STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
-vs-	:	
Northern Illinois Gas Company	:	Docket No. 14-0071
d/b/a Nicor Gas Company	:	
	:	
Reconciliation of revenues collected under	:	
coal tar riders with prudent costs associated	:	
with coal tar cleanup expenditures.	:	

DRAFT ORDER OF
NICOR GAS COMPANY

Dated: December 1, 2014

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Illinois Commerce Commission On Its Own Motion -vs- Northern Illinois Gas Company d/b/a Nicor Gas Company Reconciliation of revenues collected under coal tar riders with prudent costs associated with coal tar cleanup expenditures.	: : : : : : : : :	Docket No. 14-0071

DRAFT ORDER OF NICOR GAS COMPANY

Northern Illinois Gas Company d/b/a Nicor Gas Company hereby submits its Draft Order for consideration. Staff of the Illinois Commerce Commission has reviewed this Draft Order and has no objection to its entry. There are no other parties to this proceeding.

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By the Commission:

I. Procedural History

On January 23, 2014, the Illinois Commerce Commission ("Commission") entered its Order commencing this reconciliation proceeding. Pursuant to that Order, Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") was ordered to reconcile revenues collected under its Rider 12, Environmental Cost Recovery ("ECR"), from January 1, 2013 through December 31, 2013, with costs prudently incurred, with respect to environmental activities as defined in Rider 12.

Notice of the filing of Nicor Gas' testimony and exhibits was posted in Nicor Gas' business offices and was published in newspapers having general circulation in the Company's gas service territory, in the manner prescribed by 83 Ill. Adm. Code 255, in compliance with the Commission's Order initiating this proceeding.

Pursuant to notice given, as required by law and by the rules and regulations of the Commission, status hearings were held at the Commission's office in Chicago, Illinois on February 27, 2014 and August 14, 2014, and an evidentiary hearing was held on November 6, 2014. Appearances were entered on behalf of the Company and the Commission's Staff ("Staff"). Nicor Gas presented the testimony of Donald F. Martino, Lead Analyst, Rates at Nicor Gas, and of Nancy J. Huston, President of Tall Oak Associates, Inc. Staff presented the testimony of Daniel G. Kahle, an Accountant in the

Accounting Department of the Financial Analysis Division of the Commission. The record was marked "Heard and Taken" on November 6, 2014. There were no contested issues at the completion of the hearing. On December 1, 2014, the Company filed a Draft Order that had been reviewed by Staff, and to which Staff did not object.

II. Nicor Gas' Position

Nicor Gas witness Ms. Huston testified about Nicor Gas' manufactured gas plant ("MGP") remediation program, including the activities that have taken place, the methods used to select contractors and consultants to assist the Company in its MGP remediation efforts, and the methodology used in forecasting costs of the MGP remediation program. Ms. Huston testified that the Company undertook a program to identify former MGP sites within its service territory for which Nicor Gas may have some responsibility. Ms. Huston explained that the list of potential MGP sites was submitted to the Illinois Environmental Protection Agency ("IEPA") in May 1991, and the Company subsequently began an evaluation process to determine how to best manage sites for which it may have some remediation responsibility. Further, Ms. Huston explained, because some of Nicor Gas' assets were at one time owned by Commonwealth Edison Company ("ComEd") or its corporate predecessors, Nicor Gas entered into an Interim Cooperative Agreement ("Agreement") with ComEd in 1993 in order to jointly manage certain common MGP sites. This Agreement was approved by the Commission in Docket No. 93-0431.

Ms. Huston testified that Nicor Gas retained an environmental consultant with experience in MGP site evaluations, remediation and management to assist in the initial evaluation of selected sites. Ms. Huston further described the process used to create several reports that evaluate and propose priorities for remediation of 15 sites owned in whole or in part by Nicor Gas and 21 sites not owned by the Company. According to Ms. Huston, these reports presented a general description of each of the sites, summarized the evaluation of each site, presented recommendations for specific sites, and ranked the sites for further action relative to one another. Ms. Huston stated that these reports were submitted to the IEPA, and that the IEPA did not dispute Nicor Gas' prioritization and rankings of the sites. Ms. Huston testified that sites may move higher or lower on the remediation priority list in response to changes in site usage or conditions, or acquisition of new information about the site.

Ms. Huston stated that Nicor Gas and ComEd jointly decided to begin periodic reviews and evaluations of all sites where investigation and/or remediation were not currently occurring in order to identify which sites should next be investigated. In the fall of 1997, Nicor Gas and ComEd evaluated 30 sites where investigation and/or remediation were not currently occurring. Ms. Huston stated that the results of this evaluation are contained in a report dated April 20, 1998. In addition, Ms. Huston explained that Nicor Gas and ComEd re-evaluated 25 MGP sites in the fall of 1998. These evaluations took place at sites where investigations and/or remediation were not currently occurring. As part of the evaluation process, limited field activities were conducted at several of the sites to gather additional information. Ms. Huston testified that the results of this re-evaluation are contained in a report dated December 21, 1998.

Ms. Huston testified that again in the fall of 1999, Nicor Gas and ComEd re-evaluated 22 MGP sites where investigations and/or remediation were not under way. The results of this re-evaluation are contained in a report dated March 2, 2000. Additionally, Ms. Huston noted that the results of subsequent site re-evaluations are contained in reports dated May 1, 2001 and October 2002, and that the current re-evaluation of sites where investigations and/or remediation have not been initiated are contained in a report prepared on March 28, 2005. Ms. Huston explained that by the end of 2011, all sites had been activated, and that at sites that have received a No Further Remediation ("NFR") letter from the IEPA that utilizes engineered barriers, deed restrictions, and/or institutional controls, an annual review of the sites is conducted and documented in that site's *Closed Site Inspection Report* each year; further, compliance with the terms of the NFR letter is confirmed by such a review.

On June 9, 2009, the Commission approved the Final Allocation Agreement ("FAA"), executed between Nicor Gas and ComEd. The FAA provides a final allocation for 38 sites. (Order, Docket No. 08-0418, June 9, 2009; *see also* Order, Docket No. 10-0133 at 5, Aug. 2, 2011). Under the agreements, both utilities participated in strategic project decisions, although one utility typically led the remediation activities for a given site. The objective of the FAA was to reduce costs by avoiding duplicative efforts in site management and remediation.

Ms. Huston testified extensively about the Company's MGP site management process, as well as about the environmental activities undertaken by Nicor Gas in 2013. Ms. Huston explained that Nicor Gas works closely with the IEPA to ensure that the requirements of all relevant state and/or federal authorities are met, and that the IEPA's input and comments are sought at each phase of the Company's activities. Moreover, Ms. Huston notes that Nicor Gas has only hired consultants and contractors that are familiar with the applicable state and/or federal requirements to assist in implementing the MGP program.

Ms. Huston also testified about the Company's use of contractors and consultants in connection with its MGP remediation program. Ms. Huston explained that the Company uses contractors to provide various services, including drilling, analytical services, community relations, property management, remedial activities, waste handling, transportation and disposal, and overall program management. Additionally, Ms. Huston noted that environmental consultants prepare various reports and plans related to the Company's MGP remediation program, including site investigation work plans, remedial objectives reports, remedial action plans, and associated documents for the active sites. Ms. Huston stated that the Company uses only qualified, reputable and experienced consultants and contractors who adhere to reasonable and appropriate standards and who are selected after interviews and a competitive bidding process, when feasible. Further, Nicor Gas has selected local contractors in such cases where a specific expertise is needed and there are a limited number of service providers available. Ms. Huston noted the contractors and consultants that were used on the MGP program in 2013, including Black & Veatch, Inc., Burns & McDonnell, Geosyntec, Monti Appraisals, Monti Communications, Tall Oak Associates, and SET Environmental.

Ms. Huston further testified about the Company's process for forecasting expenditures for the MGP program. She stated that calendar year costs are forecasted for the MGP program based on anticipated site-by-site activities and for general activities for the overall MGP program. Ms. Huston explained that costs are forecasted prior to the year of the actual expenditures and are based on the activities that are anticipated to occur. Additionally, certain costs are forecasted before the sites are fully characterized. Ms. Huston noted that after the remedial investigations are completed and when actual site conditions are better known, engineering estimates could be more precise based on a revised scope of work, actual bids from contractors, and schedule changes.

Ms. Huston stated that the 2013 site environmental activities were divided into three general categories: (1) activities for the overall MGP program, (2) site-specific activities, and (3) insurance recovery. Activities for the overall MGP program in 2013 included project management, property management, preparation of forecasts of future costs, and legal services. Ms. Huston noted that, as part of the overall MGP program, the Company hired a property manager to assist with property management in conjunction with ComEd. Further, Ms. Huston explained that the expenditures included in the Company's Rider 12, Environmental Cost Recovery, for MGP environmental activities were all paid to outside consultants, contractors, and suppliers.

In 2013, investigation and/or remediation activities were undertaken at various sites, including Aurora, Belvidere, Bloomington, Chicago Heights, Freeport, Joliet Broadway, Lincoln, Mendota I, Skokie, and Streator. Ms. Huston testified that, among other activities during 2013, the Company: (1) continued work on reporting for the Aurora MGP site, continued development of remedial objectives, remedial strategies, and options, performed additional investigation of groundwater, and demolished the Storeroom building in preparation for remediation; (2) completed the pilot study for the Dense Non-Aqueous Phase Liquid ("DNAPL") extraction at the Belvidere MGP site, prepared a draft SSI report, received approval from the IEPA of the ROR/RAP and RACR for the park property, and received a NFR letter for the park property from IEPA; (3) constructed the enhanced offsite DNAPL recovery system around the former Ciba-Geigy facility at the Bloomington MGP site, conducted sampling to confirm the removal of the DNAPL, delayed remediation of the off-site Bloomington Housing Authority Property due to ongoing negotiations for access with the property owner, and shut down the DNAPL extraction system while additional investigation of the subsurface sand seams was completed; (4) addressed IEPA comments regarding the SSI/ROR and RAP for the Chicago Heights MGP site and conducted negotiations for access with the property owner; (5) received approval from IEPA for the ROR/RAP and RACR for the Gas Holder Parcel at the Freeport MGP site, a NFR letter was issued, and repairs to the existing engineered barrier were completed; (6) conducted supplemental site investigations at the Joliet Broadway site; (7) prepared a supplemental site investigation report and started remediation planning for the Lincoln site, and began negotiations for access with the Lincoln site property owner; (8) completed additional site investigations and performed reporting and remediation planning at the Mendota MGP site; (9) continued ongoing remediation at the Skokie MGP site; and (10) prepared for the installation of an in-situ remediation system at the Streator MGP site.

Additionally, on-going activities occurred at the Blue Island, DeKalb, Lockport Township, Morrison, Ottawa I, Paxton, and Sterling MGP sites. The on-going activities included: (1) initial groundwater sampling, site maintenance, and annual permitting at the Blue Island MGP site where IEPA also issued a NFR letter; (2) demolition of the DeKalb North building at the DeKalb MGP site; (3) receipt of a NFR letter and 4(y) letter for the Lockport Township and Lockport Township North sites, respectively; (4) the sale of the Morrison site to the City of Morrison; (5) initial site investigation at an off-site parcel adjacent to the Ottawa I MGP site; (6) receipt of a NFR letter for the Paxton MGP site and commencement of project archiving activities; (7) performance of a supplemental SI at the Sterling MGP site with SI Report and ROR/RAP prepared in 2013.

Ms. Huston noted that all of the MGP sites have been entered into the IEPA's SRP, and that the IEPA has been involved in the oversight of all MGP activities. As part of the SRP, the Company is permitted to use Review and Evaluation Licensed Professional Engineers ("RELPEs") to assist the IEPA in its review of documents. In addition, Ms. Huston stated that Nicor Gas is pursuing the recovery of some or all of the investigation and remediation costs from insurance policies.

Ms. Huston stated that forecast costs of $32,300,000 were originally used in the ECR calculation for 2013, that those costs were revised to $22,600,000 in August, 2013, and that the costs were further revised to $17,700,000 in November, 2013. Ms. Huston further stated that the actual expenditures were $19,044,563.71. According to Ms. Huston, the primary reason for the difference between forecast and actual expenditures is due to the deferral of remediation activities at the Aurora, Bloomington, Chicago Heights, and Mendota sites. Ms. Huston explained that delays were primarily due to on-going negotiations with third-party property owners. Ms. Huston further explained that all costs are associated with a specific site when possible, that each site has been assigned a unique activity number, and that expenditures are accounted for on a site-specific basis. Ms. Huston noted that expenditures that apply to the overall MGP program were allocated to a general program activity, and that expenditures associated with insurance recovery, including payments received from insurance companies, were accumulated in a separate activity account.

Mr. Martino testified that Nicor Gas' Rider 12 prescribes the method of computing charges that reflect the recovery of the cost of environmental activities. Mr. Martino stated that the purpose and intent of Rider 12, as in effect during the reconciliation period, was to pass along to customers the Company's prudently incurred MGP remediation program costs, without markup or profit.

Mr. Martino explained that each December, Nicor Gas files with the Commission an information sheet along with projected MGP program costs for the next calendar year and the calculations necessary to determine the Rider 12 ECR charge for the upcoming year. He testified that, to calculate the Rider 12 ECR charge by service class, the Company uses its forecast of base revenues and throughput by class of service (*i.e.*, residential, small non-residential, and large non-residential), forecasted environmental costs, and unrecovered/over-recovered past costs. Mr. Martino stated that for 2013, environmental activity costs were allocated by service class, based on each class' forecasted portion of total Company base revenues. Mr. Martino explained that the environmental activity costs by service class were then divided by the respective class' forecasted throughput to determine the applicable ECR charges. Mr. Martino further testified that the 2012 Annual Reconciliation Charge ("ARC"), effective April 1, 2013, was calculated in a similar manner using actual data.

Mr. Martino testified that the Company changed Rider 12 charges, effective April 1, 2013, to reflect the 2012 annual reconciliation. He stated that the Rider 12 charges were changed because the annual reconciliation of 2012 costs and revenues showed an over-collection of costs of $22,814. Mr. Martino explained that, due to work delays at various sites during 2013, the Company's estimated annual 2013 remediation costs were reduced. Mr. Martino further explained that the lower estimated costs for 2013 were reflected in new rates effective August 1 and November 1, 2013, respectively, which prevented the Company from over-collecting on 2013 expenditures. As a result, the final balance at the end of 2013 resulted in an under collected amount of $2,792,024.36. This amount was under collected because, during the fourth quarter of 2013, actual environmental expenses were greater than expected and colder weather in November and December resulted in refunding more than expected. Mr. Martino stated that the Company will address this balance in the Company's 2013 annual reconciliation filing effective April 1, 2014.

Mr. Martino further stated that, pursuant to the terms of the FAA, Nicor Gas received $8,622,047.18 from ComEd and paid $1,283,963.14 to ComEd.

Mr. Martino's direct testimony and supporting attachments indicate that Nicor Gas collected $16,229,722.37 through its Rider 12 during 2013, which does not include any funds from insurance proceeds or from rental income. Further, Mr. Martino's direct testimony and supporting attachments indicate that the Company under-collected $2,814,841.34 during the calendar year ending December 31, 2013. Mr. Martino testified that, assuming no adjustments to Nicor Gas' data, the cumulative reconciliation balance, including carrying costs, would be an under-recovery of $2,792,024.36 as of December 31, 2013.

III. Staff's Position

Mr. Kahle presented, as an attachment to his testimony, a Schedule reflecting recoverable Rider 12 costs and Rider 12 recoveries for 2013, which are netted against the cumulative over or under recovery through the end of the previous year. Mr. Kahle stated that Staff does not propose any adjustments to the costs and revenues recorded in 2013. Additionally, Mr. Kahle stated that nothing came to his attention indicating that any incremental costs incurred by the Company during the year ended December 31, 2013 did not meet the Commission's four standards of prudence of expenses for environmental activities. Mr. Kahle noted that the Company provided additional information on the prudence of its environmental activities in response to Data Requests from Staff, which were admitted into the evidentiary record with the Company's rebuttal testimony. Mr. Kahle recommended that the Commission accept the reconciliation presented on Staff Schedule 1.1 as the 2013 reconciliation of Rider 12, and adopt it as an appendix to the Order entered by the Commission.

IV. Findings and Conclusion

There are no issues between the parties for the Commission to resolve in this proceeding. Accordingly, based on the record herein, the Commission concludes that Nicor Gas' Rider 12 expenditures covering calendar year 2013 are reasonable, prudent, and consistent with the terms of the Rider and should be recovered.

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" within the meaning of the Public Utilities Act;

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

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

(4) for the period January 1, 2013 through December 31, 2013, Nicor Gas prudently incurred Rider 12 MGP program expenditures of $19,044,563.71; and

(5) for the period January 1, 2013 through December 31, 2013, Nicor Gas recovered $16,229,722.37 from ratepayers in accordance with the terms of Rider 12, resulting in an under-recovered amount of $2,814,841.34 with no adjustment required for carrying charges as reflected in the Appendix attached hereto.

IT IS THEREFORE ORDERED that the reconciliation submitted by Northern Illinois Gas Company of the MGP program costs actually incurred with the revenues received under Rider 12 covering the period beginning January 1, 2013 and ending December 31, 2013, inclusive of the parties' agreed-to adjustments as detailed herein and as reflected on the Appendix attached hereto, is appropriate and hereby approved.

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

By Order of the Commission this __ day of __________, 201__.

(SIGNED) DOUGLAS P. SCOTT

Chairman

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WHEREFORE, Northern Illinois Gas Company d/b/a Nicor Gas Company respectfully requests that its Draft Order as submitted herein be adopted and that the Commission grant any and all other appropriate relief.

Dated: December 1, 2014

Respectfully submitted,

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

By: /s/ Anne W. Mitchell
One of its Attorneys

John E. Rooney
Anne W. Mitchell
Rooney Rippie & Ratnaswamy LLP
350 West Hubbard Street, Suite 600
Chicago, Illinois 60654
(312) 447-2800
john.rooney@r3law.com
anne.mitchell@r3law.com