. YOU WILL AGREE WOULD YOU NOT, THAT SOMETIMES REGULATORS TEMPER THE INDICATIONS OF A COST OF SERVICE STUDY AS A CONCESSION TO BILL IMPACT CONSIDERATIONS?

A Yes, I would agree that Commissions sometimes moderate movement toward cost based rates because of consideration of bill impacts. However, if that were the situation in this case, it would be Rate 77 whose increase should be tempered, not Rate 1. According to the Company cost of service study, which is the study Mr. Lazare relied upon, the following percentage increases would be indicated to reach parity: (Nicor Ex. 15.1, Schedule B, Column (I)).

TABLE 1

Cost-Based Increase Indicated by Nicor Cost of Service Study

Class	Increase
Rate 1	34.7%
Rate 77	53.3%

Consequently, if bill impact is your primary consideration, it makes no sense to limit the increase to Rate 1 and give a larger than cost-based increase to Rate 77. Mr. Lazare's appeal to rate-impact considerations is clearly arbitrary and subjective.

Q WHAT ARE MR. MUDRA'S STATED REASONS FOR CONTINUING TO SUBSIDIZE RATE 1 AT THE EXPENSE OF ALL THE OTHER CLASSES?

A Mr. Mudra gives three reasons:

1. First, he claims this is in the spirit of "gradualism" as expressed in the Commission's Order in the 2004 rate case. He claims that it is sufficient to bring Rate 1 to its full cost of service "in the next rate case". (Mudra, Nicor Ex. 29.0 at 6).

2. Second, he states that, despite overcharging commercial and industrial customers, the increases to Rate 76 and Rate 77 are "not onerous". (*Id.* at 7).

3. Finally, he claims that because natural gas prices are so volatile, "[t]he increase Nicor Gas is proposing pales in comparison." (*Id.* at 7:149 – 151) The gist of Mr. Mudra's argument is that Nicor's requested increase will sort of get lost in the shuffle.

Q ARE THESE VALID OR COMPELLING REASONS TO CONTINUE THE SUBSIDY FOR RATE 1?

A No. Consider the first reason cited by Mr. Mudra. As I previously explained in response to Mr. Lazare's argument, if any moderation in reaching cost-based rates were required, that principle of gradualism should be applied to the classes that are slated for the largest increases. Moderation should be applied in an objective fashion, not in an arbitrary manner.

As to the second reason, I suppose whether or not a rate impact is onerous depends upon whose ox is being gored. For example, one could say that bringing Rate 1 all the way to cost would require an increase of just $5.19[1] per average bill,

[1] $124,960,000 annual increase ÷ 2,005,488 customers ÷ 12 bills per year= $5.19/bill
Values taken from Nicor's rebuttal cost of service study at 100% of cost.

instead of $4.69,[2] or a difference of only 50 cents per bill.[3] Moreover, that is at full rate relief. I might also add that if Nicor is so concerned about the impact of its rate increase, it should not be requesting an increase in its return on equity, which adds $9 million to the revenue request. (Hawley, Nicor Ex. 1.0 at 7).

Finally, I find Mr. Mudra's third ostensible reason for intentionally overcharging its industrial and other business customers to be quite disturbing. In my years of experience, I cannot recall encountering a responsible witness taking the position that it is quite acceptable to overcharge customers on the basis that they would probably not notice it because commodity prices were so high. In my view, this Commission's endorsement of such a cynical position, which is of course completely at odds with the principles of cost of service and equity, would send a chilling message to industrial concerns who were considering coming to, or expanding in, the state of Illinois. That attitude would not help the job situation in Illinois in these volatile times.

Q IF THE COMMISSION WERE TO TEMPER THE INDICATIONS OF AN ACCURATE COST STUDY IN ALLOCATING THE INCREASE, HOW WOULD YOU RECOMMEND IT COULD BE DONE IN A MORE OBJECTIVE AND RATIONAL MANNER?

A That depends upon how much confidence the Commission has in the accuracy of whichever cost of service study it uses as the guide for revenue allocation. Assuming the Commission has a high degree of confidence in the accuracy of the selected study, but nevertheless its intentions are to make concessions on the basis of rate

[2] $112,989,000 annual increase ÷ 2,005,488 customers ÷ 12 bills per year= $4.69/bill
Values taken from Nicor's Revised Exhibit 14.6, provided in response to Data Request IIEC 5.12 (see Appendix A).

[3] This is based on the cost of service study relied upon by Mr. Mudra.

impact, I would suggest limiting the cost-based increase to any class to no more than twice the system average increase. To the extent that this limitation results in a shortfall of the total revenue requirement, the shortfall should be apportioned on an equal percentage of cost among those classes that are below that 2-times limit. (This process may need to be repeated if the redistribution causes another class to exceed the 2-times limit.)

On the other hand, if the Commission has concerns about any particular cost of service study, my recommendation would be to effect the increase as a uniform percentage increase to base rates, across the board.

The Issue of Whether Storage Losses Should be Allocated to Transportation Classes

Q WHAT ARE STORAGE LOSSES?

A Storage losses refer to the fact that as Nicor physically operates its storage fields, some gas is irretrievably lost. Nicor accounts for this fact with its 2% withdrawal factor, as explained starting on page 7 of Mr. Bartlett's rebuttal testimony. (Nicor Ex. 19.0).

Q IN WHICH FERC ACCOUNT ARE THESE LOSSES RECORDED?

A The costs of these losses are recorded in Account 823, Gas Losses. For the rate year, the amount claimed by Nicor is $15.23 million, and this is a component of Nicor's claimed O&M expenses that it seeks to recover in this case.

Q SHOULD ANY OF THIS $15.23 MILLION BE ALLOCATED TO TRANSPORTATION CUSTOMERS?

A No. Storage losses are part of Nicor's lost and unaccounted for gas. Transportation customers pay for these costs "in kind," that is, by bringing more gas into the system than they are given credit for. (See Nicor Response to Data Request IIEC 4.04, see attached Appendix A.) For example, If the lost and unaccounted for factor is 2.5%, the transportation customers must bring in 102.5 therms for every 100 that is metered at their facilities.

Q IS YOUR ANSWER TO THE LAST QUESTION IN DISPUTE?

A I do not believe it is. Both Nicor and the Staff agree that Account 823 costs should not be allocated to transportation customers and should not be included in the SBS charge, the charge that transportation customers pay for the storage service they select.

Q WERE ACCOUNT 823 COSTS INCLUDED IN THE CALCULATION OF THE SBS CHARGE IN NICOR'S LAST RATE CASE, DOCKET NO. 04-0779?

A No. (See Nicor Response to Data Request IIEC 4.01, see Appendix A.).

Q IF THERE IS NO DISPUTE THAT ACCOUNT 823 COSTS SHOULD NOT BE ALLOCATED TO TRANSPORTATION CUSTOMERS AND SHOULD THEREFORE NOT BE INCLUDED IN THE CALCULATION OF THE SBS, WHY DO YOU RAISE THIS ISSUE IN YOUR REBUTTAL TESTIMONY?

A In reviewing Nicor's cost of service study, I had noticed that Account 823 costs were being allocated to the transportation classes, and in particular to Rate 76 and

Rate 77, the tariffs on which the IIEC customers take service. When I inquired as to the nature of these costs, Nicor responded (see Data Request IIEC 3.01, see Appendix A) that it had "inadvertently" recorded these storage losses in Account 824, entitled "Other Expenses."[4] As such, they were incorrectly allocated to the transportation classes.

Q IN MR. HEINTZ'S RESPONSE TO DATA REQUEST IIEC 5.10, PART C, (SEE APPENDIX A) HE STATES THAT ACCOUNT 823 EXPENSES WERE NOT ALLOCATED TO RATE 76 AND RATE 77. HOW DOES THAT COMPORT WITH YOUR PREVIOUS ANSWER?

A Mr. Heintz is simply mistaken. I reviewed the cost of service study that Mr. Heintz submitted with his direct testimony. This study was provided to IIEC in electronic format in response to Data Request IIEC 1.02 (See Appendix A). In fact, I went to the tab ECOSS Allocation (G), Spreadsheet Row 297, that Mr. Heintz refers to in his answer. I found that Rate 76 was allocated $660,000 of the $15.23 million (reference cell [BT297]) and Rate 77 was allocated $560,000 (reference cell [BY297]). I was also able to follow the descendents of this cell and can confirm that these costs are included in the O&M expenses that Mr. Heintz's study attributes to these classes. (The same mistake would also pertain to Rates 74 and 75).

[4] On page 36, Mr. Mudra mischaracterizes my direct testimony as questioning whether the $15.23 million for gas losses was reasonable. Of course, when I drafted my direct testimony I was unaware of Nicor's error, and thought these costs were "Other Expenses."

Q HAS MR. HEINTZ REVISED ANY OF HIS SCHEDULES TO MODIFY THE TREATMENT OF GAS LOSSES IN HIS REBUTTAL TESTIMONY?

A Yes. On page 2 of his rebuttal testimony, Mr. Heintz states that he has revised Schedule E to account for the fact that he "inadvertently excluded the value of gas storage losses." His Revised Schedule E, Column E, now includes gas storage losses of $15.23 million, and this same amount is subtracted from Column F (Total Without Top Gas and Losses). Given the changes made by Mr. Heintz to properly account for gas storage losses, I agree that the revised Schedule E is correct.

Q DO YOU ALSO AGREE THAT REVISED SCHEDULE E NOW SOLVES THE PROBLEM WITH STORAGE LOSSES?

A No. Schedule E is used for one purpose, and for one purpose only. It is used to derive the numerator for the SBS charge. Because Mr. Heintz supplied Mr. Mudra with a corrected Schedule E, Mr. Mudra reduced the proposed SBS charge from .0051 cents per month per therm of capacity to .0042 cents per month, a reduction of over 17%. However, Mr. Heintz never corrected the error on the other pages (or tabs if you are speaking of his spreadsheet) of the cost of service study. Because these other pages of the cost study, and in particular Schedule C of the cost study, are used as inputs to Mr. Mudra's proposed allocation of the revenue increase,[5] there is still a major problem.

[5] Column C of Exhibit 14.6, Allocation of Proposed Revenue Adjustment to Base Rates, is taken directly from Column C of Schedule C of the cost of service study.

Q HAS MR. HEINTZ ADDRESSED THIS ISSUE IN TESTIMONY OR IN RESPONSE TO DATA REQUESTS?

A Yes. In response to data request IIEC 5.02 (see Appendix A), Mr. Heintz states that he did not allocate Account 823 costs to the transportation classes in his rebuttal cost of service study. Mr. Heintz is simply mistaken. I reviewed the cost of service study that Mr. Heintz submitted with his rebuttal testimony. This study was provided to IIEC in electronic format in response to Data Request IIEC 5.10 (See Appendix A). I found that tab ECOSS Allocation (G), Spreadsheet Row 297, which still shows $15.23 million, and which is still incorrectly labeled Account 824, is allocated in the exact same manner as was done in Data Request IIEC 1.02 (See Appendix A). This error allocates $660,000 of the $15.23 million (reference cell [BT297]) to Rate 76, and $560,000 (reference cell [BY297]) to Rate 77. Mr. Heintz just repeated his error. While anyone can of course make an error, I find that repeating that error, and responding incorrectly to a data request when that data request pointedly asked him to review that error, to be troubling.

Q WHAT WOULD BE THE RESULT OF SIMPLY CORRECTING TAB ECOSS ALLOCATION (G), SPREADSHEET ROW 297 SO THAT STORAGE LOSSES ARE NO LONGER ALLOCATED TO TRANSPORTATION CLASSES?

A I have prepared IIEC Exhibit 2.1, which shows the results of the cost of service study at present rates, and at Nicor's proposed rates, with that one correction. Note that Rate 1 and Rate 75 are the only classes that are significantly below cost of service. In fact, it shows that Nicor is actually losing money serving these two classes. I have also prepared IIEC Exhibit 2.2 to show the results of the cost of service study if it were used to allocate the increase in the manner that Mr. Mudra proposes, i.e.,

bringing Rate 1 to only 97.5% of cost. (This exhibit would correspond to Nicor Exhibit 14.6, but with Nicor's revised cost of service study, and with the storage loss issue resolved.) Finally, I have prepared IIEC Exhibit 2.3, which shows the result of bringing all classes to parity as measured by this particular cost study.

The Issue of Allocating Storage Costs to Transportation Customers Regardless of the Storage Service Selected by Transportation Customers

Q WHAT IS THE CRUX OF THIS ISSUE?

A For purposes of rate design, Nicor has essentially two types of customers.[6] The first type are those on rates 1, 4, 5 and 6 who are sales customers and whose rates are bundled.[7] That means the cost of both delivery and storage is fully integrated in the rate, and thus, they cannot choose one service separate from the other.[8] The second type of customer are those on Rates 74, 75, 76 and 77 and are identified as "transportation" customers. These transportation customers must take delivery service from Nicor for all their needs, yet have the option of selecting any level of storage service they want, anywhere from one times their Maximum Daily Quantity (MDQ) of gas, up to a maximum multiple of their MDQ. At the present time, that maximum multiple is 28. These customers are charged one set of rates for delivery service, and they are charged separately for the quantity of storage they select. That charge for the storage is termed the SBS charge. By Commission decree, this SBS charge is cost based, and no witness in this case has argued otherwise.

[6] I am ignoring special contract customers whose rates are not at issue in this proceeding.
[7] Theoretically there is also a Rate 7, but there are no customers on this rate and, to the best of my knowledge, there have been none for some time.
[8] These customers can also select to purchase gas from a third party, but that is not an issue in this case.

Q WHAT IS THE FORMULA FOR THE SBS CHARGE?

A The SBS charge is derived by taking a quotient. The numerator is Nicor's embedded cost of storage, which is the return and taxes on the storage rate base, plus all O&M expenses and depreciation and other taxes related to storage, less the return and taxes, i.e., the carrying costs of top gas, and also less the cost of storage losses. The denominator is the total working gas capacity of Nicor's storage fields.

Q WHY ARE THE COSTS OF STORAGE LOSSES AND THE CARRYING COST OF THE TOP GAS, EXCLUDED FROM THE NUMERATOR?

A Storage losses are excluded for the reasons explained in the previous section of my testimony. The carrying cost of top gas is excluded because the transportation customers provide and pay for their own portion of the top gas, or as it is sometimes called working gas. Nicor, of course, buys and pays for the gas that is stored on behalf of the sales customers. The gas molecules are comingled, but the amounts are distinguished for ratemaking purposes.

Q HAS ANY PARTY CHALLENGED THE FORMULA FOR THE SBS CHARGE?

A No, not to the best of my knowledge and belief. There is a difference of opinion as to the interpretation or derivation of the working gas capacity, that is, the denominator in the formula. However, no one has disputed the basic philosophy of the formula, and all parties acknowledge that the result, if properly and accurately applied, is a charge that completely recovers the cost of whatever storage capacity these customers reserve – no more and no less.

Q ARE THE REVENUES GENERATED BY THE SBS CHARGE REFLECTED IN NICOR'S COST OF SERVICE STUDY?

A Yes. Present revenues reflect the current charge, and proposed revenues reflect Nicor's proposed charge. These charges are multiplied by the presumed number of billing units for this service, which, of course, means the presumed level of storage selected.

Q WHAT IS THE CRUX OF THIS ISSUE?

A The crux of this issue is that Nicor allocates storage costs to the unbundled classes as though storage were bundled in their rates. In other words, when allocating storage costs, Mr. Heintz's cost of service study does not distinguish between the classes that have storage bundled into their rates, and those that do not.

Q WHY IS THIS A PROBLEM?

A It is a problem because Mr. Heintz is allocating costs for a service without regard to how much of the service is actually being taken. It is as if your grocer would charge you for apples at the checkout counter without weighing your bag. Mr. Mudra appears to be of the same mind and even goes so far as to say that it would be appropriate to allocate *the same amount* of storage costs to these classes **even if they were to elect no storage at all!**[9] (Nicor response to Data Request IIEC 5.14 part b, see Appendix A.)

[9] Admittedly, this is a hypothetical situation because these customers are required to elect at least one times their MDQ of storage. Nevertheless, it illustrates the absurdity of the Nicor position.

316 **Q IS IT MR. HEINTZ'S POSITION THAT THE AMOUNT OF COSTS ALLOCATED TO**
317 **A CLASS SHOULD BE INDEPENDENT OF, OR DISCONNECTED FROM, THE**
318 **LEVEL OF SERVICE PROVIDED TO THAT CLASS?**

319 A No. Mr. Heintz acknowledges that there must be a nexus between the level of
320 service taken and the cost responsibility allocated. (See Nicor response to Data
321 Request IIEC 5.04, see Appendix A). The cost that a customer or class of customers
322 imposes is a function of the service they receive. Clearly, a cost of service study
323 cannot be considered to reflect reality if the costs it assigns are independent of the
324 costs that are actually caused.

325 **Q CAN THIS DISCONNECT DISTORT THE RESULTS OF THE COST STUDY?**

326 A Yes. Suppose for example that Rate 77 customers were assumed to select one day
327 of storage, but that Nicor were to allocate 28 days (Nicor's maximum allowed) worth
328 of costs. The revenue would reflect one day times 12 months times the SBS charge.
329 However, the total cost would reflect 28 times that amount of storage. Clearly, even if
330 the SBS charge were cost based, the study would appear to show that the revenues
331 of Rate 77 were deficient. The only "remedy" to this would be to make up for the
332 deficiency by overcharging this class for the delivery service.

333 **Q DOES MR. HEINTZ CONCEDE THAT HIS ALLOCATION OF STORAGE COSTS**
334 **TO THESE UNBUNDLED CLASSES IS NOT SYNCHRONIZED WITH THE LEVEL**
335 **OF STORAGE SERVICE THESE CUSTOMERS TAKE?**

336 A Yes. In response to IIEC Data Request 5.03 (see Appendix A) he states:

337 > Mr. Heintz agrees that the allocator for storage costs – firm peak
338 > demands by class (after directly assigning some costs to Rate 17) –
339 > may not exactly reflect the amount of storage services elected by
340 > Transportation customers.

Q HOW DO MR. HEINTZ AND MR. MUDRA ATTEMPT TO JUSTIFY ALLOCATING STORAGE COSTS TO CLASSES FOR WHOM STORAGE SERVICE IS UNBUNDLED, WITHOUT REGARD TO THE QUANTITY OF SERVICE TAKEN?

A They make the following assertions:

> In this case, Mr. Heintz understands that in designing the base rates for transportation customers, **Nicor adjusts the allocated costs to remove allocated underground storage costs.** The customers then pay for the amount of underground storage service they select by paying a rate specific to such costs.
>
> (Mr. Heintz; Nicor Response to IIEC Data Request 5.04, see Appendix A, emphasis added)
>
> When designing the companion Sales and Transportation rates, Nicor Gas allocates the fully subscribed storage revenue requirement from the ECOSS to the companion rate classes **and then removes the storage cost from the Transportation rates** thereby properly establishing both the fully bundled Sales service rate, which includes storage, and the unbundled Transportation service rates. **Therefore, storage costs are not included in Transportation customer base rates.**
>
> (Mr. Mudra; Nicor Response to IIEC Data Request 5.14, see Appendix A, emphasis added)

In other words, while they seem to recognize that there should be no additional storage costs allocated to the transportation customers (other than the amount that is properly matched with those recovered through the SBS charge), and while they also acknowledge that storage costs are allocated to the transportation classes without regard to the amount of storage service actually taken, they claim that the problem is fully resolved through the rate design process.

Q WHY THEN DO YOU BELIEVE THERE IS STILL A PROBLEM?

A There is still a problem, because I am concerned that those responses are incorrect. I have closely examined Nicor's workpapers in this case, from the cost of service study, through the revenue allocation process, and all the way through to rate design.

Nowhere in these workpapers could I find evidence that Nicor has removed storage costs from the transportation customers' rates.

If Nicor truly does remove storage costs from the transportation customers' rates during rate design, it should not have allocated them to the transportation customers in the first place. It should have simply used the cost study to allocate costs and determine the delivery charges for transportation customers, and determined the SBS charge through Schedule E of the cost study.

Q YOU ASSERT THAT NICOR'S RATE DESIGN CLAIMS - WHICH YOU CITE FROM THEIR RESPONSES TO DATA REQUESTS IIEC 5.04 AND 5.14 ABOVE (SEE APPENDIX A), ARE MISPLACED. CAN YOU DEMONSTRATE THAT NICOR'S ASSERTIONS IN THIS REGARD ARE INCORRECT?

A Yes. As they say, the proof is in the pudding. As I explained previously in this rebuttal testimony, Nicor has acknowledged a mistake in calculating the numerator of the SBS charge, because it "inadvertently" included Storage Losses. When it removed the losses, the monthly SBS charge went from .0051 cents to .0042 cents. If what it claims is true, this should have had no impact on the delivery rates for the transportation customers. However, that is not the case, as is shown in the table below. This table compares the delivery revenues and storage revenues for Rate 77 that Nicor proposed in its direct case, with the delivery revenues and storage revenues that it proposed in its rebuttal case.

TABLE 2

Nicor Revenue Targets for Rate 77

	Direct Case (000)	Rebuttal Case (000)	Dollar Change (000)
Delivery Revenue	$8,292	$8,913	$ 621
Storage Revenue	3,133	2,580	($ 553)
Total	$11,425	$11,493	$ 68

Note that while the Storage Revenue declined by over a half million dollars (because of the correction in the storage losses) and the total revenue for Rate 77 changed very little, the delivery revenues went up by $621,000 or 7.5% from the very large increase Nicor had proposed in its direct case. What is the reason for this? The reason is that there is no connection between the storage costs allocated to this class in the cost study and the amount of storage revenues collected by the cost-based SBS charge. Thus, any "shortfall" between the two is simply absorbed into the delivery charge. But there should be no shortfall because everybody agrees that, by design, the SBS charge (if properly calculated) recovers exactly the correct amount of storage costs.

Q HOW CAN THIS PROBLEM BE CORRECTED?

A The problem can be corrected very easily and in a very straight-forward manner by simply assigning the transportation customers the same storage costs as is reflected in the presumptive SBS revenues, that is, by synchronizing the two amounts. (Another way to rectify the problem would be to remove both storage costs and SBS revenues from the transportation classes in the cost of service study. However, it

would then be necessary to credit the sales classes with the expected SBS revenues, or else Nicor would over-recover its storage costs.)

Q MR. MUDRA, IN HIS REBUTTAL TESTIMONY, STATES THAT THE REMEDY YOU PROPOSE IS PROBLEMATIC BECAUSE, AS HE PUTS IT, "INSTEAD OF THE STANDARD PRACTICE OF COSTS BEING RECOVERED BY REVENUES, DR. ROSENBERG'S PROPOSAL WOULD HAVE REVENUES DRIVE COSTS." COULD YOU PLEASE COMMENT?

A Mr. Mudra *would* be correct if, *and only* if, the SBS charge were derived in isolation from the cost study. In that case, allowing revenues to drive cost allocation would be like having the tail wag the dog. However, what Mr. Mudra conveniently ignores is that the SBS charge is derived directly from the cost of service study (in fact, from Schedule E in Mr. Heintz's cost of service study). Thus, as long as Nicor includes the SBS revenues in class revenues, it is imperative that the cost allocation of storage be consistent with the assumption on the revenues. Otherwise, any mismatch will spill over and distort the alignment of the delivery costs with delivery revenues.

The Issue of Whether the MDM Engineering Study Should be Confined to Only the Peak Demand-Related Component of Distribution Mains

Q WHAT IS THE BACKGROUND OF THIS ISSUE?

A According to the Average and Peak Method, the cost of the system of distribution mains is essentially divided in two pieces. The cost of the first piece (the larger piece) is deemed to be demand related and is allocated accordingly. However, the full demands of each class are not used for every diameter of mains. The demands are modified so as to reflect the results of an engineering study which shows the relative

usage of each diameter mains. The gas flows from large diameter mains to smaller diameter mains, much as the branches of a tree will go from the larger branches down to the medium sized branches and so on. Because the capacity of a smaller diameter main is often not sufficient to meet the hourly demands of a large customer, the large volume customers do not make much use of the smaller diameter mains. This study is termed the MDM study and has been accepted in previous rate cases.

Q HOW IS THE COST OF THE SECOND PIECE OF THE DISTRIBUTION MAINS ALLOCATED?

A The second piece is deemed to be "volume" related under the Commission-approved methodology, and is allocated on the basis of average demands. (Since average demand is simply the annual volume divided by 356 days, the result is the same as allocating on the basis of volume.)

Q IS THE MDM STUDY USED TO MODIFY THE AVERAGE DEMANDS?

A No, and that is the crux of the issue. The MDM study has relevance not only to the allocation of the peak-demand-related portion of mains, but also to the allocation of the average-demand-related portion of mains. As I noted in my direct testimony, just as large volume users make relatively little use of the small diameter mains on the peak day, they make little use of those diameter mains on any other day as well.

Q DOES MR. MUDRA DENY THAT IF A CUSTOMER DOES NOT USE, LET US SAY, 2-INCH MAIN ON THE PEAK DAY, THAT SAME CUSTOMER DOES NOT USE 2-INCH MAIN ON ANY OTHER DAY AS WELL?

A No. In response to Data Request IIEC 5.13 (see Appendix A) he agrees with that physical fact.

Q DOES MR. MUDRA DISAGREE WITH THE LOGIC OF EXTENDING THE MDM STUDY TO AVERAGE DEMANDS, AND NOT JUST PEAK DEMANDS?

A No.

Q DOES MR. MUDRA AGREE THAT IT WOULD BE APPROPRIATE TO EXTRAPOLATE THE FINDINGS OF THE MDM STUDY IN THIS CASE TO AVERAGE DEMANDS AS WELL AS PEAK DEMANDS?

A No, he does not. But he does agree to study this proposal for possible use when Nicor files its next rate case.

Q IS THAT A SATISFACTORY RESPONSE TO YOUR PROPOSAL?

A No. Mr. Mudra could not say when Nicor would file its next rate case. Prior to this case, Nicor went approximately 10 years between rate cases. It is not fair to maintain a known inequity for such an extended stretch of time, especially when a remedy is at hand.

Q WHAT REASONS DOES MR. MUDRA GIVE IN HIS TESTIMONY FOR NOT ACCEPTING YOUR PROPOSED MODIFICATION TO EXTEND THE MDM STUDY TO THE ENTIRE SYSTEM OF DISTRIBUTION MAINS, AND NOT JUST A PART OF IT?

A The only "reasons" Mr. Mudra gives in his rebuttal testimony for not accepting this modification are: (1) the Nicor study in this case comports with the methodology used to allocate distribution mains in the last case; and (2) Nicor has already proposed to move Rate 1 to 97.5% of its cost of service (as shown by the flawed Nicor study) and accepting this modification would indicate that an even larger increase was warranted for Rate 1, and a smaller increase for all the other classes. (Mudra; Nicor Ex. 29.0 at 4).

Q ARE THOSE VALID REASONS FOR NOT IMPROVING THE ACCURACY OF THE COST OF SERVICE STUDY?

A No. As to the first reason, the ICC has consistently stated that it is prepared to consider modifications to an allocation methodology, as long as the changes are adequately supported and cogent reasons are presented. As to the second reason, it is never appropriate to accept or reject a particular method because one does not like the indications that the method gives in terms of rate design. A cost of service study is meant to measure each class's responsibility for the costs that are imposed on the utility, in an accurate and objective manner as is possible. The degree to which the Commission wishes to apply the results of that study in the revenue allocation process is a totally separate issue.

Q DOES MR. MUDRA BELIEVE THAT IT IS PROPER TO ACCEPT OR REJECT A PARTICULAR COST OF SERVICE METHODOLOGY BASED ON THE REVENUE DISTRIBUTION IMPLICATIONS OF THE METHODOLOGY?

A That is difficult to say. IIEC posed this question as Data Request IIEC 5.13, part a. (See Appendix A) Nicor objected to the question as vague and ambiguous, although I believe the question is rather clear and straightforward. In any case, Mr. Mudra refused to answer the question. Moreover, I find Nicor's opposition to extending the MDM study to be odd in view of the fact that Nicor takes the position that all these costs are fixed and therefore using average demands (or their equivalent, volumes) to apportion these costs over-allocates these costs to the higher load factor classes.

Q WOULD YOU AGREE THAT YOUR EXTENSION OF THE MDM STUDY TO THE AVERAGE-DEMAND-RELATED COMPONENT RESTS ON THE ASSUMPTION THAT ANNUAL VOLUME FLOWS BY MAIN SIZE AND RATE CLASS ARE IN THE SAME PROPORTION AS PEAK-DAY VOLUME FLOWS BY MAIN SIZE AND RATE CLASS?

A Yes. However, that is not an unreasonable assumption. Moreover, while it may not be exact, it is certainly better to be approximately right, than it is to be absolutely wrong. To allocate small diameter mains to customers that do not use those mains would be absolutely wrong. Thus, as I have explained in my direct testimony, extrapolating the MDM study to both components of mains -- peak-demand-related and average-demand-related, will clearly improve the accuracy of the study.

Q WHAT WOULD BE THE RESULT OF CORRECTING THE NICOR COST OF SERVICE STUDY FOR BOTH THE ERROR CONCERNING THE MISALLOCATION OF STORAGE LOSSES AND MODIFYING THE STUDY TO EXTEND THE MDM STUDY TO ALL OF THE DISTRIBUTION MAINS?

A I have prepared IIEC Exhibit 2.4, which shows the results of the cost of service study, at present rates, and Nicor's proposed rates, with that one correction and that one modification. I have also prepared IIEC Exhibit 2.5 which shows the results if this same cost of service study were used to allocate the increase in the manner that Mr. Mudra proposes, i.e., bringing Rate 1 to only 97.5% of cost. (This Schedule would correspond to Nicor Exhibit 14.6, but with Nicor's revised cost of service study reflecting the corrections and modifications.) Finally, I have prepared IIEC Exhibit 2.6 which uses the same study, but shows the result of bringing all classes to parity as measured by this particular study.

The Issue of Mr. Lazare's recommended Rate Design for Rate 77

Q DO YOU HAVE ANY ISSUES WITH MR. LAZARE'S RECOMMENDATION ON RATE DESIGN FOR RATE 77?

A Yes. Mr. Lazare is proposing to increase the tail-block in the Rate 77 demand charge, which applies to all demand over 10,000 therms. In fact, he is proposing to increase it over one thousand (1,000) percent. Thus, simply on the basis of gradualism, this proposal ought to be rejected outright. Even Mr. Lazare appears to be sensitive to the enormity of this proposal because he also offers an alternative where the tail-block is increased "only" 533 percent.

Q DOES MR. LAZARE'S PROPOSAL FOR RATE 77 PRODUCE ANOMALOUS RESULTS?

A I would say it does. For example, an examination of Mr. Lazare's bill comparison (Staff Ex. 7.0, Schedule 7.05, page 12) shows that if a Rate 77 customer, with a 50% load factor, uses 50,000 therms per month, it would see a 19 percent increase, but if it uses 100,000 therms per month it would see a 45 percent decrease. That does not make much sense to me. Mr. Lazare's exhibit is even more interesting for what it does not show. The largest size customer on his exhibit uses only 500,000 therms per month. However, the average customer on this rate uses almost 1,000,000 therms per month, and some use a great deal more than that. Mr. Lazare's proposal could very well mean close to triple digit increases to these customers.

Q WHAT IS MR. LAZARE'S RATIONALE FOR PROPOSING SUCH A DRASTIC INCREASE IN THE TAIL-BLOCK?

A Mr. Lazare appears to be troubled by a declining block rate, even though the declining block demand rate for Rate 77 has been approved by the ICC for as far back as I can remember, and that goes back 25 years or so. However, based on his discussion on page 41 of his testimony, I can detect only two reasons that he gives for his radical proposal:

- First, based on some report that apparently dealt with electricity, he believes that declining block rates will lead to more usage.
- Second, he states, with no factual or empirical support I might add, that a declining block rate *may* not be consistent with cost-causation principles. (Emphasis added)

555 **Q HOW DID NICOR PROPOSE TO CHANGE RATE 77 IN THE PREVIOUS CASE?**

556 A In the previous case, Nicor witness Albert Harms proposed to increase the first block
557 of the demand charge by 34% and the tail-block by 275%.

558 **Q WHAT CHANGE DID THE COMMISSION APPROVE?**

559 A The Commission approved an equal percentage increase for both blocks of the
560 demand charge, which is what Nicor is proposing in this case.

561 **Q WILL A DECLINING BLOCK LEAD TO INCREASED USAGE?**

562 A No. In fact, the Rate 77 volume in 2009 is a mere 4 percent higher than it was in
563 2005, and the peak demand for this class has even declined. (This means that these
564 customers are using Nicor's distribution system even more efficiently than they did in
565 2005.) As we are all aware, gas is much more expensive than it was a few years
566 ago. To suggest that industrial customers would be wasteful in their gas usage,
567 simply because the demand charge was blocked, is simply not credible.

568 **Q IS A DECLINING BLOCK DEMAND CHARGE CONSISTENT WITH**
569 **COST-CAUSATION PRINCIPLES?**

570 A Yes. The reason is that there are economies of scale in serving larger loads. This is
571 because larger loads are served with larger diameter mains. In fact, the capacity of a
572 main increases more than with the **square** of the diameter. Thus, for example, the
573 capacity of a 4-inch main is more than four times the capacity of a 2-inch main, and
574 the capacity of a 6-inch main is more than nine times the capacity of a 2-inch main.
575 However, the cost of the main per foot increases less than linearly in proportion to the
576 diameter. Thus, for example, the per foot cost of a 4-inch main is less than twice the

cost of a 2-inch main, and the per foot cost of a 6-inch main is less than three times the capacity of a 2-inch main. Thus, when you do the math, the cost per unit of capacity of a larger diameter main is much less than it is for a smaller diameter main.

Q DOES THIS INVERSE RELATIONSHIP BETWEEN SIZE AND COST PER MCF EXHIBIT ITSELF IN THE COST OF SERVICE STUDY?

A Yes. According to Nicor's cost of service study, for example, we have the following data:

TABLE 3

Comparison of Cost per Mcf With Usage per Customer

Class	Mcf/Customer	Cost/Mcf
Rate 74	6,284	$0.90
Rate 76	159,251	$0.42
Rate 77	1,086,058	$0.32

If you use the alternative study that I supported in my direct testimony, these relationships are even more pronounced.

The Issue of the Appropriate Denominator for the SBS Charge

Q WHAT IS THE CRUX OF THIS ISSUE?

A In Docket No. 04-0779, Nicor's last rate case, Nicor proposed to set the SBS charge by dividing the pertinent storage costs by the amount of gas that it intended to cycle. The Commission's Order in that case rejected the Nicor position. The Commission reasoned that the SBS charge is assessed on the basis of reserved capacity, and not

on the basis of the gas actually cycled. Thus, the Commission ruled that the proper denominator is the total maximum capacity of all of Nicor's underground storage fields, which it found to be 149.74 Bcf. In this case, Nicor is seeking to overturn that decision. I might note that this attempt to overturn the Commission decision in the last case is inconsistent with Nicor's reliance on the Order in the last case as a reason not to extend the MDM study.

Q HOW DID THE COMMISSION ARRIVE AT THE FIGURE OF 149.74 BCF?

A That figure came not from the Staff or from intervenors. That figure was the quantity that Nicor witness Gary Bartlett cited in his testimony as the capacity of Nicor's working gas. By definition, working gas is the gas that Nicor can inject and withdraw from its storage fields.

Q AS YOU NOTED, THE 149.74 BCF FIGURE WAS SUPPORTED AS THE WORKING GAS CAPACITY IN THE PREVIOUS CASE. WHY SHOULD THE COMMISSION STILL RELY ON THAT FIGURE IN THIS PROCEEDING?

A In Data Request IIEC 2.01 (see Appendix A), the question was posed to Nicor whether its storage fields have experienced any degradation, or conversely any enhancements, in their physical capability to either a) store, b) receive, or c) deliver gas, in the last 5 years. Nicor responded as follows:

> Nicor Gas' storage fields have not experienced a reduction in their physical ability to store, receive or deliver gas in the last five years. Operating practices and maintenance programs have maintained operating performance levels. In addition, efforts to fully cycle planned seasonal capacity have resulted in improved deliverability at relatively lower inventory levels.

Consequently the denominator should be kept at the same level that was found appropriate in the last case.

Q HOW DOES NICOR ATTEMPT TO RATIONALIZE THE USE OF A DIFFERENT DENOMINATOR?

A Mr. Mudra offers two rationalizations for Nicor's proposed change. First, he states that instead of total maximum capacity, the denominator should be what he claims is "available" storage capacity. The problem with that is Nicor has not provided any evidence that the remaining capacity is "unavailable." As I noted, in response to Data Request IIEC 2.01 (see Appendix A), Nicor acknowledged that there has been no degradation of capacity since the last case. In fact, if anything, it claims that performance has been enhanced. Thus, it appears that Nicor is once again trying to change the definition of capacity.

Q WHAT IS THE SECOND REASON THAT MR. MUDRA GIVES FOR CHANGING THE DENOMINATOR?

A Mr. Mudra notes that in Docket No. 04-0779, the Commission used the same denominator, 149.74 Bcf, for two purposes. The first purpose, as I have just explained, was as the denominator to derive the SBS charge. The second purpose was to derive the amount of storage made available to the transportation customers. Specifically, the number of days of storage (that is the multiple of the MDQ) was set equal to the storage capacity divided by Nicor's design day peak send-out. In this case, this peak day figure has declined. Thus, if the 149.74 Bcf was also used for this second purpose, Nicor would conclude that the transportation customers would be entitled to 31 days of storage, rather than the current 28. Mr. Mudra then attempts to show that if transportation customers were to elect that additional storage, there would be that much less available to sales customers, and this could reduce the seasonal hedging that Nicor might use to benefit sales customers.

642 **Q IS THIS SECOND REASON PERSUASIVE?**

643 A No. In the first place, Mr. Mudra is incorrect that the two questions (1) how much is a
644 cost-based charge for storage service and (2) how much storage service should be
645 allocated to transportation customers, are inextricably entwined. It is true that the
646 Commission used the same figure in the formula for each, but that is not absolutely
647 necessary. The Commission should make a determination of each of those
648 questions based on the evidence. I will discuss the second question – how much
649 storage capacity should be made available to transportation customers – in the
650 subsequent section of this rebuttal testimony. Nevertheless, the two questions are
651 separate and distinct.

652 **Q WOULD YOU AGREE THAT NICOR, IN THE PAST SEVERAL YEARS, HAS NOT**
653 **TAKEN ITS TOP GAS INVENTORY DOWN TO ZERO?**

654 A Yes.

655 **Q DOESN'T THAT SUGGEST THAT THE MAXIMUM TOP GAS CAPACITY OUGHT**
656 **TO BE REDUCED TO REFLECT THAT FACT?**

657 A No. Transportation customers do not, as a group, take their storage banks down to
658 zero either. Thus, to compare Nicor's so-called "operational" capacity with a
659 "theoretical" capacity for the transportation customer that is unachievable, is an
660 apples-to-oranges comparison. To be equitable, the full maximum working gas
661 capacity must be used to set the maximum SBS reservation. This is what the
662 Commission determined in the previous Nicor case, and Nicor has not met its burden
663 of proof to abandon that decision.

Q WHAT SHOULD THE SBS CHARGE BE IF THE DENOMINATOR USED IS CONSISTENT WITH THE ORDER IN THE LAST CASE?

A The SBS charge should be $0.0038 per therm of capacity per month.

The Issue of How Much Storage Capacity Should be Made Available to Transportation Customers

Q WHAT ARE THE POSITIONS OF THE PARTIES ON THIS ISSUE?

A In the last case, the Commission ruled that the number of days of storage should be calculated by dividing the maximum working gas inventory by the design day demand. Staff and intervenors have taken the position that this formula should be continued which will result in 31 days of storage. Nicor argues that the numerator should be the "operational capacity" that I spoke of before. Nicor's method results in 28 days of storage.

Q WHY DOES NICOR OBJECT TO THE CONTINUATION OF THE FORMULA APPROVED IN THE LAST CASE?

A In the last case, the arithmetic of the formula resulted in a storage multiple of 28 days. However, because the design day demand has been reduced, the application of the same formula in this case would result in 31 days. Mr. Mudra then concludes that this would result in the transportation storage allowance for Rate classes 74, 75, 76, and 77 increasing from a maximum of 35 Bcf to 38.75 Bcf, and the allowance for the Customer Select customers going from a maximum of 12.15 Bcf to 13.45 Bcf. Thus, in total the transportation storage allotment, as Mr. Mudra calculates it, would go from a maximum of 51.1 Bcf to a maximum of 56.1 Bcf, an increase of approximately 5 Bcf. Because the ability to cycle gas is finite, Mr. Mudra then reasons that this is

5 Bcf less gas that Nicor would be able to cycle for the benefit of the sales customers. Since the winter/non-winter differential in the cost of gas runs from approximately 10 to 15 cents per therm, Mr. Mudra reasons that using the same formula as approved in the last case would cost sales customers between $5.0 million and $7.5 million.

Q IS MR. MUDRA CORRECT?

A No, he is not. In the first place, Mr. Mudra conveniently neglects the fact that if transportation customers elect another 5 Bcf in capacity, they would have to pay for that capacity. At $0.0038 per therm per month that would result in an extra $2.3 million contribution to Nicor's fixed cost of storage. In the second place, transportation customers do not even elect the maximum amount of storage Mr. Mudra assumes in his illustration. Note that, at 28 days, the current allowance, Mr. Mudra calculates 35 Bcf of storage capacity for the transportation customers (excluding Customer Select). However, Mr. Mudra only includes 27.1 Bcf of storage selected in his proof of revenue calculations. (Response to Data Request IIEC 5.12 Ex. 3, see Appendix A). Thus, if we follow Mr. Mudra's logic, we should impute another 8 Bcf of storage revenue to the transportation classes. In the third place, transportation customers only cycle a fraction of the maximum storage capacity to which they are entitled. For example, according to the data supplied in response to Data Request IIEC 1.11 (see Appendix A), the non-Customer Select transportation customers cycled only 21.2 Bcf, not the 35 Bcf that Mr. Mudra assumes for his calculations. So even if these customers do cycle another 3.75 Bcf, as Mr. Mudra fears, they would still be cycling 10 Bcf (21.2 plus 3.75 minus 35) less than they are entitled to, even under Mr. Mudra's calculations. Finally, Mr. Mudra forgets that Nicor

is, on and of its own accord, cycling approximately 10 Bcf less than its maximum storage capacity.

The Issue of Nicor's Proposal to Put New Restrictions on the Nomination Rights of Transportation Customers

Q WHAT IS THIS ISSUE ABOUT?

A In his direct testimony, Nicor witness Bartlett proposed to curtail the amount of gas that transportation customers can nominate for the months March, April, July, August, September and October. Because a transportation customer is imputed, under Nicor's tariffs, to inject the positive difference between its daily nomination and its daily usage, in essence Mr. Bartlett was proposing to restrict the amount of gas that transportation customers taking storage service can bank in Nicor's storage fields.

I will not repeat the details of Mr. Bartlett's proposals here because they were explained in detail in both his direct testimony (Nicor Ex. 4.0, pages 24 through 29) and my own direct testimony.(IIEC Ex. 1.0, pages 16 through 21.) Suffice it to say that I testified that Mr. Bartlett had not shown that these new restrictions are necessary and noted the Commission's finding in the previous case about unnecessarily limiting the ability of transportation customers to utilize the storage that they select and pay for. Staff witness Sackett was similarly unpersuaded of the need for these new restrictions.

Q HOW DID MR. BARTLETT RESPOND TO YOUR OBJECTIONS IN HIS REBUTTAL TESTIMONY, NICOR EXHIBIT 19.0?

A Mr. Bartlett states that his proposed changes are "expected to reduce the additional costs which Sales customers are forced to incur due to transport customers storage

usage patterns." He then produced Nicor Exhibit 19.3, which purports to show that the transportation customer usage patterns in the twelve month period covered by this "analysis" cost the Sales customers a total of $12 million.

Q DOES NICOR EXHIBIT 19.3 SHOW WHY THE PROPOSED NOMINATION RESTRICTIONS ARE NEEDED?

A No. In the first place, his proposed new restrictions only pertain to the months of March, April, July, August, September and October. The alleged impact in those months is only $4 million, not $12 million. But even more importantly, Mr. Bartlett does not show how his proposed new restrictions would resolve the alleged "problem." In fact, when asked, in Data Request IIEC 6.13 (see Appendix A), specifically how the proposed new restrictions would change the storage activity (shown in Column C of his exhibit), Nicor objected because it called for speculation. If Nicor refuses to speculate how the situation would change with his new restrictions, the Commission should not speculate whether his proposed new restrictions will solve a problem – especially when the problem has not even been demonstrated to exist. Nicor went on to state that:

> Nicor Gas does not know how Transportation customers will in fact actually adjust their pattern of storage utilization if the Company's proposals in this proceeding are adopted.

Consequently the Company's proposals should be rejected.

Q NEVERTHELESS, DO YOU AGREE THAT NICOR EXHIBIT 19.3 DEMONSTRATES THAT TRANSPORTATION CUSTOMERS' STORAGE PATTERNS ARE COSTING THE SALES CUSTOMER ADDITIONAL GAS COSTS?

A No. In the first place, this exhibit is premised on the assumption that if Nicor must

deviate from its planned withdrawals or injections, the variance must be made up at the difference between the Chicago City Gate price as published in Platt's for that day and the settlement price for the NYMEX futures price for the prompt month. (The prompt month is the nearest month of delivery for which the futures month is traded.) However, Mr. Bartlett has provided absolutely no evidence that those two benchmarks determine the relevant prices for planned versus unplanned purchases or sales. In fact, in response to Data Request IIEC 6.08 (see Appendix A), Nicor acknowledged that in the period covered by the exhibit, it had not purchased any prompt month gas at the NYMEX futures price. Thus the extra "costs" are premised on a false assumption, namely that the futures price form the basis for Nicor's planned purchases.

In the second place, Nicor's actual storage activity deviates from plan for reasons other than the storage activity of transportation customers.

In the third place, the entire analysis focuses only on daily arbitrage. However, storage is much more valuable for the ability to take advantage of seasonal differentials. For example, Mr. Bartlett's Nicor Exhibit 19.3 shows that, as a result of this daily arbitrage, the transportation customers' deviation from plan during the month of December allegedly cost Sales customers an extra $2.6 million. However, a closer look shows that during this month, transportation customers had net withdrawals from storage of only 457,126 MMBtu, when they were actually entitled to withdraw 5,769,917 MMBtu. Thus, transportation customers did not use approximately 5.3 million MMBtu to which they were entitled, even by Nicor's calculation. If we accept Mr. Mudra's estimate that there is generally a $1.00 to $1.50 per MMBTu seasonal differential, the transportation customers' under utilization of the

storage saved Sales customers between $5.3 million and $8.0 million, or far more than the alleged "cost" that Mr. Bartlett claims for that month.

Q DOES NICOR EXHIBIT 19.3 SHOW THAT TRANSPORTATION CUSTOMERS USE LESS STORAGE THAN THEY PURCHASE AND PAY FOR?

A Yes. Even Mr. Bartlett concedes that Nicor Exhibit 19.3 shows Transportation customers seasonal cycling of their inventory is much less than their allocated capacity. (Response to Data Request IIEC 6.21, see Appendix A)

Q IN RESPONSE TO DATA REQUEST IIEC 6.13 (SEE APPENDIX A), MR. BARTLETT DOES SAY THAT, ALTHOUGH HE DOES NOT KNOW HOW HIS PROPOSED RESTRICTIONS WILL CHANGE STORAGE UTILIZATION BY TRANSPORTATION CUSTOMERS, HE "ANTICIPATES" THERE WILL BE A REDUCTION OF OCCURRENCES WHEN TRANSPORTATION CUSTOMERS ARE INJECTING DURING THE WITHDRAWAL SEASON OR WITHDRAWING DURING THE INJECTION SEASON. PLEASE RESPOND.

A I find that statement to be quite puzzling. Nicor has always taken the position that the capabilities of its storage fields are finite, and so any storage rights that are given to the transportation customers must necessarily reduce the rights of sales customers. Of course, to a certain extent that is true, which is why those capabilities must be fairly apportioned between the sales customers and the transportation customers. Both groups of customers must be treated equitably. However, in the comment that you cited in this question, Mr. Bartlett seems to be complaining that transportation customers are acting in a **countercyclical** pattern, that is when their storage activity

runs counter to how Nicor wants to use the storage fields. I find that comment to be quite odd.

Q WHAT IS SO ODD ABOUT THAT STATEMENT?

A I find it odd because when transportation customers' use of storage runs counter to Nicor's intended storage activity, that actually **enhances** the capabilities of the field. Let us suppose that, for example, the storage field is capable of cycling 100 MCF. Now suppose that you sell the right of 20 MCF to a third party, but that party wants to inject gas when you want to withdraw and withdraw when you want to inject. In that case, during the injection season you can actually inject 120 MCF. That is because you can purchase 120 MCF, and "loan", so to speak the extra 20 MCF to the third party who is short (because the third party is using more gas than it is nominating). Similarly, in the withdrawal season you can supply the sales customers with 120 MCF because the third party is now bringing in 20 more MCF than it is using. It is difficult to see why Mr. Mudra would want to squelch a behavior pattern that enhances the capacity of Nicor to act on behalf of its sales customers.

Q ON PAGE 19 OF HIS REBUTTAL TESTIMONY, MR. BARTLETT STATES THAT YOU HAVE CONTRADICTED YOURSELF. DO YOU AGREE THAT YOU HAVE CONTRADICTED YOURSELF?

A No. Mr. Bartlett believes that because I take the position that restricting the flexibility of transportation customers to fully utilize their storage must necessarily increase the cost to those transportation customers, this contradicts my statement that Nicor had failed to show an adverse cost impact to sales customers that is rectified by the new restrictions. Those statements are not at all contradictory. Nicor does not deny the

first statement. And as for the second statement, as my critique of Nicor's Exhibit 19.3 as well as Nicor's response to Data Request IIEC 6.13 given in my last answer, show, Nicor still has not established that there is an adverse impact to Sales customers that requires the imposition of new restrictions to transportation customers. Consequently, I still maintain that the new proposed restrictions on the MDN be rejected.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes.

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Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

Results of Nicor COSS with Storage Losses Corrected
(Dollars in Thousands)

Line No.	Description	Present Rates ROR	Present Rates Indexed ROR	Present Rates Subsidy	Nicor Proposed Rates ROR	Nicor Proposed Rates Indexed ROR	Nicor Proposed Rates Subsidy
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Residential Rates:						
1	Rate 1 - Residential	-1.41%	-71	$ (34,460)	6.80%	88	$ (13,621)
	Nonresidential Rates:						
2	Rate 4 - General Gas Service	10.31%	520	26,557	11.22%	145	15,841
3	Rate 5 - Seasonal Use Service	12.51%	631	62	16.36%	211	73
4	Rate 6 - Large General Service	18.88%	952	20	25.16%	325	29
5	Rate 7 - Large-Volume Service	0.00%	-	-	0.00%	-	-
6	Rate 17/19 - Contract Service	5.68%	287	-	5.68%	73	(989)
7	Rate 74 - General Transportation	6.37%	321	6,760	6.01%	78	(3,821)
8	Rate 75 - Seasonal Use Transportation	-9.59%	-484	(194)	-4.09%	-53	(284)
9	Rate 76 - Large General Transportation	5.04%	254	1,312	10.19%	132	1,503
10	Rate 77 - Large Volume Transportation	1.82%	92	(57)	10.32%	133	1,269
11	Subtotal - Nonresidential	8.22%	414	$ 34,460	9.37%	121	$ 13,621
12	**Total - Residential & Nonresidential**	1.98%	100	0	7.74%	100	0

Note: Negative subsidies indicate below cost of service.
Positive subsidies indicate above cost of service.

Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

Indicated Rates at 97.5% of Cost
Based on COSS Shown on IIEC Exhibit 2.1
(Dollars in Thousands)

Line No.	Description	Indicated Rates at 97.5% of Cost: Current Revenue	Proposed Revenue	Revenue Change	Percent Revenue Change
	(A)	(B)	(C)	(D)	(E)
	Residential Rates:				
1	Rate 1 - Residential	$ 354,002	$ 467,812	$ 113,810	32.1%
	Nonresidential Rates:				
2	Rate 4 - General Gas Service	121,463	140,086	18,623	15.3%
3	Rate 5 - Seasonal Use Service	189	254	65	34.5%
4	Rate 6 - Large General Service	49	70	21	42.5%
5	Rate 7 - Large-Volume Service	-	-	-	0.0%
6	Rate 17/19 - Contract Service	9,234	9,234	-	0.0%
7	Rate 74 - General Transportation	42,744	44,129	1,385	3.2%
8	Rate 75 - Seasonal Use Transportation	147	182	35	23.7%
9	Rate 76 - Large General Transportation	10,498	13,851	3,353	31.9%
10	Rate 77 - Large Volume Transportation	7,034	10,846	3,812	54.2%
11	Subtotal - Nonresidential	$ 191,358	$ 218,652	$ 27,294	14.3%
12	**Total - Residential & Nonresidential**	$ 545,360	$ 686,464	$ 141,104	25.9%

Note: Indicated Rates reflect removal of storage losses associated with transportation customers.

Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

Indicated Rates at 100% of Cost
Based on COSS Shown on IIEC Exhibit 2.1
(Dollars in Thousands)

Line No.	Description	Indicated Rates at 100% of Cost: Current Revenue	Proposed Revenue	Revenue Change	Percent Revenue Change
	(A)	(B)	(C)	(D)	(E)
	Residential Rates:				
1	Rate 1 - Residential	$ 354,002	$ 479,807	$ 125,805	35.5%
	Nonresidential Rates:				
2	Rate 4 - General Gas Service	121,463	123,608	2,145	1.8%
3	Rate 5 - Seasonal Use Service	189	180	(9)	-4.8%
4	Rate 6 - Large General Service	49	40	(9)	-18.9%
5	Rate 7 - Large-Volume Service	-	-	-	0.0%
6	Rate 17/19 - Contract Service	9,234	9,234	-	0.0%
7	Rate 74 - General Transportation	42,744	49,851	7,107	16.6%
8	Rate 75 - Seasonal Use Transportation	147	492	345	235.0%
9	Rate 76 - Large General Transportation	10,498	13,055	2,557	24.4%
10	Rate 77 - Large Volume Transportation	7,034	10,197	3,163	45.0%
11	Subtotal - Nonresidential	$ 191,358	$ 206,657	$ 15,299	8.0%
12	**Total - Residential & Nonresidential**	$ 545,360	$ 686,464	$ 141,104	25.9%

Note: Indicated Rates reflect removal of storage losses associated with transportation customers.

Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

Results of Nicor COSS with Storage Losses Corrected using the Average and Peak Method and MDM Study used for All Mains
(Dollars in Thousands)

Line No.	Description	Present Rates ROR	Present Rates Indexed ROR	Present Rates Subsidy	Nicor Proposed Rates ROR	Nicor Proposed Rates Indexed ROR	Nicor Proposed Rates Subsidy
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
	Residential Rates:						
1	Rate 1 - Residential	-1.95%	-104	$ (40,076)	6.13%	79	$ (24,318)
	Nonresidential Rates:						
2	Rate 4 - General Gas Service	10.81%	579	28,010	11.61%	150	17,383
3	Rate 5 - Seasonal Use Service	11.61%	622	59	15.46%	200	67
4	Rate 6 - Large General Service	34.03%	1,823	26	40.79%	527	39
5	Rate 7 - Large-Volume Service	-	-	-	-	-	-
6	Rate 17/19 - Contract Service	14.89%	798	-	14.89%	192	2,449
7	Rate 74 - General Transportation	7.00%	375	7,699	6.46%	83	(2,770)
8	Rate 75 - Seasonal Use Transportation	-9.66%	-517	(195)	-4.19%	-54	(290)
9	Rate 76 - Large General Transportation	9.54%	511	2,737	14.68%	190	3,550
10	Rate 77 - Large Volume Transportation	8.78%	470	1,740	18.52%	239	3,890
11	Subtotal - Nonresidential	9.48%	508	$ 40,076	10.82%	140	$ 24,318
12	**Total - Residential & Nonresidential**	1.87%	100	0	7.74%	100	0

Note: Negative subsidies indicate below cost of service.
Positive subsidies indicate above cost of service.
NICOR proposes to keep Rate 17/19 - Contract Services at present rates.

Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

Indicated Rates at 97.5% of Cost
Based on COSS Shown on IIEC Exhibit 2.4
(Dollars in Thousands)

Line No.	Description	Indicated Rates at 97.5% of Cost: Current Revenue	Proposed Revenue	Revenue Change	Percent Revenue Change
	(A)	(B)	(C)	(D)	(E)
	Residential Rates:				
1	Rate 1 - Residential	$ 354,002	$ 475,894	$ 121,892	34.4%
	Nonresidential Rates:				
2	Rate 4 - General Gas Service	121,463	138,227	16,764	13.8%
3	Rate 5 - Seasonal Use Service	189	260	71	37.4%
4	Rate 6 - Large General Service	49	60	11	23.4%
5	Rate 7 - Large-Volume Service	-	-	-	0.0%
6	Rate 17/19 - Contract Service	9,234	9,234	-	0.0%
7	Rate 74 - General Transportation	42,744	42,646	(98)	-0.2%
8	Rate 75 - Seasonal Use Transportation	147	178	31	21.1%
9	Rate 76 - Large General Transportation	10,498	11,761	1,263	12.0%
10	Rate 77 - Large Volume Transportation	7,034	8,205	1,171	16.6%
11	Subtotal - Nonresidential	$ 191,358	$ 210,570	$ 19,212	10.0%
12	**Total - Residential & Nonresidential**	$ 545,360	$ 686,464	$ 141,104	25.9%

Note: Indicated Rates reflect removal of storage losses associated with transportation customers and MDM study used for all mains.

Northern Illinois Gas Company
d/b/a Nicor Gas Company
2009 Test Year

IIEC Proposed Rates at 100% of Cost
Based on COSS Shown on IIEC Exhibit 2.4
(Dollars in Thousands)

Line No.	Description	IIEC Proposed Rates at 100% of Cost: Current Revenue	Proposed Revenue	Revenue Change	Percent Revenue Change
	(A)	(B)	(C)	(D)	(E)
	Residential Rates:				
1	Rate 1 - Residential	$ 354,002	$ 488,096	$ 134,094	37.9%
	Nonresidential Rates:				
2	Rate 4 - General Gas Service	121,463	121,464	1	0.0%
3	Rate 5 - Seasonal Use Service	189	184	(5)	-2.6%
4	Rate 6 - Large General Service	49	30	(19)	-39.0%
5	Rate 7 - Large-Volume Service	-	-	-	0.0%
6	Rate 17/19 - Contract Service	9,234	9,234	-	0.0%
7	Rate 74 - General Transportation	42,744	48,466	5,722	13.4%
8	Rate 75 - Seasonal Use Transportation	147	494	347	236.0%
9	Rate 76 - Large General Transportation	10,498	10,951	453	4.3%
10	Rate 77 - Large Volume Transportation	7,034	7,545	511	7.3%
11	Subtotal - Nonresidential	$ 191,358	$ 198,368	$ 7,010	3.7%
12	**Total - Residential & Nonresidential**	$ 545,360	$ 686,464	$ 141,104	25.9%

Note: IIEC Proposed Rates reflect removal of storage losses associated with transportation customers and MDM study used for all mains.

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS GAS COMPANY D/B/A NICOR GAS COMPANY	)	
	)	DOCKET NO. 08-0363
PROPOSED GENERAL INCREASE IN NATURAL GAS RATES	)	

VERIFICATION

STATE OF MISSOURI :
: SS
COUNTY OF ST. LOUIS :

I, Alan Rosenberg, a Consultant and Managing Principal of Brubaker & Associates, Inc., affirm under penalties of perjury that the information contained in my rebuttal testimony (IIEC Exhibit 2.0) and exhibits (IIEC Exhibits 2.1, 2.2, 2.3, 2.4, 2.5 and 2.6) in Nicor Docket No. 08-0363 is true and correct to the best of my knowledge, information and belief.

Alan Rosenberg

SUBSCRIBED AND SWORN to before me
on this 23rd day of October, 2008.

NOTARY PUBLIC

MARIA E. DECKER
Notary Public, State of Missouri
St. Louis City
Commission # 05706793
My Commission Expires May 05, 2009