

Nicor Gas Company
Response to Illinois Commerce Commission
Ill.C.C. Docket No. 09-0113
First Data Request

SDR-001 Q. Describe with specificity how the actions undertaken by the Company comply with each of the four prudence standards contained in the Commission's Order in Dockets Nos. 91-0080 through 91-0095 (Consolidated).

SDR-001 A. The four prudence standards contained in the Commission's Order in Dockets Nos. 91-0080 through 91-0095 (Consolidated) are:

- 1) reasonable and appropriate business standards,
- 2) the requirements of other relevant state and/or federal authorities,
- 3) minimization of costs to ratepayers, consistent with safety, reliability and quality assurance, and
- 4) based on facts and knowledge the Company knew or reasonably should have known at the time the expenditures were made.

The Company believes that its MGP program meets the four prudence standards in all respects. The following are some examples, albeit not an exclusive list, of certain actions the Company takes in satisfaction of each of the four prudence standards:

- 1) The Company used reasonable and appropriate business standards to select professional service providers including, but not limited to, conducting research into the firms and interviews with key personnel of those firms. In addition, the Company monitors and oversees the work of these service providers to ensure that they conform to reasonable and appropriate business standards.
- 2) The Company works cooperatively with the Illinois Environmental Protection Agency in managing its MGP sites.
- 3) The Company negotiated consulting contracts for professional services and competitively bid nearly all other goods and services in order to minimize costs. The contracts for professional services were evaluated based on several factors including fee schedules. The consultants that provided the best value were selected. In addition, the Company negotiated and entered into the Interim Cooperative Agreement with ComEd to ensure the efficient investigation and remediation of certain sites, and has aggressively pursued insurance recovery.
- 4) The Company researched the history of MGPs within its service territory, utilized outside experts to supplement its research and utilized insurance archeologists to research potential insurance policies.

Company witness: Nancy J. Huston

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- SDR-002 Q. This request pertains to the level of environmental cleanup required at each MGP site.
- a. For each MGP site, describe the level of environmental cleanup required.
 - b. List the steps that must be taken to obtain the level of environmental cleanup required.
 - c. Explain and evaluate any alternative levels of environmental cleanup that may be applicable for each site.
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- SDR-002 A. a. Cleanup levels for all or portions of 23 sites have been proposed to Illinois EPA. The levels proposed are consistent with Illinois EPA's Site Remediation Program's *Tiered Approach to Corrective Action Objectives (TACO)*. The level of environmental cleanup required, if any, at the remainder of the sites has not been determined at this time.
- b. Illinois EPA regulations require, at a minimum, removal of source material, as defined in the regulations. This is one of the steps involved in cleanup of a site. Because each site is unique, the cleanup steps necessary, if any, are site specific and can only be determined after establishing the cleanup levels.
 - c. Illinois EPA guidance allows sites to be classified as "residential" or "commercial/industrial" for setting cleanup objectives. As sites move to the remediation phase, necessary cleanup levels at each site will be individually evaluated based on the current and future uses of the site. Site specific cleanup levels will be established. For example, the Ottawa site is classified as "residential" based on the fact that it is a school athletic field, while the DuQuoin and LaGrange sites are "commercial/industrial" sites. Generally, "residential" sites require more stringent cleanups than "commercial/industrial" sites.

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SDR-003 Q. Has the Company ever received a site remediation letter from the Illinois Environmental Protection Agency indicating that no further remediation is required at a specific MGP site? If yes, provide a copy of each site remediation letter received.

SDR-003 A. Yes. Copies of NFR letters issued during 2008 are attached.

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SDR-004 Q. Describe how the Company monitors the actual on-site investigation and remediation activities.

SDR-004 A. Nicor Gas monitors the actual on-site investigation and remediation activities in five ways:

- 1) Review and approval of Site Investigation Work Plans and Reports, Remedial Objectives Reports, Remedial Action Plans or other proposed on-site activities or reports.
- 2) Use of professional environmental consultants as our representatives at the sites during on-site investigation and remediation activities.
- 3) Periodic visits to the sites to observe activities and progress and telephone contacts to discuss activities and progress.
- 4) A series of written reports required from the consultants on activities completed, in progress and planned under approved work plans including financial status reports.
- 5) Progress, planning and strategy meetings with consultants regarding activities.

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- SDR-005 Q. This request pertains to the Company's forecasting of MGP environmental cleanup costs for the reconciliation period.
- a. Explain the forecasting methods used by the Company to determine MGP environmental cleanup costs for the reconciliation period.
 - b. Describe how the forecasted cost amounts were determined.
 - c. Include explanations for each instance where the actual costs, by site or account code, deviated from the forecast costs by 10% or more.
 - d. Explain how these cost forecasts were used by the Company for the reconciliation period.
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- SDR-005 A. a. Calendar year costs are forecast for the MGP program based on anticipated site by site activities and for general activities for the overall MGP program.
- b. Estimates of the cost to implement the information gathering process and follow up activities were based on a range of cost estimates provided by environmental consultants. Other estimated costs cover legal expenses, insurance recovery expenses, specialized community relations expenses and Illinois Environmental Protection Agency oversight.
 - c. Forecast costs of \$14,170,000 were originally used in the ECR calculation for 2008. In September 2008, forecast costs were revised to \$14,744,000. Actual expenditures were \$13,557,472.76. The primary reasons for the difference between forecast and actual expenditures are due to lower remediation costs at Bloomington and Lockport Twp. offset by higher than estimated Environmental Activity costs at Aurora, Oak Park and Skokie.
 - d. Forecasted costs for MGP environmental activities conducted by outside parties at Nicor Gas' direction were used to establish the amount to be collected under the Company's Rider 12.

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SDR-006 Q. Provide a copy of all written procedures for MGP environmental cleanup purchasing and contracting that were in effect during the reconciliation period or that were in effect when past MGP environmental cleanup purchases and contracts were made that extended into the reconciliation period.

SDR-006 A. No such written procedures were in effect during the reconciliation period.

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SDR-007 Q. Provide the date when the MGP environmental cleanup purchasing and contracting procedures were most recently changed, identify each procedure that was changed, and explain why each change was made.

SDR-007 A. No procedures were changed.

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- SDR-008 Q. This request pertains to the general management evaluations, assessments, and/or reviews of the MGP environmental cleanup purchasing and contracting procedures.
- a. Provide the date of the three most recent general management evaluations, assessments, and/or reviews of MGP environmental cleanup purchasing and contracting procedures.
 - b. Provide a copy of all reports and/or summaries of these general management evaluations, assessments, and/or reviews.
 - c. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of these general management evaluations, assessments, and/or reviews.
- SDR-008 A. No general management evaluations, assessments and/or reviews of the MGP environmental cleanup purchasing and contracting procedures were undertaken.

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- SDR-009 Q. Explain how purchasing and contracting decisions for MGP environmental cleanup costs were included in the corporate planning and budgeting process during the reconciliation period.
- SDR-009 A. Purchasing and contracting decisions for MGP environmental cleanup costs are handled as part of the normal corporate planning and budgeting process. In particular, the work to be completed at each MGP site is assessed. The overall budget, based on competitively priced goods and services, is then prepared and discussed internally with the managing group that oversees Nicor Gas' MGP activities. Since there are a relatively large number of sites, work is prioritized so that sites posing the greatest potential risk to human health and the environment are addressed first. In addition, for those sites included in the Interim Cooperative Agreement with ComEd, periodic meetings are held to discuss and reach agreement for purchasing and contracting activities and plans at various sites.

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- SDR-010 Q. This request pertains to the Company's procedures for MGP environmental cleanup purchasing and contracting decisions.
- a. Identify the management level at which purchasing and contracting decisions for MGP environmental cleanup costs were made during the reconciliation period.
 - b. If different procedures were applied at progressively higher cost amounts, describe in detail the procedures for each of the cost amounts.
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- SDR-010 A. a. Expenditures over \$150,000 were approved by an officer of the Company. Expenditures below \$150,000 were approved by Environmental Services management. In addition, under the Interim Cooperative Agreement with ComEd, expenditures at certain sites must be jointly agreed upon under a budgeting process involving ComEd.
- b. See a. above.

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- SDR-011 Q. This request pertains to the Company's notification to potential suppliers of goods and services of the Company's intent to purchase or contract goods and services for the environmental cleanup of MGP sites.
- a. Identify all procedures used by the Company to ensure that every reasonable effort was made to notify all available suppliers of the goods and services required for the environmental cleanup of MGP sites before new purchases were made, or before new contracts were awarded to a supplier during the reconciliation period.
 - b. Describe all related actions taken by the Company before any new purchases were made or before any new contracts were awarded during the reconciliation period.
 - c. Describe the instances when only one supplier was notified, and explain how costs were thus minimized.
 - d. Identify all instances when the lowest bid for goods and services required for the environmental cleanup of MGP sites was rejected, and explain the reasons for the rejection.
- SDR-011 A. a. In 1991, 1996 and 1999, the Company prepared and sent out Requests for Proposal (RFPs) to a number of qualified consulting firms for professional environmental consulting services and Review and Evaluation Licensed Professional Engineer (RELPE) services. Subsequently, individual contracts for engineering and environmental consulting firms were negotiated. The firms were selected based on experience, resource capabilities and cost. In 2005, the Company began the process to evaluate all of its environmental consultants, including those involved in its MGP activities. A Request for Information was sent to a large number of consulting firms and a select group was asked to submit proposals. The vast majority of additional services necessary to carry out the implementation of the MGP activities were competitively bid. These include drillers, laboratory services, remedial activities and disposal. These services are subcontracted by the engineering consulting firm or contracted directly by the Company.
- b. A RFI summary matrix was used to evaluate the consultants and select the ones to submit proposals. The evaluation of the proposals continued into 2006 when consultants were selected for MGP work and contracts were negotiated.

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- c. Sole source providers for general legal services, environmental legal services and insurance legal services were selected based on experience, qualifications, cost and availability.
- d. In situations where competitive bids were sought and all other considerations were equal, the qualified low bidder was selected.

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SDR-012 Q. Explain how the Company evaluated each contract renegotiation position that was proffered by a contracted supplier of the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.

SDR-012 A. No contract negotiations were proffered by a contracted supplier.

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SDR-013 Q. Explain how the Company formulated each contract renegotiation position that it offered to a contracted supplier of the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.

SDR-013 A. No contract renegotiations were initiated by the Company.

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- SDR-014 Q. This request pertains to the Company's monitoring of MGP environmental cleanup purchases and contracts.
- a. Explain how the Company monitored MGP environmental cleanup purchases and contracts during the reconciliation period.
 - b. Document all changes made as a result of these monitoring efforts.
- SDR-014 A. a. All invoices received are reviewed by the Company for accuracy of billing, documentation of the time spent on various activities, documentation of subcontractor costs and progress made on the authorized tasks. Also see responses to SDR-004, SDR-010, SDR-019 and SDR-021.
- b. No changes have been made as a result of these monitoring efforts.

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SDR-015 Q. Identify and explain any factors that limited the Company's available purchasing and contracting options for the goods and services required for the environmental cleanup of MGP sites during the reconciliation period.

SDR-015 A. The Company is unaware of any limiting factors.

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- SDR-016 Q. Identify and explain all efforts that the Company made during the reconciliation period to take advantage of favorable market conditions to renegotiate its contracts or to purchase from alternative market sources the goods and services required for the environmental cleanup of MGP sites. If no contract renegotiations were attempted, explain why not.
- SDR-016 A. The Company did not identify any changes in market conditions warranting renegotiation.

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- SDR-017 Q. This request pertains to any occurrences when the Company made purchases or entered into contracts using criteria other than minimizing the cost of the environmental cleanup of MGP sites.
- a. List any occurrences during the reconciliation period when the Company made purchases or entered into contracts using criteria other than minimizing the cost of the environmental cleanup of MGP sites.
 - b. For each occurrence, explain the circumstances, quantify the extra costs incurred, and explain what, if anything, can be done to prevent extra costs of this type from being incurred in the future.
 - c. Provide all documentation pertaining to each occurrence.
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- SDR-017 A. a. None
- b. N/A
 - c. N/A

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- SDR-018 Q. This request pertains to the Company's procedures to minimize MGP environmental cleanup costs.
- a. Explain with specificity the procedures used by the Company to minimize MGP environmental cleanup costs.
 - b. Give a detailed description of these procedures as they related to all purchasing and contracting decisions for MGP environmental cleanup costs made during the reconciliation period.
- SDR-018 A. a. See responses to SDR-001, SDR-004, SDR-010, SDR-011, SDR-014 and SDR-019.
- b. See responses to SDR-001, SDR-004, SDR-010, SDR-011, SDR-014 and SDR-019.

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- SDR-019 Q. This request pertains to the Company's after-the-fact evaluations of its purchasing and contracting decisions for MGP environmental cleanup costs.
- a. How often are after-the-fact evaluations conducted by the Company to review its purchasing and contracting decisions for MGP environmental cleanup costs?
 - b. Provide a copy of all documents pertaining to these evaluations.
 - c. Identify any decisions, recommendations, policy changes, and new procedures that have resulted from these evaluations.
 - d. Provide the date when the three most recent after-the-fact evaluations were conducted and provide copies of those reports.
 - e. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of the after-the-fact evaluations.
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- SDR-019 A. a. Evaluation of contractor performance, qualifications and expenditures is an ongoing process utilizing actual vs. budgeted costs, the response of Illinois EPA to reports submitted and comparison to similar activities at other sites as the basis of review and analysis. Discrepancies, concerns and modifications are addressed as needed through periodic meetings and telephone contacts with vendors.
- b. N/A
 - c. For the period in question, no significant changes to practices, vendors or strategies were required as a result of the ongoing evaluation.
 - d. N/A
 - e. For the period in question, no significant changes or modifications to the purchasing and contracting decision-making process were made as a result of the ongoing evaluation.

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- SDR-020 Q. This request pertains to the Company's audits of its purchasing and contracting decisions for MGP environmental cleanup costs.
- a. How often are the MGP environmental cleanup purchasing and contracting functions audited by management using internal or external auditors?
 - b. Provide the dates when the three most recent audits were conducted and provide copies of those audit reports.
 - c. List and explain any changes or modifications made to the purchasing and contracting decision-making process as a result of these audits.
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- SDR-020 A. a. Audits of MGP payments to outside contractors are included in the general company audit done by external auditors annually.
- b. In general, the Company considers audit materials to be confidential, but the Commission Staff is welcome to review available audit reports at the Company's General Office.
 - c. N/A

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- SDR-021 Q. Explain the procedures used to verify the quality of the items and services purchased or contracted for regarding the environmental cleanup of MGP sites.
- SDR-021 A. The quality of the goods and services purchased or contracted for regarding the environmental cleanup of MGP sites is the responsibility of the engineering and environmental consulting firm acting in its capacity as the on-site manager of the active MGP sites. Company management oversees this activity on an ongoing basis as does the Illinois EPA who is the recipient of reports on activities. In addition, under the Interim Cooperative Agreement with ComEd, reports are reviewed by ComEd for certain sites. Also see response to SDR-004.

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- SDR-022 Q. This request pertains to the policies and procedures for the quality control of items and services purchased or contracted for regarding the environmental cleanup of MGP sites.
- a. What are the Company's policies and procedures for dealing with items and services purchased or contracted for regarding the environmental cleanup of MGP sites that failed to meet quality and contract specifications?
 - b. List each occurrence when items and services purchased or contracted for regarding the environmental cleanup of MGP sites failed to meet quality and contract specifications.
 - c. Provide documentation of any related actions taken by the Company during the reconciliation period. If no documentation can be provided, explain why not.
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- SDR-022 A. a. No written policies and/or procedures exist. The Company's practice is to not pay for goods or services that fail to meet quality and contract specifications.
- b. None.
 - c. N/A

Company witness: Nancy J. Huston