STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company	**:**	
d/b/a Nicor Gas Company	**:**	
	:	
Application pursuant to Section 7-101 of	**:**	**14-0492**
the Public Utilities Act for Consent to	**:**	
and Approval of an Agreement between	**:**	
Northern Illinois Gas Company d/b/a	**:**	
Nicor Gas Company and Horizon	**:**	
Pipeline Company, LLC.	**:**	

ORDER

By the Commission:

I. Background

On November 21, 2000, the Illinois Commerce Commission ("Commission") entered an Order in Docket No. 00-0365 approving the terms of a firm transportation ("FT") agreement between Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") and Horizon Pipeline Company, LLC ("Horizon"), an affiliate of Nicor Gas, pursuant to Section 7-101 of the Public Utilities Act (the "Act"). 220 ILCS 5/7-101. The Horizon FT agreement became effective May 14, 2002. The agreement was initially in effect for a ten-year period. In 2011, Nicor Gas elected to extend the term of the agreement for an additional three years through May 13, 2015. This extension election was made pursuant to a contractual extension right contained in the FT agreement.

The Horizon FT agreement provides for 300,000 MMBtu per day of market area firm transportation capacity with receipt points near Joliet, Illinois and delivery points near McHenry, Illinois. The agreement allows Nicor Gas to deliver supply to the northeastern end of its system and to demand stations (Nicor Gas customer load served directly by an interstate pipeline) on Natural Gas Pipeline Company of America's ("NGPL") Illinois Lateral pipeline segment through a 100,000 MMBtu per day backhaul FT agreement with NGPL.

II. Procedural History

On July 31, 2014, Nicor Gas filed a verified petition with the Commission seeking approval, pursuant to Section 7-101 of the Act, of a FT agreement with Horizon. Nicor Gas witnesses Deborah A. Santolin, Senior Strategic Planning Analyst, Capacity Planning, and Daniel L. Fox, P.E., Managing Director Engineering, presented testimony and exhibits to support the Company's petition.

Pursuant to notice given in accordance with the law and rules of the Commission, a prehearing conference was held on August 25, 2014 before a duly authorized Administrative Law Judge ("ALJ") of the Commission at its offices in Chicago, Illinois. Thereafter, an evidentiary hearing was held on September 4, 2014. Nicor Gas and Commission Staff ("Staff") appeared by counsel. No Petitions for Leave to Intervene were filed. At the conclusion of the evidentiary hearing, the record was marked "Heard and Taken".

There were no contested issues at the completion of the hearing and the parties agreed to file a Draft Order for the ALJ's consideration. On September 24, 2014, the Company filed a Draft Order that had been reviewed by Staff, and to which Staff did not object.

III. Nicor Gas' Position

Mr. Fox testified regarding Nicor Gas' operational need for the FT agreement with Horizon. Mr. Fox explained that the northeastern portion of Nicor Gas' service territory is a constrained area of the system because much of the Company's supply is located in, and delivered to, the southern portion of the system, while few options exist in delivering that supply to meet demand in the northeastern portion of the system. Mr. Fox stated that more of the Company's supply is located near the southern portion of its system because the majority of the Company's eight aquifer storage fields are physically located in the southern area of the system. In addition, the market for gas supply itself is more liquid in the southern area of the system because several major interstate pipelines interconnect with each other as well as with Nicor Gas at many different points in this area. The market for gas supply is less liquid near the northeastern area of Nicor Gas' system as few interconnects with interstate pipelines exist in this area, and the pipelines that do extend into and through this area generally are limited in available capacity.

Under certain conditions, such as periods of high demand or peak day conditions, taking receipt of gas into the southern portion of the Company's system instead of the northeastern portion of the system would reduce withdrawals from Nicor Gas' aquifer storage fields. These same conditions could cause the Company to be unable to fully serve demand located in the northern area of the system. Therefore, Mr. Fox testified that having more supply delivered to the northeastern portion of the system instead of the southern portion would allow the Company to fully serve demand in the northeast while also maximizing withdrawals from its aquifer storage fields. Mr. Fox explained that the Horizon FT agreement provides Nicor Gas with the ability to redeliver up to 300,000 MMBtu per day of supply to the far north area of its system near McHenry, Illinois, or to NGPL's Illinois Lateral pipeline, that otherwise would have been delivered to the southern portion of its system on various interstate pipelines and reduced available deliveries from storage.

Mr. Fox identified the following additional operational benefits provided by the Horizon FT agreement: 1) the agreement allows for non-ratable hourly flow rates when receiving gas from Horizon which is critical to meet hourly peak flows; 2) Horizon has multiple receipt points and is able to receive supply from Alliance Pipeline Company ("Alliance"), ANR Pipeline Company ("ANR"), and NGPL; and 3) because Nicor Gas' tariff allows its end-users to deliver their supply on any interstate pipeline connected to its system, the FT agreement provides for redelivery of supply in a more operationally preferred location, if necessary. Thus, the Horizon FT agreement provides supply reliability, supply flexibility and diversity, system balancing (on both a daily and hourly basis), and delivery flexibility.

Mr. Fox testified that Nicor Gas has an operational need to maintain the 300,000 MMBtu per day of deliverability provided through the Horizon FT agreement. According to Mr. Fox, recent design day models demonstrate that 250,000 MMBtu per day of supply must be delivered to Nicor Gas at its interconnect with Horizon in McHenry, Illinois to achieve a system balance. This leaves 50,000 MMBtu per day to be delivered to NGPL's Illinois Lateral pipeline to maintain additional reliability to the Company's system, via a backhaul agreement with NGPL to this area of the system as needed. Mr. Fox noted that the Company can receive up to the full 300,000 MMBtu per day of supply at the Company's interconnect with Horizon. Nicor Gas received significantly more than 250,000 MMBtu, up to the full 300,000 MMBtu provided for in the Horizon FT agreement, on several days during the 2013-2014 severe winter season.

Mr. Fox stated that Nicor Gas reviewed the following six alternatives to Horizon for the potential to meet the operational needs of the Company in terms of sufficient volume and pressure: 1) re-build an interconnect with NGPL near McHenry, Illinois; 2) add infrastructure to loop a portion of its system to allow for an increased level of receipt capability at its interconnect with ANR in Hampshire, Illinois; 3) build a lateral to interconnect its system near Crystal Lake, Illinois with ANR near Woodstock, Illinois; 4) add infrastructure to loop a greater area of its system to increase its ability to deliver gas to the north; 5) build a lateral to interconnect its system near Crystal Lake, Illinois with Guardian Pipeline Company ("Guardian") which crosses Nicor Gas' territory to the west of ANR; or 6) build its own pipeline to duplicate the capacity of Horizon. Additionally, Mr. Fox noted that ANR and Guardian could build laterals instead of Nicor Gas in the third and fifth alternatives.

Regarding these operational alternatives to Horizon, Mr. Fox first explained that the Company would be required to invest significantly in system improvements to accommodate each alternative. While the estimated cost of the system improvements for each of these alternatives varies, Mr. Fox stated that they could reach as high as $350 million, not including the costs for any necessary easements that the Company would need to acquire.

Mr. Fox also reviewed these alternatives from an operational perspective, without consideration of their financial feasibility, and determined that the first and sixth alternative would be identical to Horizon; however, the sixth alternative may have less hourly operational swing depending on the source of supply. Mr. Fox also determined that the third and fifth alternatives could be considered as a complete replacement for Horizon; however, these alternatives may not be able to provide the supply diversity and delivery flexibility that Horizon currently provides. Finally, he determined that the second and fourth alternatives would be inferior to Horizon as they would involve operating the system in a less than optimal manner and/or reducing Nicor Gas' on-system storage deliverability. Mr. Fox concluded that the second and fourth alternatives should not be pursued because they are operationally inferior to Horizon. Mr. Fox further concluded that, while the first, third, fifth, and sixth alternatives all have the potential to provide the same operational benefits as Horizon, they are dependent upon construction that has not been undertaken and the availability of capacity and, as a result, are speculative.

After Mr. Fox identified these four operational alternatives, Ms. Santolin explained that the Company next issued a Request for Proposals ("RFP") to determine the availability of new FT service from interstate pipelines with deliverability to the northeastern portion of the Company's system. Specifically, Nicor Gas requested proposals for a firm market haul transportation service from the Joliet Hub area to the northern portion of Nicor Gas' system, with a service level of up to 300,000 MMBtu per day and a ten-year term effective in 2015.

Ms. Santolin testified that Nicor Gas evaluated each proposal received in response to the RFP. Nicor Gas concluded that only Horizon's proposal met all of Nicor Gas' general requirements under the RFP. Ms. Santolin stated that Nicor Gas also evaluated the cost of constructing the Company's own pipeline with the same capacity as Horizon, which Nicor Gas' Engineering estimated at a minimum cost of $350 million. Based upon the evaluations, Nicor Gas concluded that an extension of the Horizon FT agreement was lower cost than constructing the Company's own pipeline. After determining that Horizon's proposal was the best alternative from a cost perspective, Nicor Gas negotiated with Horizon regarding service provisions and the appropriate rate for an extension of the FT agreement. Nicor Gas also analyzed the negotiated demand rate from a cost of service perspective. Ms. Santolin explained that Nicor Gas used data from Horizon's FERC Form 2 filings to forecast Horizon's cost of service over the ten-year term of the agreement's extension and determined that the agreed-upon negotiated demand rate was reasonable.

Based upon the Company's analysis of the alternatives to the Horizon FT agreement as described in the testimony of Ms. Santolin and Mr. Fox, Nicor Gas determined that the extension of the Horizon FT agreement is the least cost alternative for meeting the demand requirements in the northeastern portion of the Company's service territory, and to provide safe, reliable service to its customers while also maximizing withdrawals from the Company's aquifer storage fields.

IV. Staff's Position

Staff has reviewed the Company's petition, direct testimony and attachments, and responses to data requests and has found no reason to contest the request made by the Company in this proceeding. At the evidentiary hearing on September 4, 2014, Staff witness Mark Maple, Senior Gas Engineer in the Energy Engineering Program of the Safety & Reliability Division of the Commission, read a statement into the record.

Mr. Maple stated that he reviewed the materials described above and has found no reason to contest the Company's request.

V. Commission Analysis and Conclusion

Based on the evidence of record, Nicor Gas has demonstrated that an extension of the Company's FT agreement with Horizon is the best alternative to meet the demand requirements of the northeastern portion of the Company's service territory. The Commission, therefore, finds that the negotiated extension of the FT agreement between Nicor Gas and Horizon is reasonable and in the public interest. Accordingly, the FT agreement between Nicor Gas and Horizon should be approved.

VI. 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 in the State of Illinois and, as such, is a "public utility" as defined in Section 3-105 of the Public Utilities Act;

(2) the Commission has jurisdiction over the Company and the subject matter of this proceeding;

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

(4) the FT agreement between the Company and Horizon, an affiliated interest, is the best alternative to meet the needs of the Company and its customers and satisfies the requirements set forth in Section 7-101 of the Public Utilities Act as it is reasonable, it will promote the public interest, and it should be approved; and

(5) all motions, petitions, objections or other matters in this proceeding which remain unresolved should be disposed of consistent with the findings and conclusions of this Order.

IT IS THEREFORE ORDERED that the firm transportation agreement between Northern Illinois Gas Company d/b/a Nicor Gas Company and Horizon Pipeline Company, LLC be, and hereby is, approved.

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

By Order of the Commission this 22nd day of October, 2014.

(SIGNED) DOUGLAS P. SCOTT

CHAIRMAN