

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission	)	
On Its Own Motion	)	
	)	
vs.	)	Docket No. 14-0734
	)	
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

**SHIRLEY A. HOLMES**

Director, Gas Supply

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

May 8, 2015

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Shirley A. Holmes. My business address is 1844 Ferry Road, Naperville,  
4 Illinois 60563.

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

6 A. I am the Director, Gas Supply for Northern Illinois Gas Company d/b/a Nicor Gas  
7 Company (“Nicor Gas” or the “Company”), an AGL Resources Inc. (“AGL Resources”) local distribution company (“LDC”).

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

10 A. As Director, Gas Supply, I have managerial responsibility for gas supply activities at  
11 Nicor Gas. Functions under my management include the purchasing and scheduling of  
12 natural gas necessary for the operation of Nicor Gas’ distribution system and to provide  
13 gas supply to Nicor Gas’ sales service customers, as well as the evaluation and utilization  
14 of risk management tools to mitigate Nicor Gas’ exposure to gas price volatility risks  
15 inherent in the natural gas market. Additionally, I support and am involved with related  
16 gas supply functions such as planning Nicor Gas’ gas supply portfolio, analyzing pipeline  
17 service options, and contracting for pipeline services.

18 **Q. Please summarize your educational background and work experience.**

19 A. I graduated from the University of Arkansas with a Bachelor of Science degree in  
20 Accounting. I also earned a Master of Business Management degree from Aurora  
21 University in Aurora, Illinois.

22 I started working for Nicor Gas in 1988. I have held several positions in various  
23 departments at the Company, including Revenue Accounting, Credit and Customer

24 Services, Gas Accounting, and Gas Supply. Prior to my current position, I was Manager,  
25 Gas Supply and responsible for the Company's gas supply acquisition, gas supply  
26 hedging, and gas trading and scheduling activities. In August 2014, I became the  
27 Director, Gas Supply for Nicor Gas.

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

29 A. My testimony covers numerous subjects in connection with Nicor Gas' Rider 6, Gas  
30 Supply Cost ("GSC") reconciliation for 2014. I will:

- 31 • Describe the responsibilities of Nicor Gas' Gas Supply area in 2014.
- 32 • Identify Nicor Gas' recoverable gas costs for the 2014 GSC reconciliation year.
- 33 • Describe the guidelines Nicor Gas utilized in making its 2014 gas supply  
34 purchasing and pipeline service contracting decisions.
- 35 • Describe the issues faced by the Company during the severe 2013-2014 winter.
- 36 • Describe the Company's efforts before the Federal Energy Regulatory  
37 Commission ("FERC") to minimize gas costs.
- 38 • Describe internal control procedures related to enforcement of the Company's  
39 contracts for natural gas supply and pipeline services.
- 40 • Describe the Company's gas price risk hedging policy and practices.

41 **Q. What are the conclusions in your testimony?**

42 A. Nicor Gas' purchasing activity for the reconciliation period was prudent and reasonable.  
43 In 2014, the Company was faced with many challenges stemming from the exceptionally  
44 cold 2013-2014 heating season that increased demand by more than 20%. The Company,  
45 however, successfully managed its system through this challenging period by utilizing its  
46 on-system storage assets, pipeline transportation and storage capacity, and gas supply  
47 portfolio. It should be noted that Nicor Gas did not curtail any of its customers during  
48 this challenging time.

49 **II. DESCRIPTION OF GAS SUPPLY**

50 **Q. Please briefly describe the responsibilities and organization of the Company's Gas**  
51 **Supply area.**

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

59 **Q. Which interstate pipelines and other LDCs did Nicor Gas' system have**  
60 **interconnects with in 2014?**

61 A. In 2014, Nicor Gas had interconnects with eight interstate natural gas pipelines:

- 62 • Natural Gas Pipeline Company of America ("NGPL");
- 63 • Midwestern Gas Transmission Company ("Midwestern");
- 64 • Northern Natural Gas Company ("Northern Natural");
- 65 • Panhandle Eastern Pipe Line Company ("Panhandle Eastern");
- 66 • ANR Pipeline Company ("ANR");
- 67 • Northern Border Pipeline Company L.P. ("Northern Border");
- 68 • Alliance Pipeline Company ("Alliance"); and
- 69 • Horizon Pipeline ("Horizon").

70 The facilities of these interstate pipelines have been certificated by FERC or its  
71 predecessor agency, the Federal Power Commission. The interconnect facilities with

72 these interstate pipelines provided the opportunity for Nicor Gas and third party shippers  
73 to procure supplies in various supply regions throughout North America and deliver those  
74 supplies to customers within Nicor Gas' service territory via Nicor Gas' transmission and  
75 distribution system.

76 Nicor Gas also had interconnects with three LDCs in Illinois:

- 77 • The Peoples Gas Light and Coke Company ("Peoples");
- 78 • North Shore Gas Company ("North Shore"); and
- 79 • Ameren Illinois Company d/b/a Ameren Illinois.

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

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

92 To maintain the inventory levels and related aquifer pressures necessary to meet  
93 peak, seasonal and daily needs, appropriate storage injection/withdrawal schedules are  
94 established based on operational experience and historical aquifer performance data. To

95 assist in determining such schedules, the Company utilizes computer models and other  
96 analytical methods common to the industry that have been developed both by Nicor Gas  
97 and outside parties. These tools are used to accumulate and analyze past aquifer  
98 performance data and forecast an optimal injection/withdrawal schedule. This schedule  
99 is designed to maintain the aquifer performance necessary to satisfy design peak day  
100 withdrawal requirements through January 20 of each heating season as well as post-  
101 design day peak periods through March 15 while meeting the seasonal withdrawal  
102 targets.

103 **III. IDENTIFICATION OF RECOVERABLE GAS COSTS**

104 **Q. Are you familiar with the data included in the “Recoverable Costs” sections of Nicor**  
105 **Gas Exhibit 2.2 of the direct testimony of Bob O. Buckles?**

106 A. Yes.

107 **Q. Please describe the cost data presented on page 6 of Nicor Gas Exhibit 2.2.**

108 A. The “Recoverable Commodity Related Costs” section on page 6 provides a monthly  
109 breakdown of the Company’s 2014 commodity related gas supply costs. For example,  
110 the first two lines cover the Company’s 2014 costs of purchasing firm supplies and spot  
111 gas. Two lines in this section relate to storage: (1) the line designated as “Inventory  
112 Activity” reflects the Company’s 2014 gas storage activity (injections and withdrawals)  
113 related to its own storage reservoirs and purchased storage arrangements with interstate  
114 pipelines; and (2) the line designated as “Purchased Storage Service” covers the 2014  
115 commodity related costs associated with storage services purchased from interstate  
116 pipelines. The line designated as “Off-System Supply Sales” reflects the revenue credit  
117 from sales made for either operational or optimization reasons to manage the Company’s

118 supply portfolio. The line designated as “Net (Gain)/Loss From Hedging” relates to the  
119 Company’s financial hedging activities in 2014. The line designated as “Authorized  
120 Over-run Charges” are charges, if any, from pipelines for the authorized use of  
121 incremental transport on a given day. The line designated as “Unauthorized Over-run  
122 Charges” are charges, if any, from pipelines for the unauthorized use of incremental  
123 transport on a given day. The \$701,970 of Unauthorized Over-run Charges identified for  
124 March 2014 was related to activity during the months of January 2014 through March  
125 2014. However, these charges were subsequently waived by the applicable pipelines and  
126 fully refunded. The majority was refunded in July 2014, and the remaining amount of  
127 \$70,953 was refunded in 2015.

128 **Q. Please describe the remaining items presented on page 6 of Nicor Gas Exhibit 2.2.**

129 A. The remaining line items are discussed in the direct testimony of Company witness  
130 Mr. Bob O. Buckles (Nicor Gas Ex. 2.0).

131 **Q. Please describe the Recoverable Non-Commodity Related Costs data presented on**  
132 **page 7 of Nicor Gas Exhibit 2.2.**

133 A. The “Recoverable Non-Commodity Related Costs” section provides a monthly  
134 breakdown of the Company’s 2014 non-commodity related gas supply costs. To the  
135 extent that the sources on page 6 also generate non-commodity related costs, they are  
136 reflected on page 7. For example, the line designated as “Purchased Storage Services”  
137 represents the cost of purchased storage. In addition, the line designated as “Other  
138 Credits” represents the results from capacity release and off-system sales. Recoverable  
139 gas costs were adjusted by these amounts.

140 **Q. Is there anything else you would like to discuss regarding 2014 recoverable gas**  
141 **costs?**

142 A. Yes. The direct testimony of Mr. Buckles provides a discussion of commodity and non-  
143 commodity related costs. The above-described amounts, excluding the Factor O refund,  
144 comprise the Company's total recoverable gas costs of \$1,626,145,283 for the calendar  
145 year 2014.

146 **Q. Do you have an opinion as to whether Nicor Gas' 2014 gas supplies, the costs of**  
147 **which are reflected in Nicor Gas Exhibit 2.2, and in the Company's Rider 6, Gas**  
148 **Supply Costs provisions, were prudently purchased?**

149 A. Yes. The Company's 2014 gas supplies were prudently purchased.

150 **IV. SUPPLY PURCHASING AND PIPELINE SERVICES**

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

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

161 **Q. Please summarize the Company’s gas supply purchasing strategy.**

162 A. Nicor Gas’ gas supply purchasing strategy involves the acquisition of gas supplies in a  
163 manner consistent with the objective of providing low-cost gas supplies to its customers  
164 while maintaining long-term security and continuity of service, and is considered a “best-  
165 cost” gas purchasing strategy. Consistent with the Company’s fundamental responsibility  
166 of providing reliable, long-term supply continuity for its customers, the strategy requires  
167 Nicor Gas to develop both short-term and long-term plans to meet its requirements for  
168 gas supply purchases.

169 To determine these requirements, Nicor Gas must consider four important  
170 parameters. First, the Company must make a projection of design day and monthly  
171 sendout for its system over the planning horizon. Second, because Nicor Gas relies on  
172 underground gas storage capability to meet a significant portion of both daily and  
173 seasonal winter peak loads, the timing of the Company’s monthly gas purchases must be  
174 shaped around an appropriate gas storage inventory and injection/withdrawal activity  
175 schedule to support design day storage withdrawals and to meet monthly and seasonal  
176 storage targets that are intended to maximize overall storage flexibility. Third, the  
177 Company must estimate volumes that are expected to be received into its system from  
178 third party customers and their utilization of the Company’s storage assets. Fourth, Nicor  
179 Gas must determine the mix of supply contracts in its portfolio to utilize, taking into  
180 consideration available price information and the need to maintain flexibility to adjust  
181 purchases as conditions change on a seasonal, monthly, and daily basis.

182 Finally, once total seasonal supply requirements have been estimated, appropriate  
183 levels of baseload and daily purchases are established to address security of supply and to

184 target a mitigation of price volatility associated with daily market activity while affording  
185 needed daily and monthly flexibility to accommodate changes due to weather and third  
186 party activity. If feasible, and within the operational parameters of the storage field  
187 operations, injections or withdrawals may be adjusted to assist with variations in such  
188 factors. Purchase decisions were made within the limits of available gas supply and  
189 transportation agreements in force from time-to-time and within the operational  
190 limitations of Nicor Gas' general system facilities.

191 **Q. Please summarize Nicor Gas' 2014 gas purchases.**

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

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

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

206 **Q. What is meant by the term “firm supply” purchases?**

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

212 **Q. What policies and procedures existed for evaluating third party suppliers, including**  
213 **potential spot gas suppliers and firm gas suppliers, and for pursuing a best-cost**  
214 **purchasing strategy in 2014?**

215 A. The Company executes all of its firm and spot gas purchases under a gas purchase  
216 contract that is signed by both parties. The Company’s gas supply purchases in the spot  
217 market are made in a competitive market involving a number of different suppliers who  
218 are a mix of marketers and producers. For the majority of its supply, Nicor Gas solicits  
219 proposals from numerous potential suppliers (approximately 105 companies) through a  
220 competitive bidding procedure. Firm gas supplies are generally priced on market-based  
221 indices and are evaluated on the basis of a variety of factors, including index premium,  
222 reliability, diversity of supply source and flexibility. Nicor Gas deals with all potential  
223 gas suppliers at arms’ length and attempts to obtain the lowest price for the volumes in  
224 question subject to reliability and credit considerations while also striving to include  
225 diverse business enterprises in the portfolio of contracted suppliers. The overall objective  
226 of the gas contracting process is to determine the best-cost supply portfolio on as fair and  
227 an objective basis as possible.

228 **Q. Which interstate pipelines did Nicor Gas have contracts with in 2014?**

229 A. During 2014, Nicor Gas had firm transportation agreements with seven interstate  
230 pipelines that had interconnections with Nicor Gas – NGPL, Midwestern, Northern  
231 Natural, Panhandle Eastern, Horizon, Northern Border and ANR. These agreements  
232 prescribe a maximum level of overall daily service, hourly entitlements, as well as  
233 defined points of receipt and delivery. Additionally, Nicor Gas had a firm transportation  
234 agreement with Tennessee Gas Pipeline (“Tennessee”), which delivers supply into  
235 Midwestern.

236 **Q. Were any new pipeline agreements entered into or revised during 2014?**

237 A. Yes. In 2013, Nicor Gas negotiated a contract extension with NGPL and a contract  
238 extension with ANR, both of which became effective in 2014. Information regarding  
239 these contract extensions was provided in data request responses in Docket No.  
240 13-0692 and is being provided again in this proceeding’s data request responses.

241 In 2014, Nicor Gas negotiated a winter only contract with ANR and new contracts  
242 with Northern Border, all of which became effective in 2014. Also in 2014, Nicor Gas  
243 negotiated contract extensions with Midwestern, NGPL, Northern Border, and Panhandle  
244 Eastern, all of which become effective in 2015. These changes are more fully described  
245 in data request responses being provided in this proceeding.

246 Additionally, in 2014, Nicor Gas renewed its 300,000 Dth/day firm transportation  
247 agreement with Horizon for ten years, effective May 14, 2015 through May 13, 2025.  
248 The Company extended the term of this contract with Horizon, an affiliated interest,  
249 pursuant to a contractual extension right. The extension was approved by the Illinois  
250 Commerce Commission on October 22, 2014 in Docket No. 14-0492. The final Order

251 for Docket No. 14-0492, provided with data request response materials for this  
252 proceeding, further describes this extension.

253 **Q. Did Nicor Gas reduce capacity on any pipeline effective for 2014?**

254 A. No.

255 **Q. Did any of the pipelines servicing Nicor Gas experience any significant operating**  
256 **issues with any of its pipeline services in 2014?**

257 A. Yes. The record-setting colder-than-normal weather that was experienced on a sustained  
258 basis during the 2013-2014 winter season presented many operating challenges for gas  
259 utilities in Illinois and throughout the Midwest and the interstate pipelines serving these  
260 utilities. The weather experienced in the Company's service territory was 22% colder  
261 than normal for November 2013 through March 2014. During this period, when the  
262 colder weather increased Nicor Gas' customers' demand by approximately 70 Bcf,  
263 NGPL, the Company's primary pipeline supplier, experienced compressor failures that  
264 affected the pipeline's ability to serve its Illinois LDCs in the manner that it had in years  
265 past. NGPL also issued numerous Critical Time declarations and Operational Flow  
266 Orders ("OFOs"), which included curtailments of firm pipeline capacity, hourly flow  
267 limitations, primary point restrictions, and requirements for shippers to reduce their  
268 physical takes from NGPL. These events prevented the Company from fully utilizing its  
269 firm transportation and storage contracts held on NGPL. For several days during this  
270 challenging period, shippers holding 1 Bcf or greater of NGPL's firm Delivered Storage  
271 Service ("DSS") capacity were specifically directed to inject gas into their DSS accounts  
272 and/or reduce their physical takes from NGPL. As Nicor Gas contracts with NGPL for a  
273 significant level of DSS to meet both flowing supply and system balancing requirements,

274 the Company was also subject to this directive. As a result of these orders and the  
275 duration of the record cold weather, the Company was faced with the issue of finding  
276 supply in the already capacity constrained marketplace to replace the volume it would  
277 have otherwise delivered to its system using its NGPL transportation and storage  
278 contracts.

279 **Q. What actions did Nicor Gas take to help mitigate the operating issues experienced**  
280 **during the 2013-2014 winter?**

281 A. Nicor Gas took several actions to help mitigate the extreme weather and NGPL's  
282 performance issues. The Company shifted purchases to other pipelines with the ability to  
283 serve Nicor Gas and took receipt of its gas supply at non-traditional points and varied  
284 delivery pressures and flow rates in order to maximize the ability to take delivery of  
285 available pipeline supply. On-system storage was operated in a manner to provide  
286 critical peak day and peak hour deliverability. Nicor Gas issued thirty (30) Critical Days  
287 during the 2013-2014 winter, pursuant to its tariff, to protect system deliverability in  
288 response to the cold weather and interstate pipeline performance issues. During these  
289 Critical Day periods, the Company also stayed in contact with its large transportation  
290 customers and asked approximately forty-five (45) of its larger customers to voluntarily  
291 reduce their gas consumption (of which thirty-one (31) complied) to help operate its  
292 system in a safe and reliable manner under these adverse conditions.

293 The Company resourcefully utilized its on-system storage assets, pipeline  
294 transportation and storage capacity, and gas supply portfolio to meet its delivery  
295 obligations throughout this challenging winter heating season. Nicor Gas was able to  
296 successfully manage its system without having to curtail any of its customers.

297 **Q. Did Nicor Gas prepare for the 2014-2015 winter season differently, given the issues**  
298 **experienced during the 2013-2014 winter?**

299 A. Yes. The Company increased the reserve margin targeted under its 2014-2015 design  
300 day plan, secured a higher level of firm swing supply for the entire 2014-2015 winter  
301 period as compared to the previous winter, and increased its level of firm swing supply  
302 on pipelines other than NGPL.

303 Additionally, the Company explored, and continues to explore, several  
304 alternatives to increase its pipeline reliability and diversity for the longer term.

305 Alternatives considered included Nicor Gas infrastructure improvements, as well as new  
306 interstate pipeline projects with the potential to add capacity and deliverability into the  
307 Chicago market.

308 **V. FERC ACTIVITY**

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

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

320 **VI. INTERNAL CONTROL POLICIES AND PROCEDURES**

321 **Q. Please describe Nicor Gas' internal control procedures.**

322 A. Nicor Gas has developed and implemented numerous internal control policies and  
323 procedures related to gas supply. These policies ensure that proper and efficient  
324 management controls are in place and that gas supply planning and contracting decisions  
325 are well documented and receive the appropriate management review prior to execution.  
326 During 2014, Nicor Gas continued to use a Gas Price Risk Hedging Policy. The current  
327 hedge program will be described more fully later in my testimony.

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

334 Volumes delivered by pipelines to Nicor Gas are registered by meters located at  
335 various delivery points throughout the system. The recorded volumes are converted to  
336 Mcf at 1,000 Btu per cubic foot basis at 14.73 PSI. Volumes are compared to Nicor Gas'  
337 Supervisory Control and Data Acquisition ("SCADA") telemeter data. If errors are  
338 found, appropriate adjustments are made. All of Nicor Gas' interconnecting pipelines  
339 inspect, test, and calibrate meters at each delivery point periodically. Records of  
340 inspections are furnished to Nicor Gas. Nicor Gas periodically witnesses calibrations of  
341 major metering facilities at various delivery points to the Company. The heating value,  
342 specific gravity, and composition of gas delivered to Nicor Gas' system are determined

343 by means of continuously recording chromatographs, which are also tested on a periodic  
344 basis.

345 **VII. SUPPLY PRICE RISK HEDGING STRATEGY**

346 **Q. Please briefly describe the purpose of Nicor Gas' Supply Price Risk Hedging**  
347 **Strategy.**

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

353 **Q. Please describe Nicor Gas' hedging activities in 2014.**

354 A. In 2014, Nicor Gas continued to use the Supply Price Risk Hedging Strategy, which  
355 included the recognition of storage as a natural hedge and authorized the use of financial  
356 instruments to hedge a portion of supply purchases through fixed price contracts and  
357 options. The objective of the strategy continues to be to reduce gas price volatility.  
358 Details of Nicor Gas' hedging strategy are included in the Company's data request  
359 responses being provided in this proceeding. The strategy was implemented in  
360 accordance with internal policies and controls.

361 **Q. Is there anything else you would like to discuss regarding Nicor Gas' 2014 hedging**  
362 **activity?**

363 A. Yes. Nicor Gas' former clearing broker, NYMEX member MF Global Inc. ("MF  
364 Global"), declared bankruptcy in October of 2011 and was investigated by federal  
365 regulatory agencies regarding unaccounted-for customer funds. These funds were held

366 by MF Global in the form of margin deposits. NYMEX regulations require that margin  
367 deposits be held by NYMEX member-brokers in “customer segregated accounts” to  
368 protect customer funds. However, it appears MF Global may have violated exchange  
369 rules and failed to protect customer funds. While most of Nicor Gas’ margin deposit held  
370 by MF Global was recovered in 2011, a small portion was not released at that time.  
371 Nicor Gas subsequently worked with a bankruptcy attorney to collect the remaining  
372 portion of its margin deposit, approximately \$730,000, through the bankruptcy  
373 proceeding. Nicor Gas filed a Commodity Futures Customer Claim Form with the MF  
374 Global bankruptcy trustee and has since collected the entire amount owed.  
375 Approximately \$645,000 was collected in 2013 and approximately \$85,000 was collected  
376 in 2014.

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

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

## 384 **VIII. CONCLUSION**

385 **Q. Does this conclude your direct testimony?**

386 A. Yes.