At the outset, it should be noted that a variant of Staff's new Temporary LIFO Liquidation analysis was addressed in Nicor Gas' 2004 Rate Case. (*See* notation to this effect in Rehearing Ex. 4, JF 11.01(e)). In that case, CUB presented *expert testimony* arguing for a rate base deduction due to alleged cash flow benefits associated with LIFO liquidation. Nicor Gas presented *expert testimony* that there was not a cash flow benefit as alleged by CUB's expert witness and therefore a rate base deduction was not appropriate. CUB's position in that case was not supported by Staff. Nor was it adopted by the Commission. *See Nicor Gas Co.*, Docket No. 04-0779, Order at 18-19 (Sep. 20, 2005).

In the present case, Nicor Gas provided *expert testimony* showing that it uses short-term debt to fund non-rate base items, including general working capital needs during the 2009 test year, including a portion of the difference between its actual average cost of gas storage inventory of $432.8 million and the gas in storage rate base component of $95.6 million. Staff opines in its Reply Brief on Rehearing, *without the benefit of any expert testimony*, that customers effectively advance Nicor Gas the entire amount of dollars ($337.2 million in the 2009 test year) necessary to fund this difference, with these advances booked to a liability account called Temporary LIFO Liquidation during the January to March period. Staff's analysis is wrong.

As illustrated on page 2 of this exhibit, beginning in August 2008 and again in August 2009, year-to-date cumulative actual gas purchase *costs* (Column b) are forecasted to exceed cumulative year-to-date actual *revenues* from sales of gas to customers ("GSC revenue") (Column a) due to actual storage injection costs during the summer and fall period in excess of the amounts collected from customers. The difference between cumulative GSC revenue and cumulative actual gas purchase costs is unequivocally accounted for outside of rate base, and must be temporarily financed each year with short-term debt. The information shown on page 2 does not consider the effects of lags associated with converting revenue and purchases to cash, as such amounts are included in Cash Working Capital. The average amount of short-term debt associated with this temporary seasonal financing need alone is estimated at $97.9 million in the 2009 test year.

2008 - 2009	*Cumulative GSC Revenue*	*Cumulative Gas Purchase Costs*	*Cumul. Cash Flow Inc/(Dec*	*Short Term Debt Required*	*Annual Avg Average Short Term Debt*
	a	*b*	*c*	*d*	*e*
Jan	390,922	182,983	207,939		
Feb	736,837	343,682	393,155		
Mar	1,002,955	440,252	562,703		
Apr	1,147,948	561,614	586,334		
May	1,228,266	782,466	445,800		
Jun	1,276,310	1,007,166	269,144		
Jul	1,319,809	1,229,319	90,490		
Aug	1,362,328	1,452,694	(90,366)	(90,366)	
Sep	1,415,055	1,686,682	(271,627)	(271,627)	
Oct	1,525,752	1,918,616	(392,864)	(392,864)	
Nov	1,756,629	2,044,248	(287,619)	(287,619)	
Dec	2,137,321	2,212,571	(75,250)	(75,250)	(93,144)
Jan	458,853	196,494	187,109		
Feb	816,669	349,651	391,768		
Mar	1,104,505	469,785	559,470		
Apr	1,254,990	613,342	566,398		
May	1,332,081	841,841	414,990		
Jun	1,381,651	1,064,854	241,547		
Jul	1,428,579	1,285,747	67,582		
Aug	1,476,069	1,507,101	(106,282)	(106,282)	
Sep	1,532,760	1,737,183	(279,673)	(279,673)	
Oct	1,649,392	1,977,061	(402,919)	(402,919)	
Nov	1,871,582	2,081,055	(284,723)	(284,723)	
Dec	2,268,882	2,294,287	(100,655)	(100,655)	(97,854)