Docket No. 12-0569
ICC Staff Exhibit 2.0

DIRECT TESTIMONY

of

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Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Northern Illinois Gas Company

Proposed Establishment of Rider 17,
Purchase of Receivables with Consolidated Billing

Docket No. 12-0569

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Witness Identification

Q. Please state your name and business address.

A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am currently employed as an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission ("ICC" or "Commission").

Q. Please describe your professional background and affiliations.

A. I have a Bachelor of Science degree in Accounting from Quincy College. I am a Certified Public Accountant, licensed to practice in the State of Illinois. My prior accounting experience includes fifteen years as the corporate controller of a large long-term care facility in Illinois, as well as a period of time employed as an outside auditor of governmental agencies. I joined the Staff of the Illinois Commerce Commission ("Staff") in April 1999.

Q. Have you previously testified before any regulatory bodies?

A. Yes. I have testified on several occasions before the Commission.

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

A. I have reviewed and analyzed Northern Illinois Gas Company's ("Nicor", or "Company") testimony and proposed tariffs.

The purpose of my testimony is to discuss the deficiencies in the Company's proposal for Rider 17 which make approval of the tariffs premature.

If the Commission determines that tariffs for Rider 17 must be approved in this proceeding, however, I offer the following tariff revisions to:

1) propose language in the Definitions section of the tariff language to more specifically define the following terms as they are used in the proposed tariff language: Administrative and Operations Costs ("AOCs"), Net Actual Uncollectible Costs, Non-Residential POR Adjustment ($PORA_{NR}$), and Residential POR Adjustment ($PORA_{R}$);

2) propose a change to factor DF in the Discounted Receivables calculation;

3) propose revisions to tariff language as it relates to the Supply Uncollectible Adjustment;

4) propose revisions to the reconciliation factor of the POR Adjustment, Factor R_C;

5) propose revisions to Qualified Alternative Gas Suppliers ("Q-AGS") Capital Recovery Adjustment;

6) propose revisions to tariff language regarding the timing of information filings;

7) propose revisions to tariff language concerning the reconciliation process;

8) propose revisions concerning the Internal Audit and Reporting Requirements;

9) propose tracking mechanisms for costs and revenues for ready identification;

10) discuss the treatment of uncollectibles associated with the PORCB Program; and

11) discuss the Journal Entries to be made to account for the PORCB Program.

The redlined version of Staff's complete proposed tariff revisions is attached to this testimony as Exhibit 2.1.

Q. By offering the proposed revisions to the Company's proposed tariff language are you recommending that Rider 17 be approved by the Commission?

A. No. Staff witness Dr. David Rearden, in ICC Staff Exhibit 1.0, presents Staff's primary position to reject the Company's Rider 17 proposal. My testimony offers tariff revisions as recommendations to the Commission in the event it determines that tariffs to establish Rider 17 must be approved in this proceeding.

<u>Approval of Rider 17 Tariff is Premature</u>

Q. Please explain why you believe that approval of the Rider 17 tariffs is premature?

A. Nicor is asking the Commission to approve tariff language for Rider 17, Purchase of Receivables with Consolidated Billing (PORCB) for a program that is not sufficiently developed for the Commission to act upon. As responses to multiple data requests from Nicor indicate, the PORCB program is still in its preliminary design stage.

- When asked about the various components of the Administrative and Operations Costs in Staff data request ("DR") TEE 1.04, the Company replied that the referenced components of the cost could not be determined or are not known at this time and would be a function of the final requirements of Rider 17.[1]

- In response to discovery concerning the basis for the Information Technology changes that make up the Capital Costs for PORCB, the Company provides preliminary design requirements stating that "documents will be refined to the 'final design' stage, which will most likely change the preliminary estimates".[2] The preliminary estimates are based on Nicor Gas' current staffing levels;[3] however, in response to Staff DR TEE 1.13, the Company states that it plans to use both internal and external staffing resources to make the system modifications. Nothing firm has been provided to Staff regarding costs from either external or internal staffing resources.
- In response to Staff DR TEE 1.15 requesting the basis for the 8% estimation for overhead and administrative/general expenses related to the start-up process, the Company admitted that it was only a preliminary estimate and will be updated based on the "final design" stage.[4]
- When asked about the calculation of the POR Customer Adjustment based on the Company's current best estimate, the Company declined to provide the information since the Company "does not have a "best

[1] Attachment A, Company response to Staff DR TEE 1.04.
[2] Attachment B, Company response to Staff DR TEE 1.12.
[3] Nicor Gas Ex. 1.0, p. 14, lines 325 – 327.
[4] Attachment C, Company response to Staff DR TEE 1.15.

> estimate" or forecast of the necessary information to determine the POR Customer Adjustment."[5]

In addition, adequate support is lacking for the Discount Factor that is being proposed. In testimony, Company witness Mudra claims that the 1.5% Discount Factor is reasonable; however, in response to Staff DR TEE 1.07, the only factor to support that reasonableness is the determination of the Q-AGSs.[6] No other basis has been provided by the Company for the Commission to judge the reasonableness of the Discount Factor.

Adequate support is also lacking for the intangible cost factor proposed for recovery in the tariff language. When asked about the basis for the intangible cost factor included in the tariff language and formula, the Company characterizes that component as "unquantifiable".[7] If costs cannot be measured, cost recovery cannot be determined.

As further evidence of the prematurity of the approval of the tariff language, Nicor will not commence service under this Rider until the conclusion of the final design stage, defined as "24 months after the Commission issues a final order that is no longer subject to rehearing or appeal approving this rider".[8] The Company would have the Commission approve Rider 17 with the caveat that multiple components of the program will change during the 24 month final design stage.

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[5] Company response to Staff DR TEE 1.18.
[6] Attachment D, Company response to Staff DR TEE 1.07.
[7] Attachment E, Company response to Staff DR TEE 1.10. Staff witness Rearden offers additional testimony addressing this component in Staff Exhibit 1.0.
[8] Company Proposed Rider 17, Original Sheet No. 75.9.13.

Q. Given the prematurity of approval of the Rider 17 tariff language, what is your recommendation?

A. The Company should withdraw their tariff filing and resubmit it near final design of the program and once the design is sufficiently developed for the Commission to consider it for approval.

<u>Proposed Changes to Definitions</u>

Q. Please explain why you propose to revise components included in the Definitions section of the tariff language.

A. The definitions provided in the Company-proposed tariffs are ambiguous and in some instances allow for recovery of any costs that the Company may decide to include. In addition, some of the definitions are inconsistent with the recovery mechanism discussed later in the tariff. Since the Commission has already considered PORCB tariffs for the Ameren (Docket No. 08-0619/0620/0621 (Cons.)) and ComEd (Docket No. 10-0138) electric utilities, many of the issues concerning cost components and mechanics of recovery under PORCB have already been explored. Unless evidence is provided to explain why the Nicor gas utility should be treated differently, the Commission should strive for consistency among the PORCB tariffs. I am proposing changes to the definitions for Administrative and Operational Costs, Capital Recovery Costs, Discount Factor, Intangible Costs, Net Actual Uncollectible Costs, Non-Residential POR Adjustment, and Residential POR Adjustment.

Q. Please discuss your proposal to specifically define Administrative and Operations Costs ("AOCs") and Capital Recovery Costs ("CRC").

A. Since AOCs and CRCs are the costs to be recovered from ratepayers and Q-AGS under Rider 17, the definitions should contain more specific language to remove the ambiguity that currently exists in the definitions as presented.

Q. How does Nicor define the costs that will be recovered through Rider 17?

A. Nicor includes itemized lists of what it believes should be included as AOCs and CRCs on Original Sheet No 75.9.3.

Q. How do you propose that the definition of these costs be included in the tariffs with more specificity?

A. In the Ameren UCB/POR cases (ICC Docket Nos. 08-0619/0620/0621 (Cons.)), specific definitions for the Start-up Costs[9] (Capital costs) and Ongoing Administrative Costs[10] (Expenses) were included in the approved tariffs. The language I propose for inclusion under the Definitions Section on Original Sheet No. 75.9.3 to define the costs to be considered for recovery, based on those definitions are as follows:

> **Administrative and Operational Costs (AOCs)**
> Administrative and Operational Costs (AOCs) shall mean incremental expenses incurred by or for the Company in association with services provided under ~~this~~ Rider 17 including, ~~without limitation~~, (a) ongoing electronic data transfer costs; (b) costs for obtaining Commission approvals and participation in regulatory proceedings; (c) staffing required to address questions from Q-AGS and others regarding services provided under this Rider; and (d) financial tracking, audit, and reconciliation activities with respect to the this Rider~~; (e) other staffing required to administer and address questions from Q-AGSs and others regarding~~

[9] Central Illinois Light Company, Ill. C.C. No. 18, 1st Revised Sheet No. 34.004.
[10] Central Illinois Light Company, Ill. C.C. No. 18, 1st Revised Sheet No. 34.003.

> ~~services provided under this Rider; (f) fees, charges, billings or assessments related to this Rider; (g) costs or expenses associated with equipment, devices, or services that are purchased, provided, installed, operated, maintained or monitored for services provided under this Rider; and (h) legal, auditing and consultant costs related to this Rider~~. Such incremental costs are not included in base Delivery Service rates.

> **Capital Recovery Costs (CRC)**
> Capital Recovery Costs (CRC) shall mean the revenue requirement necessary to recover the Company's investment in information technology systems necessary for implementing the PORCB Program. CRC shall include: (a) initial programming changes to implement the PORCB Program; (b) general billing system and related enhancements required for the PORCB Program; and (c) development of information technology to implement the PORCB Program~~; and (d) future system modifications required to maintain information technology system integrity and functionality related to the provisions of the PORCB Program~~. Such investment costs are not already included in base delivery service rates and shall be treated as a regulatory asset. CRC will be limited to incremental costs incurred through one year following the commencement of service under this Rider.

Q. Explain the revisions you are making to the definition of AOCs.

A. I am removing the phrase "without limitation" since it leaves the door open for the recovery of any type of costs under the PORCB Program. This exact issue was contested in both the Ameren and ComEd proceedings to consider PORCB Programs; however, the final approved tariff language in those cases did not include the phrase "but not limited to." The Commission should not allow the phrase "without limitation" to be included in the tariffs, since its effect would be to allow any cost to be recovered under the tariff provisions.

I am also removing the last 4 items listed by the Company in its definition of AOCs. The Company agreed in response to Staff DR TEE 3.01 that item (e) should be removed since it describes the same expenses as item (c). Likewise, Item (h) describes expenses that would already be included in the other items so it should also be deleted. Items (f) and (g) are ambiguous and undefined by the Company. In response to Staff DR TEE 1.04,[11] the Company admitted that these costs were unknown; therefore, they should not be included as other categories of costs to be included in AOCs.

Q. How does your definition for AOCs compare to that approved in Ameren and ComEd PORCB Program tariffs?

A. The items included in my proposed definition of AOCs are consistent with the types of administrative and operational costs included in Ameren and ComEd PORCB tariffs. While this case considers costs for a gas utility rather than an electric utility, there has been no argument offered as to why the Administrative and Operations costs would be any different between the two types of utilities.

Q. Your definition for CRCs characterizes them as "initial" costs. How should the Company treat any system modification costs once the program is in operation?

A. In the definition, I have set parameters for the time period of costs to be recovered as CRCs to those incurred through one year following the commencement of service under this Rider. Costs incurred to modify the system after that time frame would, in my opinion, not be for the "development," "modification" or "implementation" of the program but would be further enhancements that may be required for reasons unrelated to the initiation of the

[11] Attachment A.

PORCB program. As such, they would be treated as any other system modification costs and not specifically a part of the PORCB development, modification and implementation costs. This position is consistent with the Ameren and ComEd tariffs which limit the capitalized costs to a period ending approximately one year after the effective date of their UCB/POR programs.

Q. What do you propose as the definition for Discount Factor ("DF")?

A. I propose that the definition of the Discount Factor be revised in the tariff as follows:

> A ~~Q-AGS~~ Discount Factor (DF) of 1.5% shall be applied to Qualifying Receivables (QR) purchased by the Company from the Q-AGS. The Discount Factor shall include~~s~~ .5% for Capital Recovery Costs until the end of the five-year recovery period. Thereafter, a Discount Factor of 1.0% shall be applied to Qualifying Receivables purchased by the Company from the Q-AGS.

The explanation for this change is presented in Staff Ex. 3.0, the Direct Testimony of Rochelle Phipps.

Q. What do you propose as the definition for "net actual uncollectible costs"?

A. I propose that the definition of net actual uncollectible costs ("NAUC") be revised as follows:

> **Net Actual Uncollectible Costs**
> Net Actual Uncollectible Costs (NAUC) shall mean the amount actually written off by the Company for receivables purchased by the Company from a Q-AGS during the POR Application Period in accordance with the provisions of this rider less the total amount by which such purchased receivables were reduced by the 1.0% uncollectible component of the Discount Factor ~~of 1.5%~~ during such POR Application Period. The resulting amount may be positive or negative.

Since this component relates only to the uncollectibles associated with the purchased receivables, only the component of the discount rate applicable to the uncollectibles should be included in the definition, 1.0%.

Q. What do you propose as the definitions for Non-Residential POR Adjustment (“PORA$_{NR}$”) and Residential POR Adjustment (“PORA$_{R}$”)?

A. I propose that definitions of POR$_{NR}$ and POR$_{A}$ be revised as follows:

> **Non-Residential POR Adjustment (PORA$_{NR}$)**
> The Non-residential POR Adjustment (PORA$_{NR}$) shall be applied to all Eligible Non-residential customers receiving service from a Q-AGS participating in the PORCB Program. The PORA$_{NR}$ is intended to recover the ~~working capital necessary to operate the PORCB Program for Non-residential customers, its~~ ongoing Administrative and Operational Costs, ~~Intangible Costs,~~ and Net Actual Uncollectible Costs ~~to the extent that they are not recovered through collection of the Q-AGS Discount Factor~~.
>
> **Residential POR Adjustment (PORA$_{R}$)**
> The Residential POR Adjustment (PORA$_{R}$) shall be applied to all Eligible Residential Customers receiving service from a Q-AGS that has elected service under this Rider. The PORA$_{R}$ is intended to recover the ~~working capital necessary to provide service under this Rider for residential customers, its~~ ongoing Administrative and Operational Costs~~, Intangible Costs,~~ and Net Actual Uncollectible Costs~~ to the extent that they are not recovered through collection of the Q-AGS Discount Factor~~.

Since the formula that I propose later in this testimony for the Actual Purchase of Receivables Costs includes only AOCs and NAUC, the other working capital reference and the Intangible Costs should both be removed from the definitions of the PORA’s. By the definition above, the NAUC is a net amount that already reflects the uncollectibles recovered through the discount factor. Therefore, the last phrase in these definitions is redundant.

Q. What other changes are you proposing to the Definitions Section of the tariff?

A. I propose to move the "Effective Date" of the rider from Section K on Original Sheet No. 75.9.13, to immediately follow the initial paragraph under Purpose on Original Sheet No. 75.9.3. Since that effective date will be delayed for up to 2-½ years after the Order in this case is passed, it is important to include that information earlier on the tariff rather than buried on page 13. The language I propose is as follows:

> The date on which service under this Rider 17 will commence (the "Effective Date") shall occur no more than twenty-four (24) months after the Commission issues a final order that is no longer subject to rehearing or appeal approving Rider 17.

I also reflect the deletion of the definition of Intangible Costs from Original Sheet No. 75.9.4 as discussed more fully in Staff Ex. 1.0.[12]

Finally, I have reflected certain revisions throughout the tariff to refer to "Rider 17" rather than "this rider" or "Rider PORCB" to be consistent with the title given to the Rider by the Company.

Proposed Change to Discounted Receivables

Q Please describe your change to the Determination of Discounted Receivables on Original Sheet No. 75.9.8.

[12] Due to the deletion of the Intangible Costs from recovery under Rider 17, the Factor ICR is removed from the PORA formula on Original Sheet 75.9.9, the definition of Factor ICR on Original Sheet No. 75.9.10, and the Actual PORA Costs formula on Original Sheet No. 75.9.10.

A. I propose to remove the phrase “which is .015” from the definition of factor DF in the formula to determine Discounted Receivables. As described in the testimony of Staff witness Phipps, after the five-year recovery period ends, the 0.5 percentage points for Capital Recovery Costs should cease to be collected through the Discounted Receivables. The tariff language on Original Sheet No. 75.9.8 should be revised as follows:

DF = Discount Factor~~, which is .015~~

__Proposed Change to Supply Uncollectible Adjustment__

Q. Please discuss your proposed changes to the Supply Uncollectible Adjustment (“SUA”) included in the calculation of the POR Customer Adjustment (“PORA”).

A. I propose to revise the Factor SUA to remove the complexity built into the Company’s proposal. Based on my understanding of the PORA, eligible customers will be billed an amount each month based on *estimated* AOCs plus *estimated* uncollectibles associated with the purchased receivables, net of the amount of uncollectibles *estimated* to be recovered through the discount rate. The Company’s proposal appears to include reconciliation adjustments in the determination of the SUA through factor SUB. However, reconciliations of estimated costs with actual costs are also included in Factor R_C of the $PORA_{C.}$

Q. Explain how you are simplifying the uncollectible amount to be recovered through Factor SUA.

A. I propose that the estimated uncollectible amount to be used in the calculation be based on the uncollectible factor determined in the Company's latest rate case (less the 1% factor in the discount rate for uncollectibles) multiplied by the total face amount of the Receivables purchased from the Q-AGS. This calculation is much more straight-forward and easier to apply than more complex Estimated Gross Collections that the Company proposes using Qualifying Receivables, estimated gas consumption volumes, supplier commodity costs and customer payment experience. In my opinion, my proposal already considers all of those factors.

Q. Why are you removing the SUB component from the calculation of the SUA?

A. As I previously noted, the SUB calculation provides for a reconciliation of the uncollectible component of the PORCB costs on a monthly basis. Since actual uncollectibles associated with the PORCB program are also considered in the annual reconciliation factor of the PORA adjustments (Factor R), conducting interim SUB calculations is unnecessarily redundant.

Q. What do you propose as revisions to the tariff language concerning the Factor SUA?

A. I propose that the description of SUA in the tariff on Original Sheet No. 75.9.9 and 75.9.10 be revised as follows:

SUA = the Supply Uncollectible Adjustment, in dollars ($) rounded to the nearest cent, may be either positive or negative and shall be equal to the ~~Estimated Discounted~~ Qualified Receivables ~~paid to~~ purchased from Suppliers relating to applicable customers during the effective month ($_M$) ~~less the Estimated Gross Collections to be received from applicable customers during the month plus the portion of the Estimated Gross Collections associated with the Capital Cost Recovery component of the Discount Factor and~~ times the net of the uncollectible rate as determined in the most recent delivery service rate case for the Company less the 1% uncollectible component of the Discount Factor. ~~an amortization of the Supply Uncollectible Balance as necessary, by customer class.~~

$$SUA = \cancel{E\text{-}D}\ \Sigma Q\text{-}REC_M\ \cancel{- E\text{-}GC_M + (E\text{-}GC_M}\ x\ (UR - .01)\ \cancel{+ A}$$

~~E-D~~Q-REC $_M$ = ~~the sum of the Estimated Discounted Receivables, in dollars ($) rounded to the nearest cent, expected to be paid to Q-AGS for applicable customers during the effective month. It is based on estimates of the following: Qualifying Receivables, estimated gas consumption volumes, supplier commodity service costs, customer payment experience and the discount factor of 1.5%.~~ the sum of the Qualifying Receivables, in dollars ($) rounded to the cent, equal to the gas supply service related receivables of a Q-AGS, for customer c, on the consolidated monthly bill for gas service issued by the Company for gas supply service provided to such retail customer, c, by the Q-AGS.

~~E-GC$_M$ = the sum of the Estimated Gross Collections, in dollars ($) rounded to the nearest cent, expected to be received from applicable customers during the effective month. It is based upon estimates of the following: Qualifying Receivables, estimated gas consumption volumes, supplier commodity costs and customer payment experience~~.

UR = the uncollectible rate in decimal format (0.000) as included in the Gross Revenue Conversion Factor in the Company's most recent delivery service base rate case.

~~A = Amortization of the cumulative Supply Uncollectible Balance (SUB), in dollars ($) rounded to the nearest cent, as necessary, for the appropriate customer class. Factor A may be amortized over a period not to exceed 24 months and may result in either a charge (positive) or credit (negative) to the customer's monthly PORA$_C$~~

~~SUB$_C$ = shall equal the Supply Uncollectible Balance, in dollars ($) rounded to the nearest cent, by customer class (c) in dollars ($), equal to the cumulative balance resulting from the application of the SUA through the POR Application Period. The SUB shall equal:~~

~~$SUB_C = \Sigma DREC - (\Sigma GC \times .995)$~~

~~DREC = the cumulative sum of the actual prior months Discounted Receivables, in dollars ($), rounded to the nearest cent, for customer class, (c).~~

~~GC = the cumulative sum of the actual prior months Gross Collections, in dollars ($), rounded to the nearest cent, for customer class, (c).~~

Proposed Change to Reconciliation Factor of PORA

Q. What do you propose as revisions to the tariff language concerning the reconciliation factor of PORA?

A. I propose the following revisions to the reconciliation factor of the PORA on Original Sheet Nos. 75.9.10 and 75.9.11 as follows:

R_C = the Company determined reconciliation component for PORA~~CB~~ costs, calculated for the reconciliation period, in dollars for the residential and non-residential customer classifications. The reconciliation amount shall be the difference between the actual calculated $PORA_C$ costs during the prior application period and the actual booked revenues for the $PORA_C$. The reconciliation component shall be recovered from or refunded to customers over 9 months, from April through December and shall be supported by a Commission filing made on or before March 20th. No reconciliation component shall be included in the January through March period. The reconciliation component shall be calculated using the following formula:

$$R_C = \text{Actual } PORA_{(C)} \text{ Costs} - \text{Actual } PORA_{(C)} \text{ Revenues}$$

Where:

$$\text{Actual } PORA_{(C)} \text{ Costs} = AOC_A(_C) + NAUC(_C) \cancel{+ ICR_C}$$

Actual $PORA_{(C)}$ Costs = The actual Purchase of Receivables Costs ~~adjustment~~ for the customer class (c), in dollars ($) rounded to the nearest cent, which equals the sum of the Administrative and Operational Costs, and the Net Actual Uncollectible Costs ~~and the Intangible Cost Recovery component~~ for the reconciliation period.

AOC_A = actual Administrative and Operational Costs, in dollars ($) rounded to the nearest cent, for the PORCB Program for the reconciliation period.

> ~~Net Actual Uncollectible Costs (~~NAUC~~)~~ = the Net Actual Uncollectible Costs equal to the amount actually written off by the Company for receivables purchased by the Company from Q-AGS during the POR reconciliation period in accordance with the provisions of this rider less the total amount by which such purchased receivables were reduced by the 1% uncollectible component of the Discount Factor ~~of 1.5%~~ during such POR Application Period. The resulting amount may be positive or negative. NAUC shall be represented by the following formula:
>
> $$NAUC = RWO_C - \Sigma_{RP} (Q\text{-}REC_C \times .01\cancel{5})$$

While most of these changes have already been discussed elsewhere in this testimony, the changes to the description of NAUC were agreed to by the Company in response to CUB DR 2.08.

Proposed Change to Q-AGS Capital Recovery Adjustment

Q. What do you propose as revisions to the tariff language concerning the Q-AGS Capital Recovery Adjustment ("CRA")?

A. I propose the following to revise the tariff language for the Q-AGS CRA as shown on Original Sheets Nos. 75.9.11 and 75.9.12:

> The Q-AGS Capital Recovery Adjustment (CRA), by customer class, shall be applied monthly, as necessary, to Q-AGS Supplier Aggregation Service bills to collect or refund any anticipated under-collected or over-collected Capital Recovery Costs received through application of the .5% component of the Discount Factor. The CRA shall be calculated based on the following formula:
>
> $$CRA_C = ((CRC_M - (\cancel{E\text{-}GC}Q\text{-}REC_M \times .005)) + A_C + R_{CC} + O_{CC} / EC) \times SC_C$$
>
> ~~$E\text{-}GC_M$ = As previously defined.~~
>
> O_{CC} = An amount representing the additional over- or under-recovery for a reconciliation year Ordered by the Commission to be refunded or collected to the Q-AGS

Q. Please explain your proposed revisions.

A. I propose two revisions related to the calculation of the CRA to be charged to the Q-AGS.

First, I propose that the calculation of the “intended monthly amount of the annual five-year levelized revenue requirement” be based on the calculation of the Qualified Receivables time .005 rather than the estimated gross collections multiplied by .005. The amount of revenue the Company bills will be based on the total purchased receivables, not on some discounted amount considering uncollectibles. The actual uncollectibles will be reconciled through the PORA so should not be a part of the CRA.

Second, I have added a Factor O to provide for a Commission-ordered adjustment that may result from the Commission’s review of the Company’s reconciliation.

<u>Proposal for Tariff Language on the Timing of Informational Filings</u>

Q. Please discuss your proposed revisions to tariff language regarding the timing of information filings.

A. The Company proposes that informational filings be made by the twentieth (20^{th}) of the month preceding the effective date of the change to charges or credits. I recommend that the *initial* informational filings be made no later than 60 days prior to the effective date of the change to any charges or credits. Due to the complexity of the formulas the Company has included in its proposed tariff language, more time will be necessary to process the amount of information that will go into calculating the new rates. In addition, since so many of the factors making up the cost recovery are unknown at this time, Staff will require additional time to review the supporting documentation for initial rates to be charged under this Rider.

Q. What language revisions are you proposing regarding the informational filings?

A. The following revision should be made to the paragraph on Original Sheet No. 75.9.12 to provide for sufficient time to review of the initial informational filing.

> **Section F~~G~~[13] – Information Sheet Filings**
>
> The Company shall file with the Commission, on or before the 20th day prior to the effective month, an information sheet specifying the charges or credits to be effective for service rendered during the upcoming month defined as the Effective Period. However, for the initial information sheet filing, the Company shall file the information sheet with the Commission no less than 60 days prior to the effective period of the charges or credits. Each such information filing shall also be provided to the Manager of the Staff's Accounting Department along with all workpapers supporting the derivation of the charges and credits.

Q. Has the Company provided a draft of the Information Sheets it will be filing for the PORA Adjustment and the CRA Adjustment?

A. No. A draft of the Information Sheet the Company proposes to file should be provided with the Company's Rebuttal Testimony for Staff comment.

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[13] Section will need to be renumbered from this point due to the Company's agreement to remove Section F – Audit and Reporting Requirements since it is duplicated in Section I.

Proposal for the Reconciliation

Q. Please provide your proposed revisions to Section H – Reconciliation.

A. I propose the following revised language concerning the Reconciliations for Rider 17 on Original Sheet No. 75.9.12:

> **Section ~~H~~G – Reconciliation**
>
> On or before August 31 following each Reconciliation Period, the Company shall file a petition with the Chief Clerk to initiate the reconciliation process. The petition shall include ~~a~~ reconciliations of the actual PORA costs ~~and~~ with the actual PORA revenues booked and actual Capital Recovery Costs incurred with Capital Recovery revenues booked. The Reconciliation Period covering the initial POR Application period shall include a review by the Commission of the prudence and reasonableness of the Capital Recovery Costs, as described hereafter in Section H, and a review of the final levelized five-year annual revenue requirement calculation. Supporting documentation or workpapers affecting the information presented in the Company's reconciliation petition shall be provided to the Commission's Accounting Staff at the time of this filing. In conjunction with the reconciliation filing, a new information sheet may be filed adjusting the then effective PORA charge or credit under this Rider for the amount to be reconciled.

Q. Please discuss your revisions.

A. In response to Staff DR TEE 3.14, the Company agreed to the revised language clarifying the specific costs and revenues that will be reconciled.

The tariff language addressing the reconciliation did not provide for an ordered reconciliation adjustment related to a prudence review of the costs to be considered for recovery of capital costs. Section 16-118(c), which established the POR mechanism for the electric utilities, states:

> The tariff filed pursuant to this subsection (c) shall permit the electric utility to recover from retail customers any uncollected receivables that may arise as a result of the purchase of receivables under this subsection (c), may also include other just and reasonable terms and conditions, and shall provide for the **prudently incurred costs** associated with the provision of this service pursuant to this subsection (c). (Emphasis added)

It is reasonable that if such a review is mandated for the electric POR programs, it should likewise be included in the gas POR programs.

Proposal for the Internal Audit

Q. Please provide your proposed revisions to Section I – Internal Audit.

A. I propose the following revised language concerning the Internal Audit for Rider 17 on Original Sheet No. 75.9.13:

> **Section ~~J~~ I – Internal Audit**
>
> After each POR Application Period, the Company will conduct an internal audit of its costs for such previous POR Application Period and recoveries of such costs pursuant to this rider. The audit shall include at least the following tests: 1) test that costs recovered through Rider 17 are not recovered through other approved tariffs; 2) test customer bills that all Rider 17 adjustment factors are being properly billed to customers in the correct time periods; 3) test that Rider 17 revenues are properly stated and 4) test that ~~costs classified as uncollectible expenses as reported in Form 21, Annual Report to the Illinois Commerce Commission~~, actual write-offs of receivables acquired under the PORCB Program are being identified, recorded and properly reflected in the calculation of rates and reconciliations. The above list of determinations shall not limit the scope of the audit.
>
> The Company must prepare a report that summarizes the results of such audit. In addition, for such previous POR Application Period such report must address (a) Q-AGS participation under this rider, (b) total costs incurred for AOCs and CRCs, (c) the total amount of the discounted receivables purchased in accordance with the provisions of this rider, (d) total amount of the write-offs associated with receivables purchased in

accordance with the provisions of this rider, and (e) revenues associated with the application of POR Adjustments. Such report must be submitted to the ICC in an informational filing, with copies of such report provided to the Manager of the Staff's Accounting Department and the Director of the Staff's Financial Analysis Division within sixty (60) calendar days after the end of such POR Application Period. Such report must be verified by an officer of the Company.

In addition to the reporting requirements previously identified in this Internal Audit section, in each calendar year during which the Company is not required to perform an internal audit of its costs for a POR Application Period, the Company must prepare a report for the previous calendar year that addresses (a) Q-AGS participation under this rider, (b) total costs incurred for AOCs and CRCs, (c) the total amount of the discounted receivables purchased in accordance with the provisions of this rider, (d) total amount of the write-offs associated with receivables purchased in accordance with the provisions of this rider, and (e) revenues associated with the application of POR Adjustments. The first such report must also include an evaluation of any POR Adjustment in effect during the first POR Application Period. Such report must be submitted to the ICC in an informational filing, with copies of such report provided to the Manager of the Staff's Accounting Department and the Director of the Staff's Financial Analysis Division within ninety (90) calendar days after the end of such previous calendar year. Such report must be verified by an officer of the Company.

Q. Please explain your language revision in the first paragraph.

A. The language revision in the first paragraph clarifies that the amount for uncollectibles associated with Rider 17 is based upon the amount of the purchased receivables that are actually written off by the utility as uncollectible. The amount reported as uncollectible expense in Form 21 includes the allowance for uncollectible accounts as determined by the utility and includes amounts beyond those that are actually written off during the year.

Q. Please provide an explanation of the two additional paragraphs added to this section.

A. The next two paragraphs provide for the utility to prepare statistical information regarding the PORCB Program on an annual basis for the Commission. This language is consistent with that included in PORCB tariffs for the electric utilities. The Company agreed to this additional language in its response to Staff DR TEE 3.16.

Q. What type of detail would you expect to see for the Q-AGS participation component of the report?

A. Q-AGS participation detail should include the following information provided by individual Q-AGS:

a) Number of accounts at beginning of year by rate class
b) Number of accounts added during the year by rate class
c) Number of accounts dropped during the year by rate class
d) Number of accounts at the end of the year by rate class

<u>Proposal for the Tracking of Costs and Revenues</u>

Q. Please discuss your proposed tracking mechanisms for costs and revenues for ready identification.

A. I propose that separate revenue subaccounts be established when the charges are first applied to customer bills to specifically identify these revenues. I also propose that separate expense subaccounts be established to track the AOC costs.

Q. Why is it necessary for the Company to maintain the identity of revenues resulting from the PORA Adjustments?

A. The revenues need to be readily identifiable to determine any over/under recovery resulting from Rider 17. My proposal will provide tracking from the inception of the adjustments so that the revenues are readily identifiable for review during the reconciliation process.

Q. Why is it necessary for the Company to maintain the identity of costs recoverable through the PORA Adjustment?

A. The PORA Adjustment costs need to be readily identifiable for recovery through the Rider 17. In response to Staff DR RMP 1.05 the Company stated that it has spent approximately 430 hours to develop the preliminary information design estimate and that it has not capitalized any of the preliminary design cost work. It is unclear if any of this “preliminary” work is intended for recovery as Capital Recovery Costs through the Discount Rate applied to the purchased receivables.

Q. Do you have other concerns regarding the tracking of costs?

A. Yes. The Company indicated that it will take two years from the beginning of the implementation project to make all the system changes to implement the PORCB Project. Moreover, the Company has the burden of ultimately proving that any costs it has incurred were prudent. Consequently, it would seem that logically, from its own perspective and that of the Commission, the Company should begin immediately to maintain the detail of all costs incurred for the PORCB project.

Q. What detail should the Company maintain for review?

A. At a minimum, the Company should maintain the following detail for the PORCB-related external costs:

a) Vendor,
b) Date,
c) Dollar amount,
d) Description of service provided,
e) Invoice or other third-party documentation to support the costs, and
f) Contracts or other agreements to the extent that the services are covered by such a document.

For internal Company costs, the detail should also include information to verify that the internal costs are incremental and not otherwise included in recovery under any other tariffs currently in effect.

Since this would be an ongoing long-term project, the Company should be ordered to provide progress reports no less that quarterly until the Company commences service under Rider 17.

<u>Treatment of Uncollectibles</u>

Q. How does the Company propose to treat accounts purchased through the PORCB Program that it subsequently writes off as uncollectible?

A. The Company has not provided an explanation of the treatment of PORCB accounts it writes off as uncollectible. While in response to Staff DR TEE 4.01,[14] the Company provided exemplar journal entries accounting for various scenarios, the examples do not address uncollectibles greater than the "expected" amount.

[14] Attachment F, Company response to Staff DR TEE 4.01.

Q. Please explain.

A. In the journal entries provided, the Company indicates that it will record an allowance for the expected uncollectible expense in Account 143 – Other Receivable (allowance). Parts c) and d) of the response reflect the collection of 98% of the receivable with the remaining 2% written off through the allowance account. However, no indication is made for the scenario whereby less than 98% of the receivable is collected and more than 2% is written off. The Company should address this scenario in its rebuttal testimony.

Q. Did you suggest treatment of the uncollectible amount in excess of the "expected uncollectible"?

A. Yes. In Staff DR TEE 4.03, I inquired whether the Company would reflect the amounts of receivables purchased under Rider 17, which are subsequently written off, in the reconciliation of Rider 26. In response, the Company simply pointed to its response to Staff DR TEE 4.01 d). As stated in the prior Q&A, that response does not address non-collection of greater than expected amounts.

Q. Did the Company explain its process regarding a PORCB account that is written off?

A. Not completely. In response to CUB DR 2.08, the Company explained:

> Nicor Gas' determination to write off a receivable will occur after the Company has exhausted collection activities and will depend upon the circumstances surrounding any given receivable.

While this explanation indicates that the Company will exhaust all collection activities prior to writing off an account, it does not explain how the costs of the written-off account will be recovered. The Company should provide that explanation in its rebuttal testimony.

Journal Entries

Q. How does the Company plan to account for the accounts purchased under the PORCB Program?

A. In response to Staff DR TEE 4.01[15] received on February 26, 2013 the Company provided journal entries for the scenarios presented. I am conducting additional discovery to clarify the adjustments made to Account 182.3 Other Regulatory Assets. I recommend that the Company provide a complete discussion of the accounting it anticipates for all components of the PORCB Program in rebuttal testimony.

Conclusion

Q. What recommendations do you make concerning the Company's rebuttal testimony?

A. I recommend that in its rebuttal testimony, Nicor should provide:

1. A draft of the Information Sheet that will be filed once service is provided under Rider 17;

[15] *Id.*

2. Further explanation of how it will recover amounts associated with the PORCB Program written-off that are in excess of the amount it records as Other Receivables (allowance); and

3. A complete explanation of the accounting entries it anticipates to account for all of the components of the PORCB Program including purchase of receivables, recording capital costs to be recovered, recording administrative and operational costs, payment on the accounts, write off of unpaid accounts and recovery of any accounts written off.

Q. What is your recommendation to the Commission regarding the Company's proposed Rider 17?

A. I recommend that the Commission adopt the recommendation of Staff witness Rearden to reject the proposed Rider 17. If, in the alternative, the Commission determines that Rider 17 tariffs should be approved in this proceeding, I recommend the following:

1) The revisions to tariff language discussed above be approved;

2) The Company be ordered to keep its records in the manner described above to track its costs and revenues associated with the PORCB Program; and

3) The Company provide a draft of the Information Sheet it will be filing under the proposed tariffs with its rebuttal testimony.

Q. Does this question end your prepared direct testimony?

A. Yes.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE First Set of Data Requests

TEE 1.04 Q. Referring to NICOR Gas Ex. 1.0, p. 9, lines 199 - 208:

a) Referring to item (a), if the AOCs are incremental costs, explain how ongoing electronic data transfer costs would be eligible for recovery.

b) Referring to item (b), would costs for obtaining Commission approvals and participation in regulatory proceedings be limited to those associated directly with PORCB?

c) Referring to item (d), is it anticipated that new staff will be hired for the tasks listed? If not, how would these be "incremental" costs?

d) Referring to item (e), please provide examples of the "fees, charges, billings or assessments related to the rider."

e) Referring to item (f), please provide examples of the costs or expenses anticipated.

TEE 1.04 A.

a) The terms "ongoing" and "incremental" are not mutually exclusive.

Ongoing electronic data transfer costs could include the licensing of software for data encryption, the licensing of scheduling software for batch processing, and the licensing software for file transfer protocols ("FTP"). These costs would be incremental and ongoing after the initial start-up period.

b) Yes.

c) Future staffing decisions cannot be determined at this time because they will be a function of the final requirements of Rider 17, such as final program design, regulatory requirements, participation rates, and administrative and information requirements.

d) The referenced "fees, charges, billings or assessments" are not known at this time because they will be a function of the final requirements of Rider 17. However, they may include, but not be limited to, new costs associated with the implementation of Rider 17 that are charged by external parties involved in fulfilling the final requirements of the rider such as collection agency fees, credit services, and data management.

e) The referenced "costs or expenses" are not known at this time because they will be a function of the final requirements of Rider 17. However, they may include, but not be limited to, equipment or devices related to the information technology systems that will be necessary to fulfill the final requirements of the rider.

Witness: Robert R. Mudra

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE First Set of Data Requests

TEE 1.12 Q. Referring to Nicor Gas Ex. 1.0, p. 14, lines 310 – 322, please provide the basis for the estimation of hours made by the Company to arrive at the 42,200 [*sic*] total hours for implementation of the system changes.

TEE 1.12 A. Please see attached TEE 1.12 Exhibit A for a summary of the preliminary PORCB information technology design requirements of 42,400 hours. Please see attached TEE 1.12 Exhibit B for a list of the preliminary design requirements documentation. After the Commission issues a Final Order in this proceeding, these documents will be refined to the "final design" stage, which will most likely change the preliminary estimates.

Witness: Robert R. Mudra

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE First Set of Data Requests

TEE 1.15 Q. Referring to Nicor Gas Ex. 1.0, p. 14, lines 319 – 322, please provide the basis for the 8% estimation for overhead and administrative/general expenses related to the start-up process.

TEE 1.15 A. The 8% estimation was part of the preliminary design estimate provided by the Company's Information Technology department. (See TEE 1.12 Exhibit A). The Company's Accounting department is currently reviewing the 8% estimation and the Company will update its cost estimations and this response as necessary. In addition, all applicable cost estimations will be updated based on the "final design" stage after the Commission issues a Final Order in this proceeding.

Witness: Robert R. Mudra

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE First Set of Data Requests

TEE 1.07 Q. Referring to Nicor Gas Ex. 1.0, p. 11, lines 244 – 247, please provide all factors considered in the determination of the reasonableness of the 1.5% Discount Factor.

TEE 1.07 A. Nicor Gas objects to this request on the basis that it calls for speculation. Nicor Gas cannot answer with respect to the factors considered by the Retail Energy Supply Association ("RESA") and Interstate Gas Supply ("IGS") in their determination of the reasonableness of the 1.5% Discount Factor, which is "the determination" in the referenced testimony.

Subject to and without waiving this objection, Nicor Gas refers to its response to TEE 1.05.

Witness: Robert R. Mudra

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE First Set of Data Requests

TEE 1.10 Q. What specifically is included in the "intangible cost recovery" as it is included on line 252, p. 11, of Nicor Gas Ex. 1.0?

TEE 1.10 A. The unquantifiable intangible costs associated with collecting the past due receivables of Alternative Gas Suppliers include possible drops in customer goodwill and drops in employee morale, which can reduce productivity. In the event that Nicor Gas' customers have a bad experience with their Alternative Gas Suppliers' gas supply terms and conditions, pricing, or service, which impact the receivables collection process, it may create unintended consequences and costs that are real but cannot be directly measured or applied to a specific line item of expense at Nicor Gas.

Witness: Robert R. Mudra

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 12-0569
TEE Fourth Set of Data Requests

TEE 4.01 Q. Please provide the journal entries the Company plans to make to record the following transactions:

a) Purchase of receivables from the Q-AGS with a face value of $25,000

b) Collection of full face value amount of $25,000 receivable

c) Collection of less than full face value of $25,000 receivable

d) Write off of a receivable purchased from a Q-AGS

TEE 4.01 A. The Company plans to make the journal entries outlined below:

a) For Purchase of receivables from the Q-AGS with a face value of $25,000 (Illustrated with a 2% uncollectible rate):

DR Prime 143 – Other Receivables	$25,000	
CR Prime 143 – Other Receivables (allowance)		$(250)
CR Prime 182.3 – Other Regulatory Assets		$(125)
CR Prime 131 – Cash		$(24,625)

[To record purchase of receivables net of 1.5% discount, with 1% for uncollectible expense and 0.5% for capital recovery.]

DR Prime 905 – Misc Cust Accounts Expense	$ 250	
CR Prime 143 – Other Receivables (allowance)		$(250)

[To accrue for expected uncollectible expense equal to gross value of purchased receivables multiplied by the 2% uncollectible rate less the 1% discount on receivables for uncollectible expense.]

DR Prime 182.3 – Other Regulatory Assets	$ 250	
CR Prime 905 – Misc Cust Accounts Expense		$(250)

[To defer uncollectible expense related to purchased receivables, as it will be recovered through rates.]

b) For collection of full face value amount of $25,000 receivable:

DR Prime 131 – Cash $25,000
CR Prime 143 – Other Receivables $(25,000)
[To record collection of purchased receivables at 100% of face value.]

DR Prime 143 – Other Receivables (allowance) $ 250
CR Prime 182.3 – Other Regulatory Assets $(250)
[To record reduction of accounts receivable allowance and regulatory asset for portion of allowance received from the purchased receivable discount that was not required.]

DR Prime 143 – Other Receivables (allowance) $ 250
CR Prime 905 – Misc Cust Accounts Expense $(250)
[To adjust uncollectible expense for the excess provision recorded.]

DR Prime 905 – Misc Cust Accounts Expense $ 250
CR Prime 182.3 – Other Regulatory Assets $(250)
[To defer uncollectible expense credit related to purchased receivables, as it will be returned to customers through rates.]

c) For collection of less than full face value amount of $25,000 receivable:

DR Prime 131 – Cash $24,500
CR Prime 143 – Other Receivables $(24,500)
[To record collection of purchased receivables at 98% of face value.]

d) For write off of a receivable purchased from a Q-AGS:

DR Prime 143 – Other Receivables (allowance) $ 500
CR Prime 143 – Other Receivables $(500)
[To write off unpaid purchased receivables.]

Witness: Robert R. Mudra

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

Ill.C.C. No. 16 – Gas
Original Sheet No. 75.9.3

Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

Applicable to Rates 1, 4, 5 and Riders 15 and 16

Purpose.
The purpose of this Rider is to allow a Q-AGS the option to have the Company purchase such Q-AGS's Qualifying Receivables on the terms and subject to the conditions specified herein.

The date on which service under this Rider 17 will commence (the "Effective Date") shall occur no more than twenty-four (24) months after the Commission issues a final order that is no longer subject to rehearing or appeal approving Rider 17.

~~This~~ Rider 17also provides the methodology and terms under which the Company is provided with full recovery of the costs it incurs to provide service under this Rider, including the costs of any uncollected receivables that may arise as a result of the purchase of Qualifying Receivables.

Definitions.
As used in this rider, the terms below are defined as follows:

Actual Uncollected Receivables
Actual Uncollected Receivables shall mean the write-off amounts for Qualifying Receivables purchased by the Company pursuant to this Rider**.**

Administrative and Operational Costs (AOCs)
Administrative and Operational Costs (AOCs) shall mean incremental expenses incurred by or for the Company in association with services provided under ~~this~~ Rider 17 including, ~~without limitation~~, (a) ongoing electronic data transfer costs; (b) costs for obtaining Commission approvals and participation in regulatory proceedings; (c) staffing required to address questions from Q-AGS and others regarding services provided under this Rider; and (d) financial tracking, audit, and reconciliation activities with respect to the this Rider~~; (e) other staffing required to administer and address questions from Q-AGSs and others regarding services provided under this Rider; (f) fees, charges, billings or assessments related to this Rider; (g) costs or expenses associated with equipment, devices, or services that are purchased, provided, installed, operated, maintained or monitored for services provided under this Rider; and (h) legal, auditing and consultant costs related to this Rider~~. Such incremental costs are not already included in base Delivery Service rates.

Capital Recovery Costs (CRC)
Capital Recovery Costs (CRC) shall mean the revenue requirement necessary to recover the Company's investment in information technology systems necessary for implementing the PORCB Program. CRC shall include: (a) initial programming changes to implement the PORCB Program; (b) general billing system and related enhancements required for the PORCB Program; and (c) development of information technology to implement the PORCB Program~~; and (d) future system modifications required to maintain information technology system integrity and functionality related to the provisions of the PORCB Program~~. Such investment costs are not already included in base delivery service rates and shall be treated as a regulatory asset. CRC will be limited to incremental costs incurred through one year following the commencement of service under this Rider. Annually, Capital Recovery Costs shall equal the five-year levelized revenue requirement sufficient to recover the return of and on the Company's investments, described above, at a~~n 8.09~~ 5.17% rate of return as approved in Docket No. ~~08-0363~~12-0569.

Customer Select Participant shall refer to a Customer that is purchasing gas commodity from a Q-AGS under the terms of Rider 15 - Customer Select.

Discount Factor (DF)
A ~~Q-AGS~~ Discount Factor (DF) of 1.5% shall be applied to Qualifying Receivables (QR) purchased by the Company from the Q-AGS. The Discount Factor shall include~~s~~ .5% for Capital Recovery Costs until the

end of the five-year recovery period. Thereafter, a Discount Factor of 1.0% shall be applied to Qualifying Receivables purchased by the Company from the Q-AGS.

(Continued On Sheet No. 75.9.4)

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Director, Finance and Rates
Post Office Box 190
Aurora, Illinois 60507

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

Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

(Continued From Sheet No. 75.9.3)

Eligible Residential Customers (ERC) shall refer to all residential customers receiving a consolidated bill from the Company which includes gas supply charges from a Q-AGS electing service under this Rider.

Eligible Non-residential Customers (ENRC) shall collectively refer to all non-residential customers, on Rate 4 – General Service and Rate 5 - Seasonal Use Service, receiving a consolidated bill from a Q-AGS electing service under this Rider.

~~**Intangible Costs** shall not exceed 0.5% of the face amount of Qualifying Receivables purchased by the Company. Revenues associated with recovering these costs shall be recorded below the line in Account 417, Revenues from Non-Utility Operations, under certain conditions as described under the Intangible Cost Factor (ICF). Recovered Intangible Costs shall not be utilized to reduce Nicor Gas' revenue requirement in a future rate case or regulatory proceeding.~~

Legitimate Billing Dispute
Legitimate billing dispute means a disagreement between a retail customer and a Q-AGS regarding the gas commodity supply service provided to such retail customer by such Q-AGS for which the receivables were purchased and printed on a consolidated bill by the Company that asserts a claim that is recognized by law. A disagreement is not considered a legitimate billing dispute until such time that the Company receives notification of such disagreement from such Q-AGS or the Consumer Services Division (CSD) of the ICC. If a retail customer contacts the Company to dispute a Q-AGS charge, the Company must refer such retail customer to such Q-AGS for resolution and provide such retail customer with contact information for the ICC's CSD. The Company will not remit payment to a Q-AGS for disputed charges. The Company may demand repayment from the Q-AGS for any disputed charges related to the disputed portion of the bill consistent with the terms of the PORCB Billing Service Agreement. Legitimate disputed charges may include, but are not limited to, disputed charges that are subject to an ongoing bill inquiry, pending litigation, arbitration, mediation, or any state or federal regulatory proceedings.

Net Actual Uncollectible Costs
Net Actual Uncollectible Costs (NAUC) shall mean the amount actually written off by the Company for receivables purchased by the Company from a Q-AGS during the POR Application Period in accordance with the provisions of this rider less the total amount by which such purchased receivables were reduced by the 1.0% uncollectible component of the Discount Factor of 1.5% during such POR Application Period. The resulting amount may be positive or negative.

Non-Residential POR Adjustment (PORA$_{NR}$)
The Non-residential POR Adjustment (PORA$_{NR}$) shall be applied to all Eligible Non-residential customers receiving service from a Q-AGS participating in the PORCB Program. The PORA$_{\mathbf{NR}}$ is intended to recover the ~~working capital necessary to operate the PORCB Program for Non-residential customers, its~~ ongoing Administrative and Operational Costs, ~~Intangible Costs,~~ and Net Actual Uncollectible Costs ~~to the extent that they are not recovered through collection of the Q-AGS Discount Factor~~.

(Continued On Sheet No. 75.9.5)

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

Ill.C.C. No. 16 – Gas
Original Sheet No. 75.9.5

Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

(Continued From Sheet No. 75.9.4)

POR Application Period
The initial Purchase of Receivables (POR) Application Period is the period of time that begins at the start of the first effective monthly billing period of Rider 17~~PORCB~~ and extends for twenty-four (24) monthly billing periods. Any subsequent POR Application Period means a period of time that extends for twenty-four (24) monthly billing periods immediately following a previous POR Application Period.

Qualifying Alternative Gas Supplier (Q-AGS) shall refer an Alternative Gas Supplier that: (1) is certified by the Illinois Commerce Commission (ICC) per Section 19-110 of the Act; (2) has entered into a Supplier Aggregation Agreement with the Company and is participating and complying with the terms and conditions of Rider 16—Supplier Aggregation Service and (3) bills its gas supply charges on the utility bill under this Rider.

Qualifying Receivables (Q-REC$_c$) shall mean receivables that satisfy all of the following requirements: (i) such receivables are for natural gas commodity service provided by a Q-AGS to residential retail customers and commercial customers, who are Customer Select Participants to the extent such Q-AGS has included its charges for such natural gas commodity service on the Company's bill pursuant to Section 19-135 of the Act; (ii) such receivables consist only of charges for the purchase of natural gas supplies and do not include any charges for any other goods or services; (iii) such receivables are not subject to any Legitimate Billing Dispute; (iv) such receivables are owned by such Q-AGS free and clear of any liens, security interests, pledges, encumbrances and other charges or restrictions on transfer; and (v) such receivables have arisen from providing gas supply to Customer Select Participants who were, at the time immediately prior to entering the PORCB program, or during the prior billing period, not in arrears with either the Company or the Q-AGS.

Reconciliation Period (RP)
The Reconciliation Period shall mean the twenty-four (24) monthly billing periods in the prior POR Application Period.

Residential POR Adjustment (PORA$_R$)
The Residential POR Adjustment (PORA$_R$) shall be applied to all Eligible Residential Customers receiving service from a Q-AGS that has elected service under this Rider. The PORA$_R$ is intended to recover the ~~working capital necessary to provide service under this Rider for residential customers, its~~ ongoing Administrative and Operational Costs~~, Intangible Costs,~~ and Net Actual Uncollectible Costs~~ to the extent that they are not recovered through collection of the Q-AGS Discount Factor~~.

Section A – Prerequisites of Service
Before commencing service hereunder, a Q-AGS must comply with the following prerequisites of service. Such Q-AGS must:

1. have, and demonstrate through the successful completion of the Company's testing program, the ability to electronically accept meter usage data for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for natural gas supply service; and

(Continued On Sheet No. 75.9.6)

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Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

(Continued From Sheet No. 75.9.5)

2. have, and demonstrate through the successful completion of the Company's testing program, the ability to electronically transmit to the Company on a timely basis customer specific billing information for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for natural gas supply service; and

3. have, and demonstrate through the successful completion of the Company's testing program, the ability to electronically accept via Electronic Funds Transfer (EFT) payments for purchased receivables and adjustments from updates and corrections from the Company for gas supply service provided by the Q-AGS to retail customers with respect to which the Company is purchasing the Q-AGS's receivables for natural gas supply service; and

4. submit a completed Rider PORCB Billing Services Agreement form to the Company; and

5. have executed and delivered to the Company such title transfer documents as the Company may reasonably request to effectuate the sale of Qualifying Receivables from the Q-AGS to the Company in accordance with the requirements of this Rider.

Section B – Continuing Obligations

Q-AGS Continuing Obligations
A Q-AGS taking service hereunder is obligated to:

1. accept electronically meter usage data for each monthly billing period for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for natural gas supply service; and

2. determine the gas supply service charges, resultant billing amounts, and other relevant billing information for each monthly billing period for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for gas supply service; and

3. transmit electronically the necessary gas supply service charges, energy usage data, resultant billing amounts, and other relevant billing information, including all information pertaining to gas supply service provided by the Q-AGS to the retail customer as required under Rider 16 – Supplier Aggregation Service, to the Company for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for gas supply service no later than three (3) business days after such retail customer's meter usage data for a monthly billing period is transmitted to the Q-AGS by the Company in order for such charges, data, amounts, and information to be included on the regularly scheduled consolidated bill for such monthly billing period; and

4. warrant that all gas supply service charges, resultant billing amounts, and other relevant billing information for the retail customer transmitted to the Company as described in item (3) of this Q-AGS Continuing Obligations subsection are correct and in accordance with the terms of the Q-AGS's contractual arrangements with the retail customer and compliant with any applicable legal requirements, and that all

(Continued On Sheet No. 75.9.7)

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Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

(Continued From Sheet No. 75.9.6)

receivables tendered for sale by the Q-AGS to the Company pursuant to this Rider qualify as Qualifying Receivables; and

5. sell to the Company the Q-AGS's Qualifying Receivables on the terms specified in this Rider; and

6. accept electronically purchased receivables payments and adjustments from the Company for the gas supply service provided by the Q-AGS to retail customers with respect to which the Company is purchasing the Q-AGS's receivables for gas supply service.

Company Continuing Obligations
The Company is obligated to:

1. transmit electronically meter usage data for each monthly billing period for each retail customer with respect to which the Company is purchasing the Q-AGS' receivables for gas supply service no later than (1) business days after the Company determines such meter usage data for the monthly billing period for such retail customer; and

2. accept electronically the necessary gas supply service charges, and energy usage data, resultant billing amounts, and other agreed upon billing information transmitted by the Q-AGS for the monthly billing period for each retail customer with respect to which the Company is purchasing the Q-AGS' receivables for gas supply service; and

3. issue a consolidated bill for the monthly billing period for each retail customer with respect to which the Company is purchasing the Q-AGS's receivables for gas supply service that includes (a) the necessary applicable gas supply service charges, energy usage data, resultant billing amounts, identification of the Q-AGS, and other agreed upon billing information transmitted by the Q-AGS for gas supply service provided to such retail customer within one (1) business day after accepting such charges, data, amounts, and information as described in item (2) of this Company Continuing Obligations subsection, in the event that such charges, data, amounts, and information had been timely submitted by the Q-AGS in accordance with item (3) in the Q-AGS Continuing Obligations subsection of this Continuing Obligations section; or (b) a notice that the Q-AGS's charges for the current monthly billing period are not available in the event that such charges, data, amounts, and information had not been timely submitted by the Q-AGS in accordance with item (3) in such Q-AGS Continuing Obligations subsection, and include such charges, data, billing amounts and information on the next available subsequent consolidated monthly bill for such retail customer after such charges, data, billing amounts and information are timely transmitted in accordance with item (3) in such Q-AGS Continuing Obligations subsection by such Q-AGS to the Company for such next available subsequent consolidated monthly bill; and

4. include on each consolidated monthly bill described in item (3) in this Company Continuing Obligations subsection all information pertaining to such gas supply service as required under Rider 16 – Supplier Aggregation Service; and

5. remit electronically to the Q-AGS for Qualifying Receivables purchased in accordance with this Rider the purchase price for such Qualifying Receivables specified in Section C no later than two (2) days after

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d/b/a Nicor Gas Company

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the due date of the consolidated monthly bill with the charges associated with such Qualifying Receivables issued by the Company to the retail customer.

Section C – Purchase of Receivables

A Q-AGS taking service hereunder must sell to the Company such Q-AGS's Qualifying Receivables either for (a) all Eligible Residential Customers and all Eligible Non-residential Customers (b) all Eligible Residential Customers only or (c) all Eligible Non-residential Customers only. A Q-AGS is not precluded from serving specific non-residential customers, without Rider 17~~PORCB,~~ through either dual billing or the supplier's own consolidated billing program. The monthly discounted receivables amount is computed in accordance with the following equation and effective with next applicable bill period after the Q-AGS elects service:

Determination of Discounted Receivables:

$$DREC_c = Q\text{-}REC_c \times (1 - DF)$$

Where:

$DREC_c$ = Discounted Receivables, in dollars ($) rounded to the cent, equal to the amount the Company must remit to the Q-AGS for gas commodity supply service related receivables sold by Q-AGS to the Company pertaining to the gas commodity supply service provided by the Q-AGS to the retail customer, c, during the monthly billing period. $DREC_c$ shall be paid to the Q-AGS no later than (2) business days after the due date of the customer's bill.

$Q\text{-}REC_c$ = Qualifying Receivables, in dollars ($) rounded to the cent, equal to the gas supply service related receivables of a Q-AGS, for customer c, on the consolidated monthly bill for gas service issued by the Company for gas supply service provided to such retail customer, c, by the Q-AGS.

DF = Discount Factor~~, which is .015~~

c = either a residential or non-residential retail customer.

Section D – POR Customer Adjustments

The POR Adjustment shall be a per customer per month charge or credit and shall be determined pursuant to the conditions below and shall be filed with the Commission on or before the 20th day of the month preceding its effective date. The POR Adjustment shall be added to or deducted from the customer's Monthly Customer Charge and shall be applicable to all ERCs and ENRCs by customer class.

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Rider 17
Purchase of Receivables with Consolidated Billing (PORCB)

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Effective Component: POR Adjustment ($PORA_C$)

The monthly charge or credit to be billed each month during the calendar year is represented by the following formula for the residential and non-residential customer classes:

$$PORA_C = (AOC_{\underline{E}} / TC) + (SUA_C \cancel{+ ICR_C} + R_C + O_C) / EC$$

Where:

$PORA_C$ = Purchase of Receivables Adjustment for customer class (c) shall be a charge (if positive) or credit (if negative) applicable to all Eligible Customers (EC) being either Eligible Residential Customers (ERC) or Eligible Non-residential Customers (ENRC) as applicable, in dollars~~,~~ ~~($)~~ rounded to the nearest ~~(1)~~ cent ~~($0.01)~~.

$AOC_{\underline{E}}$ = estimated annual Administrative and Operational Costs, in dollars ($) rounded to the nearest cent, for the PORCB Program divided by twelve (12) months.

TC = the forecasted number of Eligible Residential Customers (ERC) plus the forecasted number ~~or~~ and Eligible Non-residential Customers (ENRC) receiving a consolidated bill under Rider 17~~PORCB~~.

SUA = the Supply Uncollectible Adjustment, in dollars ($) rounded to the nearest cent, may be either positive or negative and shall be equal to the ~~Estimated Discounted~~ Qualified Receivables ~~paid to~~ purchased from ~~-~~Suppliers relating to applicable customers during the effective month ($_M$) ~~less the Estimated Gross Collections to be received from applicable customers during the month plus the portion of the Estimated Gross Collections associated with the Capital Cost Recovery component of the Discount Factor and~~ times the net of the uncollectible rate as determined in the most recent delivery service rate case for the Company less the 1% uncollectible component of the Discount Factor. ~~an amortization of the Supply Uncollectible Balance as necessary, by customer class.~~

$$SUA = \cancel{E\text{-}D\text{-}}\Sigma Q\text{-}REC_M \cancel{- E\text{-}GC_M + (E\text{-}GC_M} \times (UR - .01) \cancel{+ A}$$

~~E-D~~Q-REC $_M$ = ~~the sum of the Estimated Discounted Receivables, in dollars ($) rounded to the nearest cent, expected to be paid to Q-AGS for applicable customers during the effective month. It is based on estimates of the following: Qualifying Receivables, estimated gas consumption volumes, supplier commodity service costs, customer payment experience and the discount factor of 1.5%.~~ the sum of the Qualifying Receivables, in dollars ($) rounded to the cent, equal to the gas supply service related receivables of a Q-AGS, for customer c, on the consolidated monthly bill for gas service issued by the Company for gas supply service provided to such retail customer, c, by the Q-AGS.

~~E-GC_M = the sum of the Estimated Gross Collections, in dollars ($) rounded to the nearest cent, expected to be received from applicable customers during the effective month. It is based upon estimates of the following: Qualifying Receivables, estimated gas consumption volumes, supplier commodity costs and customer payment experience~~.

UR = the uncollectible rate in decimal format (0.00) as included in the Gross Revenue Conversion Factor in the Company's most recent delivery service base rate case.

~~A = Amortization of the cumulative Supply Uncollectible Balance (SUB), in dollars ($) rounded to the nearest cent, as necessary, for the appropriate customer class. Factor A may be amortized over a period not to exceed 24 months and may result in either a charge (positive) or credit (negative) to the customer's monthly $PORA_C$~~

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~~SUB_C = shall equal the Supply Uncollectible Balance, in dollars ($) rounded to the nearest cent, by customer class (c) in dollars ($), equal to the cumulative balance resulting from the application of the SUA through the POR Application Period. The SUB shall equal:~~

$$\cancel{SUB_C = \Sigma\ DREC - (\Sigma\ GC\ x\ .995)}$$

~~DREC = the cumulative sum of the actual prior months Discounted Receivables, in dollars ($), rounded to the nearest cent, for customer class, (c).~~

~~GC = the cumulative sum of the actual prior months Gross Collections, in dollars ($), rounded to the nearest cent, for customer class, (c).~~

~~ICR_C = represents the Company's estimated monthly intangible cost recovery from eligible customers. It shall be represented by the following equation:~~

$$\cancel{ICR_C = (\Sigma\ Q\text{-}REC_C\ x\ ICF_C)}$$

~~ICF_C = the estimated intangible cost factor for the customer class (c), in decimal form, which is applied to the sum of the estimated Qualifying Receivables to be purchased during the upcoming month. If the residential portion of estimated Administrative and Operational Costs, defined as AOC X (ERC/TC), is less than or equal to 0.5% of the sum of the estimated residential Qualifying Receivables (Σ Q-REC_C) then the ICF_C shall equal 0.5%. If the, estimated Non-residential portion of estimated Administrative and Operational Costs, defined as AOC X (ENRC/TC), is less than or equal to 0.5% of the sum of the estimated Non-residential Qualifying Receivables (Σ Q-REC_C) then the ICF_C shall equal 0.5%. If the~~

~~customer class portion of the Administrative and Operational Costs is between 0.5% and 1% of the sum of the estimated customer class Qualifying Receivables (Σ Q-REC$_C$) then the ICF$_C$ shall equal 1% minus the Administrative and Operational Costs divided by the sum of the Σ Q-REC$_C$. If the customer class portion of the estimated Administrative and Operational Costs are greater than 1% of the sum of the estimated customer class Qualifying Receivables (Σ Q-REC$_C$) then the ICF$_C$ shall equal zero.~~

R_C = the Company determined reconciliation component for PORA~~CB~~ costs, calculated for the reconciliation period, in dollars for the residential and non-residential customer classifications. The reconciliation amount shall be the difference between the actual calculated PORA$_C$ costs during the prior application period and the actual booked revenues for the PORA$_C$. The reconciliation component shall be recovered from or refunded to customers over 9 months, from April through December and shall be supported by a Commission filing made on or before March 20th. No reconciliation component shall be included in the January through March period. The reconciliation component shall be calculated using the following formula:

$$R_{C\,=}\ \text{Actual PORA}_{(C)}\ \text{Costs} - \text{Actual PORA}_{(C)}\ \text{Revenues}$$

Where:

$$\text{Actual PORA}_{(C)}\ \text{Costs} = AOC_A(_C) + NAUC(_C)\ \cancel{+\ ICR_C}$$

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Actual PORA$_{(C)}$ Costs = The actual Purchase of Receivables Costs ~~adjustment~~ for the customer class (c), in dollars ($) rounded to the nearest cent, which equals the sum of the Administrative and Operational Costs, and the Net Actual Uncollectible Costs ~~and the Intangible Cost Recovery component~~ for the reconciliation period.

AOC_A = actual Administrative and Operational Costs, in dollars ($) rounded to the nearest cent, for the PORCB Program for the reconciliation period.

~~Net Actual Uncollectible Costs (~~NAUC~~)~~ = the Net Actual Uncollectible Costs equal to the amount actually written off by the Company for receivables purchased by the Company from Q-AGS during the POR reconciliation period in accordance with the provisions of this rider less the total amount by which such purchased receivables were reduced by the 1% uncollectible component of the Discount Factor ~~of 1.5%~~ during such POR Application Period. The resulting amount may be positive or negative. NAUC shall be represented by the following formula:

$$NAUC = RWO_C - \Sigma_{RP} (Q\text{-}REC_C \times .01\cancel{5})$$

RWO_C = Receivables Write-Offs, in $, equal to the amount actually written off by the Company for receivables purchased by the Company from the Q-AGSs in accordance with the provisions of this rider during the reconciliation period for the appropriate customer class.

O_C = An amount representing the additional over- or under-recovery for a reconciliation year Ordered by the Commission to be refunded or collected to the customer class, including interest charged at the rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) from the end of the reconciliation period to the order date in the reconciliation proceeding.

EC = the estimated total number of Eligible Residential Customers (ERC) or the estimated total number of Eligible Non-Residential Customers (ENRC) as applicable for the customer class receiving a consolidated bill from a Q-AGS participating in Rider 17~~PORCB~~.

Section E – Q-AGS Capital Recovery Adjustment

The Q-AGS Capital Recovery Adjustment (CRA), by customer class, shall be applied monthly, as necessary, to Q-AGS Supplier Aggregation Service bills to collect or refund any anticipated under-collected or over-collected Capital Recovery Costs received through application of the .5% component of the Discount Factor. The final Reconciliation Period for the Capital Recovery Adjustment shall immediately follow the Reconciliation Period during which the 0.5% component of the Discount Factor expires. The CRA shall be calculated based on the following formula:

$$CRA_C = ((CRC_M – (\cancel{E\text{-}GC}Q\text{-}REC_M \times .005)) + A_C + R_{CC} + O_{CC} / EC) \times SC_C$$

CRC_M = Capital Recovery Costs for the month ($_M$), in dollars ($) rounded to the nearest cent, shall be the intended monthly amount, by customer class, of the annual five-year levelized revenue requirement sufficient to recover the return of and on the Company's investments at a~~n 8.09~~ 5.17% rate of return as approved in Docket No. 12-0569~~08-0363~~.

~~E-GC~~$\cancel{_M}$ ~~= As previously defined.~~

EC = As previously defined.

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A_C = Amortization of the cumulative difference between the intended actual Capital Recovery Costs and the amount of Capital Recovery Costs recovered through application .5% of the Discount Factor during prior months, as necessary, for the appropriate customer class. Factor A may be amortized over a period not to exceed 24 months and may result in either a charge (positive) or credit (negative) to the Q-AGS' monthly CRA.

SC_C = Supplier's Eligible Residential Customers and/or Supplier's Eligible Non-Residential Customers.

$R_{CC\,=}$ The Company determined reconciliation component for Capital Recovery Costs, calculated for the reconciliation period, in dollars for the residential and non-residential customer classifications. The reconciliation amount shall be the difference between the actual booked levelized five-year annual revenue requirement, for the reconciliation period, sufficient to recover the return of an on the Company's investments at a~~n 8.09~~ 5.17% rate of return as approved in Docket No. ~~08-0363~~12-0569 and Capital Recovery Costs recovered through the Discount Factor plus Capital Recovery Adjustments recovered from Q-AGS. The reconciliation component shall be recovered from or refunded to Q-AGS over 9 months, from April through December and shall be supported by a Commission filing made on or before March 20th. No reconciliation component shall be included in the January through March period. The reconciliation component shall be calculated using the following formula:

$$R_{CC\,=}\text{ Actual }CRC_{RP} - (\text{Actual CRC revenues}_{RP} + \text{Actual CRA revenues}_{RP})$$

O_{CC} = An amount representing the additional over- or under-recovery for a reconciliation year Ordered by the Commission to be refunded or collected to the Q-AGS

~~**Section F – Audit and Reporting Requirements**~~

~~After each POR Application Period the Company must conduct an internal audit of its costs for such previous POR Application Period and recoveries of such costs pursuant to this rider~~

Section F~~G~~ – Information Sheet Filings

The Company shall file with the Commission, on or before the 20th day prior to the effective month, an information sheet specifying the charges or credits to be effective for service rendered during the upcoming month defined as the Effective Period. However, for the initial information sheet filing, the Company shall file the information sheet with the Commission no less than 60 days prior to the effective period of the charges or credits. Each such information filing shall also be provided to the Manager of the Staff's Accounting Department along with all workpapers supporting the derivation of the charges and credits.

Section ~~H~~G – Reconciliation

On or before August 31 following each Reconciliation Period, the Company shall file a petition with the Chief Clerk to initiate the reconciliation process. The petition shall include ~~a~~ reconciliations of the actual PORA costs ~~and~~ with the actual PORA revenues booked and actual Capital Recovery Costs incurred with Capital Recovery revenues booked. The Reconciliation Period covering the initial POR Application period shall include a review by the Commission of the prudence and reasonableness of the Capital Recovery Costs, as described hereafter in Section H, and a review of the final levelized five-year annual revenue requirement calculation. Supporting documentation or workpapers affecting the information presented in the Company's reconciliation petition shall be provided to the Commission's Accounting Staff at the time of this filing. In conjunction with the reconciliation filing, a new information sheet may be filed adjusting the then effective PORA charge or credit under this Rider for the amount to be reconciled.

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Section ~~I~~H – Commission Review

Upon review of the reconciliation petition and reconciliation filed by the Company under Section G, the Commission ~~may~~ shall require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider. If the Commission finds, after hearing, that any amounts were not prudent or reasonable, or were incorrectly debited or credited to this ~~r~~Rider during that period, the Commission ~~may~~ shall~~by~~ order ~~require that~~ the ~~r~~Rider to be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected in the adjustment Factor O_C, over a succeeding ~~Effective~~ POR Application Period(s). Such amount shall be adjusted for carrying charges equal to the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) applied from the end of the reconciliation period until the O_C amount is charged or refunded to customers.

Section ~~J~~ I – Internal Audit

After each POR Application Period, the Company will conduct an internal audit of its costs for such previous POR Application Period and recoveries of such costs pursuant to this rider. The audit shall include at least the following tests: 1) test that costs recovered through Rider 17 are not recovered through other approved tariffs; 2) test customer bills that all Rider 17 adjustment factors are being properly billed to customers in the correct time periods; 3) test that Rider 17 revenues are properly stated and 4) test that ~~costs classified as uncollectible expenses as reported in Form 21, Annual Report to the Illinois Commerce Commission~~, actual write-offs of receivables acquired under the PORCB Program are being identified, recorded and properly reflected in the calculation of rates and reconciliations. The above list of determinations shall not limit the scope of the audit.

The Company must prepare a report that summarizes the results of such audit. In addition, for such previous POR Application Period such report must address (a) AGS participation under this rider, (b) total costs incurred for AOCs and CRCs, (c) the total amount of the discounted receivables purchased in accordance with the provisions of this rider, (d) total amount of the write-offs associated with receivables purchased in accordance with the provisions of this rider, and (e) revenues associated with the application of POR Adjustments. Such report must be submitted to the ICC in an informational filing, with copies of such report provided to the Manager of the Staff's Accounting Department and the Director of the Staff's Financial Analysis Division within sixty (60) calendar days after the end of such POR Application Period. Such report must be verified by an officer of the Company.

In addition to the reporting requirements previously identified in this Internal Audit section, in each calendar year during which the Company is not required to perform an internal audit of its costs for a POR Application Period, the Company must prepare a report for the previous calendar year that addresses (a) AGS participation under this rider, (b) total costs incurred for AOCs and CRCs, (c) the total amount of the discounted receivables purchased in accordance with the provisions of this rider, (d) total amount of the write-offs associated with receivables purchased in accordance with the provisions of this rider, and (e) revenues associated with the application of POR Adjustments. The first such report must also include an evaluation of any POR Adjustment in effect during the first POR Application Period. Such report must be submitted to the ICC in an informational filing, with copies of such report provided to the Manager of the Staff's Accounting Department and the Director of the Staff's Financial Analysis Division within ninety (90) calendar days after the end of such previous calendar year. Such report must be verified by an officer of the Company.

Section ~~K~~J – Implementation

Service under this rider will commence 24-months after the Commission issues a final order that is no longer subject to rehearing or appeal approving this rider.

A Q-AGS is not allowed to terminate the Company's purchase of receivables and consolidated billing of such Q-AGS's gas supply service to an individual residential or non-residential customer and continue to provide gas supply service to such customer under the utility's consolidated billing program unless the Q-AGS also terminates the Company's purchase of receivables and consolidated billing of such Q-AGS's gas supply service for all members of its residential or non-residential customer classes served by such Q-AGS. Such termination for each such retail customer is effective on the Company's next normally scheduled meter reading or billing cycle date for such retail customer. Such effective meter reading or billing cycle date is the ending date of the last monthly billing period for which the Company purchases receivables from the Q-AGS and provides consolidated billing for the amounts billed to such retail customer for the Q-AGS's gas supply service. Moreover, with respect to termination of service to the residential or non-residential customer classes, in the event that a Q-AGS makes such terminations, for a period of at least twelve (12) months following such terminations the Q-AGS may not elect to have the Company purchase receivables and provide consolidated billing of such Q-AGS's gas supply service provided to any member of the terminated class of customer.

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The Company produces and provides consolidated monthly bills for both the gas supply service provided by the Q-AGS and the gas delivery service provided by the Company. In the event that such purchase of receivables with respect to an individual customer terminates, the Company correspondingly terminates the provision of billing of gas supply service provided by the Q-AGS to such retail customer.

Section ~~L~~K – Term and Termination Provisions

For a Q-AGS first receiving service hereunder or resuming service hereunder after a previous termination of service hereunder, the initial term of service is twenty-four (24) months. Upon expiration of the initial or any renewal term of service, the term of service is automatically renewed for a period of twelve (12) months.

A Q-AGS taking service hereunder has the right to discontinue service hereunder at any time on at least sixty (60) days' written notice to the Company, provided, however, that in the event of such termination, such Q-AGS is not eligible to take service hereunder for a period of twelve (12) consecutive months. In such event, the Q-AGS must submit a new PORCB Billing Services Agreement to the Company. The termination of service hereunder for such retail customer is effective on the Company's next normally scheduled meter reading or billing cycle date for such retail customer. Such effective meter reading or billing cycle date is the ending date of the last monthly billing period for which the Company purchases receivables from the Q-AGS for the amounts billed to such retail customer for the Q-AGS's gas supply service. Following termination hereunder, it is the Q-AGS' responsibility to issue bills to the retail customer for gas supply service provided to such retail customer by such Q-AGS. The Company has the right to discontinue service to a Q-AGS hereunder if such Q-AGS (a) has its service under Rider 16 terminated; or (b) fails to abide by the continuing obligations of this rider. Such termination does not prohibit the Company from pursuing collection of amounts owed to the Company by the Q-AGS or owed to the Company by the Company's retail customers with respect to which the Company had been purchasing the Q-AGS's receivables for gas supply service.

Section ~~M~~L – Miscellaneous and General Provisions

The Company reserves the right to disconnect service to a retail customer with respect to which the Company is purchasing the Q-AGS's receivables for gas supply service in accordance with the provisions of this rider and the Company's Terms and Conditions if the Company does not receive payment from such retail customer for the gas supply service provided by such Q-AGS to such retail customer and billed by the Company. The Q-AGS must abide by the provisions of any applicable tariffs or contracts with the Company under which the Company provides the Q-AGS with services.

Except as specified herein, all other provisions of the Customer's rate shall apply. The schedule of which this rider is a part includes certain Terms and Conditions. Service hereunder is subject to those Terms and Conditions including, but not limited to, Right to Disconnect Service, Customer-owned Gas, Finaled

Accounts of Transportation/Storage Customers, Transportation Limitations and Amounts, the Critical Day Definition, and definitions of an Operational Flow Order Day, including any changes authorized by the Commission subsequent to the initial effective date of this rider.

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