STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
	)	
vs.	)	Docket No. 12-0658
	)	
Northern Illinois Gas Company d/b/a Nicor Gas Company	)	
	)	
Reconciliation of revenues collected under gas adjustment charges with actual costs prudently incurred.	)	

Direct Testimony of

LEONARD M. GILMORE

Director, Gas Supply

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

April 11, 2013

I. INTRODUCTION

Q. Please state your name and business address.

A. Leonard M. Gilmore, 1844 Ferry Road, Naperville, Illinois 60563.

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

A. In January 2012, with the acquisition of Nicor Inc. by AGL Resources, I became the Director, Gas Supply for AGL Services Company. Prior to January 2012, I was the General Manager, Gas Supply for Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company").

Q. Please describe your responsibilities as Director, Gas Supply.

A. As Director, Gas Supply, I have managerial responsibility for gas supply activities at each of the AGL Resources' local distribution companies ("LDCs"), including Nicor Gas. Functions under my management include the purchasing and scheduling of natural gas necessary for the operation of Nicor Gas' distribution system and to provide gas supply to Nicor Gas' sales service customers, as well as the evaluation and utilization of risk management tools to mitigate Nicor Gas' exposure to gas price volatility risks inherent in the natural gas market. Additionally, I support and remain involved with related gas supply functions such as planning Nicor Gas' gas supply portfolio, analyzing pipeline service options, and contracting for pipeline services.

Q. Please summarize your educational background and work experience.

A. I hold degrees of Bachelor of Science and Master of Arts, majoring in Economics, from DePaul University, and a Master of Business Administration, majoring in Finance, from Loyola University.

I started working for Nicor Gas in 1979. I held a series of positions in the Economics and Rates Department from 1979 until 1984 and from 1987 to March 1991.

From November 1984 until July 1987, I was Senior Market Administrator / Conservation. From March 1991 until 1992, I was Coordinator, Pipeline Regulation and Supply Planning. In 1992, I was promoted to Manager, Pipeline Regulation and Supply Planning. As Manager, Pipeline Regulation and Supply Planning, I was responsible for relationships with the interstate pipelines that serve Nicor Gas, including the negotiations of service agreements and regulatory activities before the Federal Energy Regulatory Commission ("FERC"). I later acquired the additional responsibilities of managing and negotiating agreements with Nicor Gas' major gas fired power generation customers and the Company Use program of Nicor Gas whereby Nicor Gas acquires gas supply required for system operations and Company buildings. In 2006, I became General Manager, Gas Supply at which time I assumed the additional responsibility for Nicor Gas' gas supply purchasing activities. In January 2012, I became the Director, Gas Supply for AGL Services Company.

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

A. My testimony covers six subjects in connection with Nicor Gas' 2012 Gas Supply Cost ("GSC") reconciliation. I will:

- Describe the responsibilities of Nicor Gas' Gas Supply area in 2012.
- Identify Nicor Gas' recoverable gas costs for the 2012 GSC reconciliation year.
- Describe the guidelines Nicor Gas utilized in making its 2012 gas supply purchasing and pipeline service contracting decisions.
- Describe the Company's efforts before the FERC to minimize gas costs.
- Describe internal control procedures related to enforcement of the Company's contracts for natural gas supply and pipeline services.

- Describe the Company’s gas price risk hedging policy and practices.

II. DESCRIPTION OF GAS SUPPLY

Q. Please briefly describe the responsibilities and organization of the Company’s Gas Supply area.

A. I report to the Vice President, Gas Supply Operations who is responsible for the Gas Supply, Capacity Planning, Gas Control, and Transportation Services functions at each of the AGL Resources’ LDCs. The Gas Supply and Capacity Planning departments are responsible for assuring a best-cost supply of natural gas, consistent with long-term supply security. These responsibilities include administration of the Company’s pipeline transportation and gas supply contracts, negotiations with sellers for gas supplies, and active participation in pipeline rate and regulatory proceedings before FERC.

Q. Which interstate pipelines and other LDCs did Nicor Gas’ system have interconnects with in 2012?

A. In 2012, Nicor Gas had interconnects with eight interstate natural gas pipelines:

- Natural Gas Pipeline Company of America (“NGPL”),
- Midwestern Gas Transmission Company (“Midwestern”),
- Northern Natural Gas Company (“Northern Natural”),
- Panhandle Eastern Pipe Line Company (“Panhandle Eastern”),
- ANR Pipeline Company (“ANR”),
- Northern Border Pipeline Company L.P. (“Northern Border”),
- Alliance Pipeline Company (“Alliance”), and
- Horizon Pipeline (“Horizon”).

The facilities of these interstate pipelines have been certificated by FERC or its predecessor agency, the Federal Power Commission. The interconnect facilities with these interstate pipelines provided the opportunity for Nicor Gas and third party shippers to procure supplies in various supply regions throughout North America and deliver those supplies to customers within Nicor Gas' service territory via Nicor Gas' transmission and distribution system.

Nicor Gas also had interconnects with three LDCs in Illinois:

- The Peoples Gas Light and Coke Company ("Peoples"),
- North Shore Gas Company ("North Shore"), and
- Central Illinois Public Service Company d/b/a AmerenCIPS ("AmerenCIPS").

Q. Please briefly describe Nicor Gas' system and storage operations.

A. Nicor Gas must arrange for gas supplies and storage inventories which are adequate to serve all its customers and operate its system through each winter season, assuming severe weather occurs. Nicor Gas also supplies firm backup service for many of its transportation customers, and must be in a position to redeliver or supply gas to transportation customers to the extent they have storage banking service rights. Nicor Gas needs to operate and maintain its system so that unexpected changes in customer usage, often caused by weather, or unexpected changes in third party customer gas receipts can be managed effectively. To meet these objectives, the Company utilizes its gas supply portfolio which includes extensive on-system storage assets comprised of eight individual aquifer reservoirs along with contracted interstate pipeline storage services.

To maintain the inventory levels and related aquifer pressures necessary to meet peak, seasonal and daily needs, appropriate storage injection/withdrawal schedules are established based on operational experience and historical aquifer performance data. To assist in determining such schedules, the Company utilizes computer models and other analytical methods common to the industry that have been developed both by Nicor Gas and outside parties. These tools are used to accumulate and analyze past aquifer performance data and forecast an optimal injection/withdrawal schedule. This schedule is designed to maintain the aquifer performance necessary to satisfy design peak day withdrawal requirements through January 20 of each heating season as well as post-design day peak periods through March 15 while meeting the seasonal withdrawal targets.

III. IDENTIFICATION OF RECOVERABLE GAS COSTS

Q. Are you familiar with the data included in the "Recoverable Costs" sections of Exhibit BOB 2.2 of the direct testimony of Bob O. Buckles?

A. Yes.

Q. Please describe the cost data presented on page 6 of Exhibit BOB 2.2.

A. The "Recoverable Commodity Related Costs" section on page 6 of Exhibit BOB 2.2 provides a monthly breakdown of the Company's 2012 commodity related gas supply costs. For example, the first two lines cover the Company's 2012 costs of purchasing firm supplies and spot gas. Two lines in this section relate to storage: (1) the line designated "Inventory Activity" reflects the Company's 2012 gas storage activity (injections and withdrawals) related to its own storage reservoirs and purchased storage arrangements with interstate pipelines and (2) the line identified as "Purchased Storage Service" covers the 2012 commodity related costs associated with storage services purchased from interstate pipelines. The line designated as “Off-System Supply Sales” reflects the revenue credit from sales made for either operational or optimization reasons to manage the Company’s supply portfolio. The line designated as “Net (Gain)/Loss From Hedging” relates to the Company’s financial hedging activities in 2012. Finally, “Authorized Over-run Charges” are charges, if any, from pipelines for the authorized use of incremental transport on a given day.

Q. Please describe the remaining items.

A. The three remaining line items are discussed in the direct testimony of Company witness Mr. Bob O. Buckles (Nicor Gas Ex. 2.0). Specifically, the line identified as “Amortization of Previous Years RB” relates to prior years’ reconciliation balances, and the line “Recovery from Hits by Contractor” relates to reimbursements received for gas lost as a result of broken gas mains due to hits by third party contractors. The line identified as “Less Franchise Gas Costs” relates to franchise gas volumes that were purchased in conjunction with gas supplies purchased for customers but excluded from Rider 6 Gas Supply Cost charges.

Q. Please describe the Recoverable Non-Commodity Related Costs data presented on page 7 of Exhibit BOB 2.2.

A. The “Recoverable Non-Commodity Related Costs” section on page 7 of Exhibit BOB 2.2 provides a monthly breakdown of the Company’s 2012 non-commodity related gas supply costs. To the extent that the sources on page 6 of Exhibit BOB 2.2 also generate non-commodity related costs, they are reflected on page 7 of Exhibit BOB 2.2. In addition, the line designated as “Other Credits” represents the results from capacity release and off-system sales. The line designated as “Purchased Storage Services” represents the cost of purchased storage. Recoverable gas costs were adjusted by these amounts.

Q. Is there anything else you would like to discuss regarding 2012 recoverable gas costs?

A. Yes. The direct testimony of Bob O. Buckles provides a discussion of commodity and non-commodity related costs. The above-described amounts comprise the Company's total gas cost of $806,639,804 for calendar year 2012.

Q. Do you have an opinion as to whether Nicor Gas' supplies, the costs of which are reflected in Exhibit BOB 2.2, and in the Company's Rider 6, Gas Supply Costs provisions, were prudently purchased?

A. Yes. The Company's 2012 gas supplies were prudently purchased.

IV. SUPPLY PURCHASING AND PIPELINE SERVICES

Q. Please describe Nicor Gas' long term supply and transportation strategy.

A. Nicor Gas' long-term supply planning is directed toward acquiring sufficient pipeline transportation capacity and storage services as well as gas supplies to meet projected demand at the best possible cost consistent with the fundamental responsibility of providing safe, reliable, long-term service to its customers. As part of this strategy, when contracting for firm supply, firm transportation capacity and firm storage service, Nicor Gas considers future expected firm requirements, relative security and reliability of supply, and expected long-term costs. In addition, Nicor Gas seeks to maintain sufficient flexibility in its supply and pipeline contracts and its operating practices to enable it to respond to changing industry conditions.

Q. Please summarize the Company's gas supply purchasing strategy.

A. Nicor Gas' gas supply purchasing strategy involves the acquisition of gas supplies in a manner consistent with the objective of providing low-cost gas supplies to its customers while maintaining long-term security and continuity of service and is considered a "best-cost" gas purchasing strategy. Consistent with the Company's fundamental responsibility of providing reliable, long-term supply continuity for its customers, the strategy requires Nicor Gas to develop both short term and long term plans to meet its requirements for gas supply purchases. To determine these requirements, Nicor Gas must consider four important parameters. First, the Company must make a projection of peak day and monthly sendout for its system over the planning horizon. Second, because Nicor Gas relies on underground gas storage capability to meet a significant portion of both daily and seasonal winter peak loads, the timing of the Company's monthly gas purchases must be shaped around an appropriate gas storage inventory and injection/withdrawal activity schedule to support design day storage withdrawals and to meet monthly and seasonal storage targets that are intended to maximize overall storage flexibility. Third, the Company must estimate volumes that are expected to be received into its system from third party customers and their utilization of the Company's storage assets. Fourth, Nicor Gas must determine the mix of supply contracts in its portfolio to utilize, taking into consideration available price information and the need to maintain flexibility to adjust purchases as conditions change on a seasonal, monthly and daily basis.

Finally, once total seasonal supply requirements have been estimated, appropriate levels of baseload and daily purchases are established to address security of supply and to target a mitigation of price volatility associated with daily market activity while affording needed daily and monthly flexibility to accommodate changes due to weather and third party activity. If feasible, and within the operational parameters of the storage fields, injections or withdrawals may be adjusted to assist with variations in such factors. Purchase decisions were made within the limits of available gas supply and transportation agreements in force from time-to-time and within the operational limitations of Nicor Gas' general system facilities.

Q. Please summarize Nicor Gas' 2012 gas purchases.

A. Nicor Gas' level and mix of gas purchases are a result of seasonal, monthly, daily and design day operational requirements including the need for annual replenishment of storage inventory. A large portion of the supply is purchased through a request-for-proposal ("RFP") process in which bids are solicited from multiple suppliers and are recommended for award based on criteria including receipt location, term, type of supply (baseload or swing), flexibility of service, supplier diversity, supplier's credit limit and price including the desired type of commodity pricing (first-of-the-month or daily index). The Company purchases gas from the spot market as well as firm supply. The Company's supplies are purchased at market prices, including prices linked to market indices, applicable to the time and location of the purchases.

Q. What is meant by the term "spot market"?

A. The "spot market" is a market characterized by short-term contracts, typically one day to one month, for specified volumes of gas, with buyers bidding freely for available supplies. Sellers in the spot market include gas producers and marketers.

Q. What is meant by the term "firm supply" purchases?

A. "Firm supply" refers to gas supply purchased through agreements, generally for a period of up to three years or for a specific season or month, directly between Nicor Gas and producers and marketers that has a firm delivery requirement associated with it. Firm supply is more reliable because the contract contains provisions for firm deliveries and charges for non-performance.

Q. What policies and procedures existed for evaluating third party suppliers, including potential spot gas suppliers and firm gas suppliers, and for pursuing a best-cost purchasing strategy in 2012?

A. The Company executes all its firm and spot gas purchases under a gas purchase contract which is signed by both parties. The Company's gas supply purchases in the spot market are made in a competitive market involving a number of different marketers and producers. For the majority of its supply, Nicor Gas solicits proposals from numerous potential suppliers (approximately 110 companies) through a competitive bidding procedure. Firm gas supplies are generally priced on market-based indices and are evaluated on the basis of a variety of factors, including index premium, reliability, diversity of supply source and flexibility. Nicor Gas deals with all potential gas suppliers at arms' length and attempts to obtain the lowest price for the volumes in question subject to reliability and credit considerations while also striving to include diverse business enterprises in the portfolio of contracted suppliers. The overall objective of the gas contracting process is to determine the best-cost supply portfolio on a fair and objective basis as possible.

Q. Which interstate pipelines did Nicor Gas have contracts with in 2012?

A. During 2012, Nicor Gas had firm transportation agreements with seven interstate pipelines which had interconnections with Nicor Gas – NGPL, Midwestern, Northern Natural, Panhandle Eastern, Horizon, Northern Border and ANR. These agreements prescribe a maximum level of daily service as well as points of receipt and delivery. Additionally, Nicor Gas had firm transportation agreements with Tennessee Gas Pipeline ("Tennessee") and Texas Gas Transmission LLC ("Texas Gas") which feed into Midwestern.

Q. Were any new pipeline agreements entered into or revised during 2012?

A. Yes. In 2011, Nicor Gas negotiated contract extensions with Midwestern, NGPL, and Northern Border that became effective in 2012 and entered into a new firm transportation agreement with Tennessee that became effective in 2012. Additionally in 2011, Nicor Gas elected to extend its firm transportation agreement with Horizon, an affiliated interest. The election extended the term of the contract, which was previously scheduled to expire in 2012, through mid-May 2015. This election was made pursuant to a contractual extension right contained in Nicor Gas' initial Horizon contract, the terms of which were approved by the Illinois Commerce Commission on November 21, 2000 in Docket No. 00-0365. Information regarding these contract extensions was provided in 2011 data request responses (Docket No. 11-0763) and is being provided again in this proceeding's data request responses.

In 2012, Nicor Gas negotiated several contract extensions with NGPL that become effective in 2013. Also in 2012, Nicor Gas negotiated four contract extensions with ANR, two of which became effective in 2012 and two of which become effective in 2013. These changes are more fully described in data request responses being provided in this proceeding.

Q. Did Nicor Gas reduce capacity on any pipeline effective for 2012?

A. Yes. Nicor Gas' contract with Texas Gas for 47,000 MMBtu/day expired in 2012. Further, Nicor Gas elected a contractual option in 2011 to terminate its agreement with Tennessee as of October 31, 2012. Nicor Gas negotiated a new contract with Tennessee, as mentioned previously, which became effective November 1, 2012 and replaced the terminated Tennessee capacity and the expired Texas Gas capacity. These capacity reductions and contract changes are more fully described in data request responses being provided in this proceeding.

V. FERC ACTIVITY

Q. Does Nicor Gas participate in FERC proceedings in an effort to minimize gas supply costs for its customers?

A. Yes. Whenever Nicor Gas determines that a FERC proceeding could have an impact on the Company, Nicor Gas intervenes and actively participates in FERC filings made by its pipeline transporters and in FERC rulemakings that generally affect all interstate natural gas pipelines. Nicor Gas also participates as a member of the American Gas Association ("AGA") in FERC proceedings. In addition, Nicor Gas monitors all FERC filings and orders for proceedings of those pipelines with which it has contracts and interconnects, namely ANR, Horizon, NGPL, Midwestern, Northern Border, Northern Natural, Panhandle Eastern, Tennessee, Texas Gas and Alliance, as well as FERC's general rulemakings and other general proceedings and investigations.

VI. INTERNAL CONTROL POLICIES AND PROCEDURES

Q. Please describe Nicor Gas' internal control procedures.

A. Nicor Gas has developed and implemented numerous internal control policies and procedures related to gas supply. These policies ensure that proper and efficient management controls are in place and that gas supply planning and contracting decisions are well documented and receive the appropriate management review prior to execution. During 2012, Nicor Gas continued to use a Gas Price Risk Hedging Policy. The current hedge program will be described more fully later in my testimony.

In addition to these policies, Nicor Gas has internal control procedures, which relate to enforcement of the Company's gas supply purchase contracts. All billing to Nicor Gas from its suppliers for gas supply and transportation is checked for accuracy and compliance with contract terms. This procedure includes verification of the dollar amount billed to Nicor Gas as well as a reconciliation of volumes nominated with volumes received.

Volumes delivered by pipelines to Nicor Gas are registered by meters located at various delivery points throughout the system. The recorded volumes are converted to Mcf at 1,000 Btu per cubic foot basis at 14.73 PSI. Volumes are compared to Nicor Gas' Supervisory Control and Data Acquisition ("SCADA") telemeter data. If errors are found, appropriate adjustments are made. All Nicor Gas' interconnecting pipelines inspect, test and calibrate meters at each delivery point periodically. Records of inspections are furnished to Nicor Gas. Nicor Gas periodically witnesses inspections and calibrations at major metering points to the Company. The heating value, specific gravity and composition of gas delivered to Nicor Gas' system are determined by means of continuously recording chromatographs, which are also tested on a periodic basis.

VII. GAS PRICE RISK HEDGING POLICY

Q. Briefly describe the purpose of Nicor Gas' Gas Price Risk Hedging Policy.

A. The policy was developed in recognition of the fact that, as in most commodities markets, the Company's costs of procuring natural gas supplies may be impacted by both short term price volatility and longer term price trends. To address risks associated with these commodity price movements, the Company has utilized financial instruments as a part of its overall gas purchasing strategy.

Q. Describe Nicor Gas' hedging activities in 2012.

A. In 2012, Nicor Gas continued to use the Supply Price Risk Hedging Strategy which continues to include the recognition of storage as a natural hedge and authorizes the use of financial instruments to hedge a portion of supply purchases through fixed price contracts and options. The objective of the strategy continues to be to reduce gas price volatility. Details of Nicor Gas' hedging strategy are included in the Company's data responses being provided as part of this proceeding.

Q. Is there anything else you would like to discuss regarding Nicor Gas' 2012 gas price risk hedging activity?

A. Yes. Nicor Gas' clearing broker, NYMEX member MF Global Inc. ("MF Global"), declared bankruptcy in October of 2011 and has been under investigation by federal regulatory agencies regarding unaccounted-for customer funds. These funds were held by MF Global in the form of margin deposits. NYMEX regulations require that margin deposits be held by NYMEX member-brokers in "customer segregated accounts" to protect customer funds. However, it appears MF Global may have violated exchange rules and failed to protect customer funds. While most of Nicor Gas' margin deposit held by MF Global has been recovered, a small portion has not yet been released. Nicor Gas has been working with a bankruptcy attorney to collect the remaining portion, approximately $730,000, of its margin deposit through the bankruptcy proceeding. Nicor

Gas has filed a Commodity Futures Customer Claim Form with the MF Global bankruptcy trustee and fully expects to collect the entire amount owed.

Although the brokerage firm's failure had no cost impact on the Company's PGA to date, the possibility of a future PGA impact does exist. If any portion of the $730,000 cannot be collected through the bankruptcy proceeding, Nicor Gas would then schedule recovery of the remaining portion through the PGA. Since any such remaining amount would be the result of prudent gas cost hedging activity made on behalf of Nicor Gas' customers and not due to any improper or imprudent transactions made by Nicor Gas, recovering any such remaining portion through the PGA would be appropriate. Furthermore, Nicor Gas' Rider 6 – Gas Supply Cost allows for the recovery of price management expenses.

Q. Do you believe Nicor Gas' gas price risk hedging activity was prudent and in the best interests of its customers?

A. Yes. Nicor Gas used well understood, standard industry practices and transparent processes for entering into a variety of instruments. Each strategy was designed to hedge gas costs while avoiding speculation. It is the Company's belief that customers value stable prices. While it is understood that hedging does not necessarily mean lowest prices in the short run, it does result in more stable prices in the long run.

VIII. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.