

REBUTTAL TESTIMONY

OF

DIANNA HATHHORN

Accountant

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

Northern Illinois Gas Company
d/b/a Nicor Gas Company

Petition for an order re-approving an agreement for the provision of facilities and services and the transfer of assets between Nicor Gas Company and Nicor Inc. and its subsidiaries

Docket No. 09-0301

December 2, 2010

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Attachment A	Staff Proposed Revised Operating Agreement
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Attachment C	Company Response to Staff Data Request DLH-13.08

1 **Witness Identification**

2 Q. Please state your name and business address.

3 A. My name is Dianna Hathhorn. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5

6 Q. Have you previously testified in this proceeding?

7 A. Yes, my direct testimony is ICC Staff Exhibit 1.0.

8

9 **Purpose of Testimony**

10 Q. What is the purpose of your rebuttal testimony in this proceeding?

11 A. The purpose of my testimony is to respond to Northern Illinois Gas
12 Company's ("Nicor Gas" or "Company") objections to my recommendations
13 for changes to Nicor Gas' current Operating Agreement ("OA" or
14 "Agreement") that the Commission ordered be reviewed in Nicor Gas' last
15 rate order (Docket No. 08-0363, p. 183, March 25, 2009).

16

17 Q. Are you including any attachments as part of ICC Staff Exhibit 3.0?

18 A. Yes. In Attachment A, I present Staff's proposed revised Agreement
19 incorporating all language changes by Staff. I have also included the
20 following attachments that present information provided in response to data
21 requests:

22 Attachment B Staff Responses to Company Data Requests NG-Staff
23 1.09, NG-Staff 1.10, and NG-Staff 1.11

24 Attachment C Company Response to Staff Data Request DLH-13.08

25

26 Q. What changes to Nicor Gas' OA did you recommend in your direct
27 testimony?

28 A. I recommended the Commission order Nicor Gas to make the following
29 changes to its OA:

- 30 1) Broaden the Definition of Prevailing Price,
31 2) Require Nicor Gas to Pay to its Affiliates the Lower of Cost or Market
32 for its transactions with its Affiliates,
33 3) Require Nicor Gas to be Paid by its Affiliates the Higher of Cost or
34 Market for its transaction with its Affiliates,
35 4) Require Annual Internal Audit,
36 5) Require Disclosure of Sub-Agreements,
37 6) Require Filing of Executed Agreement on e-Docket,
38 7) Remove Phrase "including, without limitation," and Other Non-
39 Descriptive Phrases,
40 8) Remove Language Allowing Nicor Gas' Subsidiaries to Have
41 Separate Agreements,
42 9) Require as an Exhibit to Agreement Actual Allocation Factors, and
43 10) Add a Subsection (d) to Section 5.1 General Principles.

44

45 **Uncontested Recommendations**

46 Q. Did the Company accept any of your recommendations?

47 A. The Company accepted my Recommendations #6 (Require Filing of
48 Executed Agreement on e-Docket), #8 (Remove Language Allowing Nicor
49 Gas' Subsidiaries to Have Separate Agreements), and #10 (Add a
50 Subsection (d) to Section 5.1 General Principles). (Nicor Gas Ex. 2.0, p. 82)

51

52 **Company's General Argument**

53 Q. In the Company's rebuttal testimony regarding the scope of this proceeding
54 and authority of the Commission over affiliated interest transactions, the
55 Company states that prior to other major Illinois gas and electric utilities
56 creating holding company systems, each utility was structured similarly to
57 Nicor Gas and had quite similar affiliated interest agreements, if not nearly
58 identical, to Nicor Gas. (Nicor Gas Ex. 2.0, pp. 7-8, lines 143-157) Is the
59 Commission bound to keep all Illinois affiliate interest agreements identical?

60 A. Although I am not an attorney, my understanding is that the Commission has
61 the authority to make changes to Nicor Gas' Agreement based on the record
62 in this case. In addition, during the time period when Nicor Gas' and other
63 utilities' agreements were originally approved, the utility companies had a
64 limited number of affiliates and, thus, there was not the need for increasing
65 ratepayer protections to be included within the affiliate agreements. Further,

66 the Commission has recognized that, over time, it can evolve its
67 understanding of issues and make departures from prior case rulings, as it
68 stated in the Ameren Illinois Utilities' ("AIU") rate case:

69 This proceeding, along with prior proceedings on this same
70 issue, has resulted in a significant evolution of the
71 Commission's understanding of this issue. In this particular
72 case, the predominant weight of the evidence stands in
73 opposition to AIU's position on the issue. The record in this
74 case provides sound reasons for a departure from certain
75 prior Dockets...(Order, Docket Nos. 09-
76 0306/0307/0308/0309/0310/0311 Cons., April 29, 2010, p.
77 30)
78

79 **Contested Recommendations**

80 Recommendation #1: Broaden Definition of Prevailing Price; Recommendation #2:
81 Require Nicor Gas to Pay Affiliates the Lower of Cost or Market; Recommendation
82 #3: Require Nicor Gas to Be Paid by its Affiliates the Higher of Cost or Market

83 Q. Do you have any general comments on the Company's rebuttal testimony
84 concerning your recommendations #1, #2, and #3?

85 A. Yes. The Company responded to and rejects all three recommendations in
86 total. (Nicor Gas Ex. 2.0, pp. 10-17) I agree that these first three
87 recommendations are related; however, the recommendations are not
88 dependent. That is, recommendations #1 through #3 would not all have to be
89 adopted as a package as the Company's rebuttal implies. For example, the
90 Commission could reject my proposed definition of prevailing price (Rec. #1)
91 but agree that there is no reason that Nicor Gas should pay for services from
92 its affiliates above the affiliate's fully distributed cost (Rec. #2) as is currently
93 allowed by the Agreement.

94

95 Q. The Company argues that the practical result of changing the definition of
96 prevailing price would be to push its affiliates to use outside third parties to
97 provide services because (1) additional costs would be incurred to establish
98 the market price and (2) it would cause delays in providing the requested
99 service. (Nicor Gas Ex. 2.0, p. 13, lines 281-284) Please respond.

100 A. The Company's argument should not be given considerable weight because
101 the Company has not demonstrated that it adds new affiliate interest
102 transactions at a pace at which determining the appropriate prevailing price
103 would cause the kind of delay or cost that the Company's rebuttal testimony
104 implies would occur. In discovery, Nicor Gas stated it does not track the
105 number of services provided under the Agreement; however, it stated that it
106 added two parties per year in 2005 and 2006, one party each year in 2007
107 and 2008, and that these parties may receive support services under the
108 Agreement. (Company Responses to Staff Data Requests DLH-14.02 and
109 DLH-14.03) The Company has not demonstrated that adding one or two
110 parties per year to the Agreement for support services would cause an
111 unreasonable burden in supporting its pricing practices.

112

113 Q. Are the proposed recommendations included in any other Illinois utility
114 affiliate agreement?

115 A. Yes, they are. My recommendations are not unique. The proposals have

116 been proposed in Docket Nos. 08-0862 and 10-0408 by The Peoples Gas
117 Light and Coke Company and North Shore Gas Company (“Peoples/North
118 Shore”). (See Attachment B-Staff Responses to Nicor Gas DRs NG-Staff
119 1.09, 1.10, and 1.11) As stated in Peoples/North Shore’s own Direct
120 Testimony filed October 29, 2010:

- 121 • Services provided by a Regulated Party to another Regulated Party
122 will be priced at cost.
- 123 • Services provided by a Regulated Party to a Non-Regulated Party will
124 be priced at the greater of cost or fair market value.
- 125 • Services provided by a Non-Regulated Party to a Regulated Party will
126 be priced at the lesser of cost or fair market value.
- 127 • Services provided to Integrys Support will be priced at cost.¹

128 (Docket No. 10-0408, NS-PGL Ex. 1.0, pp. 13-14)

129 Further the definition of prevailing price proposed by Peoples/North Shore is
130 as follows:

131 Fair Market Value. The fair market value of a Service
132 provided under this Agreement shall mean the cost
133 determined by making a good faith effort to identify the
134 resources necessary to perform the Service, and the value
135 of such Service based on a general knowledge of the
136 relevant market for such or a similar Service as well as, if
137 available, comparison with bids or quotations for such or a
138 similar Service. If, despite good faith efforts, a Providing
139 Party is not able to determine the fair market value of a
140 Service it provides to a Receiving Party, the fair market
141 value shall be deemed to be equal to the Providing Party’s
142 cost, calculated as described in this Agreement, incurred in
143 providing the Service.

144 (Docket No. 10-0408, NS-PGL Ex. 1.1, Section 2.4)

¹ Integrys Support is the business services company which provides most of the administrative services to the regulated utilities in the Integrys system. Nicor Gas and Nicor Inc. do not employ a business services company model, so this last pricing provision is not relevant to Nicor Gas.

145 As demonstrated above, the pricing provisions and definition of market price
146 proposed by myself for Nicor Gas are no different than those proposed by
147 Peoples/North Shore for itself.

148 Peoples/North Shore also has in place an affiliated interest agreement
149 approved in Docket No. 07-0361 that requires, in Section 4.3, triennial
150 studies of the cost of services provided and to analyze the market price of
151 services provided.

152

153 Q. The Company argues that the definition of prevailing price should not be
154 broadened because affiliate rates would need to be determined “for each and
155 every service provided under the Agreement because they would need to be
156 compared, in each case, to the corresponding fully distributed cost to
157 determine what will be charged for that service under the Agreement.” (Nicor
158 Gas Ex. 2.0, p. 14, lines 303-306) Please respond.

159 A. It is a decision of Company management to determine how frequently it
160 should review market prices and how extensive the review should be in order
161 to ensure its affiliate pricing is reasonable with respect to the OA’s
162 requirements. Nowhere in my recommendations do I recommend a full cost
163 study for each and every service in every transaction. Possible controls the
164 Company could implement include setting a dollar threshold for various
165 transaction types when deciding how extensive its market studies should be,

166 and/or timelines for when and how often studies would be conducted or
167 updated.

168

169 Q. The Company argues that your proposal to change the definition of
170 prevailing price is a solution in search of a problem. (Nicor Gas Ex. 2.0, pp.
171 14-15, lines 309-311) Has Staff provided evidence in this proceeding of the
172 shortfalls, i.e., problems, due to the pricing allowed by the current
173 Agreement?

174 A. Yes. Staff witness Sackett's discussion of the Call Center issues is relevant
175 to this discussion. (ICC Staff Ex. 2.0, pp. 59-61) At line 1338, Staff witness
176 Sackett states, "Nicor Services pays for the *time* that Nicor Gas employees
177 solicit but not the *market value* to Nicor Services of that solicitation."
178 (Emphasis in original) My proposed definition of prevailing price would
179 require Nicor Gas to be paid market value for any services it provides, if that
180 value is greater than fully distributed costs. Staff witness Sackett discusses
181 the issue further in ICC Staff Ex. 4.0.

182

183 Q. The Company argues that your proposal should be rejected because it is not
184 objective, and discusses an example of the Company providing in-house
185 attorney services to an affiliate. (Nicor Gas Ex. 2.0, p. 15 and Nicor Gas Ex.
186 2.1) Please respond.

187 A. The Company's example merely demonstrates the overly restrictive nature of

188 the OA's present definition of prevailing price. Currently, no matter what
189 evidence exists to validate that an affiliate should pay Nicor Gas above Nicor
190 Gas' fully distributed costs for a service, the OA states that Nicor Gas must
191 receive *only* fully distributed costs. While this may be simpler to interpret, it
192 does not mean it is fair to the utility and ratepayers. In fact, the same OA
193 allows the affiliate to charge Nicor Gas the affiliate's prevailing price even if
194 that prevailing price *exceeds* the affiliate's fully distributed costs. This
195 inequity should be corrected in this proceeding.

196

197 Q. The Company states that it is not providing a subsidy to Nicor Services since
198 a subsidy occurs if a company receives a service from an affiliate at a price
199 that is below the cost of providing the service. (Nicor Gas Ex. 4.0, p. 32, lines
200 777-779) Do you agree with the Company's definition of subsidy?

201 A. The definition itself is not important; rather, the facts are. The facts are that
202 the affiliates receive services at Nicor Gas' fully distributed cost rather than
203 at higher market rates that the affiliates' competitors pay to third party
204 providers (Staff Ex. 1.0, lines 111-113), affiliates are allowed to profit for
205 provision of services to the utility Nicor Gas, (Id., line 127), and affiliates are
206 allowed to pay Nicor Gas less than Nicor Gas' fully distributed costs (Id.,
207 lines 178-179).

208

209 Q. The Company argues that your proposal may not fairly charge affiliates for

238 A. Although I am not an attorney, it is my understanding that the OA governs
239 only those transactions which are not granted automatic approval from
240 Section 310.60(b). However, in the interest of clarity, I recommend the
241 following language be added to the OA's opening section to make it clear
242 that the OA could not impose any requirements in conflict with Section
243 310.60(b).

244 WHEREAS, this agreement is intended to supercede the Operating
245 Agreement approved in Docket No. 60256-

246 WHEREAS, this agreement is intended to govern transactions other than
247 those governed under 83 Ill. Adm. Code 310.60(b);
248

249 Recommendation #4: Require Annual Internal Audit

250 Q. The Company argues generally against the proposed annual internal audit
251 requirement of eleven specific tests as being beyond the scope of 83 Ill.
252 Adm. Code 550 ("Part 550") and that any additional audit requirements
253 should be addressed by the Commission in a rulemaking. (Nicor Gas Ex.
254 2.0, p. 18, lines 377-387) Does the Company acknowledge that the
255 Commission requires other Illinois utilities to conduct annual internal audits of
256 its affiliated interest agreements?

257 A. Yes, the Company acknowledges this fact. (Nicor Gas Ex. 2.0, p. 18, lines
258 388-390 and Nicor Gas Ex. 2.2) Nevertheless, the Company attempts to
259 distinguish these annual audit requirements from my proposal in that mine
260 contains several specific tests. (*Id.*, lines 394-395) Staff did not begin to
261 recommend specific audit tests until more recent proceedings. The purpose

262 of the specific tests is to ensure scarce audit resources are engaged to
263 monitor the risk areas that the Commission deems appropriate. The specific
264 tests ensure the audit is a more useful product to Staff, intervenors and the
265 Commission. Several tariffs adopted by the Commission have adopted
266 audits with specific tests, including:

- 267 • Peoples/North Shore Rider Volume Balancing Adjustment Riders;
- 268 • Peoples Infrastructure Cost Recovery Rider;
- 269 • Commonwealth Edison Company Advanced Metering Program
270 Adjustment;
- 271 • All uncollectibles expense riders adopted pursuant to Section 19-145
272 and 16-111.8 of the Act;
- 273 • All energy efficiency and demand response riders adopted pursuant to
274 Section 8-103 of the Act; and
- 275 • All purchased electricity riders adopted pursuant to Section 16-111.5
276 of the Act.

277

278 Q. Do you have any concerns over the Company's existing audit procedures?

279 A. Yes. In the Company's response to Staff data request DLH-13.08, attached
280 as Attachment C to this testimony, it concluded that for eight of eleven audit
281 tests recommended, "no additional review by internal audit is considered
282 necessary." The general reason given for this position appeared to be the
283 infrequency of the transactions or presence of other compensating controls.

284 If true, this should only reduce the amount of work required to audit these
285 other eight tests; it does not preclude the need for such tests to be
286 conducted by the Company's internal auditors.

287

288 Recommendation #5: Require Disclosure of Sub-Agreements

289 Q Regarding Staff witness Sackett and your recommendations regarding sub-
290 agreements to the OA, the Company states the term was not defined by
291 Staff, and could literally mean that each and every transaction that occurs
292 under the current Agreement is a separate "sub-agreement" because Nicor
293 Gas and the applicable affiliate have "agreed" to conduct that transaction
294 under the terms of the Agreement. (Nicor Gas Ex. 2.0, p. 22, lines 468-472)
295 Do you agree that the term "sub-agreement" should be defined in this
296 manner?

297 A. No. My definition of "sub-agreement" would be whatever criteria the
298 Company used to answer the data request, "Provide a listing of and copies
299 of all agreements that Nicor Gas has executed with affiliates under the
300 umbrella authority of the Operating Agreement." (Staff Ex. 1.0, Attach. A)
301 For purposes of clarity within the Operating Agreement, I recommend the
302 following language be included in Section 1.1, Definitions:

303 "Sub-agreement" means an agreement that Nicor Gas has
304 executed with affiliates under the umbrella authority of the
305 Operating Agreement

306 I further incorporate the term sub-agreement in Staff Ex. 3.0, Attachment A,

307 Section 1.2 (c), related to Staff witness Sackett's recommendation.

308

309 Q. The Company disagrees with Staff witness Sackett's proposal that the
310 Company should be required to have all future sub-agreements approved in
311 advance by the Commission. (Nicor Gas Ex. 2.0, pp. 20-24) It further rejects
312 your recommendation for disclosure of sub-agreements on e-Docket as
313 "misguided." (*Id.*, lines 521-523) Please respond.

314 A. My recommendation makes no change to Nicor Gas' practice of using sub-
315 agreements. As stated above, my use of the term goes no farther than is
316 used by the Company today. My recommendation simply provides
317 transparency by requiring reporting of the existing agreements or new
318 agreements, depending whether or not the Commission adopts Staff witness
319 Sackett's recommendation. (Staff Ex. 1.0, pp. 12-13) Further, as part of
320 Recommendation #4, I recommend that the annual internal audit verify the
321 accuracy that all sub-agreements have been disclosed. The Company
322 provides no basis for why disclosure of agreements that the Company
323 believes are reasonable is "misguided."

324

325 Recommendation #7: Remove Phrase "including, without limitation" and Other Non-
326 Descriptive Phrases

327 Q. The Company argues that removing the phrase "without limitation" and other
328 non-descriptive phrases from the Agreement will create unnecessary

329 uncertainty about what is authorized, and may impair Nicor Gas' ability to
330 make necessary changes to administrative functions in a timely manner.
331 (Nicor Gas Ex. 2.0, p. 25, lines 539-541; 545-547) Do you agree?

332 A. No. The elimination of these phrases only adds clarity to what the
333 Commission has authorized. If the Company believes the Agreement needs
334 further language to make clear what is and is not allowable, the Company
335 should make that proposal. (Staff Ex. 1.0, p. 14) The Company discusses
336 only one example of when it believes these changes would have impaired its
337 ability to make necessary changes to administrative functions in a timely
338 manner. This is when the Company was required to expand risk
339 management and internal control areas to implement the Sarbanes-Oxley
340 Act. (Nicor Gas Ex. 2.0, p. 25, lines 547-551) However, the Staff proposed
341 Agreement (Attachment A) still provides for administration and management
342 services, accounting, bookkeeping, budgeting, forecasting, billing, accounts
343 receivable and accounts payable administration, financial reporting, audit
344 and other specific services as listed in Section 2.2 (a). It is not clear why the
345 Company would have had to amend the Agreement to allow it to conduct
346 additional audit procedures required by the Sarbanes-Oxley Act if the phrase
347 "including without limitation" or other non-descriptive phrases were deleted.

348

349 Q. The Company states that removing the non-descriptive phrases would make

350 its Agreement's language inconsistent with other Illinois utilities, citing cases
351 from years 2000 and 2006-2007. (Nicor Gas Ex. 2.0, p. 25, lines 552-557)
352 Has the Commission more recently approved affiliate interest agreements
353 that do not use the phrase "including without limitation" and other non-
354 descriptive phrases?

355 A. Yes. The Ameren Illinois Utilities' General Services Agreements approved in
356 Docket Nos. 09-0233 and 09-0234 do not contain such phrases.

357

358 Q. The Company argues that your proposal to delete the phrase "including
359 without limitation" is in conflict with language you propose regarding the
360 internal audit. (Nicor Gas Ex. 2.0, p. 25, lines 558-561) Are the two
361 proposals in conflict?

362 A. No. The proposal to remove Nicor Gas' language is to make clear what the
363 Agreement specifically authorizes and leaves no open ended questions as to
364 what might be approved but is not explicitly stated. My proposed language
365 regarding the internal audit merely provides that the scope of the audit must
366 include certain items but may include more. It does not make any audit
367 requirement unclear as the Company's language does.

368

369 Recommendation #9: Require Exhibit to Operating Agreement of Allocation Factors

370 Q. The Company provided Nicor Gas Ex. 2.3 in response to your testimony that
371 it provide an exhibit of allocation methodologies and factors to be included as

372 part of the final Agreement approved by the Commission in this proceeding.

373 Do you accept the Company's exhibit of allocation methodologies and

374 factors?

375 A. Yes. Therefore, I have included it and the applicable language I recommend

376 as a part of Attachment A, Staff's Proposed Operating Agreement.

377

378 **Conclusion**

379 Q. Does this question end your prepared rebuttal testimony?

380 A. Yes.

RESTATED OPERATING AGREEMENT

Dated as of October 25, 2001

(restated to include
First Amendment dated as of September 13, 2004,
Second Amendment dated as of February 7, 2007
and Exhibit A is in effect as of June 1, 2009)

Among

NICOR Inc.

Northern Illinois Gas Company

d/b/a Nicor Gas Company

and

Each of the Entities Identified on Exhibit A Hereto

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ADDENDUM

Short-term Borrowing and Investing Between Parties

RESTATED OPERATING AGREEMENT

THIS RESTATED OPERATING AGREEMENT (this "Agreement") is made and entered into as of the 25th day of October, 2001 and amended by First Amendment dated as of September 13, 2004 and Second Amendment dated as of February 7, 2007, among NICOR Inc., an Illinois corporation ("NICOR"), Northern Illinois Gas Company, an Illinois corporation doing business as Nicor Gas Company ("Nicor Gas"), and each of the entities identified on Exhibit A hereto, as such Exhibit A may be amended from time to time in accordance with the provisions of this Agreement.

WITNESSETH:

WHEREAS, the parties are related by virtue of common ownership, directly or indirectly, of their equity securities by NICOR; and

WHEREAS, the parties believe that the central management of certain services, the provision to each other of certain services and facilities, and the transfer of certain property are or may be efficient and cost-effective, and the parties desire to make provision for these and other transactions as between Nicor Gas and a NICOR Entity or Entities;

WHEREAS, the parties are currently signatories to an Operating Agreement approved by the Illinois Commerce Commission in Docket No. 60256;

WHEREAS, this agreement is intended to supercede the Operating Agreement approved in Docket No. 60256-

WHEREAS, this agreement is intended to govern transactions other than those governed under 83 Ill. Adm. Code 310.60(b);

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties hereby agree as follows:

ARTICLE I

Definitions and Interpretation

Section 1.1. Definitions. As used in this Agreement, the following terms shall have the respective meanings set forth below unless the context otherwise requires:

"*Acquiring Party*" means a Party who desires to acquire real property, interests in real property, tangible personal property or Intangible Assets from a Selling Party.

"*ICC*" means the Illinois Commerce Commission.

"*Intangible Assets*" means items, other than tangible assets and real property, for which

costs have been incurred to create future economic benefits that may or may not be recorded as assets on the Selling Party's financial statements. Intangible Assets include, but are not limited to, operational knowledge, software or intellectual property derived from internal research and development efforts.

"Party" means each, and "Parties" means all, of the entities who are from time to time a party to this Agreement.

"Provider" means a Party who has been requested to, and who is able and willing to, furnish facilities, provide services or both to a Requestor under the terms of this Agreement.

"Requestor" means a Party who desires to use facilities, receive services or both, and has requested another Party to furnish such facilities, provide such services or both.

"Selling Party" means a Party who is willing to sell and transfer real property, interests in real property, tangible personal property or Intangible Assets to an Acquiring Party.

"Sub-agreement" means a an agreement that Nicor Gas has executed with affiliates under the umbrella authority of the Operating Agreement"

"NICOR Entity" means any of NICOR and the entities identified on Exhibit A hereto, as amended from time to time.

Section 1.2. Purpose and Intent; Interpretation. (a) The purposes and intent of this Agreement are to set forth procedures and policies to govern (i) transactions between a NICOR Entity and Nicor Gas, whether such transactions occur directly or indirectly as the end result of a series of related transactions and (ii) the allocation of certain joint service costs. It is not intended to govern transactions between NICOR Entities that do not involve Nicor Gas (although such entities may elect to apply the provisions of this Agreement to specific transactions) ~~or to govern transactions between Nicor Gas and its subsidiaries~~. This Agreement shall be interpreted in accordance with such purposes and intent.

(b) The headings of Articles and Sections contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. References to Articles, Sections and Exhibits refer to articles, sections and exhibits of this Agreement unless otherwise stated. Words such as "herein," "hereinafter," "hereof," "hereto," "hereby" and "hereunder," and words of like import, unless the context requires otherwise, refer to this Agreement (including the Exhibits hereto).

(c) All sub-agreements entered into under this Agreement must first be submitted to the Commission for review and approval, except for the nine (9) sub-agreements provided in response to Staff DR DLH-2.02 Exhibit 1 in Docket No. 09-0301. Any and all sub-agreements must be in compliance with the Agreement. If changes to this Agreement cause any of the nine existing sub-agreements entered under this Agreement to become inconsistent, then any such sub-agreement will be considered invalid.

ARTICLE II
Use of Facilities and Services

Section 2.1. Facilities. Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to make available or provide, and, subject to the provisos at the end of this Section, such Provider or Providers may make available or provide to such Requestor, the use of:

(a) facilities, ~~including, without limitation,~~ (office space, warehouse and storage space, transportation, repair facilities, manufacturing and production facilities, fixtures and office furniture and equipment);

(b) computer equipment (both stand-alone and mainframe) and networks, peripheral devices, storage media, and software;

(c) communications equipment, ~~including, without limitation,~~ (audio and video equipment, radio equipment, telecommunications equipment and networks, and transmission and switching capability);

(d) vehicles, ~~including, without limitation,~~ (automobiles, trucks, vans, trailers, railcars, marine vessels, aircraft, transport equipment, material handling equipment and construction equipment); and

(e) machinery, equipment, tools, parts and supplies;

provided, however, that a Provider shall have no obligation to provide any of the foregoing, considering such factors as the extent that such item or items are not available (either because such Provider does not possess the item or the item is otherwise being used); and *provided further,* it is understood that a Provider has sole discretion in scheduling the use by a Requestor of facilities, equipment or capabilities so as to avoid interference with such Provider's operations.

Section 2.2. Services. Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to provide, and, subject to the provisos at the end of this Section, such Provider or Providers may provide to such Requestor so long as any service, excluding "corporate support," provided by Nicor Gas that supports any affiliate product offered to Nicor Gas customers be also provided to non-affiliates on a non-discriminatory basis:

(a) administrative and management services, ~~including, without limitation,~~ (accounting (~~including, without limitation,~~ bookkeeping, budgeting, forecasting, billing, accounts receivable and accounts payable administration, and financial reporting); audit; executive; finance; cash management (~~including, without limitation,~~ electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties, and short-term borrowing and investing between Parties to this Agreement subject to the limitations and at the interest rates specified in the Addendum to this

Agreement); governmental affairs; insurance; information systems services excluding website hosting of Nicor Gas by any affiliate; investment advisory services; legal; library; record keeping; secretarial and other general office support; real estate management; security holder services; tax; and treasury services; ~~and other administrative and management services~~;

(b) personnel services, ~~including, without limitation,~~ (recruiting; training and evaluation services; payroll processing; employee benefits administration and processing; labor negotiations and management); ~~and related services~~;

(c) purchasing services, ~~including, without limitation,~~ (preparation and analysis of product specifications, requests for proposals and similar solicitations; vendor and vendor-product evaluations; purchase order processing; receipt, handling, warehousing and disbursement of purchased items; contract negotiation and administration; inventory management and disbursement services); ~~and similar services~~;

(d) operational services, ~~including, without limitation,~~ (drafting and technical specification development and evaluation; consulting; engineering; environmental; construction; design; resource planning; economic and strategic analysis; research; testing; training; public and governmental relations services); ~~and other operational services~~; and

~~(e) customer solicitation, customer support and other marketing related services, including, without limitation, customer lists and other customer-related information;~~
provided, however, that a Provider shall have no obligation to provide any of the foregoing, considering such factors as the extent that it is not capable of providing such service (either because such Provider does not have personnel capable of providing the requested service or the service is otherwise being used); and *provided further,* it is understood that a Provider has sole discretion in scheduling the use by a Requestor of services so as to avoid interference with such Provider's operations.

(f) Nicor Gas is specifically precluded from providing customer solicitation on behalf of any affiliate. Furthermore, Nicor Gas is prohibited from receiving any service from an affiliate that results in that affiliate soliciting Nicor Gas customers for an affiliate product.

Section 2.3. Joint Purchasing. A Party may also request that another Party or Parties enter into arrangements to effect the joint purchase of goods or services from third parties; *provided, however,* that if Nicor Gas is so requested to enter into and agrees to participate in such arrangements, it shall do so only if its fully distributed cost for such goods or services is not thereby increased. In the event that any such arrangements are established, one Party may be designated as, or serve as, agent for the other Parties to the arrangement and may administer the arrangement (including billing and collecting amounts due the vendor(s)) for the other Parties.

Section 2.4. Agreements, Etc. A Provider and Requestor may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities described in this Article II by entering into an agreement, lease, license or other written memorandum or evidence; *provided* such agreement, lease, license or other written memorandum or evidence shall not contain terms inconsistent with this Agreement; and *further provided* that this Section 2.4 shall not be deemed to require any such agreement, lease, license or other written memorandum or evidence.

ARTICLE III
Asset Sales

Section 3.1. *Real Property Transfers.* Upon the terms and subject to the conditions of this Agreement, an Acquiring Party may purchase from a Selling Party, and the Selling Party may sell to the Acquiring Party, real property or interests in real property.

Section 3.2. *Tangible Personal Property.* Upon the terms and subject to the conditions of this Agreement, an Acquiring Party may purchase from a Selling Party, and the Selling Party may sell to the Acquiring Party, tangible personal property. This Section 3.2 shall not apply to joint purchasing arrangements (and the transactions thereunder) entered into pursuant to Section 2.3 of this Agreement.

Section 3.3. *Intangible Assets.* An Acquiring Party may enter into an agreement with a Selling Party to purchase, and the Acquiring Party may purchase from the Selling Party and the Selling Party may sell to the Acquiring Party pursuant to such agreement, Intangible Assets.

Section 3.4. *NICOR Stock.* Upon the terms and subject to the conditions of this Agreement, NICOR may issue and sell to Nicor Gas shares of NICOR Common Stock for the sole purpose of enabling Nicor Gas to meet its obligations to its directors and employees in respect of compensation (it being understood that Nicor Gas would cause any shares so purchased and received to be reissued to such directors and employees in payment of such compensation obligations).

Section 3.5. *Agreements, Etc.* An Acquiring Party and a Selling Party may evidence their agreement with respect to the sale of real property and/or tangible personal property described in Sections 3.1 or 3.2 by entering into an agreement or other written memorandum or evidence; *provided* such agreement or other written memorandum or evidence shall not contain terms inconsistent with this Agreement; and *further provided* that this Section 3.5 shall not be deemed to require any such agreement or other written memorandum or evidence.

ARTICLE IV
Charges; Payment

Section 4.1. *Charges.* (a) Charges for assets sold and transferred under Sections 3.1, 3.2 and 3.4 shall be determined in accordance with the provisions of Section 5.1(a); charges for the use of facilities, equipment, capabilities or services under Sections 2.1 and 2.2 shall be determined in accordance with Section 5.1(b); and charges for assets sold and transferred under Section 3.3 shall be determined in accordance with the provisions of Section 5.1(c). By acquiring real property, interests therein, tangible personal property or Intangible Assets in accordance with the provisions of Article III, an Acquiring Party shall be deemed to have agreed to pay, and shall pay, to the Selling Party the charge determined therefor in accordance with Section 5.1(a) or, in the case of Intangible Assets, Section 5.1(c). By requesting the use of facilities, equipment, capabilities and/or services, a Requestor shall be deemed to have agreed to pay, and shall pay, to the Provider or Providers the charge determined therefor in

accordance with Section 5.1(b).

(b) Charges related to arrangements under Section 2.3 for the joint purchase of goods or services shall be determined in accordance with Section 5.1(a), in the case of asset transfers, and Section 5.1(b), in the case of services and overhead, administrative and other costs.

Section 4.2. Accounting. Each Party shall maintain adequate books and records with respect to the transactions subject to this Agreement and shall establish unique account numbers in its general ledger system which shall be used to record the costs to be apportioned to the other Parties. Each Party shall be responsible for maintaining internal controls to ensure the costs associated with transactions covered by this Agreement are properly and consistently allocated and billed in accordance with the terms and provisions of this Agreement.

Section 4.3. Invoicing, Payment. Invoicing and payment for the facilities and services specified in Article II, the asset sales specified in Article III or the joint services costs specified in Section 5.3(a) shall be as follows:

(a) for the use of facilities, equipment or capabilities specified in Section 2.1 or the provision of services specified in Section 2.2, a Provider shall invoice the Requestor on a monthly basis for the charges therefor as provided in Section 4.1(a), and such invoices shall be payable within thirty days of receipt;

(b) for joint purchasing arrangements specified in Section 2.3, a Party participating in any such arrangement shall be invoiced for charges as provided in Section 4.1(b), which invoices will be payable according to the terms set by the vendor(s) providing the purchased goods or services, or if a Party has been selected to administer such arrangement, pursuant to invoices rendered by such Party or the vendor of the goods or services, which invoices will be payable no later than thirty days of receipt;

(c) for the sale of real property or interests in real property specified in Section 3.1, the Acquiring Party shall pay the charges therefor as provided in Section 4.1(a) to the Selling Party upon the closing of the sale and transfer of such real property or interests therein;

(d) for the sale of tangible personal property specified in Section 3.2, or intangible assets specified in Section 3.3, the Selling Party shall invoice the Acquiring Party for the charges therefor as provided in Section 4.1(a), and such invoices shall be payable within thirty days of receipt;

(e) for the transfer of NICOR Common Stock specified in Section 3.4, Nicor Gas shall pay the charges therefor as provided in Section 4.1(a) and such payment shall be made to NICOR concurrently with the issuance and delivery of the shares of such stock; and

(f) for joint service costs under Section 5.3(a), NICOR shall invoice the other Parties for such costs as provided in Section 5.3(c), and such invoices shall be payable within thirty days of receipt.

Late payments shall bear a rate of interest representing NICOR's cost of funds, as determined by contacting NICOR's commercial paper dealers, but shall in no event exceed the then-effective rate of interest announced by Bank of America Illinois in Chicago, Illinois. The interest shall be based on the period of time that the payment is late.

ARTICLE V

Cost Apportionment Methodology

Section 5.1. *General Principles.* The following general principles shall be used in setting charges for transactions between Nicor Gas and NICOR Entities:

(a) Sales of Assets. Asset sales between Nicor Gas and a NICOR Entity shall be charged by the Selling Party to the Acquiring Party at: (i) the fair market value of the transferred asset, as evidenced by (1) the prevailing price for which the same or similar assets are offered for sale to the general public by the Selling Party (e.g., for Nicor Gas, the tariffed charge or other pricing mechanism approved by the ICC) or, if no such prevailing price exists, (2) the price at which nonaffiliated vendors offer the same or similar assets for sale by reference to quoted market prices, independent appraisals or other objectively determinable evidence or, if no such fair market value is objectively or practicably determinable, (ii) the historical cost of the asset to the Selling Party, less all applicable valuation reserves.

(b) Use of Facilities or Services.

(i) Facilities or services provided by Nicor Gas to a NICOR Entity shall be charged by the Provider to the Requestor at the higher of: (1) the prevailing price ~~for which the facility or service is provided for sale to the general public by the Provider (i.e., the tariffed rate or other pricing mechanism approved by the ICC) as defined in Section 5.1(b)(iii) or, if no such prevailing price exists,~~ (2) an amount equal to or greater than the fully distributed cost (determined as provided in Section 5.2) incurred by the Provider in providing such facility or service to the Requestor.

(ii) Facilities or services provided by a NICOR Entity to Nicor Gas shall be charged by the Provider to the Requestor at the lower of: (1) the ~~prevailing price for which the facility or service is provided for sale to the general public by the Provider (i.e., the price charged to nonaffiliates if such transactions with nonaffiliates constitute a substantial portion of such NICOR Entity's total revenues from such transactions) or, if no such prevailing price exists,~~ (2) an amount not to exceed the fully distributed cost (determined as provided in Section 5.2) incurred in providing such facility or service.

(iii) Prevailing price shall mean the cost determined by making a good faith effort to identify the resources necessary to provide the facility or service, and the value of such facility or service based on a general knowledge of the relevant market for such a similar facility or service as well as, if available, comparison with bids or quotations for such a similar facility or service. If, despite good faith efforts, a Provider is not able to determine the prevailing price of a facility or service it provides to a Requestor, the prevailing price shall be deemed to be equal to the Provider's cost, calculated as described in Section 5.2. However, prevailing price shall not exceed the tariffed rate for any service provided in accordance with an ICC tariff.

(c) Sales of Intangible Assets. Intangible Asset sales between Nicor Gas and a NICOR Entity shall be charged by the Selling Party to the Acquiring Party (i) under a mechanism to reflect the fair market value of the asset as determined by an appraisal or other fair market value study or, if no such fair market value is objectively or practicably determinable, (ii) at the fully distributed cost incurred to purchase or develop the asset, adjusted to reflect imputed amortization of, if applicable, any carrying costs on the unrecorded asset.

(d) Costs shall be charged to a Party in accordance with these general principles using either a direct charge or an allocation methodology. Costs of assets or services specifically attributable to a Party should be charged directly to such Party. Joint and common costs not specifically attributable to a Party should be charged to the appropriate Parties based on specific allocation methodologies. The Parties intend to develop and implement a set of guidelines to address applications of the foregoing

general principles.

Section 5.2. Fully Distributed Costs. Costs charged on a fully distributed cost basis shall reflect the amounts of direct labor, direct materials and direct purchased services associated with the related asset or service as provided in subsections (a) and (b). These amounts shall be increased by a portion of indirect costs to reflect labor, administrative and general and other overhead amounts as provided in subsection (c).

(a) Direct Costs. Costs incurred that are specifically attributable to a Party shall be directly charged to the appropriate account.

(i) Direct Labor: Amounts of direct labor charged to a Party shall be based on actual direct labor, reflecting the effects of overtime and nonproductive time.

For most employees, direct labor shall be charged to a Party pursuant to the following methodology: an employee shall report each month the number of hours incurred in performing activities for such Party. Based on the time reported each month, the regular, predetermined account distribution for the employee shall be adjusted to reflect the distribution of direct labor charges to the appropriate affiliate function.

Some individuals, departments or organizations may provide a recurring, predictable level of services to a Party or Parties. For these individuals, departments or organizations, at a minimum annual reviews shall be performed to determine a normal distribution of time to such Party or Parties. The distribution percentages derived from such reviews shall then be used to allocate time with respect to each month. Significant deviations of actual activity from these predetermined percentages shall be reported and shall result in adjustments to the predetermined distribution of direct labor charges to the affiliate accounts.

Overtime shall be reflected in the direct labor rates charged to a Party. For bargaining unit employees, direct labor shall be charged based on the base and overtime pay amounts under a Party's collective bargaining agreements. Likewise, for non-bargaining employees who are compensated for overtime, direct labor shall be charged based on the base pay amounts incurred for such employees, including overtime. For management employees not compensated for overtime, direct labor charged to affiliates shall be adjusted, on a departmental or organizational basis, to reflect estimated overtime incurred based on an overtime review performed annually.

All direct labor charges shall be increased by a factor to reflect nonproductive time. The nonproductive time factor shall be developed based on a review of actual nonproductive time incurred for the previous year. The nonproductive time factor reflects time incurred for vacations, holidays, disability, jury duty and other paid absences.

(ii) Direct Materials and Purchased Services. Amounts incurred for materials or

purchased services directly attributable to a Party shall be charged directly to the appropriate account for that Party.

(b) **Allocated Costs.** Costs incurred that are not specifically attributable to a Party but that have joint benefit to two or more Parties shall be charged to the appropriate Parties based on specified allocation methodologies. The allocation methodologies and factors used as reflected in Exhibit C shall be reasonably based on cost causative measures to ensure an equitable allocation among such Parties. At least (60) days prior to any change to Exhibit C, the Parties shall provide to each other and file on the ICC's e-Docket system with a copy to the ICC's Accounting Department Manager and to the Office of the Chief Clerk a revised version of Exhibit C along with an indication what change(s) will be made.

(c) **Indirect Costs.** The direct and allocated costs apportioned to a Party or Parties shall be increased to reflect indirect labor, administrative and general and other overhead amounts. These indirect costs are not specifically identifiable or attributable to the direct costs incurred on behalf of a Party.

All direct labor charges apportioned to a Party (either apportioned directly or using an allocation methodology) shall be increased by a loading factor to reflect indirect labor-driven costs. For each Party, this loading factor shall be determined annually based on actual indirect labor-driven charges incurred during the prior year as a percentage of total direct labor charges incurred in that year. The labor loading shall include payroll taxes; medical, dental and vision insurance costs; pension and other postretirement health care benefits costs; incentive compensation plan costs; employee savings plans costs; training costs; other employee benefits; the employee benefits department costs; communications and computer support and facilities costs.

Facilities costs include buildings and related property, such as equipment, machinery, furniture and fixtures, and related services, such as mail delivery and library services. These indirect charges shall include an amount to reflect the cost of such assets (e.g., depreciation, operations, maintenance, utilities, insurance, real estate taxes, etc.) and, for owned assets or assets leased under capital leases, a return equal to the rate of return on rate base most recently authorized for Nicor Gas by the ICC.

Section 5.3. *Costs Charged to/from NICOR.* NICOR shall maintain unique account numbers in its general ledger system: Consolidated Pool accounts (as described in Section 5.3(a)) and Unallocated Pool accounts (as described in Section 5.3(b)). All costs incurred by NICOR and not directly charged to another Party and all costs apportioned and billed to NICOR by other Parties shall be charged to one of these two types of accounts.

(a) **Consolidated Pool Costs.** The Consolidated Pool accounts shall be charged with costs related to activities that jointly benefit all of the Parties. Each month, the costs accumulated in the Consolidated Pool shall be apportioned and billed to the Parties (other than NICOR) using a two-factor formula methodology. A representative listing of the types of Nicor services for which costs shall be charged to the Consolidated Pool is as follows:

Accounting	Forecasting
Auditing	Governmental Affairs
Branding and Other Marketing	Information Systems
Budgeting	Investor Relations
Corporate Planning	Legal
Corporate Secretary's Office	Risk Management
Executive Services	Shareholder Services
Financial Reporting	Tax Administration
Finance	

(b) **Unallocated Costs.** The Unallocated accounts shall be charged with costs that have been determined as not appropriate for apportionment by NICOR to the other Parties. These costs primarily relate to NICOR's diversification and divestiture activities.

(c) **Two-Factor Formula Methodology.** Monthly, costs charged to the Consolidated Pool shall be apportioned and billed by NICOR to the other Parties based on a two-factor formula methodology. Under this approach, each such Party wholly owned by NICOR (other than non-operating Parties) is allocated and billed for a portion of the total costs in the Consolidated Pool based on an average of such Party's gross payroll and total asset amounts relative to the corresponding averages for the other wholly owned operating Parties. To adjust for seasonality in operations, the gross payroll amounts used in this allocation shall be the twelve-month-ended amounts through the prior quarter-end. The total asset amount shall reflect the month-end balance from the prior quarter ended. Non-operating affiliates are those that exist solely for the purpose of enabling Nicor Inc. to perform its corporate function and which do not engage in the active management or oversight of any enterprise doing business with third parties. For majority-owned Parties that are not wholly owned, the two-factor formula shall consider only the proportional ownership share of such Party's gross payroll and total assets. Affiliates that are not controlled by Nicor Inc. are precluded from becoming Parties to this Agreement. For purposes of this Agreement, control exists when Nicor Inc. holds, directly or indirectly, more than 50 percent of the voting rights of the entity's common stock or more than 50 percent of the seats on the board of directors or other oversight committee.

Section 5.4. *Allocations Among Parties Other Than Nicor Gas.* Nothing in this article, or any other article, shall limit or restrict the rights of Parties other than Nicor Gas to allocate costs among themselves, so long as it does not adversely impact Nicor Gas, such as by increasing Nicor Gas' costs. If a Nicor Entity charges Nicor Gas based upon its fully distributed costs, and such costs include any intercompany charges from affiliates, such intercompany charges shall be determined in accordance with the cost apportionment methodology described in this Agreement

ARTICLE VI

Limitations of Liability

Section 6.1. *No Warranties For Facilities or Services.* Each Party acknowledges and

agrees that any facilities, equipment or capabilities made available, and any services provided, by a Provider to a Requestor hereunder, are so made available or provided WITHOUT ANY WARRANTY (WHETHER EXPRESS, IMPLIED OR STATUTORY AND NOTWITHSTANDING ANY ORAL OR WRITTEN STATEMENT BY A PARTY'S EMPLOYEES, REPRESENTATIVES OR AGENTS TO THE CONTRARY) WHATSOEVER. ALL SUCH WARRANTIES (INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) ARE HEREBY DISCLAIMED AND EXCLUDED.

Section 6.2. Limited Warranties For Asset Sales. (a) Except as provided in Section 6.2(b), each Party acknowledges and agrees that any real property, interests in real property, tangible personal property or Intangible Assets sold and transferred in accordance with Article III is so sold and transferred WITHOUT ANY WARRANTY (WHETHER EXPRESS, IMPLIED OR STATUTORY AND NOTWITHSTANDING ANY ORAL OR WRITTEN STATEMENT BY A SELLING PARTY'S EMPLOYEES, REPRESENTATIVES OR AGENTS TO THE CONTRARY) WHATSOEVER. ALL SUCH WARRANTIES (INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) ARE HEREBY DISCLAIMED AND EXCLUDED.

(b) In connection with a sale and transfer of real property, interests in real property, tangible personal property, Intangible Assets or NICOR stock pursuant to Article III, the Selling Party shall be deemed to have represented and warranted to the Acquiring Party that: (i) title conveyed is good, (ii) conveyance of such title is authorized and rightful, and (iii) the title so conveyed is free and clear of all liens, claims, encumbrances or security interests of persons or entities claiming by or through the Selling Party, except, in the case of this clause (iii), as the Acquiring Party and the Selling Party may otherwise agree.

Section 6.3. No Partnership. The Parties acknowledge and agree that this Agreement does not create a partnership between, or a joint venture of, a Party and any other Party. Each Party is an independent contractor and nothing contained in this Agreement shall be construed to constitute any Party as the agent of any other Party except as expressly set forth in Section 2.3.

Section 6.4. No Third Party Beneficiaries. This Agreement is intended for the exclusive benefit of the Parties hereto and is not intended, and shall not be deemed or construed, to create any rights in, or responsibilities or obligations to, third parties.

ARTICLE VII

Term

Section 7.1. Term. This Agreement will be effective on the date it is approved by the ICC and shall continue, unless terminated as provided in Section 7.2.

Section 7.2. Termination. Any Party may terminate this Agreement as to it by providing at least 30 days prior written notice to the other Parties of the effective date of such termination. In

addition, this Agreement shall terminate as to a Party upon the date that NICOR determines that such Party shall no longer be a party to this Agreement and shall automatically terminate as to a Party upon the date that NICOR ceases, directly or indirectly, to own equity securities in such Party. Any such termination shall not affect the terminating Party's accrued rights and obligations under this Agreement arising prior to the effective date of termination or its obligations under Section 9.4.

ARTICLE VIII
Confidential Information

Each Party shall treat in confidence all information which it shall have obtained regarding the other Parties and their respective businesses during the course of the performance of this Agreement. Such information shall not be communicated to any person other than the Parties to this Agreement, except to the extent disclosure of such information is required by a governmental authority. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The obligation of a Party to treat such information in confidence shall not apply to any information which (i) is or becomes available to such Party from a source other than the Party providing such information, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

ARTICLE IX
Miscellaneous

Section 9.1. *Entire Agreement; Amendments.* Upon its effectiveness as provided in Section 7.1, this Agreement shall constitute the sole and entire agreement among the Parties with respect to the subject matter hereof and shall supersede all previous agreements, proposals, oral or written, negotiations, representations, commitments and all other communications between some or all of the Parties. Except as provided in Section 9.2 with respect to new Parties and except that NICOR may amend Exhibit A to this Agreement to delete any terminated Party, this Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the Parties hereto.

Section 9.2. *New Parties.* Any other entity which is or may become an affiliate of NICOR or any of the other Parties to this Agreement may become a party to this Agreement by executing an agreement adopting all of the terms and conditions of this Agreement. Such agreement must be signed by NICOR in order to become effective, but need not be signed by any other Party to this Agreement. Upon such execution, such entity shall be deemed to be a Party and shall be included within the definition of "Party" for all purposes hereof, and Exhibit A shall be amended to add such entity. Nicor Gas shall notify the ICC by means of an informational filing each time a new Party becomes eligible to receive or provide services and facilities under this Agreement. This informational filing should include the name and business purpose of the Party and its relationship to Nicor Gas.

Section 9.3. *Assignment.* This Agreement may not be assigned by any Party without the prior written consent of NICOR.

Section 9.4. *Access to Records.* During the term of this Agreement and for a period of seven years after the expiration or termination of this Agreement as to a Party, such Party shall have reasonable access to and the right to examine any and all books, documents, papers and records which pertain to services and facilities provided by the other Parties under this Agreement to such Party, and such Party shall provide access to, and the opportunity to examine, all such records which pertain to services and facilities provided to the other Parties under this Agreement by such Party. Each Party shall maintain all such records for a period of seven years after expiration or termination of this Agreement as to such Party. In addition, during the term of this Agreement and for a period of seven years after the expiration or termination of this Agreement as to a Nicor Entity, the ICC shall have access to the books and records of such Nicor Entity as they relate to transactions between such Nicor Entity and Nicor Gas to the extent allowed under Section 7-101 of the Illinois Public Utilities Act and subject to Section 5-108 of the Illinois Public Utilities Act.

Section 9.5. *Partial Invalidity.* Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable

provision or provisions or any other provisions hereof, unless such a construction would be unreasonable. In the event that it is determined that the charges for a particular transaction covered by this Agreement were not determined properly for any reason, such determination and/or finding shall not affect the validity of such transaction; *provided, however*, that if the transaction involved Nicor Gas and a NICOR Entity, NICOR (or, if NICOR so determines, such NICOR Entity) shall pay to or reimburse Nicor Gas, or Nicor Gas shall pay to or reimburse such NICOR Entity, as the case may be, for the difference between the amount that was charged in connection with the transaction and the charge that is determined to be proper under the provisions of Article V.

Section 9.6. Waiver. Failure by any Party to insist upon strict performance of any term or condition herein shall not be deemed a waiver of any rights or remedies that such Party may have against any other Party nor in any way affect the validity of this Agreement or any part hereof or the right of such Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

Section 9.7. Governing Law. This Agreement shall be governed by, construed and interpreted pursuant to the laws of the State of Illinois.

Section 9.8. Executed Agreement. The final executed copy of this Agreement as approved by the Commission shall be filed on the ICC's e-Docket system with a copy to the ICC's Accounting Department Manager and to the Office of the Chief Clerk of the ICC within thirty (30) days of the execution date. Further, Nicor Gas shall submit a status report to the ICC on e-Docket with a copy to the Manager of Accounting within six months of the order date of the proceeding approving the Agreement and every six months thereafter until the revised Agreement has been executed.

ARTICLE X Annual Internal Audit

Nicor Gas shall file an internal audit report annually with the ICC's Accounting Department Manager no later than July 1, that reflects the results of an internal audit which tests compliance with the terms of the Operating Agreement, including, but not limited to the following:

- 1) Joint purchasing arrangements shall not increase Nicor Gas' fully distributed cost for goods or services;
- 2) All agreements for the provision or use of facilities, services and activities or the sale of real property and/or tangible personal property shall have no terms inconsistent with the Operating Agreement;
- 3) Every Party to the Operating Agreement shall maintain adequate books and records with respect to the Operating Agreement and that each party shall maintain sufficient internal controls to ensure that costs associated with transactions covered by this Operating Agreement are properly and consistently allocated and billed in accordance with the terms and provisions of the Operating Agreement;

- 4) All sales of assets between Nicor Gas and a Nicor entity are charged at a price in compliance with Section 5.1(a) of the Operating Agreement;
- 5) The provision of facilities or services between Nicor Gas and a Nicor entity are charged at a price in compliance with Section 5.1(b) of the Operating Agreement;
- 6) All costs charged between the Parties are determined in accordance with either a direct charge or a consistent, predetermined allocation methodology based upon current cost studies;
- 7) The fully distributed cost for the use of facilities and the provision of services are determined in compliance with Section 5.2 of the Operating Agreement and all allocated costs are based on a consistent predetermined allocation methodology and the allocation factors set forth in Exhibit C to the Operating Agreement . This item includes but is not limited to specific testing of the transactions between Nicor Gas and Nicor Enerchange;
- 8) That the two-factor formula methodology to allocate consolidated pool costs is properly calculated;
- 9) That allocation of costs among parties other than Nicor Gas does not directly or indirectly adversely impact Nicor Gas, such as by increasing Nicor Gas' costs;
- 10) That Exhibit A of the Operating Agreement accurately reflects the Parties to the Operating Agreement; and
- 11) That Exhibit B of the Operating Agreement accurately reflects all sub-agreements of the Operating Agreement.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative as of the day and year first above written.

NICOR INC.

By: _____
Name:
Title:

NORTHERN ILLINOIS GAS COMPANY

By: _____
Name:
Title:

BIRDSALL, INC.

By: _____
Name:
Title:

TROPIC EQUIPMENT LEASING INC.

By: _____
Name:
Title:

TROPICAL SHIPPING AND
CONSTRUCTION COMPANY LIMITED

By: _____
Name:
Title:

NICOR ENERGY VENTURES COMPANY

By: _____
Name:
Title:

NICOR ENERGY MANAGEMENT SERVICES COMPANY

By: _____
Name:
Title:

NICOR ENERGY SERVICES COMPANY

By: _____
Name:
Title:

NICOR ENERGY SOLUTIONS INC.

By: _____
Name:
Title:

NICOR ENERCHANGE L.L.C.

By: _____
Name:
Title:

NICOR HOME SERVICES, L.L.C.

By: _____
Name:
Title:

NICOR HORIZON, INC.

By: _____
Name:
Title:

NICOR OIL & GAS CORPORATION

By: _____
Name:
Title:

NICOR NATIONAL INC.

By: _____
Name:
Title:

NICOR MINING INC.

By: _____
Name:
Title:

NICOR PURCHASING, L.L.C.

By: _____
Name:
Title:

NICOR SOLUTIONS, L.L.C.

By: _____
Name:
Title:

NI-GAS EXPLORATION INC.

By: _____
Name:
Title:

PRAIRIE POINT ENERGY, L.L.C.

By: _____
Name:
Title:

IBT SOLUTIONS, L.L.C.

By: _____
Name:
Title:

SEVEN SEAS INSURANCE COMPANY, INC.

By: _____
Name:
Title:

CYPRESS CREEK GAS STORAGE, L.L.C.

By: _____
Name:
Title:

CENTRAL VALLEY GAS STORAGE, L.L.C.

By: _____
Name:
Title:

Exhibit A

Parties to the Operating Agreement

NICOR Inc. (Parent)
Northern Illinois Gas Company
Birdsall, Inc.
Tropic Equipment Leasing Inc.
Tropical Shipping and Construction Company Limited
NICOR Energy Ventures Company
NICOR Energy Management Services Company
NICOR Energy Services Company
NICOR Energy Solutions Inc.
NICOR Enerchange L.L.C.
NICOR Home Services, L.L.C.
NICOR Horizon, Inc.
NICOR Oil & Gas Corporation
NICOR National Inc.
NICOR Mining Inc.
NICOR Purchasing, L.L.C.
NICOR Solutions, L.L.C.
NI-Gas Exploration Inc.
Prairie Point Energy, L.L.C.
IBT Solutions, L.L.C.
Seven Seas Insurance Company, Inc.
Cypress Creek Gas Storage, L.L.C.
Central Valley Gas Storage, L.L.C.

Exhibit B

Existing Agreements Executed Under the Umbrella Authority of the Operating Agreement

[List Agreements]

If any new sub-agreements are executed under the umbrella authority of the Operating Agreement, Nicor Gas shall file an updated Exhibit B as a filing on the ICC's e-Docket system with a copy to be provided to the ICC's Accounting Department Manager and a copy to be filed with the Office of the Chief Clerk of the ICC within thirty (30) days of the execution date.

Exhibit C

Cost Allocations and Factors

Where a prevailing price does not exist, and a NICOR Entity will be charged the fully distributed cost of a facility or service in accordance with Section 5.1 of this Agreement, such costs will be allocated utilizing a tiered approach.

First, costs will be directly charged whenever appropriate and practicable. Direct charging is essentially a “100% allocation” of costs related to a particular facility or service to the Nicor Entity receiving the benefit of that facility or service. Direct charges shall reflect direct labor, direct materials and direct purchased services as specified in Section 5.2(a) of this Agreement.

Second, in accordance with Section 5.2(b) of this Agreement, where direct charging is not appropriate or practicable, and a facility or service jointly benefits two or more parties, allocated portions of the related costs shall be charged to the appropriate Nicor Entities using cost-causative allocation factors. Table A, below, lists the allocation factors of the Nicor Entities for all annual allocations that exceed (or could exceed using other reasonable allocation factors) \$500,000.

Table A			
Allocation Factors			
Service Provider	Customer	Description of Facility or Service	Allocation Factor (listed by type of cost allocated)
Nicor Gas	Nicor Services*	Gas Line Inspection and Repair Work	Fleet costs – productive vehicle hours; Materials handling costs – direct cost of materials processed; Indirect departmental expenses (such as supervision and small tool costs) – direct labor dollars
Nicor Gas	Nicor Services*	Billing and Cash Remittance Services	All costs – space made available on the bill
Nicor Inc.	Nicor Gas	Joint Independent Directors	Compensation costs – number of Nicor Entity boards served
Nicor Inc.	Various	Jointly Purchased Insurance Services	Premiums – assets and payroll of insured NICOR Entities
Nicor Services*	Nicor Gas	Customer move requests	Overhead costs – employee headcount
Nicor Enerchange	Nicor Gas	Chicago Hub administration – marketing and other administrative functions	Facility-related costs – square footage and employee headcount
Table B			
Indirect Costs			
Payroll taxes			

Third, all direct labor charged to a NICOR Entity under the two preceding paragraphs shall be increased by a portion of indirect costs to reflect indirect labor, administrative and general, and other overhead amounts (such as, without limitation and to the extent applicable, all of the items listed in Table B, below). Indirect costs shall be summed and allocated on the basis of direct labor dollars utilizing a loading factor (referred to as a “payroll additive”), as specified in Section 5.2(c) of this Agreement.

Table A			
Allocation Factors			
Service Provider	Customer	Description of Facility or Service	Allocation Factor (listed by type of cost allocated)
Nicor Gas	Nicor Services*	Gas Line Inspection and Repair Work	Fleet costs – productive vehicle hours; Materials handling costs – direct cost of materials processed; Indirect departmental expenses (such as supervision and small tool costs) – direct labor dollars

Finally, all costs incurred by Nicor Inc. (either directly or as billed from another NICOR Entity, net of any bills to affiliates specified above) that are related to activities that jointly benefit all of the operating Parties to this Agreement, shall be allocated to all such Parties by applying a two-factor formula, as specified in Section 5.3(c) of this Agreement. The related factors are listed in Table C, below.

* - Nicor Energy Services Company, also known as Nicor Services (d/b/a Nicor National), including its subsidiaries

Table A			
Allocation Factors			
Service Provider	Customer	Description of Facility or Service	Allocation Factor (listed by type of cost allocated)

ADDENDUM
Short-term Borrowing and Investment between Parties

Cash advances made by Nicor Gas to NICOR Inc. pursuant to this Agreement shall be in accordance with the following terms and in accordance with 83 Ill. Administrative Code Part 340 (Money Pool Agreements) as adopted by Illinois commerce Commission (the “ICC”) Order effective June 15, 2004 in Docket No. 02-0581, as the same may be amended or modified by the ICC from time to time:

(a) To the extent that Nicor Gas possesses excess cash and no outstanding short term borrowings, cash advances can be made to NICOR Inc. to the extent that it continues to meet the requirements of Section 340.40(b)(1), (2) or (3); and

(b) the interest rate on cash advances from Nicor Gas to NICOR Inc. shall be calculated at the higher of (i) the interest rate at which NICOR Inc. could have borrowed the funds pursuant to an existing bank credit agreement(s) or commercial paper facility(ies) entered into between NICOR Inc. and an unaffiliated third party or parties, or (ii) the rate the utility would have earned on existing short term investment accounts maintained during the same period.

Cash advances made by a NICOR Entity to Nicor Gas pursuant to this Agreement shall be in accordance with the following terms and in accordance with 83 Ill. Administrative Code Part 340 (Money Pool Agreements) as adopted by ICC Order effective June 15, 2004 in Docket No. 02-0581, as the same may be amended or modified by the ICC from time to time:

(a) The balance of case advances shall not at any time exceed the unused balance of funds actually available to Nicor Gas under Nicor Gas’ existing bank credit agreement(s) or commercial paper facility(ies) entered into between Nicor Gas and an unaffiliated third party or parties; and

(b) the interest rate on cash advances from NICOR Entity to Nicor Gas shall be calculated at the lower of (i) the interest rate at which Nicor Gas could have borrowed the funds pursuant to an existing bank agreement(s) or commercial paper facility(ies) entered into between Nicor Gas and an unaffiliated third party or parties, or (ii) the NICOR Entity’s actual interest cost, including issuance costs, for the funds obtained or used to provide the cash advance to Nicor Gas.

Response to Nicor Gas
First Set of Data Requests to Staff
Docket No. 09-0301
Response of Staff Witness Hathhorn

ICC Person Responsible: Dianna Hathhorn
Title: Accountant, Financial Analysis Division
Business Address: Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Request NG-Staff 1.09

Regarding Ms. Hathhorn's Recommendation #1 for definition of "prevailing price" (Hathhorn Dir., pp. 3-5), please provide specific references and citations to existing and currently effective Operating Agreements for gas and / or electric utilities in Illinois with same, or similar, definition.

Response

Ms. Hathhorn's definition of "prevailing price" used in her Recommendation #1 is based upon a definition provided by North Shore Gas Company and The Peoples Gas Light and Coke Company ("Peoples/N. Shore") in Docket No. 08-0682. The definition is provided in Exhibits SBJ-1.1 and SBJ 1.2, Section 2.4. Peoples/N. Shore withdrew the case due to issues outside of Illinois, and expects to re-file during 2010. They have not yet re-filed, so the definition is not in effect for any Operating Agreement for a gas and / or electric utility in Illinois.

Response to Nicor Gas
First Set of Data Requests to Staff
Docket No. 09-0301
Response of Staff Witness Hathhorn

ICC Person Responsible: Dianna Hathhorn
Title: Accountant, Financial Analysis Division
Business Address: Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Request NG-Staff 1.10

Regarding Ms. Hathhorn's Recommendation #2 requiring Nicor Gas to Pay Affiliates the lower of cost or market (Hathhorn Dir., pp. 6-8), please provide specific references and citations to existing and currently effective Operating Agreements for gas and / or electric utilities in Illinois with same, or similar, requirement.

Response

The specific references and citations to existing and currently effective Operating Agreements for gas and / or electric utilities in Illinois with same, or similar, requirements as Ms. Hathhorn's Recommendation #2 requiring Nicor Gas to pay its affiliates the lower of cost or market are contained in ICC Staff Exhibit 1.0, lines 132-156. The agreements cited all require the regulated utility to pay no more than cost. This is contrary to Nicor Gas' Operating Agreement which allows Nicor Gas to pay its affiliates a market price that is greater than cost.

Further, Ms. Hathhorn's recommendation is consistent with Peoples/N. Shore's pricing methodology for services provided by a non-regulated party to a regulated party. (Docket No. 08-0682 Exhibits SBJ-1.1 and SBJ 1.2, Section 2.1 (iii)). The disposition of this case is discussed further in Staff's response to Nicor Gas data request 1.09.

Response to Nicor Gas
First Set of Data Requests to Staff
Docket No. 09-0301
Response of Staff Witness Hathhorn

ICC Person Responsible: Dianna Hathhorn
Title: Accountant, Financial Analysis Division
Business Address: Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

Request NG-Staff 1.11

Regarding Ms. Hathhorn's Recommendation #3 requiring Nicor Gas to Be Paid by Affiliates the higher of cost or market (Hathhorn Dir., pp. 8-10), please provide specific references and citations to existing and currently effective Operating Agreements for gas and / or electric utilities in Illinois with same, or similar, requirement.

Response

Ms. Hathhorn's Recommendation #3 requiring Nicor Gas to be paid by affiliates the higher of cost or market is consistent with Peoples/N. Shore's pricing methodology for services provided by a regulated party to a non-regulated party. (Docket No. 08-0682 Exhibits SBJ-1.1 and SBJ 1.2, Section 2.1 (ii)). The disposition of this case is discussed further in Staff's response to Nicor Gas data request 1.09.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 09-0301
DLH Thirteenth Set of Data Requests

DLH 13.08 Q. Referring to Nicor Gas Exhibit 2.0, pages 17-19, is it the Company's position that the audits conducted pursuant to Part 550.150 included compliance with the eleven tests included as part of Recommendation #4 in ICC Staff Ex. 1.0? Fully explain which of the eleven tests were included in the scope of the previous audits and provide documentation reflecting that such tests were included in the audit testing or certification process.

DLH 13.08 A. As stated in previous testimony (Exhibit 2.0, pages 17-19), the Company's current audits cover the biennial audit requirements of Section 550.150 of the Commission rules. Copies of the prior year reports, and supporting workpapers have been reviewed by ICC staff and no deficiencies were noted in either the methodology or detailed test objectives of these audits.

The following three tests referred to in request DLH-13.08 are included in the scope of current audits conducted by Nicor Gas' Internal Audit Department. Responses, along with the attached Exhibits 1 through 3 from Nicor Gas' Internal Audit Department audit programs, have been included as documentation supporting the tests conducted.

Staff recommended audit test #3

Every party to the Operating Agreement shall maintain adequate books and records with respect to the operating agreement and that each party shall maintain sufficient internal controls to ensure that costs associated with transactions covered by this Operating Agreement are properly and consistently allocated and billed in accordance with the terms and provisions of the Operating Agreement.

Response:

Specific testing of time and expenses related to intercompany billing are conducted for adherence to the terms of the Operating Agreement. Records to support these charges are reviewed. Exhibit 1 includes an excerpt from the audit program for the biennial Intercompany Billing audit (NG-10-001) conducted in April-May 2010.

Staff recommended audit test #8

That the two factor formula methodology to allocate consolidated pool costs is properly calculated.

Response:

The two factor formula (along with the payroll additive rate) is reviewed as part of the Intercompany Billing audit (NG-10-001) conducted in April-May 2010. Exhibit 2 includes an excerpt from the audit program for this audit.

Staff recommended audit test #10

That exhibit A of the Operating Agreement accurately reflects the Parties to the Operating Agreement.

Response:

As part of the biennial Title 83 Adherence – Public Utilities audit (NG-10-425), Nicor Gas' Internal Audit group conducts numerous tests to ensure that Nicor Gas is filing the list of Nicor Affiliates with the ICC on a quarterly basis. An excerpt from the audit program for the most recent audit is included in Exhibit 3.

Also, as part of Nicor Gas' compliance policies and procedures, Nicor Gas determines regularly whether the Operating Agreement Exhibit A accurately reflects all parties to the Agreement.

The remaining tests referred to in request DLH-13.08 are not specifically included in the scope of audits conducted by Nicor Gas' Internal Audit department as they are not currently required as part of the biennial audit requirements of Section 550.150 of the Commission rules. In addition, Nicor Gas does not feel that specific testing by Internal Audit is necessary due to the procedures in place within other departments of Nicor Gas to further ensure compliance with the Operating Agreement. Explanations for each test are listed below.

Staff recommended audit test #1

Joint Purchasing Arrangements shall not increase Nicor Gas' fully distributed cost for goods or services.

Response:

Specific joint purchasing arrangements, when entered into, are discussed with the Accounting, Internal Control department for their impact on Nicor's fully distributed cost and for adherence to the Operating Agreement. These agreements are entered into in an effort to decrease costs with all parties involved, including Nicor Gas. Further review by internal audit is not considered necessary.

Staff recommended audit test #2

All agreements for the provision or use of facilities, services and activities or the sale of real property and/or tangible personal property shall have no terms inconsistent with the Operating Agreement.

Response:

Current agreements in the form of contracts for the provision or use of facilities, services and activities or the sale of property are reviewed as part of Nicor Gas' compliance policies and procedures for their adherence to the terms of the Operating Agreement. No additional review by internal audit is considered necessary.

Staff recommended audit test #4

All sales of assets between Nicor Gas and a Nicor entity are charged at a price in compliance with section 5.1(a) of the Operating Agreement.

Response:

Sales of Assets between Nicor Gas and a Nicor entity are not common, and are discussed with the Accounting Internal Control department for compliance with the Operating Agreement. These sales are not routinely reviewed by internal audit as it is not considered necessary.

Staff recommended audit test #5 and #6

The provision of facilities or services between Nicor Gas and a Nicor entity are charged at a price in compliance with section 5.1(b) of the Operating Agreement.

and

All costs charged between the parties are determined in accordance with either a direct charge or a consistent predetermined allocation methodology based upon current cost studies.

Response:

Cost studies, including reviews for direct charges, are conducted annually by the Accounting Internal Control department and are subject to a stringent review process by management. As part of this process, the provision of facilities or services between Nicor Gas and a Nicor entity are determined to be charged at a price in compliance with section 5.1(b) of the Operating Agreement. Internal Audit will periodically review certain aspects of the cost study, such as the payroll additive rate and the two factor formula (as noted above) for reasonableness. Independent testing by internal audit of the entire cost study process is not considered necessary.

Staff recommended audit test #7

The fully distributed cost for the use of facilities and the provision of services are determined in compliance with section 5.2 of the Operating Agreement and all allocated costs are based on a consistent pre-determined allocation methodology and the allocation factors set forth in exhibit C to the Operating Agreement. This item includes but is not limited to specific testing of the transactions between Nicor and Nicor Enerchange.

Response:

As part of the cost studies conducted by the Accounting Internal Control department, the fully distributed costs for the use of facilities and the provision of services are considered and reviewed for adherence to section 5.2 of the Operating Agreement and all costs are based on a pre-determined allocation methodology. The allocation factors set forth in the proposed exhibit C to the Operating Agreement, per Nicor Gas' rebuttal testimony on Exhibit 2.0, pages 19-20 are to provide documentation of the various allocation methodologies employed by the Company in compliance with Article V of the Agreement, including direct costs, allocated costs, indirect costs and the two factor formula. These methodologies will be reviewed as part of the annual cost studies conducted by the Accounting Internal Control department. Independent testing by Internal Audit is not considered necessary.

Staff recommended audit test #9

That allocation of costs among parties other than Nicor Gas does not directly or indirectly adversely impact Nicor Gas, such as by increasing Nicor Gas costs.

Response:

There are very few cost allocations charged between affiliated parties of Nicor Gas that have an effect, either directly or indirectly, on Nicor Gas. The Accounting Internal Controls department monitors charges between such parties regularly for adherence to the Operating Agreement. As part of Nicor Gas' compliance policies and procedures, cost allocations between affiliates are also reviewed from time to time when questions arise as to their adherence to the Operating Agreement. No additional review by internal audit is considered necessary.

Staff recommended audit test #11

That exhibit B of the Operating Agreement accurately reflects all sub agreements of the Operating Agreement.

Response:

Currently, exhibit B to the Operating Agreement is not a required exhibit, and as such is not reviewed by Internal Audit. As stated in Nicor Gas' rebuttal testimony Exhibit 2.0, pages 20-24, Nicor Gas' position is that exhibit B not be required.

Witness: Gerald P. O'Connor

DLH 13.08
Exhibit 1

<p><u>Work Papers</u></p> <p>1. Determine if the Intercompany Billing guidelines for Nicor and its affiliates are periodically reviewed and updated, and are periodically distributed to those responsible for Intercompany Billing.</p>	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu, 4/22/2010</p> <p><i>Reviewed By:</i> BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>2. Review the procedures on how employees and departments, that should be performing Intercompany Billing, are identified and how they are trained by Accounting Internal Control. Ensure that the procedures and training records are up to date and accurate.</p>	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu, 4/19/2010</p> <p><i>Reviewed By:</i> BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>3. Determine if Accounting Internal Control is attempting to identify all departments and employees that are performing Intercompany Billing by performing the following (Note: This step is not required, however, it is performed as a step in the Accounting Internal Control procedures as a yearly reminder to all managers regarding the Intercompany Billing Process.)</p> <ul style="list-style-type: none"> a. Obtain the memos sent to all managers asking them if any of their employees are performing any duties for subsidiaries and if so are they billing out their costs; b. Review these memos and ensure that they are complete and timely; and c. Using ACL determine if the distribution list for the semi annual Intercompany Billing memo captured all management employees level 7 and above. 	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu, 4/16/2010</p> <p><i>Reviewed By:</i> BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>4. Determine if Accounting Internal Control's population of employees that are set up under Intercompany Billing is accurate by obtaining a list of all</p>	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu,</p>

<p>employees that can perform Intercompany Billing from Accounting Internal Controls and perform the following steps. (This is the Intercompany Billing Numbers of Inactive/Added Employees)</p> <ol style="list-style-type: none"> a. Utilizing the Pick-off (from Preliminary Step 6a) of Intercompany Billing Charges, ensure that there are not any individuals billing out that are not on the list of employees that can bill out provided by Accounting Internal Control. (Note: import into ACL the entire spreadsheet and the XB data pull of billed charges during 2009 and compare the entire population) If there are individuals who billed out and are not on the ICBA listing, obtain explanations) This step is intended to make sure the active employees in the intercompany billing Lawson XB system have been set up by Accounting Internal Control. b. Utilizing the Pick-off of employees that left the company, compare this to the list of employees that can bill out from Step 10 and the pick-off of charges in 2009, to determine if there was anyone that billed out but is no longer with the company (during 2008 and 2009) and if so ensure that they billed out prior to leaving to ensure billing was completed. (Note: Take entire data pulls of employees who left the company and compare to entire populations from each list of data mentioned in this step) c. From step b. above if there are charges that occurred after the date the employee separated from the company, investigate to determine if charges are legitimate. 		<p>4/22/2010 Reviewed By: BK, 5/5/2010</p>	
<p><u>Work Papers</u></p> <p>6. Determine if New Hires that perform work for the affiliates are properly notified and trained in the preparation of COSRs forms or Lawson billing, by performing the following:</p> <ol style="list-style-type: none"> a. Sample of 30 employees to test will be taken from the new hire data pull from HRIS to include 15 management and 15 union and temporary employees. b. Develop a questionnaire to interview employees to determine if they have billed out or should bill out and were they trained, since they were in a department that has been identified as having the potential to bill out; c. Utilizing the sample selected that have stated that they do perform work for affiliates, but have not received training discuss the employee with Accounting Internal Control to inquire why they have not been trained; and d. Utilizing the sample selected that have stated that they have received training, trace the individuals to documentation from Accounting Internal Control evidencing that they were identified, notified, and trained. 	<p><u>D.1.PS</u></p>	<p>Assigned To:</p> <p>Prepared By: LGu, 4/22/2010 Reviewed By: BK, 5/5/2010</p>	

<p><u>Work Papers</u></p> <p>7. Determine if employees are properly billing out by utilizing the Pick-off of all Intercompany Billing Charges within the audit period and perform the following:</p> <ul style="list-style-type: none"> a. Utilizing ACL randomly sample of 20 employees and one judgmentally selected employee that billed out time; b. Develop a questionnaire and send to the selected employees; and c. Determine if the manner in which the employees report and allocate hours and dollars is reasonable and consistent. 	<p><u>D.1.PS</u></p>	<p>Assigned To:</p> <p>Prepared By: LGu, 4/22/2010</p> <p>Reviewed By: BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>8. Utilizing the sample selected in "Proper Billing Procedure", test 2 months of Procurement Card statements for each employee. Note: The procard logs to request will be the logs with the statement date beginning in the month that is being tested in future audits. Review future audit notes.</p>	<p><u>D.1.PS</u></p>	<p>Assigned To:</p> <p>Prepared By: LGu, 4/22/2010</p> <p>Reviewed By: BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>9. Randomly select 2 quarters and obtain Accounting Internal Control's audit of Intercompany Billing Charges and review it for reasonableness.</p>	<p><u>D.1.PS</u></p>	<p>Assigned To:</p> <p>Prepared By: LGu, 4/22/2010</p> <p>Reviewed By: BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>12. Randomly select 3 months of Intercompany journal entries and ensure there is proper supporting documentation maintained to verify the Intercompany journal entries made.</p>	<p><u>D.1.PS</u></p>	<p>Assigned To:</p> <p>Prepared By: LGu, 4/22/2010</p> <p>Reviewed By: BK, 5/5/2010</p>
<p><u>Work Papers</u></p>	<p><u>D.1.PS</u></p>	<p>Assigned To:</p>

13. Document how the IBA enters and trains employees who were promoted or changed positions throughout the year.

Prepared By:

LGU,

4/22/2010

Reviewed By:

BK,

5/5/2010

DLH 13.08
Exhibit 2

<p><u>Work Papers</u></p> <p>10. Obtain the supporting documentation for each of the Payroll Additive rates that are applied to the allocated payroll dollar expenses and perform the following:</p> <ul style="list-style-type: none">a. Determine what items are considered in developing these rates and evaluate the method used to calculate them and ensure the information is accurate and reasonable; andb. Review the frequency of the review and revisions of these rates for reasonableness.	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu, 4/22/2010</p> <p><i>Reviewed By:</i> BK, 5/5/2010</p>
<p><u>Work Papers</u></p> <p>11. Obtain the supporting documentation on the Two-Factor formula for allocating consolidated pool and branding pool expenses and perform the following:</p> <ul style="list-style-type: none">a. Determine what items are considered in developing this factor and evaluate the method used to calculate them and ensure the information is accurate and reasonable; andb. Review the frequency of the review and revisions of these allocations for reasonableness.	<p><u>D.1.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> LGu, 4/22/2010</p> <p><i>Reviewed By:</i> BK, 5/5/2010</p>

DLH 13.08
Exhibit 3

<p><u>550.130 List of Affiliated Interests</u></p> <p>1) Ensure that Nicor Gas is filing with the ICC on a quarterly basis the list of Nicor affiliates as required by Part 550.130.</p>	<p><u>D.14.PS</u></p>	<p><i>Assigned To:</i></p> <p><i>Prepared By:</i> MJK, 3/4/2010</p> <p><i>Reviewed By:</i> BK, 3/31/2010</p>
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