

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission                    )  
On Its Own Motion                                )  
  )  
vs.    ) Docket 10-0691  
  )  
Northern Illinois Gas Company                 )  
d/b/a Nicor Gas Company                        )  
  )  
Reconciliation of revenues collected under    )  
gas adjustment charges with actual costs    )  
prudently incurred.                             )

Direct Testimony of

**BOB O. BUCKLES**

Manager of Rate Research and Administration

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

April 12, 2011

1 **I. INTRODUCTION**

2 **Q. Please state your name.**

3 A. Bob O. Buckles.

4 **Q. By whom are you employed and what is the business address?**

5 A. Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas” or “Company”)  
6 located at 1844 Ferry Road, Naperville, Illinois 60563.

7 **Q. What position do you hold with Nicor Gas?**

8 A. I am the Manager of Rate Research and Administration.

9 **Q. Please summarize your educational background and your experience in the public**  
10 **utility business.**

11 A. I hold the degree of Bachelor of Science, majoring in Energy Resource Management  
12 from Eastern Illinois University. I have been employed by Nicor Gas since 1989. From  
13 1989 until 2003, I held positions in Commercial and Industrial Sales, Energy  
14 Management Services, Rates, Asset Planning and Development and Gas Supply  
15 Operations. I assumed my present responsibilities in the Rate Department in October,  
16 2003.

17 **Q. Would you please describe your present job responsibilities?**

18 A. Yes. My present job responsibilities are primarily preparing and filing documents with  
19 the Illinois Commerce Commission (the “Commission”) and reviewing Company  
20 activities as they pertain to compliance with Company tariffs and the Illinois

21 Administrative Code. In addition, I have responsibility over various research and  
22 analytical requirements within the Rate Department.

23 **Q. Have you ever testified before the Illinois Commerce Commission?**

24 A. Yes, I have filed testimony for Nicor Gas in previous PGA reconciliation dockets, more  
25 specifically, Docket Nos. 03-0703, 04-0681, 05-0747, 06-0750, 07-0575, 08-0630 and  
26 09-0544.

27 **II. SUMMARY OF TESTIMONY**

28 **Q. What is the purpose of your testimony in this proceeding?**

29 A. The purpose of my testimony in this case is to explain Nicor Gas' reconciliation of  
30 Rider 6 Gas Supply Cost ("GSC") revenues collected to recover its actual cost of gas  
31 distributed, to the extent that such costs are recoverable, as recorded on the books of the  
32 Company for the 12 months ended December 31, 2010. My testimony and exhibits are in  
33 response to the Commission's Order Commencing Reconciliation Proceedings entered  
34 December 2, 2010, in Docket No. 10-0691.

35 **Q. Is any further purpose served by your testimony?**

36 A. No.

37 **Q. Was notice given to the public relative to the filing of the testimony and exhibits in  
38 this docket?**

39 A. Yes. Pursuant to the requirements set forth in the Commission's Order, and in  
40 accordance with the requirements of 83 Illinois Administrative Code Part 255, Nicor Gas  
41 has posted a printed "Public Notice" card with respect to this case in the business offices  
42 of the Company, and a similar public notice was published in newspapers of general

43 circulation in Nicor Gas' service territory. A copy of the printed card and verifiable  
44 support of publication will be presented during the hearings in this proceeding. In  
45 addition, copies of Nicor Gas' testimony and exhibits are on file and available for public  
46 inspection in each of the Company's business offices.

47 **III. DESCRIPTION OF RIDER 6, GAS SUPPLY COST ("GSC")**

48 **Q. Please generally describe Nicor Gas' Rider 6, Gas Supply Cost.**

49 A. Rider 6 prescribes the method of computing Nicor Gas' end-user GSC charges, or rates,  
50 for the recovery of the Company's Cost of Gas Distributed. In particular, the GSC  
51 charges developed under Rider 6 are designed to recover the costs the Company incurs  
52 for quantities of gas the Company purchases, transports, stores and sells for the purpose  
53 of serving its end-user customers. The purpose and intent of Rider 6 is to promptly pass  
54 along to customers, through the GSC charges developed under the Rider, Nicor Gas' net  
55 gas supply cost, without markup or profit.

56 **Q. Does Rider 6 comply with the 83 Illinois Administrative Code Section 525**  
57 **Purchased Gas Adjustment Clause requirements?**

58 A. Yes. The Commission approved the Company's Rider 6 as compliant with the  
59 Commission's Purchased Gas Adjustment Clause requirements on October 3, 1995 in  
60 Docket No. 94-0403. Additionally, the Commission in Docket No. 04-0779 ordered  
61 Nicor Gas to make certain changes to Rider 6.

62 **Q. Please describe in more detail the gas costs that are recoverable through Rider 6.**

63 A. Recoverable gas costs are derived in accordance with Part 525.40 of the 83 Illinois  
64 Administrative Code and are specifically identified in Section D of Sheets 59 and 60 of

65 the Company's filed tariffs (Ill. C.C. No. 16 – Gas). In general, the costs incurred by the  
66 Company and recovered through Rider 6 are: (1) gas costs based on volumes of gas  
67 purchased from suppliers, generally referred to as commodity gas costs; and (2) gas costs  
68 other than those defined as commodity related, generally referred to as non-commodity  
69 gas costs. Non-commodity gas costs include costs incurred from interstate pipeline  
70 companies for transportation and storage.

71 **Q. Please describe the charges used to recover Nicor Gas' costs through Rider 6.**

72 A. Attached to my testimony as Exhibit BOB-2.1 is a list of the primary Rider 6 charges  
73 along with corresponding descriptions of what type of costs each charge recovers and the  
74 customer classes to which each charge is assessed. As seen in Exhibit BOB-2.1, six gas  
75 charge components are employed under Rider 6: the Commodity Gas Cost ("CGC")  
76 charge, the Non-Commodity Gas Cost ("NCGC") charge, the Demand Gas Cost  
77 ("DGC") charge, the Gas Cost ("GC") charge, the Customer Select Balancing Charge  
78 ("CSBC") and the Transportation Service Adjustment ("TSA").

79 **Q. Please describe the Commodity Gas Cost (CGC) charge.**

80 A. The CGC charge reflects Nicor Gas' incurred commodity costs. It is applied to all therms  
81 of Company-supplied gas.

82 **Q. Please describe the Non-Commodity Gas Cost (NCGC) charge.**

83 A. The NCGC charge recovers the Company's non-commodity costs on a cent per therm  
84 used basis.

85 **Q. What does the Demand Gas Cost (DGC) charge recover?**

86 A. Like the NCGC charge, the DGC charge recovers non-commodity gas costs but on a  
87 Maximum Daily Contract Quantity (“MDCQ”) basis. The MDCQ is the maximum  
88 amount of gas used by a customer in one (1) day. The DGC charge is applicable as a  
89 back-up charge to customers on Nicor Gas’ system that have elected to transport their  
90 own gas supplies, but wish to maintain the availability of Company-supplied gas. Also, it  
91 is applied to customers receiving sales service under either Rate 6 - Large General  
92 Service, or Rate 7 - Large Volume Service.

93 **Q. Please describe the Gas Cost (GC) charge.**

94 A. The GC charge is the sum of the CGC charge and the NCGC charge. It applies to all  
95 sales service rates other than Rate 6 or Rate 7.

96 **Q. Please describe the Customer Select Balancing Charge (CSBC).**

97 A. The CSBC is applied to customers served under Rate 1 - Residential Service, Rate 4 -  
98 General Service, and Rate 5 - Seasonal Use Service and who are participating in Nicor  
99 Gas’ Customer Select program under Rider 15. The CSBC primarily represents the non-  
100 commodity gas costs of services used to balance the customer’s deliveries with usage.  
101 The CSBC includes costs for off-system storage services, certain other non-commodity  
102 gas costs and may include costs associated with the purchase of supplies during periods  
103 of Operational Flow Orders necessary to maintain the reliability of the system.

104 **Q Are these CSBC costs established within Rider 6?**

105 A. Yes. The CSBC is defined and established within Rider 6. End-use Customer Select  
106 participants are billed CSBC charges pursuant to the terms of Riders 6 and 15. Revenue

107 derived from the CSBC is credited to the Company's non-commodity-related gas costs,  
108 thereby reducing the NCGC charge.

109 **Q. Please describe the Transportation Service Adjustment (TSA).**

110 A. The TSA is a commodity-related charge or credit applied to the deliveries of all  
111 customer-owned gas delivered to Transportation customers, including Rider 25 – Firm  
112 Transportation Service and Rider 15 - Customer Select customers. The TSA is currently  
113 a credit for the gross revenues derived from providing storage and transportation services  
114 under the Company's FERC Operating Statement and Rate 21 – Intrastate Transportation  
115 and Storage Services, commonly referred to as Hub services. Sales customers receive an  
116 equivalent credit or charge through an adjustment to the CGC component of the GC.

117 **Q Is the TSA established and applied through Rider 6?**

118 A. Yes. As established in Docket No. 04-0779 on October 4, 2005, a per therm credit or  
119 charge is established on a monthly basis within Rider 6 to reflect the TSA. Revenues or  
120 credits arising through the application of the Transportation Service Adjustment have  
121 been included in the commodity-related gas costs.

122 **Q. Is there anything further you would like to explain with regard to how these charges  
123 or credits are applied?**

124 A. Yes. While I described generally how each charge or credit is assessed, specific  
125 application of these charges and adjustments vary depending on a customer's rate and  
126 elected level of backup service. These adjustments may also apply at the calculated level,  
127 such as the CGC and the NCGC, or at a percentage of the calculated level, such as the  
128 DGC. In addition, these charges and adjustments may apply to gas supplied by Nicor

129 Gas, as customer-owned gas, through either the customer's total throughput, or a  
130 percentage of the customer's MDCQ. In addition, since August 15, 1997, the revenues  
131 derived from authorized use, requested authorized use and unauthorized use therms sold  
132 to transportation customers flow through as a credit to Rider 6 gas cost and are priced at  
133 the higher of Nicor Gas' currently effective GC charge or the Market Price, which is  
134 defined in the Company's Terms and Conditions as the average of the low and high  
135 prices reported, the "index price", for deliveries of gas to the Chicago Citygate as  
136 published in *Platts Gas Daily*.

137 **Q. What procedure does the Company follow to update its Rider 6 charges?**

138 A. In accordance with the provisions of Rider 6, each month Nicor Gas submits to the  
139 Commission schedules specifying the amount of each Rider 6 charge. Each schedule  
140 specifies the revised amount of each charge, along with a statement of details and data  
141 showing Nicor Gas' calculations. The filings are mailed on or before the 20th day of the  
142 month prior to the effective month in which the new Rider 6 charges are applied to  
143 customer's bills.

144 **Q. Has Nicor Gas filed monthly purchased gas adjustment calculations for 2010 with**  
145 **the Commission?**

146 A. Yes.

147 **Q. How are Nicor Gas' Rider 6 charges applied in billing the Company's customers?**

148 A. Rider 6 charges are effective on the first day of each calendar month. However, as a  
149 practical matter, Nicor Gas bills customers on the basis of reading-day cycles that may  
150 cover multiple calendar-month periods. For each customer billed, the meter reading dates

151 are the controlling factors. If, for example, a customer's meter is read on May 16th, and  
152 had previously been read on April 16th, Nicor Gas assumes that 15/30 of the usage was  
153 subject to the Rider 6 charges effective in April and 15/30 of the usage was subject to the  
154 charges effective in May. Continuing the previous example, after prorating the amount  
155 of metered gas usage between the months of April and May based on the number of days,  
156 the appropriate monthly Gas Cost ("GC") is separately applied to each month's prorated  
157 usage. Each month's usage and corresponding GC are presented on the customer's bill in  
158 a manner that clearly illustrates both applicable GC rates. This method of proration is  
159 embodied in the revenue calculations reflected in the Exhibits to this testimony.

160 **Q. Has the presentation of the prorated Rider 6 charges provided to customers**  
161 **changed in 2010?**

162 A. No.

163 **Q. Are Nicor Gas' Rider 6 charges adjusted through any other process?**

164 A. Yes. Rider 6 provides for an annual reconciliation, which is the purpose of this  
165 proceeding.

166 **Q. What occurs during the reconciliation process?**

167 A. Generally speaking, as noted above, the revenue the Company recovered under its  
168 Rider 6 charges is compared with the Company's actual Cost of Gas Distributed for the  
169 preceding year. If Nicor Gas' Rider 6 charges recovered a different amount of revenue  
170 than the Company's actual Cost of Gas Distributed, then the Rider 6 charges are set at the  
171 level such that the difference is either credited to or collected from customers, depending  
172 on whether there was an over- or under-recovery, over the course of the following year.

173 **Q. Is each cost category reconciled?**

174 A. Yes. Pursuant to Rider 6, revenues recovered under the CGC and TSA charges are  
175 reconciled with recoverable CGC; and revenues recovered under the DGC, NCGC and  
176 CSBC charges are reconciled with recoverable NCGC.

177 **Q. Does proration of the Rider 6 charges or the proration of monthly usage complicate  
178 a reconciliation of recovered revenues with allowable recoverable gas costs?**

179 A. No. It is only the total amount of revenues recovered through each Rider 6 charge over  
180 the preceding year that is relevant for performing the annual reconciliation.

181 **Q. Is the cost of gas used by the Company during the 2010 reconciliation period  
182 reflected in the amount to be recovered through the Company's Rider 6  
183 reconciliation?**

184 A. No. The cost of gas used by the Company is excluded from the Gas Supply Cost charges  
185 established in Rider 6.

186 **IV. ANNUAL RECONCILIATION OF RIDER 6**

187 **Q. Was an annual reconciliation statement for 2010 filed in accordance with Rider 6?**

188 A. Yes. Nicor Gas' annual statement for the year 2010 is being filed simultaneously with  
189 this testimony on April 12, 2011 and is attached hereto as Exhibit BOB 2.2.

190 **Q. Please briefly describe the items contained within the filing.**

191 A. Exhibit BOB 2.2 consists of ten (10) pages, the first page of which is a transmittal letter.  
192 The next nine (9) pages, or through page 10, represent the Company's annual  
193 reconciliation for 2010.

194 **Q. What is contained within the portion of the Company’s filing that represents the**  
195 **reconciliation for the year 2010?**

196 A. The first of the nine (9) remaining pages of Exhibit BOB 2.2 is the Independent Auditor’s  
197 Report issued by Deloitte & Touche LLP for the portion of the filing that represents the  
198 year 2010 reconciliation. The next page, or page 3, is a summary calculation of the  
199 reconciliation for the year 2010. Exhibit BOB 2.2 pages 4 and 5 contain a detailed  
200 explanation of the basis for the summary calculation of the 2010 reconciliation. The next  
201 two pages, or pages 6 and 7, represent the detailed reconciliations of the CGC and  
202 NCGC, respectively (the “Reconciliation Balances”). Exhibit BOB 2.2 pages 8 and 9  
203 summarize the information included in the Company’s monthly filings for the CGC and  
204 NCGC, respectively (the “PGA Reconciliations”). The final page is the Verification of  
205 Mr. Gerald P. O’Connor, Senior Vice President Finance and Strategic Planning.

206 **Q. Would you please explain the Summary Reconciliation in more detail?**

207 A. Yes. This statement compares the total revenues recorded under the various charges of  
208 the Company’s Rider 6 provisions, with the appropriate category of recoverable Cost of  
209 Gas Distributed, to arrive at the balance to be credited or recovered under the two  
210 individual reconciliation balances. In other words, it sets forth the overall reconciliation  
211 calculation, both based on a total of collected revenue against total actual Cost of Gas  
212 Distributed, as well as broken down to the CGC and NCGC levels.

213 **Q. Does the Summary Reconciliation indicate that the Company’s Rider 6 charges**  
214 **over- or under-recovered the Company’s actual Cost of Gas Distributed for the year**  
215 **2010?**

216 A. The calculation shows an over-recovery. In particular, the Company's CGC charge over-  
217 recovered CGC by \$8,917,045, and the NCGC charge over-recovered NCGC by  
218 \$2,992,527. This represents a total amount to be credited to customers for the year 2010  
219 of \$11,909,572.

220 **Q. Does the Summary Reconciliation also account for any adjustments included in**  
221 **Commission proceedings regarding any prior reconciliations that the Company has**  
222 **filed?**

223 A. No.

224 **Q. Were there any specific adjustments separately reported in the monthly filings for**  
225 **the 2010 reconciliation year?**

226 A. No.

227 **Q. Would you please describe the Reconciliation Balance for the CGC in more detail?**

228 A. Yes. This is a detailed reconciliation that reflects the monthly amounts of recoverable  
229 commodity-related gas costs and revenues which were recorded under the Company's  
230 CGC pursuant to Rider 6 for the 2010 reconciliation year.

231 **Q. Has the over-recovered commodity-related Reconciliation Balance of \$8,917,045**  
232 **been reflected in the Company's CGC charges?**

233 A. Yes. The Company has credited \$8,917,045. The over-recovered amount has been  
234 reflected in the CGC charges as Factor "A" amounts and as an additional reduction to gas  
235 charges effective for the month of January 2011.

236 **Q. Is the line item identified as “Commodity Related Over/(Under) Collection” on the**  
237 **Reconciliation Balance for CGC the same as the line identified as “Under/(Over)**  
238 **Recovery Balance at 12/31/10” on the PGA Reconciliation for CGC?**

239 A. Yes. The Reconciliation Balance does not include any adjustments for the prior year’s  
240 Factor O.

241 **Q. What does Factor O represent?**

242 A. Factor O represents additional over- or under-recovery for a reconciliation year ordered  
243 by the Commission to be credited or collected including interest from the end of the  
244 reconciliation year to the Order date in the reconciliation proceeding.

245 **Q. Please describe the Reconciliation Balance for NCGC in more detail.**

246 A. Like the Reconciliation Balance for CGC, this is a detailed reconciliation that reflects the  
247 monthly amounts of recoverable non-commodity-related gas costs and revenues, which  
248 were recorded under the Company’s NCGC and DGC pursuant to Rider 6 for the 2010  
249 reconciliation year.

250 **Q. Has the balance to be refunded of \$2,992,527 been reflected in the Company’s DGC**  
251 **and NCGC charges?**

252 A. Yes. The Company has credited \$2,992,527. The over-recovered amount has been  
253 reflected in the DGC and NCGC charges effective for the months of January and  
254 February 2011.

255 **Q. Is the line item identified as “Non-Commodity Related Over/(Under) Collection” on**  
256 **the Reconciliation Balance for NCGC the same as the line item “Under/(Over)**  
257 **Recovery Balance at 12/31/10” on the PGA Reconciliation of NCGC?**

258 A. Yes. The reconciliation balance does not include any adjustments for the prior year's  
259 Factor O.

260 **V. EXPLANATIONS - INDIVIDUAL LINE ITEMS**

261 **Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled**  
262 **“Excess Storage Charges.”**

263 A. Pursuant to tariffs approved in Docket No. 95-0219, Nicor Gas' transportation service  
264 customers are allowed to store certain volumes of customer-owned gas in Nicor Gas'  
265 storage facilities. When a customer's actual storage balance is in excess of the allowed  
266 storage balance, the excess storage balance volume is subject to an Excess Storage  
267 Charge of \$0.10 per therm. All such Excess Storage Charge revenue billed to customers  
268 is credited through the Commodity Related Reconciliation Balance, in compliance with  
269 the Commission's Orders in Docket No. 95-0219.

270 **Q. Please explain the revenue item on the Reconciliation Balance for CGC entitled**  
271 **“Chicago Hub.”**

272 A. Pursuant to the Commission's Order in Docket No. 04-0779, revenues arising from the  
273 Chicago area Hub are required to be credited back to customers. Pursuant to the  
274 Commission's Order in Docket No. 95-0219, Nicor Gas is also required to include  
275 revenues received from the sales of storage services to off-system customers. Both  
276 revenues are to be included as a credit to Rider 6 and identified in the commodity-related  
277 Reconciliation Balance. In prior reconciliations, revenues from the sales of storage  
278 services to off-system customers were individually identified as “Storage Services” in the  
279 Reconciliation Balance. Today, the revenue item entitled “Chicago Hub” includes the

280 revenue credits for both the 2010 Hub revenues and the revenues billed in 2010 for off-  
281 system storage services.

282 **Q. Please explain the revenue item entitled “Interest on Refunds,” as shown on the**  
283 **Reconciliation Balance for CGC.**

284 A. Interest is calculated on the unamortized balances related to the amortization expenses  
285 described above. Pursuant to 83 Ill. Adm. Code 525.50(b), the Company computes the  
286 associated carrying charge on unamortized refunds and over/under collections, in effect at  
287 the time the amortization is initiated, based on the rate established under 83 Ill. Adm.  
288 Code 280.70(e)(1). Interest is included, through Factor A, with the CGC, NCGC and  
289 DGC charges, as applicable.

290 **Q. Please explain the commodity-related cost line item shown on the Reconciliation**  
291 **Balance for CGC entitled “Recovery From Hits By Contractor.”**

292 A. Recovery From Hits By Contractor represents revenues collected by the Company from  
293 contractors whose damage to our facilities has resulted in gas losses. These revenues are  
294 shown as a credit to recoverable CGC.

295 **Q. Please explain the revenue item shown on the Reconciliation Balance for NCGC**  
296 **entitled “Customer Select Balancing Charge.”**

297 A. As previously explained, this revenue item shows the revenues collected through the  
298 application of the CSBC through December 31, 2010.

299 **Q. The Reconciliation Balances for both CGC and NCGC contain a line item entitled**  
300 **“Amortization of Previous Years RB.” What do these line items represent?**

301 A. Pursuant to the Commission's Order in Docket No. 94-0403, 83 Ill. Adm. Code 525.50(b)  
302 allows the Company to amortize an Adjustment Factor ("Factor A") over a period longer  
303 than the Base Period, as defined in 83 Ill. Adm. Code 525.20, but not to exceed  
304 12 months. These line items represent the amortization of the prior year's over- or under-  
305 collected gas costs. Prior to the Commission's Order in Docket No. 94-0403,  
306 amortization expense was reflected outside the calculation of the Reconciliation Balance.

307 **VI. OVERSIGHT**

308 **Q. In conjunction with the submittal of the Annual Reconciliation Filing with the**  
309 **Commission, has the Company's annual reconciliation been the subject of an**  
310 **independent audit?**

311 A. Yes. The 2010 Annual Reconciliation Filing has been audited by Deloitte & Touche  
312 LLP, the Company's independent public accountants. Their report is included as part of  
313 the Company's filing pursuant to Rider 6. The reconciliation itself is prepared by Nicor  
314 Gas employees from several departments.

315 **Q. What type of review procedure is in place for the monthly GSC filings?**

316 A. The Rate, Gas Supply, Gas Supply Accounting and Forecasting Departments contribute  
317 to preparation of the monthly filings. The departments are familiar with the terms and  
318 provisions of Rider 6, and understand which costs are recoverable through each  
319 subsection of the GSC. The Rate Department prepares the final document filed with the  
320 Commission. Forecasting, Gas Supply and Gas Supply Accounting are involved in  
321 preparation of the documents used to support the filing.

322 **Q. How do these departments provide a check on the accuracy of the monthly filings?**

323 A. These departments must be in agreement with the treatment of costs in the monthly GSC  
324 filing.

325 **Q. What other review is performed with regard to monthly filings?**

326 A. On an annual basis, the Company's Internal Auditing Department reviews a monthly  
327 filing, corresponding source documents and a copy of Rider 6 as in effect at the time of  
328 the filing. This review is designed to ensure that only appropriate costs were included in  
329 the filing and that the filing is consistent with the guidelines set forth in the 83 Illinois  
330 Administrative Code, Part 525. Internal Auditing's review provides a further check on  
331 the inter-departmental review that I have previously described.

332 **VII. CONCLUSION**

333 **Q. What is the Company requesting?**

334 A. The Company is requesting that the Commission approve Nicor Gas' GSC charges at  
335 levels established in the Company's 2010 PGA Reconciliation. In addition, the Company  
336 is requesting that the Commission approve the \$11,909,572 customer credit through the  
337 Company's Rider 6, GSC charges, which resulted from the over-collection of actual  
338 Commodity Gas Cost in the amount of \$8,917,045 and the over-collection of actual Non-  
339 Commodity Gas Costs in the amount of \$2,992,527.

340 **Q. Does this conclude your direct testimony?**

341 A. Yes.