STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company	**:**	
d/b/a Nicor Gas Company	**:**	
	:	**12-0569**
Proposed Establishment of Rider 17,	**:**	
Purchase of Receivables with	**:**	
Consolidated Billing.	**:**	

DRAFT ORDER OF
NICOR GAS COMPANY

Dated: May 29, 2013

STATE OF ILLINOIS

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Northern Illinois Gas Company d/b/a Nicor Gas Company, pursuant to the direction of the Administrative Law Judge in this proceeding, hereby submits its Draft Order for the Commission's consideration.

* * * * *

By the Commission:

I. PROCEDURAL HISTORY

Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") has offered its residential and small commercial customers, on a voluntary basis, the option to purchase their natural gas from third-party, alternative gas suppliers ("AGS") for more than a decade through an Illinois Commerce Commission ("Commission") approved tariff, Rider 15 – Customer Select Program. The Commission approved expansion of Nicor Gas' Customer Select pilot program to all customers of Nicor Gas in Docket Nos. 00-0620, 00-0621 (Cons.). Order (July 5, 2001); Order on Rehearing (Jan. 3, 2002). In response to the requests of certain AGS participating in the Customer Select Program, the Company developed and filed a tariff, proposing to establish a new, optional service called Rider 17 – Purchase of Receivables with Consolidated Billing ("PORCB") on September 5, 2012. Nicor Gas filed Rider 17 pursuant to the terms of the Stipulation and Settlement Agreement dated May 19, 2011 in Docket No. 11-0046, between AGL Resources Inc., Nicor Inc., Nicor Gas, the Retail Energy Supply Association ("RESA") and Interstate Gas Supply of Illinois ("IGS").

On October 17, 2012, the Commission entered an Order suspending Rider 17 for a period of 105 days, up to and including February 1, 2013. On January 24, 2013, the Commission resuspended the tariff pending further investigation.

Staff of the Commission ("Staff") and the Illinois Attorney General's Office ("AG") entered appearances. Petitions to intervene were filed by RESA, IGS, the Citizens Utility Board ("CUB"), and the Illinois Competitive Energy Association ("ICEA"). The petitions to intervene were granted by the Administrative Law Judge ("ALJ").

Nicor Gas witness Robert R. Mudra, CFA, Director, Finance and Rates for the Company, presented testimony and exhibits to support the proposed PORCB program and related tariffs.

The following witnesses presented testimony on behalf of the Staff of the Commission: David Rearden, Policy Program, Energy Division; Theresa Ebrey, Accountant, Accounting Department, Financial Analysis Division; Rochelle M. Phipps, Senior Financial Analyst, Finance Department, Financial Analysis Division; and Christopher L. Boggs, Rates Analyst, Rates Department, Financial Analysis Division. Martin R. Cohen, consultant, presented testimony on behalf of CUB and the AG. Teresa Ringenbach, Senior Manager of Government and Regulatory Affairs for the Midwest for Direct Energy, LLC, presented testimony on behalf of RESA and IGS.

Pursuant to due notice as required by law and by the rules and regulations of the Commission, prehearing conferences were held in this matter before a duly-authorized ALJ on December 6, 2012 and May 2, 2013. An evidentiary hearing was held on May 6, 2013.

On May 17, 2013, Nicor Gas, Staff, CUB-AG and RESA-IGS filed their respective post-hearing Initial Briefs ("Init. Br.").

On May 24, 2013, Nicor Gas, Staff, CUB-AG and RESA-IGS filed their respective post-hearing Reply Briefs ("Reply Br.") On May 29, 2013, per direction of the ALJ, Nicor Gas and ______________ each submitted a Draft Order.

On ___________________, 2013, the record was marked "Heard and Taken."

II. APPLICABLE STATUTORY AUTHORITY

Section 9-201 of the Public Utilities Act (the "Act") authorizes Commission approval of a proposed rider if the rider is found to be just and reasonable. 220 ILCS 5/9-201(c) ("the Commission shall establish the rates or other charges…which it shall find to be just and reasonable"). *See also North Shore Gas Company, The Peoples Gas Light and Coke Company, Proposed General Increase in Natural Gas Rates*, Docket Nos. 09-0166, 09-0167 (Cons.) Order at 131-32 (Jan. 21, 2010); *Commonwealth Edison Company, Proposed General Increase in Rates for Delivery Service*, Docket No. 05-0597, Order at 127 (July 26, 2006). The Act places the burden of establishing the justness and reasonableness of the proposed rates or other charges upon the utility. 220 ILCS 5/9-201(c). Moreover, "a just and reasonable rate is a question of sound business judgment and is not the product of a legal formula." *Central Illinois Light Company, Proposal to Implement a Competitive Procurement Process*, Docket Nos. 05-0160, 05-0161, 05-0162 (Cons.), Order at 43 (Jan. 24, 2006).

III. NICOR GAS' PROPOSED RIDER 17

A. Rider Mechanics

1. Purpose and Applicability of Rider 17

Nicor Gas states that the purpose of Rider 17 is to provide a new tariffed service whereby Qualifying Alternative Gas Suppliers ("Q-AGS") may, at their option, sell to Nicor Gas qualifying receivables for natural gas commodity service for eligible residential and small commercial customers. Nicor Gas Exhibit ("Ex.") 1.0 at 2-3. More specifically, Rider 17 provides the terms by which Nicor Gas will purchase receivables from Q-AGS, including the manner in which the Company will recover its costs incurred in providing service under the rider, and then reflect those charges on bills where the receivables have been purchased by Nicor Gas. *Id.* at 4. Rider 17 also sets forth the terms and conditions of the new tariffed service. *Id*.

Nicor Gas presents evidence that Rider 17 will be available in conjunction with the Company's competitive alternative retail supply services under Nicor Gas' Rider 15 – Customer Select, and Nicor Gas' Rider 16 – Supplier Aggregation Service. *Id.* at 5. Rider 17 adds a purchase of receivables option for Q-AGS' gas supply charges to the existing utility consolidated billing program. *Id.* Nicor Gas will purchase these receivables, without recourse, at a discount of 1.5% as part of the mechanism for the Company to recover the costs of providing the new service. *Id.* After the purchase of these receivables, Nicor Gas will include on the customer's bill both the Company's distribution charges and the balance of outstanding charges purchased from the Q-AGS, and these charges will enter the Company's collection process. *Id*.

Nicor Gas proposes that any Q-AGS electing to have Nicor Gas purchase its receivables is required, by Rider 17, to sell to the Company such Q-AGS' Qualifying Receivables 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. *Id.* at 6. In other words, a Q-AGS cannot elect to sell the receivables for just some of its customers to Nicor Gas; it must sell to Nicor Gas the receivables for all of the chosen class(es) of customers. *Id.* However, a Q-AGS is not precluded from serving specific non-residential customers, without Rider 17, through either dual billing (where the utility and Q-AGS both send the customer separate bills) or through the supplier's own consolidated billing program in which the Q-AGS consolidates both utility and supplier charges on the supplier's bill. *Id*.

Further, Nicor Gas proposes to exclude from Rider 17 any residential customer participating in the State of Illinois' Percentage of Income Payment Plan ("PIPP"), as provided for in the Illinois Energy Assistance Act (the "IEAA"), 305 ILCS 20/18. Nicor Gas Ex. 1.0 at 7. Under Nicor Gas' proposal, Nicor Gas will not purchase receivables from a Q-AGS for the accounts of residential customers who participate in the PIPP. *Id*. Nicor Gas states that there are significant additional costs to and challenges posed by including such customers in Rider 17. *Id.* at 8. Accordingly, RESA and IGS have agreed that inclusion of PIPP customers should not be part of the initial information technology systems changes, but will be considered for inclusion in the PORCB program at a later date. *Id.* If it is later determined that PIPP customers should be included in Rider 17, then Nicor Gas states that it would seek to recover its incremental investment for these necessary systems changes through the same Capital Recovery Cost ("CRC") mechanism described in Rider 17. *Id*.

2. Costs of Rider 17

In providing the new service under proposed Rider 17, Nicor Gas anticipates incurring developmental, implementation, administrative, and operational costs. Nicor Gas Ex. 1.0 at 9. Rider 17 sets forth two categories for these costs — Administrative and Operational Costs ("AOCs") and CRCs. *Id.* The AOCs are the incremental expenses incurred by or for Nicor Gas in association with services provided under Rider 17 and are described more fully in the tariff. *Id*. The CRCs are the revenue requirement necessary to recover the Company's investment in information technology ("IT") systems, are necessary for the PORCB program, and also are described more fully in the tariff. *Id.* at 9-10. Annually, CRCs will equal the five-year levelized revenue requirement sufficient to recover the return of and on the Company's investments at an 8.09% rate of return as approved by the Commission in Nicor Gas' last rate case, Docket No. 08-0363. Nicor Gas Ex. 1.0 at 10.

3. Cost Recovery

Nicor Gas asserts that all costs that it seeks to recover under Rider 17 represent new, incremental costs that are not reflected in Nicor Gas' current, Commission-approved revenue requirement. Nicor Gas Ex. 1.0 at 10. Therefore, Nicor Gas proposes to recover all costs to provide this new service from the Q-AGS that elect the service under Rider 17 and from the Q-AGS' eligible customers. *Id*.

Nicor Gas states that Q-AGS electing service under Rider 17 will be subject to several costs. First, any Q-AGS electing service under Rider 17 will continue to pay the existing Third Party Billing Service charge of $0.25 per bill. *Id*. As such, there will be no change from what the Q-AGS currently pays for the utility consolidated billing service. *Id*. Second, a Q-AGS electing service under Rider 17 will pay a Discount Factor of 1.5%, which includes 0.5% for CRCs, as applied to Qualifying Receivables purchased by Nicor Gas from the Q-AGS. *Id*. More specifically, Nicor Gas will apply a Capital Recovery Adjustment ("CRA") charge or credit to applicable Q-AGS' monthly Supplier Aggregation Service bills to recover or refund any anticipated under-collected or over-collected CRCs received through application of the 0.5% portion of the Discount Factor. *Id.* at 10-11. The CRA includes a reconciliation component that will be the difference between the actual capital recovery cost revenue requirement for the reconciliation period and the amounts collected through the application of the 0.5% capital recovery costs component of the Discount Factor, plus amounts collected or refunded to Q-AGS through the CRA during the prior reconciliation period. *Id.* at 11.

Nicor Gas further states that Q-AGS' eligible customers also will be subject to some costs and credits. In particular, Rider 17 includes a customer adjustment, which will be a per-customer per-month charge or credit calculated separately for eligible residential and non-residential customers. *Id.* The charge will be based on AOCs, estimated uncollectible costs, intangible cost recovery and a reconciliation component and will be determined pursuant to the specific conditions set forth in the tariff. *Id*. Under Nicor Gas' proposal, the Company will make regular filings with the Commission on or before the 20th day of the month preceding the adjustment's effective date. *Id.* at 12. The adjustment will be added to or deducted from the customer's Monthly Customer Charge and will be applicable by customer class (residential and non-residential). *Id.*

4. Commission Review and Reconciliation

Nicor Gas proposes a reconciliation process under Rider 17 that reflects the major features commonly implemented for the oversight of tracking riders, including: (1) an internal audit report with numerous tests, including that costs recovered under the rider are not recovered through other approved tariffs, that adjustment factors are being properly billed to customers in the correct time periods, and that Rider 17 revenues are properly stated; and (2) a Commission-initiated proceeding to reconcile costs and revenues, review the costs incurred, and order adjustments to correct errors, if any. Nicor Gas Ex. 1.0 at 12. Nicor Gas proposes to file a petition with the Commission to initiate the reconciliation process on or before August 31 following each twenty-four month reconciliation period. *Id.* The petition will include a reconciliation of the actual purchase of receivables adjustment costs incurred with the actual revenues booked and the actual Capital Recovery Costs incurred with the Capital Recovery revenues booked. *Id.* at 12-13.

5. Rider 17 Implementation

Nicor Gas states that it has estimated that it will incur start-up costs of $3.88 million to implement the changes required by Rider 17. Nicor Gas Ex. 1.0 at 13. To calculate the estimate, Nicor Gas states that it first reviewed its current systems and identified the programs, processes and reports that will need to be modified to implement Rider 17, which include: (1) service agreements; (2) the enrollment program; (3) programs relating to billing, bill extracts and bill messaging; (4) the cancel/rebill processes; (5) payment programs; (6) programs relating to collections, severance, and reconnection; (7) revenue and reporting databases; (8) Nicor Gas' General Ledger; (9) existing and new financial and credit reports; (10) bill presentations; and (11) a new process to transition Q-AGS to the PORCB program. *Id.* at 13-14.

Nicor Gas then considered the amount of time and resources needed to implement these numerous systems changes and arrived at an estimate of approximately 42,400 hours, which would take two years assuming the use of Nicor Gas' current staffing level. *Id.* at 14. The majority of those hours are estimated to be spent on designing and building the changes and testing the changes, as Nicor Gas must ensure that the changes do not negatively affect its customers or its financial reporting processes. *Id.* Assuming an average hourly rate of $85 as applied to the 42,400 hours results in a figure of $3.6 million. *Id*. Finally, Nicor Gas assumed that it also will incur overhead and administrative / general expenses related to the start-up process, which Nicor Gas estimated at 8% of the $3.6 million, or $288,000. These figures together are the estimated total of $3.88 million. *Id*.

B. Standard for Rider Approval

1. Other Parties Positions

[INSERT]

2. Nicor Gas Position

Nicor Gas made its Rider 17 tariff filing pursuant to Section 9-201 of the Act, which provides that "the Commission shall establish the rates or other charges … which it shall find to be just and reasonable". 220 ILCS 5/9-201(c). Therefore, Nicor Gas contends that the Commission may approve Rider 17 if the Commission finds it to be just and reasonable. Nicor Gas Init. Br. at 8-9; Nicor Gas Reply Br. at 3.

Nicor Gas asserts that it drafted proposed Rider 17 to achieve three goals. First, the Company sought to propose a PORCB program that would hold its supply and delivery customers harmless in the provision of this new, optional service. Second, Rider 17 would provide Nicor Gas with a mechanism to recover all costs incurred in order to provide the new PORCB service – costs that are not being recovered through Nicor Gas' current base rates. The third goal was to propose a balanced PORCB program in response to the request of certain AGS. Nicor Gas presented substantial and compelling evidence showing that proposed Rider 17 accomplishes each of these goals. Nicor Gas Init. Br. at 1-2; *see also* Nicor Gas Reply Br. at 2. Accordingly, Nicor Gas argues that the Commission should approve the Company's Rider 17 proposal because the evidence demonstrates that it is just and reasonable.

Further, Nicor Gas asserts that there is no basis in law for Staff's argument that Rider 17 may only be approved by the Commission if "the expenditures to implement Rider 17 are prudently incurred". Staff Ex. 1.0 at 3. Similarly, Nicor Gas asserts there is no basis in law for CUB-AG's argument that the Company must provide evidence that its Rider 17 proposal provides a "net benefit to customers." CUB-AG Ex. 1.0 Rev. at 2. Nicor Gas further asserts that CUB-AG's argument is beyond the scope of this proceeding. Nicor Gas emphasizes that it is only proposing to provide optional Rider 17 service to Q-AGS as a part of the overall competitive service package that Q-AGS provide to their retail customers. Q-AGS are allowed to establish their own business models, prices, services, subcontractor agreements and other customer terms and conditions in a competitive retail market for natural gas supply in Illinois. Rider 17 properly permits Nicor Gas to recover the costs of providing the service from the participants and suppliers in this competitive marketplace. Nicor Gas contends that, in this marketplace, AGS and customers ultimately will be the judge of whether Nicor Gas' provision of the PORCB service provides so-called "net benefits" to customers. Nicor Gas Ex. 2.0 Rev. at 33-34.

Nicor Gas also argues that Staff's position that Rider 17 is premature (Staff Ex. 2.0 at 3) also is unsupported. Nicor Gas contends that the evidence shows that the Company has proposed an optional PORCB program and that Rider 17 outlines the cost recovery mechanism for the program, the required ongoing obligations of the Company and the Q-AGS and the requisite administrative and Commission reconciliation and review processes. Nicor Gas asserts that the evidence shows that Rider 17 is considered to be in the preliminary design stage from an IT perspective. Nicor Gas Ex. 2.0 Rev. at 7. Nicor Gas states that the fact that the Company proceeded with caution and did not conduct full scale development for a new, optional service, with an estimated start-up cost of $3.88 million without first obtaining Commission approval should not be a reason to reject Nicor Gas' proposal. *Id*.

Finally, Nicor Gas contends that it provided as much information as it currently has available on the costs to be incurred under the rider. Until Nicor Gas actually incurs costs in connection with providing service under Rider 17, it cannot predict the specific levels of costs or provide "best estimates" of charges. Nicor Gas argues that the fact that these costs cannot be known with certainty at this time does not support the Commission's outright dismissal of the Company's proposal. *Id*. at 8-9. Moreover, future costs will be related to the levels of future PORCB uncollectibles, future gas prices, future numbers of participating customers, future participating Q-AGS, the severity of future weather conditions (colder or warmer winters) and future levels of customer participation in retail gas markets in Illinois. For example, if natural gas municipal aggregation were to be approved by the Illinois General Assembly then significantly higher levels of customers may begin switching to the Company's Rider 15 – Customer Select and the costs incurred under the PORCB program would be expected to rise commensurately. *Id.* at 9.

C. Commission Analysis and Conclusion

The Commission finds that there is no reason to deviate from the "just and reasonable" standard that the Commission has historically applied in approving utility riders. Meanwhile, Staff and CUB-AG have presented no authority, legal or otherwise, to support the proposition that a tariff must pass a "net benefit" test before the Commission can approve a proposed tariff. Similarly, nothing in the Act requires a utility to demonstrate that costs to implement a particular rider program must be deemed prudent prior to implementing a particular program. Thus, the Commission declines to adopt the legal standards that Staff and CUB-AG propose, and applies the Section 9-201 "just and reasonable" standard here in reviewing Nicor Gas' proposed Rider 17. Based upon the evidence provided by Nicor Gas in support of its proposed tariff as outlined above, the Commission finds that Nicor Gas' proposed PORCB program should be implemented and that Rider 17, as filed and revised in this proceeding, provides a just and reasonable mechanism for implementing the program and it is hereby approved.

IV. PROPOSED CHANGES TO RIDER 17

While Staff and CUB-AG each argue for the outright rejection of Rider 17, as an alternative they propose various amendments to the language and mechanics of the rider. *See* Nicor Gas Init. Br. at 10. During the course of the proceeding, Nicor Gas adopted several of Staff's proposed modifications. *Id*. However, with regard to the Staff and CUB-AG proposed amendments that remain at issue, it is Nicor Gas' position that the Commission should reject Rider 17 rather than adopt such changes. The Company states that it has developed a program that properly balances the interests of its customers, AGS, and the Company. Meanwhile, the Staff and CUB-AG proposed changes unreasonably disrupt this balance. Thus, because the proposed rider is an optional service, Nicor Gas urges the Commission to reject Rider 17 rather than adopt the Staff and CUB-AG proposed amendments that remain at issue. Nicor Gas Init. Br. at 2-3; Nicor Gas Reply Br. at 2-3.

Notwithstanding the foregoing, the remaining proposed amendments are discussed below.

A. Discount Factor

1. Staff Position

[INSERT]

2. Nicor Gas Position

Nicor Gas presented evidence demonstrating that the 1.5% Discount Factor was a product of discussions with RESA and IGS and represents an amount that certain AGS determined to be reasonable, including 0.5% for Capital Recovery Costs. Nicor Gas Ex. 1.0 at 11. The Company asserts that it cannot speculate on the factors considered by RESA and IGS in their determination of the reasonableness of the 1.5% Discount Factor. Staff Ex. 2.0, Attach. D. Rider 17 is designed to recover and reconcile the actual costs incurred by the provision of the PORCB service to the residential and non-residential customer classes. Nicor Gas Ex. 2.0 Rev. at 10. Furthermore, the Company points out that the purchase of receivables adjustment factor will charge or credit customers (within the appropriate customer class) for amounts that are either under or over-recovered due to the level of the 1.0% portion of the Discount Factor. Any over or under-recovery related to capital cost recovery will be billed to the Q-AGS on their monthly Rider 16 – Supplier Aggregation Service pool bills. *Id*. As a result, Nicor Gas contends that customers and AGS that are not enrolled in the PORCB program will not be impacted by PORCB costs or by deviations above or below the Discount Factor. The Q-AGS and their customers only will be charged (or credited) for the actual and appropriate services provided, by customer class, and actual costs will be recovered. Finally, Nicor Gas emphasizes that the Discount Factor is only a component of the computational process and not the final end result. *Id*. at 11.

B. Definition of Capital Recovery Costs

1. Staff Position

[INSERT]

2. Nicor Gas Position

Rider 17 defines CRC as "the revenue requirement necessary to recover the Company's investment in information technology systems necessary for the PORCB Program." Nicor Gas Ex. 2.2, Sheet No. 75.9.3. Subsection (d) of the definition specifically includes future system modifications required to maintain IT system integrity and functionality. *Id*. Nicor Gas asserts that this approach insures that the appropriate cost causers (Q-AGS) pay for all of the capital costs required to install and maintain the PORCB system on an ongoing basis. Nicor Gas Ex. 2.0 Rev. at 14.

Nicor Gas further contends that the evidence demonstrates that the Company will develop separate IT functionality for the PORCB program. Nicor Gas Ex. 3.0 at 5. The Company would only seek to recover system modification costs if required to maintain IT system integrity and functionality related to the PORCB program as explicitly provided for on Sheet No. 75.9.3. *Id*. Nicor Gas points out that the costs at issue do not relate to the Company's existing IT system, but only to costs that would be required for the PORCB program. *Id*.

Nicor Gas argues that if the Company were to follow Staff's approach of ignoring the future IT system modification costs under Rider 17 and recovering any remaining net investment in plant and a return through a subsequent rate case, there are two significant disadvantages: (1) the revenue requirement for the additional investments would not be tracked or charged to the appropriate customer classes (Q-AGS) but rather to all other customers, thereby creating cross subsidies; and (2) due to the infrequent timing of rate cases, the Company would never recover its return on and of capital from the date of the system modification until the next rate case. Nicor Gas Ex. 2.0 Rev. at 15. Nicor Gas also points out that if it is determined at a later date to include PIPP customers in the PORCB program, Nicor Gas would seek to recover its CRCs for the Company's investment in necessary system changes in the same fashion. Nicor Gas Ex. 1.0 at 8.

C. Supply Uncollectible Adjustment Formula

1. Staff Position

[INSERT]

2. Nicor Gas Position

The Company also identified numerous reasons why Staff's proposal regarding the Supply Uncollectible Adjustment ("SUA") will impede the timely and accurate recovery of the Company's cost to provide the PORCB service. Nicor Gas Ex. 2.0 Rev.

at 16. First, in the Company's last rate case (Docket No. 08-0363, Order at 31 (Mar. 25, 2009)), the Commission approved an uncollectible rate representing an overall average level of uncollectibles as a percentage of gross revenues for all customer classes of 2.02%. This rate does not reflect the residential class individually or the non-residential class individually. Nicor Gas asserts that its proposal to estimate and adjust the $PORA_C$ set forth in the tariff on a monthly basis for each respective customer class based on actual experience is more precise and equitable for each customer class. Nicor Gas Ex. 2.0 Rev. at 16-17.

Second, Nicor Gas states that the Company's proposal uses forward looking estimates, which are more appropriate than historical data points to establish the more accurate and relevant charges for each effective future month of PORCB service. *Id*. at 17. Furthermore, the Company will monitor its estimates with actual experience on a monthly basis and subsequently adjust the monthly charges based on changing market conditions. *Id*.

Third, Nicor Gas contends that its proposal is superior to Staff's approach, which sets an artificial historical cap on SUA recoveries until the two-year reconciliation process is complete. *Id*. Nicor Gas points out that, as a result, Staff's method creates additional financial risk to Nicor Gas in the event of rising gas prices, economic downturns, or changing uncollectible rates within the Q-AGS pools, all of which would cause Nicor Gas to be significantly undercollected until the end of its two-year reconciliation process. *Id*.

Fourth, Nicor Gas points out that Staff's method does not account for actual customer payment experience on a monthly basis as Nicor Gas' proposal does; instead, Staff's proposal utilizes a fixed uncollectible rate of 2.02%. *Id*. Nicor Gas also emphasizes that it worked with RESA and IGS to develop a structure for Rider 17 that considers the risks and rewards of the PORCB program. Because this is a voluntary program, Nicor Gas is not willing to accept additional financial risks or the uncertainty associated with Staff's proposed SUA formula. *Id*. at 17-18.

Finally, Nicor Gas asserts that the evidence demonstrates the Company's rate design formulas are designed to address the complexities and business process changes necessary for Nicor Gas to provide a new service to purchase annually millions of dollars of third-party receivables. Nicor Gas Ex. 3.0 at 5.

D. Tracking of Internal IT Costs

1. Staff Position

[INSERT]

2. Nicor Gas Position

Nicor Gas has agreed to specifically track revenues and costs of Rider 17 using "revenue identifiers" to track the specific revenues associated with Rider 17. Nicor Gas Ex. 2.0 Rev. at 19. Nicor Gas asserts that Staff has a misunderstanding of Nicor Gas' position with respect to the tracking of costs and revenues because the evidence demonstrates that the cost of internal IT employee time that is capitalized and required for the PORCB program will be tracked for recovery through the CRC mechanism. Nicor Gas Ex. 3.0 at 5.

Nicor Gas further asserts that it presented evidence that the IT programming for Rider 17 will be incremental capitalized work; therefore, 100% of the cost should be included for cost recovery. Nicor Gas Ex. 2.0 Rev. at 19. Accordingly, it is the Company's position that it should not be required to verify that the internal costs are "incremental" and not otherwise included in recovery under any other tariffs currently in effect.

E. Cost Recovery from Q-AGS Only

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas asserts that the Rider 17 tariff design is fair and reasonable to existing and future customers as well as to Q-AGS. Moreover, it should be borne in mind that customers who select an AGS do so at their own discretion and agree to charges, terms and conditions offered by the selected AGS. Nicor Gas Ex. 2.0 Rev. at 34. These customers already receive certain credits and charges on their natural gas bill from Nicor Gas (*e.g.*, Transportation Service Adjustment, Balancing and Storage Adjustment, Rider 26 Uncollectible Expense Adjustment), and other charges and credits billed directly from the AGS are also included on the customer's consolidated bill from Nicor Gas. Ultimately, AGS customers pay for the charges and receive the appropriate credits associated with their service. *Id*.

F. Separate Line Item for PORCB Charges

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas' Rider 17 proposal provides that the Purchase of Receivables Adjustment ("PORA") would be added to or subtracted from the Monthly Customer Charge along with the Rider 1 "Customer Charge Adjustments," which include (a) Energy Assistance Charges for the Supplemental Low-Income Energy Assistance Fund, (b) Renewable Energy Resources and Coal Technology Development Assistance Charge, and (c) the Rider 26 monthly customer charge adjustments for uncollectible costs. Nicor Gas Ex. 2.0 Rev. at 36-37. These adjustments, including the proposed PORA, are not displayed as separate line items on the bill but rather are included in the monthly customer charge. *Id*. at 37.

Nicor Gas argues that a separate line item on the bill for PORA charges and credits would not be more beneficial to customers. As an initial matter, Nicor Gas contends that presenting the PORA as a separate line item would create confusion for customers because Nicor Gas currently includes its uncollectible costs within the monthly customer charge. *Id*. at 37. It also may increase operating costs in situations when the extra line item creates more two-page bills, or through additional customer calls and inquiries. *Id*. Moreover, Nicor Gas states that it publishes its rates and tariffs on its website and provides historical monthly rate information so that market participants can review the relevant costs and credits associated with the Customer Select program. *Id*. Finally, Nicor Gas states that it will publish the Rider 17 charges and credits monthly on its website and will provide the historical charges for both residential and non-residential customers (similar to the manner in which it currently provides history on items such as Rider 6 – Purchased Gas Adjustment and Rider 26 – Uncollectible Expenses). *Id*. Thus, all participants in the competitive marketplace will be able to readily access this information.

G. Price Caps on Monthly PORCB Customer Charges

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas argues that CUB-AG's price caps recommendation would require Nicor Gas to (1) calculate a PORA that will be 1.0% of the customer's supply charges, (2) bill the customer no more than the lesser of 1.0% or a fixed price cap of $0.50 per residential customer and $2.00 per commercial customer, and (3) bill the Q-AGS any remaining expenses. Nicor Gas Ex. 2.0 Rev. at 38. Moreover, Nicor Gas points out that the variable per customer price caps proposed by CUB-AG would create operational complexities that are far greater than Nicor Gas had envisioned for itself and its customers in designing the PORCB tariff. *Id*. Even if the operational requirements of this recommendation could be implemented, they would introduce significant new billing and computing issues that may delay customer bills and collections, complicate the AGS pool billing process, and significantly increase administrative costs as compared to Nicor Gas' Rider 17 proposal. *Id*. Thus, the price caps proposed by CUB-AG would add significant computational and billing complexities and would jeopardize the efficient recovery of costs, thereby creating terms that are not commercially acceptable to Nicor Gas.

Nicor Gas presented evidence demonstrating numerous other reasons to reject CUB-AG's price caps proposal. First, CUB-AG's recommendation ignores the symmetrical nature of Nicor Gas' proposal and arbitrarily caps charges to customers, but does not cap the credits that may be provided to consumers; this makes Rider 17 unrealistically difficult to implement from a business perspective. *Id*. at 38-39.

Second, CUB-AG's recommendation is based on a premise that there is an intra-class cross subsidy within the residential and commercial customer classes. *Id*. at 39. However, Rider 17 appropriately allocates costs (*e.g.*, actual uncollectible expenses charged off) directly to the customer class causing the cost (*e.g.*, residential and non-residential) and then recovers the cost on an equal cost per customer basis, which is included in the monthly customer charge. The Company's approach is consistent with Commission Orders in Docket Nos. 08-0363 and 09-0428. Nicor Gas Ex. 2.0 Rev. at 39.

Third, CUB-AG's recommendation fails to account for the fact that Q-AGS are already able to design their products and service offerings in a uniquely tailored fashion to small volume and large volume customers because Q-AGS prices charged on a monthly basis are not regulated by the Commission. *Id*. at 40. Indeed, Q-AGS may make any adjustments necessary in their prices on a monthly basis. *Id*.

Finally, CUB-AG's position fails to consider that the competitive retail natural gas industry may significantly change in the future. Municipalities are now aggregating electrical load in the service territory of Commonwealth Edison Company, with Retail Electric Suppliers providing approximately two-thirds of their supply. *Id*. at 41. Future natural gas prices may be high or low and future economic conditions may dramatically increase (or decrease) uncollectibles. *Id*. While Nicor Gas' Customer Select program now serves about 13% of the small volume market, it could dramatically grow or shrink under future legislative or regulatory changes. *Id*. Thus, Nicor Gas asserts that its proposed rate design for Rider 17 will appropriately recover costs under these changing business and economic conditions and the Commission should not modify the rate design to introduce arbitrary pricing limitations that increase risk and administrative complexity.

H. Assignment of Administrative and Operational Costs

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas' proposed tariff design recovers AOCs directly from Q-AGS through the Discount Factor to the extent that the Discount Factor is high enough to cover the future expenses. Nicor Gas Ex. 2.0 Rev. at 41. Nicor Gas states that if the Discount Factor is not adequate to recover the monthly expenses, then a PORA adjustment, which includes the AOCs, is placed on the customer's bill to recover the difference. *Id*. Thus, Rider 17 allocates costs to the appropriate cost causers (Q-AGS and their customers). Likewise, if the Discount Factor is too high, the PORA adjustment will provide credits to customers with the objective of recovering actual costs incurred over the course of the program and through the Commission reconciliation process. *Id*. at 41-42. In addition, Nicor Gas emphasizes that the initial terms and structure of Rider 17 were acceptable to the marketplace as represented by RESA and IGS. All costs of service, including profit, must eventually be included in the end-use customer's bill if a Q-AGS is to be a going concern. *Id*. at 42.

I. Allocation of Costs by Customer Class and Volume

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas states that it modified Rider 17 to calculate AOC_C by customer class by including both a common cost per customer component (*e.g.*, for the general administrative labor) plus a class cost per customer component (*e.g.*, for the direct collection agency costs by class). Nicor Gas Ex. 2.0 Rev. at 44. The modified proposal reflects Nicor Gas' expectation that AOCs largely would be "common" costs that would be required to administer the program for both residential and non-residential customers (*e.g.*, labor to administer the program and answer Q-AGS and customer questions). *Id*. at 43-44. It also reflects Nicor Gas' expectation to pay commissions to collection agencies as part of its AOCs, which the Company can allocate to the customer class for which such commissions were paid. *Id*. at 44. Nicor Gas contends that its modified proposal is consistent with the tariff design intended to ensure that each customer class ultimately pays the appropriate costs caused by that class.

Moreover, Nicor Gas asserts that PORA costs should not be allocated on a volumetric basis, as that allocation methodology is not superior to Nicor Gas' proposal to collect bad debt expenses (uncollectible expense) as a "customer" cost included within the monthly customer charge. *Id*. Under Nicor Gas' proposal, costs are first incurred and then tracked by customer class where possible. *Id*. at 42. The direct costs of residential uncollectibles are recorded directly in the residential customer class and the direct costs of non-residential uncollectibles are recorded directly in the non-residential class. *Id*. The common costs of administering the program for both residential and non-residential customers included in the AOCs (*e.g.*, company labor) are recorded and recovered on a per customer basis from all customers. *Id*. Nicor Gas points out that recovering these costs on a volumetric basis assumes that higher volume customers cause a greater proportion of the AOCs. However, administrative costs are not likely to be primarily spent on the larger customers; instead, they can be fairly recovered from all customers. *Id*. at 42-43. Finally, Nicor Gas contends that use of a volumetric billing determinant assumption within the tariff design introduces more uncertainty and error because weather and monthly gas volumes change considerably each month and each year making cost/therm charges harder to estimate and collect than cost/customer charges, which are more stable. *Id*. at 43.

J. Separate Uncollectible Rates for Each Q-AGS

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas presented evidence demonstrating that Rider 17 is properly designed with a uniform discount rate for all suppliers and PORA adjustments based on forward looking rather than historical data. Nicor Gas Ex. 2.0 Rev. at 46. Due to the dynamic nature of the natural gas industry (changing gas prices, weather, competition, municipal aggregation, and other factors) Nicor Gas should not be required to establish discount rates based on historical information. *Id*. Nicor Gas states that CUB-AG's recommendation also would significantly increase administrative, IT programming, and maintenance costs as compared to Nicor Gas' proposed design because it would require Nicor Gas to segregate receivables by supplier and, by relying on historical information, would not provide Nicor Gas with a timely or efficient cost recovery mechanism. *Id*. In short, it would lead to a burdensome administrative process at higher costs with the potential for more errors and questionable benefit.

Moreover, Nicor Gas asserts that its Rider 17 proposal already builds in consumer and Q-AGS protections. Only Qualifying Receivables ("Q-RECc") by customer class will be purchased by Nicor Gas. *Id*. at 45. As explained in the tariff, Qualifying Receivables means that "such receivables have arisen from providing gas supply to Customer Select Participants who were, at the time immediately prior to entering the program, or during the prior billing period, not in arrears with either the Company or the Q-AGS." Nicor Gas Ex. 2.2 at Sheet 75.9.5. This means that Q-AGS will not be able to bring older, difficult to collect, bad debt into the PORCB program. Nicor Gas Ex. 2.0 Rev. at 45. Nicor Gas asserts that Q-AGS will be incentivized to look for customers with good credit and the ability to pay because otherwise Q-AGS will be dealing with the customer's future uncollectibles. *Id*. Nicor Gas will purchase every receivable (those in good credit standing and those that are not) but only if the customer was previously in good credit standing with both the Company and the Q-AGS. *Id*.

K. Intangible Cost Recovery

1. Staff and CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas argues that intangible cost recovery should be permitted for the following reasons: (1) it was part of the settlement agreement with RESA and IGS wherein the commercial terms of Nicor Gas' proposed Rider 17 were deemed to be acceptable to both the industry participants and the Company and properly identified that Nicor Gas would incur additional costs associated with the program; (2) it provides an incentive for Nicor Gas to keep its PORCB administration costs down; and (3) it encourages innovation in areas where utilities may further support the growth and development of unregulated retail energy markets. Nicor Gas Ex. 2.0 Rev. at 47; Nicor Gas Ex. 2.10; Nicor Gas Ex. 3.0 at 3-4; Nicor Gas Init. Br. at 15-16.

Moreover, Nicor Gas points out that the intangible cost recovery component of Rider 17 is an important component of the risk/reward structure developed with RESA and IGS. Without this component, Nicor Gas' earnings opportunity on PORCB is limited by the assumption that it will be able to recover its capital investment and required return through sufficient participation in the PORCB program via the Discount Factor or by the assumption that sufficient Q-AGS remain in the program for it to recover any outstanding amounts due through the CRA component. Nicor Gas Ex. 2.0 Rev. at 48. If Q-AGS elect to opt out of the program, Nicor Gas points out that it may never recover its estimated initial $3.88 million investment in the program. Due to the concentrated nature of recovering capital costs and return from a limited number of Q-AGS, their customers, and an optional program, the intangible cost recovery component represents a reasonable level of compensation necessary to recover other costs associated with the PORCB program and provide enough incentive for Nicor Gas to agree to participate in such a program. *Id*.

L. Below-the-Line Treatment for Intangible Cost Recovery

1. CUB-AG Position

[INSERT]

2. Nicor Gas Position

Nicor Gas contends that the purchase of third-party receivables is, in character, a non-utility service that will give rise to intangible costs which are appropriately accounted for "below-the-line," consistent with Account 417, Revenues from Non-Utility Operations. Nicor Gas Ex. 2.2 Sheet 75.9.4; Nicor Gas Ex. 3.0 at 10. The Company would only receive $438,609 of return on equity under Rider 17 (Nicor Gas Ex. 2.6, p. 1, sum of ROE column for years 1-5); however, it would incur intangible costs and financial risks associated with purchasing as much as $181,000,000, or significantly more, of receivables. Nicor Gas Ex. 3.0 at 10. Therefore, Rider 17 includes an incentive to recover its intangible costs of only up to 0.5% of Q-REC annually if, and only if, Nicor Gas can keep its AOCs at or below 1.0% of Q-REC. *Id*. The 1.0% of Q-REC could be approximately $1,000,000 per year (before taxes) if 100% of the current AGS in the Customer Select program elected to participate in the Rider 17 with all of their residential and commercial customer classes. Nicor Gas Ex. 2.10. However, after ten years of full unbundling, only about 13% of Nicor Gas eligible residential and small commercial customers currently participate in Customer Select. Nicor Gas Ex. 3.0 at 10-11.

Nicor Gas further argues that, due to the optional nature of the purchase of receivables service that would be offered to Q-AGS, and the attendant risks and uncertainty of future intangible cost recovery and full cost recovery under Rider 17, recording the intangible cost recovery revenues below-the-line in Account 417, Revenues from Non-Utility Operations is appropriate. *Id*. at 11. By definition, below-the-line revenues are not included in the net operating income of the utility for ratemaking purposes, so it is impossible for these uncertain potential future intangible cost recovery revenues to cause Nicor Gas to over-earn on its utility rate base. *Id*. Below-the-line treatment for intangible cost recovery properly recognizes the non-utility nature of this service (receivables factoring) and its risk while providing Nicor Gas with some opportunity to recover its intangible costs associated with providing the proposed PORCB service. *Id*.

M. Commission Analysis and Conclusion

As the Commission has determined to approve a PORCB tariff for Nicor Gas, the Commission must now address the alternative recommendations of Staff and CUB-AG to make numerous changes to Nicor Gas' tariff design. With the exception of those changes that the Company has already agreed to implement, the Commission rejects each proposed change to the tariff recommended by Staff or CUB-AG. The evidence demonstrates that these proposed changes will not improve the rate design or cost recovery methodology contained in Rider 17, nor will these changes improve the equity perspective as between customer classes or as between existing and future customers and the Q-AGS.

Instead, the evidence shows that Nicor Gas' rate design prevents cost shifting and cross subsidies to customer classes who do not elect to purchase their natural gas supplies from any AGS or from Q-AGS who choose not to utilize Rider 17. Specifically, it insures that customers who continue to purchase their natural gas supplies at Nicor Gas' regulated monthly Rider 6 – Gas Supply Cost prices will not be charged with the unregulated uncollectible costs from AGS. The evidence also demonstrates that Nicor Gas' proposed rate design formulas are designed to address the complexities and business process changes necessary for Nicor Gas to provide a new service to purchase annually millions of dollars of third-party receivables. Thus, the Commission finds that the evidence supports approval of Nicor Gas' proposed Rider 17 as revised in this proceeding and without the changes recommended by Staff or CUB-AG.

V. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) Northern Illinois Gas Company d/b/a Nicor Gas Company is an Illinois corporation engaged in the distribution of natural gas to the public at retail in the State of Illinois and as such is a “public utility” as defined in Section 3-105 of the Act;

(2) the Commission has jurisdiction over the parties hereto and the subject matter herein;

(3) the statements of fact set forth in the prefatory portion of this Order are supported by the evidence and the record and are hereby adopted as findings of fact; and

(4) the testimony and exhibits admitted into the record provided substantial evidence that Northern Illinois Gas Company's proposed PORCB program should be implemented and Rider 17 is a just and reasonable mechanism for implementing the program as provided for in Section 9-201(c) of the Act.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that Northern Illinois Gas Company's proposed PORCB program be implemented and Rider 17, as amended by the Company during the course of this proceeding, is hereby approved, consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that any objections, motions or petitions filed in this proceeding that remain unresolved should be disposed of in a manner consistent with the ultimate conclusions contained in this Order.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Act and 83 Illinois Administrative Code 200.880, this Order is final, it is not subject to the Administrative Review Law.

DATED:	____________, 2013
BRIEFS ON EXCEPTIONS DUE:	June 21, 2013
REPLY BRIEFS ON EXCEPTIONS DUE:	June 26, 2013

Heather Jorgenson,
Administrative Law Judge

* * * * *

Dated: May 29, 2013

Respectfully submitted,

NORTHERN ILLINOIS GAS COMPANY
d/b/a NICOR GAS COMPANY

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