

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
vs.)	Docket No. 03-0703
)	
Northern Illinois Gas Company)	
d/b/a Nicor Gas Company)	
)	
Reconciliation of revenues collected under)	
gas adjustment charges with actual costs)	
prudently incurred.)	

**REPLY BRIEF ON EXCEPTIONS ON REHEARING OF
NICOR GAS COMPANY**

March 2, 2016

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In accordance with Section 200.830 of the Rules of Practice of the Illinois Commerce Commission (the “Commission”), 83 Ill. Adm. Code § 200.830, and the Administrative Law Judge’s (“ALJ”) schedule, Northern Illinois Gas Company d/b/a Nicor Gas Company (“Nicor Gas” or the “Company”) respectfully submits its Reply Brief on Exceptions on Rehearing to the ALJ’s Proposed Order on Rehearing dated February 10, 2016 (“Proposed Order on Rehearing” or “PO on Rehearing”).

I. INTRODUCTION

The Briefs on Exceptions (“BOE”) on Rehearing of the Citizens Utility Board (“CUB”) and the Illinois Attorney General (“AG”) (collectively “CUB/AG”), and Commission Staff (“Staff”) fail to provide any basis to modify the conclusions in the Proposed Order on Rehearing or, by extension, in the Commission’s September 16, 2015 Final Order (“Order”), which concluded that Nicor Gas’ Purchased Gas Adjustment (“PGA”) costs for the year ended December 31, 2003 were reasonably and prudently incurred. The Order provided an in-depth analysis of all the evidence that had been presented and correctly concluded:

Nicor Gas' supply costs and purchases in 2003 were prudent, and [] its reconciliation of the related costs was proper. The adjustments proposed by Staff and CUB-AG on Nicor Gas' Hub activities are not supported by the record. The Commission believes that both propositions are based on hindsight review.

Order at 24.

On rehearing, CUB/AG and Staff merely reiterated arguments that the Commission previously considered and properly rejected. As a result, the Proposed Order on Rehearing does not analyze in great detail the merits of their arguments because any such analysis would be unnecessarily duplicative of the Order. Rather, the Proposed Order on Rehearing simply and correctly concludes "that there was *nothing* presented in rehearing to require a change in the conclusions from the original Order." PO on Rehearing at 8 (emphasis added). CUB/AG wrongly characterize this conclusion as a summary rejection of the arguments. CUB/AG BOE on Rehearing at 2. The Proposed Order on Rehearing appropriately reflects that all of the arguments CUB/AG and Staff presented on rehearing were previously considered and properly rejected by the Commission.

In their BOEs on Rehearing, CUB/AG and Staff assert challenges to the Proposed Order on Rehearing that are predicated on the same faulty assumptions and fundamental misunderstandings of Hub services and Nicor Gas' PGA activities that were rejected in the Order. Accordingly, none of the Exceptions proposed by CUB/AG or Staff are supported by the law or the evidentiary record and the Commission should adopt the Proposed Order on Rehearing in its entirety.

II. ARGUMENT¹

A. CUB/AG's Proposed Exceptions

1. CUB/AG's Exception Regarding the Commission's Application of the Prudence Standard (CUB/AG BOE on Rehearing at 11)

CUB/AG offer an Exception that concludes that the Commission misapplied the prudence standard in its Order. CUB/AG BOE on Rehearing at 11. In support, CUB/AG first argue that the Order holds Nicor Gas “harmless for decisions made prior to the reconciliation year, and actions taken during the reconciliation year that followed from those decisions.” *Id.* CUB/AG then raise three related arguments that purportedly demonstrate why the Commission was in error in its application of the prudence standard. *Id.* These arguments are without merit.

CUB/AG's assertion that the Commission misapplied the prudence standard articulated in Section 9-220 is wrong as a matter of law. The Commission must first find imprudence on the part of the utility before considering whether to address a remedy. Here, the Commission correctly concluded that Nicor Gas' PGA costs for 2003 were prudently incurred and reasonable. Order at 25. The Commission's conclusion was based on a thorough review of the record and the Order is supported by substantial and compelling evidence. Therefore, there was no imprudence on Nicor Gas' part for the Commission to address. CUB's disagreement on this point does not render the Commission's conclusion a misapplication of the law.

CUB/AG argue that Nicor Gas failed to justify its Hub activities for the winter of 2002-2003. *Id.* at 3-4, 8-9, 11. This is patently incorrect. Nicor Gas provided evidence, which the Commission properly acknowledged, that the amount of storage allocated to Hub activities was established through a comprehensive planning process that was initiated months prior to the

¹ In their BOEs on Rehearing, CUB/AG and Staff fail to number their proposed Exceptions as provided for in the Commission's Rules of Practice. *See* 83 Ill. Adm. Code § 200.830. Therefore, the Company will refer to these Exceptions by reference to the page number on which each Exception appears in CUB/AG's and Staff's BOEs on Rehearing.

2002-2003 winter. Nicor Gas' supply planning includes the allocation of capacity in its on-system storage to transportation customers, who receive distribution service from Nicor Gas and have rights to storage ("transportation customers"), and sales customers, who purchase their gas supply from the Company and the cost of which flows through Rider 6 ("sales customers" or "PGA customers"). Tr. 42:4-7 (Sherwood); Sherwood Sur., Nicor Ex. 6.0R, at 2, fn. 1.

Nicor Gas witness Timothy Sherwood explained that in order to determine the amount of storage to allocate to Hub activities, Nicor Gas analyzed data related to gas that had been historically left uncycled by its transportation customers. Sherwood Sur., Nicor Gas Ex. 6.0R, 21:433-434, 12:224-227, 22:452-23:459. The level of such uncycled storage ranged between 10.6 Bcf and 14.9 Bcf. *Id.* at 23:464-465. Once Nicor Gas determined the likely capacity that would be left uncycled by its transportation customers, it was able to calculate the prudent and reasonable level of Hub loans it could offer to the marketplace. *Id.* at 23:467-24:470. As Mr. Sherwood explained, "the Hub loan services [came] out of storage capacity that would be allocated to transportation customers" and was never available to Nicor Gas' sales customers. Tr. 97:10-15, 98:2-13 (Sherwood). The purpose behind allocating a portion of transportation customers' storage capacity to the Hub is to address the operational needs of the Company's on-system storage. Sherwood Sur., Nicor Gas Ex. 6.0R, 11:193-195. Therefore, the Commission correctly recognized that "the Company took advantage of unutilized transportation customers' storage capacity that was not available to sales customers." Order at 24.

CUB/AG also argue that Nicor Gas did not put forth a credible claim that it was unable to predict that gas prices would be higher in February and March of 2003. CUB/AG BOE on Rehearing at 6-7, 11. As an initial matter, CUB/AG's pricing claim is premised on the faulty assumption that Hub activities somehow could affect sales customers' PGA costs. Yet, the facts

show that no such link exists. *See, e.g.*, Tr. 61:11-14, 97:10-15 (Sherwood) (testifying that the gas for Hub activities comes from storage inventory capacity allocated for transportation customers, not sales customers).

Moreover, Nicor Gas presented evidence that summer gas prices are not always lower than winter gas prices. For example, Mr. Sherwood testified that “the average Chicago city-gate price in January 2003 was less than May and June 2003” and three years prior to that “summer gas prices also were higher than the preceding winter prices.” Sherwood Sur., Nicor Gas Ex. 6.0R, 15:295-298; Nicor Gas Ex. 6.3; Tr. 40:10-15 (Sherwood). Nicor Gas further presented evidence of its “best-cost” gas purchasing strategy, which included a description of the timing and multiple factors that were taken into consideration when establishing the Company’s winter season supply plans. *See, e.g.*, Gilmore Dir., Nicor Ex. 1.0R, 9:187-10:198; Sherwood Sur., Nicor Gas Ex. 6.0R, 22:438-441. Additionally, were CUB/AG’s assertion regarding the predictability of gas prices true, then the hedging and risk management strategies used throughout the natural gas industry would not be necessary. Sherwood Sur., Nicor Gas Ex. 6.0R, 15:291-292. CUB/AG have never refuted this point.

Finally, CUB/AG argue that Nicor Gas’ own documents refuted its claims that operational concerns accounted for the level of Hub activity in the reconciliation year. CUB/AG BOE on Rehearing at 8-9, 11. CUB/AG point to a Company memo for the proposition that “Hub loans have traditionally been of the magnitude of 1 or 2 Bcf per year.” *Id.* at 8, quoting Nicor Gas Ex. 7.3 at 25-26. The evidence demonstrates otherwise. As even CUB/AG acknowledge (*id.*), the document they rely upon discusses Hub activities for “late winter season loans,” which “typically involved a February 1 effective date.” Gulick Sur., Nicor Gas Ex. 7.0R, Nicor Gas Ex. 7.3 at 25-26. CUB/AG did not provide any evidence of Nicor Gas’ historical Hub activity

throughout an entire winter season, which would provide necessary context. For example, for the 2002-2003 winter heating season, approximately 84% of the total Hub loan balance as of March 31, 2003 was the subject of loan agreements entered into prior to the end of 2002 and 60% of the loans had been withdrawn from storage by December 31, 2002. Sherwood Sur., Nicor Gas Ex. 6.0R, 9:168-172.

Furthermore, Nicor Gas provided substantial evidence demonstrating the operational benefits of “cycling” the aquifer storage fields, including through the use of Hub loans. Mr. Sherwood explained that the unique physical characteristics of the Company’s aquifer storage fields required the gas inventory to be regularly cycled in order to maintain optimal performance. Sherwood Sur., Nicor Gas Ex. 6.0R, 19:389-391. In addition, Nicor Gas witness Christopher Gulick explained that the 15.5 Bcf left in the storage fields at the end of March 2003 was evidence that the Hub loans were necessary to “try to get the inventories in a deep enough cycle” to counter the fact that, in February and March 2003, the transportation customers were “injecting gas into storage when operationally Nicor needed to get gas out of storage[.]” Tr. 152:16-153:10 (Gulick). Both of Nicor Gas’ witnesses who testified regarding the Company’s need to cycle its aquifer storage fields have extensive experience in managing gas supply operations for utilities and a thorough understanding of how a utility uses storage assets. Sherwood Sur., Nicor Gas Ex. 6.0R, 1:7-2:22; Nicor Gas Ex. 6.1; Gulick Sur., Nicor Gas Ex. 7.0R, 1:4-2:29. By contrast, CUB’s only witness, Jerome Mierzwa, admitted to having no experience or expertise in the highly complicated business of operating gas storage facilities. Tr. 208:13-210:20 (Mierzwa). However, even Mr. Mierzwa agreed that proper cycling of the Company’s aquifer storage fields supported the vitality and longevity of the fields. Tr. 210:16-20 (Mierzwa).

In sum, none of the arguments CUB/AG raise in connection with the Commission's application of the prudence standard have any merit. Accordingly, the Proposed Order on Rehearing correctly determines that there was nothing presented on rehearing to require a change to the Commission's conclusion that "Northern Illinois Gas Company d/b/a Nicor Gas Company's Purchased Gas Adjustment costs for the year ended December 31, 2003 were reasonably and prudently incurred." PO on Rehearing at 8; Order at 25. CUB/AG's Exception regarding the Commission's application of the prudence standard should be rejected.

2. CUB/AG's Exception Regarding the Amount of Storage Gas Available to PGA Customers During the 2003 Reconciliation Year (CUB/AG BOE on Rehearing at 11)

CUB/AG contend that gas in storage is commingled and that a negative Hub balance always will reduce the amount of gas available to serve Nicor Gas' PGA demand. CUB/AG BOE on Rehearing at 4-5, 11. This contention betrays CUB/AG's misunderstanding of the evidence demonstrating that the Company's provision of Hub services does not affect the amount of PGA gas available for Nicor Gas' sales customers or the cost of such PGA gas. As Mr. Sherwood explained, even with the commingling of gas, Hub loans did not impact the availability or amount of gas purchased for sales customers. Tr. 102:5-103:22 (Sherwood).

The documentation provided by the Company also proves that Hub activity could not, and did not, impact storage inventories for sales customers. For example, the Company's 2003 Aquifer Reports show that the Hub loans reduce the physical amount of third party gas, not PGA gas, held in the Company's inventory. Gulick Sur., Nicor Gas Ex. 7.0R, 7, fn. 9, 20:413-21:420 and Table 2. Additionally, the Company's Aquifer Reports show that the Hub inventory accounts are tracked with the other third party gas accounts, and that changes in the Hub inventory levels do not affect the quantity of PGA gas. *Id.* at 21:423-23:432 and Table 3.

Lastly, a schedule of Company-owned gas and gas belonging to third parties shows that Nicor Gas' calculation of its inventories is not dependent on Hub loans. *Id.* at 23:440-24:450 and Table 4; Nicor Gas Ex. 7.7.

Further, Nicor Gas' accounting practices ensured that Hub activities did not affect the amount of inventory available to PGA customers during the reconciliation year. Nicor Gas presented evidence that its operation of its storage fields and its accounting for the gas in those storage fields were entirely separate and distinct matters and explained that "the physical quantity of gas in the Nicor Gas storage fields changed as a result of making Hub loans, but the accounting for the amount of gas held by Nicor Gas' PGA and other storage customers did not." Gulick Sur., Nicor Gas Ex. 7.0R, 20:398-400. When the Company loaned gas to a customer it accounted for that Hub loan by designating that customer's inventory as negative. *Id.* at 19:391-392. This reduced the physical quantity of gas in storage, but it did not affect the Company's ability to withdraw gas to serve its PGA customers. *Id.* at 19:391-20:393.

Finally, even if the provision of Hub services could affect the amount of PGA gas in storage, Nicor Gas presented uncontroverted evidence that it had more than 19 Bcf in on-system storage gas available to PGA customers at the end of March 2003. Gulick Sur., Nicor Gas Ex. 7.0R, 21:421-23:437 and Table 3. Thus, Nicor Gas could have withdrawn additional gas from storage to serve sales customers in the amounts and during each of the months as to which the CUB and Staff witnesses claim there was insufficient inventory. Indeed, CUB witness Mierzwa admitted that he did not even examine whether the Hub loans actually reduced the amount of gas available to sales customers. Nicor Gas Ex. 7.5 at NG CUB 3.03(a). Instead, he merely *assumed* that the gas Nicor Gas took out of storage and loaned to third-parties was used to displace purchases made by Nicor Gas during February and March 2003. *Id.* Nicor Gas also presented

evidence that warmer weather in the latter half of March 2003 reduced sales customers' demand thereby eliminating the need to withdraw additional gas from on-system storage to serve sales customers. Sherwood Sur., Nicor Gas Ex. 6.0R, 5:92-94. Thus, CUB/AG did not present any evidence addressing, much less refuting, Nicor Gas' evidence regarding the amount of gas that was actually available to its PGA customers at the end of the winter season.

The Commission correctly determined that Hub activities did not reduce the amount of storage gas available to Nicor Gas' PGA customers. Order at 24. The Proposed Order on Rehearing correctly determines that CUB/AG did not offer any new arguments or advance any new evidence that would justify disturbing this determination on rehearing. PO on Rehearing at 8. Accordingly, CUB/AG's Exception regarding the impact of Hub loans on the amount of storage gas available to PGA customers should be rejected.

3. CUB/AG's Exception Regarding Mr. Mierzwa's Use of Hindsight (CUB/AG BOE on Rehearing at 12)

CUB/AG's final Exception argues that Mr. Mierzwa did not use hindsight in calculating his adjustment because Nicor Gas *should have known* that gas prices would increase at the time it determined to engage in the Hub loans. CUB/AG BOE on Rehearing at 9-10, 12. That is not the applicable standard. Instead, as the Order plainly articulated, “[i]n determining whether or not a judgment was prudently made, *only those facts available at the time judgement was exercised can be considered.*” Order at 3 (emphasis added).

Nicor Gas presented evidence that Mr. Mierzwa's damages calculation was based on pricing information not available to Nicor Gas at the time it entered into the Hub loan agreements. In order to estimate the costs allegedly shifted to PGA customers by the Hub loans, Mr. Mierzwa compared then-actual Chicago city-gate gas prices for select dates during an incomplete portion of the loan period to the actual gas prices for select dates during the Hub re-

fill period, and applied that price difference to the total Hub withdrawals. Gulick Sur., Nicor Gas Ex. 7.0R, 6:126-130. As a result, Mr. Mierzwa relied on *post hoc* data about gas prices during February and March of 2003.

The Commission correctly concluded that the adjustments proposed by CUB/AG (and Staff) “are based on hindsight review.” Order at 24. The Proposed Order on Rehearing correctly determines that CUB/AG did not offer any new arguments or advance any new evidence to support altering this conclusion. PO on Rehearing at 8. Accordingly, CUB/AG’s Exception regarding Mr. Mierzwa’s use of hindsight should be rejected.

B. Staff’s Proposed Exceptions

1. Staff’s Exception Regarding Scope of Rehearing (Staff BOE on Rehearing at 2-4)

Staff offers an Exception to the scope of rehearing to clarify that both of Staff witness David Rearden’s proposed adjustments are within the scope of rehearing. Staff BOE on Rehearing at 2-4. The Proposed Order on Rehearing correctly reflects a scope of rehearing limited to the arguments raised in CUB’s Application for Rehearing (“Application”), so this Exception should be rejected. PO on Rehearing at 2.

Although CUB’s Application makes no reference to Staff witness Rearden or his theory regarding Hub revenues, Staff argues that both of his proposed adjustments are within the scope of rehearing on the grounds that the Application requested that the Commission rehear its Order generally. Staff BOE on Rehearing at 3. This argument runs contrary to the Commission’s rule that clearly states, “Applications for rehearing must state *with specificity* the issues for which rehearing is sought.” 83 Ill. Adm. Code § 200.830(b) (emphasis added). It is not, therefore, accurate for Staff to assert that all portions of the Order were within the scope of rehearing as a

result of CUB's general reference to the Order in its Application. Accordingly, Staff's allegedly clarifying Exception should be rejected.

2. Staff's Exceptions Regarding Dr. Rearden's First Adjustment (Staff BOE on Rehearing at 4-10)

Staff offers two alternative Exceptions to support adoption of Dr. Rearden's first proposed adjustment relating to "non-PGA Hub revenues." Staff BOE on Rehearing at 4-10. As an initial matter, as noted above, Staff's first adjustment is entirely beyond the scope of this rehearing. CUB's Application makes no reference to Staff's theory regarding the manner in which Hub revenues should be credited. However, due to time constraints, Nicor Gas will address the substance of Staff's arguments below.

Staff first argues that the Order erred in concluding that Dr. Rearden's adjustments were "based entirely on information available only after the reconciliation period in question." Order at 23. Staff argues that "Section 525.40(d) of the Commission's rules was in place during 2003." Staff BOE on Rehearing at 5. This argument has no merit and misapprehends the application of the prudence standard. It does not matter whether certain statutory provisions or regulations were in effect at the time of the activity in question – the fact that Staff's proposed disallowance was calculated with information that was not available to Nicor Gas at the time the Company entered into the Hub loan agreements is demonstrably hindsight review. Similar to Mr. Mierzwa, Dr. Rearden's adjustment was premised upon actual market prices – available only after Nicor Gas determined to engage in Hub loans – to calculate the "lost" value to Nicor Gas' sales customers. Gulick Sur., Nicor Gas Ex. 7.0R, 6:126-130. In this regard, Staff impermissibly applied hindsight review.

Staff also challenges the Order's conclusion that "the record does not support Dr. Rearden's first adjustment" because, as Staff argues, "Dr. Rearden provided narrative testimony"

and Staff addressed it in briefing. Staff BOE on Rehearing at 5. Staff appears to contend that its speculative arguments, unsupported by any real-world facts and, in fact, refuted by Nicor Gas' evidence, should be sufficient to justify its adjustment. The Order correctly found that Staff's showing was inadequate, and the Proposed Order on Rehearing correctly supports that determination. It is well-established that a Commission Order that is not supported by "substantial evidence" is subject to judicial reversal. 220 ILCS 5/10-201(e)(iv)(A); *Citizens Util. Bd. v. Illinois Commerce Comm'n*, 166 Ill. 2d 111, 132-133 (1995). The testimony of Dr. Rearden is characterized by a lack of first-hand knowledge of the events in question, is based solely on inferences and assumptions gleaned from a handful of documents, and cannot be considered substantial evidence. Indeed, by his own admission, Dr. Rearden never conducted any analysis or study to determine the actual amount of gas that Nicor Gas had in storage for sales customers or whether the status of the Hub loans actually reduced the amount of gas available for sales customers. Tr. 193:19-195:10 (Rearden). Furthermore, his most important assumption, that Nicor Gas did not have sufficient gas in storage to serve sales customers' demand in February and March 2003, was refuted in total.

Finally, Staff argues that "Nicor Gas has failed to show that ... 'non-PGA revenues' are excluded from the general rule that Hub revenues were to offset PGA costs." Staff BOE on Rehearing at 6. It is well-established that the only burden of proof applicable in this proceeding is whether Nicor Gas has proven the prudence of its gas supply purchases in 2003. *See* Order at 23-24. There is no dispute that, under this standard, the Commission must examine the Company's gas supply purchasing activities in 2003 to determine whether Nicor Gas' purchases of gas were prudent under the standard of care "which a reasonable person would be expected to

exercise under the circumstances encountered by utility management at the time decisions had to be made.” Order at 3.

Moreover, there is no such “general rule” applicable here. Instead, the Hub services were operated and accounted for in accordance with two Commission Orders in effect in 2003. The Commission first expressly required Nicor Gas to record its Hub revenues “above-the-line” and not as an offset to PGA costs. *In re Northern Illinois Gas Company*, Docket No. 93-0320, Order at 6 (March 13, 1996). In a later Order, the Commission credited Nicor Gas’ Hub revenues against the revenue requirement. *In re Northern Illinois Gas Company*, Docket No. 95-0219, Order at 14-15 (April 3, 1996). Specifically, under the heading “Revenue Items Not Included,” Nicor Gas was directed to credit off-system storage revenues to the PGA. *Id.* at 17. The Commission did not authorize or require Nicor Gas to reflect Hub revenues as an offset to PGA costs as Staff asserts in its BOE on Rehearing (at 5-6). Instead, the Commission’s 1996 Orders, still effective in 2003, recognized that PGA and non-PGA Hub activities were distinguishable and directed that they be credited differently.

Furthermore, Staff’s adjustment is premised, in part, upon a misreading of Section 525.40(d) of the Commission’s rules. Section 525.40(d) provides that revenues must be credited to the PGA “if any of the associated costs” of providing Hub services “are recoverable gas costs as prescribed by” Section 525.40(a). 83 Ill. Adm. Code § 525.40(d). In 2003, the associated costs for providing Hub services were recovered through Nicor Gas’ base rates and, therefore, the associated revenues were not required to be credited to the PGA. *See* Staff Cross Ex. 6 (Nicor Gas Response to Staff Data Request ENG 2.33). Moreover, because Hub services use rate base assets, they are not appropriately treated as “off-system” transactions as such transactions are described in the Commission’s Order in Docket No. 94-0403. That is why the

Commission approved the revenue allocation that it did for the Company's Hub revenues in the 1996 Orders.

For all these reasons, the Proposed Order on Rehearing correctly determines that Staff failed to offer any justification for disturbing the Commission's Order. PO on Rehearing at 8. Accordingly, both of Staff's Exceptions regarding Dr. Rearden's first adjustment should be rejected.

3. Staff's Exception Regarding Dr. Rearden's Second Adjustment (Staff BOE on Rehearing at 10-13)

In another Exception, Staff argues for adoption of Dr. Rearden's second adjustment regarding the Company's use of storage, claiming that it was not based upon hindsight analysis and that it is supported by the claim that supply for Hub services and sales customers are "inter-related." Staff BOE on Rehearing at 10-13. Staff is incorrect on both counts.

In order to avoid the Order's correct conclusion that Dr. Rearden's adjustment was based on impermissible hindsight, Staff claims that the adjustment was based on some other analysis. In particular, Staff argues that Nicor Gas' use of the Hub was imprudent because Nicor Gas "did not investigate the prudence of any individual Hub transaction." Staff BOE on Rehearing at 11. Staff never offered any evidence that Nicor Gas was required to conduct such an analysis. And, in fact, Nicor Gas had no need to perform an individualized analysis of the impact of Hub activities on PGA customers because there was no impact. Tr. 72:5-8, 97:10-15 (Sherwood). As discussed above, the evidence also clearly demonstrates that Hub services did not affect the quantity or cost of storage inventories for PGA customers and, therefore, Nicor Gas had a rational basis for its understanding that Hub services in the aggregate were essentially costless to the PGA customers. Gulick Sur., Nicor Gas Ex. 7.0R, 26:479-481. Despite these facts, Staff continues to assert that Nicor Gas should have conducted a different analysis of the "tradeoff"

between providing Hub services relative to the market value of the storage. Staff BOE on Rehearing at 12. However, such an analysis would be dependent upon application of after-the-fact market prices, and cannot be reconciled with the Commission's prudence standard by which Nicor Gas' conduct must be reviewed. Order at 3.

The Commission correctly rejected Dr. Rearden's second adjustment, and the Proposed Order on Rehearing correctly determines that Staff did not offer any justification for disturbing this determination on rehearing. PO on Rehearing at 8. Accordingly, Staff's Exception regarding Dr. Rearden's second adjustment should be rejected.

4. Staff's Exceptions Regarding Recommended Reconciliation and Factor O (Staff BOE on Rehearing at 14-16)

Staff offers two Exceptions to reflect an additional section discussing and adopting Staff's reconciliation of revenues and the related Factor O, and to substitute Staff's proposed appendix in place of Attachment A to the Order. Staff BOE on Rehearing at 14-16. The Commission should reject these Exceptions for the same reasons it rejected both of Staff's adjustments in the Order and for the reasons those adjustments should be rejected again on rehearing as set forth above.

5. Staff's Exception Regarding Findings and Ordering Paragraphs (Staff BOE on Rehearing at 16-17)

Staff's proposed modifications to the Findings and Orderings Paragraphs should be rejected for the reasons set forth in the arguments above.

III. CONCLUSION

WHEREFORE, for the reasons set forth herein and within its Initial and Reply Briefs on Rehearing, Northern Illinois Gas Company d/b/a Nicor Gas Company respectfully requests that the Commission adopt the ALJ's Proposed Order on Rehearing dated February 10, 2016 and reject those positions set forth in the Briefs on Exception on Rehearing submitted by the Staff of the Commission, the Citizens Utility Board and the Illinois Attorney General.

Dated: March 2, 2016

Respectfully submitted,

NORTHERN ILLINOIS GAS COMPANY
D/B/A NICOR GAS COMPANY

By: /s/ John E. Rooney
One of their attorneys

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

CERTIFICATE OF SERVICE

I, John E. Rooney, certify that I caused a copy of Nicor Gas Company's Reply Brief on Exceptions on Rehearing to be served upon the service list in Docket No. 03-0703 by electronic mail, on the 2nd day of March, 2016.

/s/ John E. Rooney

John E. Rooney