

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
North Shore Gas Company)	Docket No. 15-0520
)	
)	
Reconciliation of revenues)	
collected under gas adjustment)	
charges with actual costs prudently)	
incurred.)	

DIRECT TESTIMONY
OF
THOMAS A. SMITH

- 1 Q. Please state your name and business address.
- 2 A. Thomas A. Smith. 200 East Randolph Street, Chicago, Illinois, 60601.
- 3 Q. By whom are you employed?
- 4 A. WEC Business Services LLC (“WBS”). Until June 29, 2015, WBS was
- 5 known as Integrys Business Support, LLC. I will refer to WBS in my testimony
- 6 when referring to this service company.
- 7 Q. What position do you hold with WBS?
- 8 A. I am Manager Gas Supply (PGL/NSG) for Respondent, North Shore Gas
- 9 Company (“North Shore”), and The Peoples Gas Light and Coke Company
- 10 (“Peoples Gas”)
- 11 Q. What are your responsibilities in that position?

12 A. I am responsible for directing the activities of the Gas Supply Department
13 for North Shore and Peoples Gas, as well as the activities of Peoples Gas'
14 interstate services area.

15 Q. Please summarize your educational background and experience.

16 A. I have both a Bachelor's Degree in Accounting and a Master's Degree in
17 Finance from Saint Xavier University in Chicago, Illinois. I have been employed
18 by WBS or its affiliates since 1993 in various positions related to accounting and
19 gas supply, including property and plant accounting, gas accounting, gas supply
20 middle office, gas control, planning, contracting and trading.

21 Q. What is the purpose of your direct testimony?

22 A. The purpose of my testimony is to describe North Shore's 2015 supply
23 and capacity procurement practices, including negotiation of contracts and
24 related accounting and auditing practices. In addition, I discuss steps that North
25 Shore took to reduce gas price volatility. I also address the prudence of North
26 Shore's 2015 supply and capacity and the resulting gas costs that North Shore
27 billed to customers.

28 **2015 PROCUREMENT OVERVIEW**

29 Q. Please describe North Shore's 2015 gas supply procurement process.

30 A. WBS provides services to North Shore under an affiliated interest
31 agreement approved by the Illinois Commerce Commission ("Commission"). In
32 general, personnel in the Gas Supply Department, and others, as appropriate,
33 developed specific gas supply recommendations and put those forward for
34 management approval. The Gas Supply Department was responsible for

35 entering into and administering contracts for gas supply and for purchases of
36 transportation and storage services.

37 Q. On June 29, 2015, Wisconsin Energy Corporation (now known as WEC
38 Energy Group, Inc. ("WEC Energy")) closed its acquisition of Integrys Energy
39 Group, Inc. Did this transaction change any of the procedures that you will
40 describe in your testimony?

41 A. Yes. WEC Energy has different procedures relating to executing contracts
42 (*i.e.*, the approval process and the credit review process). These procedures
43 were used in some of the gas supply activities in 2015.

44 Q. What procedure did North Shore follow in 2015 in order to select its
45 resource mix?

46 A. Prior to the start of the year, North Shore developed a number of
47 interconnected forecasts, including: a peak day forecast, a long-term sales
48 forecast, and a gas sendout requirements forecast. These forecasts support the
49 Gas Dispatch Model, which calculates daily sendout requirements and balances
50 the normal year's daily requirements with available gas supply, including term
51 purchases, spot market purchases, customer-owned deliveries and gas available
52 for withdrawal or injection. The Gas Dispatch Model optimizes, from a full-year
53 perspective, the daily gas dispatching activities by forecasting the supply and
54 storage mix to meet the expected customer sendout requirements for each day
55 of the forecast year.

56 Using the annual Gas Dispatch Model as a starting point and just prior to
57 the start of each month, the Gas Supply Department computed at least three

58 potential load forecasts for the coming month and met to address purchasing
59 decisions for the month. After establishing the monthly plan, Gas Supply
60 personnel, on a daily basis, as changing requirements and the market dictated,
61 addressed any changes needed to accommodate the need for additional or
62 reduced amounts of supply or capacity.

63 Q. Please describe North Shore's contractually available sources of firm gas
64 supply during the reconciliation period.

65 A. North Shore purchased firm gas supply from many parties under four
66 general forms: field baseload, citygate delivered baseload, field call, and citygate
67 delivered call.

68 Q. Please describe the field baseload and citygate delivered baseload
69 purchases.

70 A. North Shore contracted for firm baseload supplies that it purchased at field
71 locations and transported to the citygate using its transportation. North Shore
72 also contracted for firm baseload supplies bought directly at the citygate. North
73 Shore made these purchases on a seasonal and month-to-month basis. The
74 baseload contracts called for North Shore to purchase the same quantity each
75 day and most were priced using a first of the month ("FOM") index price. Some
76 baseload supply was purchased at a fixed price.

77 Q. Please describe the field call purchases.

78 A. Field call purchases are firm supplies that were available at a daily index
79 price and, when purchased, were transported to the citygate using North Shore's
80 transportation. North Shore made these purchases on a seasonal basis. In each

81 case, the quantity that North Shore could purchase each day could vary between
82 zero and the maximum quantity stated in the contract. Under these contracts,
83 the supplier had the obligation to deliver the gas, but North Shore had no
84 obligation to ever purchase any gas.

85 Q. Please describe the citygate delivered call purchases.

86 A. Citygate delivered call purchases are firm supplies that were, when
87 requested by North Shore, delivered to the citygate by the supplier and available
88 on any day during January 2015 only, the November 2014 through March 2015
89 period and the November 2015 through March 2016 period. Under these
90 contracts the supplier had the obligation to deliver the gas, but North Shore had
91 no obligation to ever purchase any gas.

92 Citygate delivered call purchases are priced in two forms: at a daily index
93 or on an average of the FOM prices for specified months. Most of the citygate
94 call purchases were subject to a daily price index.

95 Q. Did North Shore have any other sources of gas available for system
96 supply?

97 A. Yes. North Shore purchased swing supply on the spot market. These
98 transactions were typically for less than one month and were often for only a
99 single day or a few days. Once contracted, these sources were firm.

100 Also, a significant portion of North Shore's end use market opts for
101 deliveries of customer-owned gas under North Shore's Schedule of Rates. This
102 gas was another source available to North Shore for system supply. However,
103 North Shore did not know the customer-owned gas quantity that it would receive

104 until customers and their suppliers nominated it and North Shore and the
105 pipelines confirmed it.

106 Q. How many suppliers did North Shore purchase from during the
107 reconciliation period?

108 A. During 2015 North Shore purchased gas from 30 suppliers.

109 Q. Please describe North Shore's contractual agreements for the purchase of
110 supply and capacity recovered through the monthly Gas Charge filings.

111 A. During 2015 North Shore purchased the majority of its supply under firm
112 contracts with suppliers. It made these purchases under the terms of the
113 individual contracts that North Shore had with each supplier. North Shore
114 purchased a portion of its total supply volumes as spot purchases from various
115 suppliers. It made spot purchases, on an as-needed basis, from suppliers under
116 the terms of the individual contracts that North Shore had with each supplier.

117 Capacity (both pipeline storage and transportation) transactions are
118 subject to contracts with the pipelines and the pipelines' Federal Energy
119 Regulatory Commission ("FERC") Gas Tariffs. North Shore also had a
120 Commission-approved firm transportation service with Northern Illinois Gas
121 Company d/b/a Nicor Gas Company and a Commission-approved storage
122 service with Peoples Gas.

123 Q. Did North Shore purchase gas or release capacity under an asset
124 management arrangement during the reconciliation period?

125 A. No.

126 Q. Did North Shore conduct any after-the-fact analyses of its 2015 gas supply
127 procurement?

128 A. Yes, North Shore reviews its purchases for the entire year across a
129 number of different parameters.

130 **REQUESTS FOR PROPOSALS**

131 Q. Did North Shore use a Request for Proposal (“RFP”) process for any of
132 the purchases identified above?

133 A. Yes. North Shore believes the RFP process allows the market to
134 competitively bid to determine the fair value of the products sought. North Shore
135 issued RFPs, with specific directions to bidders, for the three types of firm supply
136 it purchased. The goal of the RFP process is to reach as broad a market as
137 possible to meet North Shore’s requirements. North Shore attempted to be as
138 clear as possible in what it was seeking and what it would consider a conforming
139 bid. This practice provided North Shore with objective criteria with which to
140 eliminate non-conforming bids and make a comparison of conforming bids.

141 Q. You stated that North Shore tries to be as clear as possible when it
142 structures its RFPs. Please explain what you mean.

143 A. One of North Shore’s goals is to receive bids that are in an identical format
144 so that it can make fair comparisons. In its RFPs, it specifies all the key
145 commercial terms of service to limit the number of variables that it must consider
146 in evaluating bids. For example, a typical RFP would specify the location(s) at
147 which North Shore would take delivery of supply; whether the supply would be
148 baseload or swing and, if it is a swing supply, the conditions under which North

149 Shore may call on the supply; acceptable pricing structures, such as based on
150 specific FOM or daily indices and whether demand charges would be acceptable;
151 and any quantity limitations, such as bids must be in increments of 5,000 dth¹/d.
152 In addition, the RFP specifies the credit terms that will apply to the winning
153 bidder, and bidders must be parties to a master contract that will govern the
154 transaction. Generally, the supplier need only select an acceptable delivery
155 location from among those specified, specify a daily contract quantity and bid a
156 price in the required form, for example, an addition to or subtraction from an
157 index that North Shore identified in the RFP. North Shore can then perform an
158 apples-to-apples comparison among the conforming bids and promptly notify the
159 winning bidder(s).

160 Q. What RFP process did North Shore use for summer purchases?

161 A. As in 2012 - 2014, for its summer purchases (the months of April through
162 October), North Shore purchased firm supply on a monthly basis through a blast-
163 type email request process to several suppliers. It sent the email to at least 10
164 suppliers each month. Like the RFP process described above, the content of the
165 emails stated the location or locations where North Shore was seeking baseload
166 supply tied to the FOM index at the point(s). As a check on the market North
167 Shore's traders had access to the IntercontinentalExchange ("ICE"), an electronic
168 trading platform, which provided real time trading information at the relevant
169 locations.

170 Q. Why did North Shore use this process?

¹ "dth" means dekatherm. "Mdth" means one thousand dekatherms.

171 A. Prior to 2012, North Shore used a more seasonally structured RFP
172 process that resulted in baseload purchases that were fixed by location for the
173 season. While this was an effective process, it lacked flexibility to respond to
174 pipeline curtailments due to maintenance and *force majeure* restrictions that
175 limited transportation from any given location. By moving to a monthly baseload
176 purchase process North Shore could move the purchases around to avoid the
177 restrictions and limit the need to reconfigure or otherwise renegotiate the
178 baseload agreement with the seller.

179 Q. Were all the RFPs used to obtain the supplies discussed above completed
180 in the reconciliation year?

181 A. No. North Shore completed three RFPs prior to 2015 for gas that flowed
182 in 2015. The types of supply procured under the RFPs were baseload and non-
183 baseload, *i.e.*, call gas supplies.

184 Q. What criteria did North Shore use in reviewing these RFP responses and
185 awarding contracts?

186 A. The award criteria were lowest price first and, where applicable,
187 secondary considerations. Secondary considerations were the nomination
188 deadline and the pipeline on which the supply was to be delivered. In addition,
189 for the non-baseload RFP supplies, North Shore used a bid valuation model to
190 evaluate swing and call supply products with varying price, term and quantity
191 attributes on an equal footing.

192 Q. Did North Shore issue RFPs in 2015 for gas that flowed in 2015?

193 A. Yes. North Shore completed eight RFPs in 2015 for gas that flowed in
194 2015. The types of supply procured under those RFPs were summer 2015
195 baseload, winter 2015-2016 baseload and non-baseload, *i.e.*, call gas supplies.
196 The seven summer supply RFPs are discussed above.

197 Q. What criteria did North Shore use in reviewing these RFP responses and
198 awarding contracts?

199 A. The award criteria were lowest price first, and where applicable,
200 secondary considerations. Secondary considerations were the nomination
201 deadline and the pipeline on which the supply was to be delivered. Another
202 criterion was vendor diversity, which was applied where applicable. Also, for the
203 winter season non-baseload RFP supplies, North Shore used a bid valuation
204 model to evaluate swing and call supply products with varying price, term, and
205 quantity attributes on an equal footing.

206 Q. Did North Shore purchase all its gas through the RFP process?

207 A. No. North Shore purchased all its spot gas pursuant to bilateral
208 discussions with suppliers or through trades on ICE.

209 **CITYGATE PURCHASES**

210 Q. Did North Shore purchase gas at the citygate in 2015?

211 A. Yes. North Shore purchased term gas and spot gas delivered at the
212 citygate in 2015. Citygate purchases accounted for about 15% of total purchase
213 quantities and about 21% of total purchase costs.

214 Q. Why does North Shore purchase term gas at the citygate, rather than
215 making purchases in the field and using its transportation to move the gas to its
216 citygate?

217 A. North Shore buys gas at the citygate for two main reasons. First, in the
218 case of the call gas, citygate purchases limit the amount of pipeline capacity that
219 North Shore needs to hold. Winter-only firm capacity is typically unavailable and
220 year-round capacity would only be needed for winter or peaking requirements.
221 Second, it diversifies the type of pricing in the portfolio. The Gas Charge will
222 include a mix of field index purchases, citygate index purchases, and fixed price
223 purchases.

224 Q. Why does North Shore buy spot gas at the citygate?

225 A. North Shore buys spot gas at the citygate to meet demands that vary daily
226 and are in excess of the transportation capacity held on interstate pipelines.
227 Because demands vary based on weather and customer-owned gas deliveries
228 and, as such, are unpredictable, holding additional firm transportation from field
229 locations to meet them is not reasonable. Also, North Shore buys at the citygate
230 when it is economically favorable.

231 **SUPPLY INTERRUPTIONS**

232 Q. Did North Shore experience any supply interruptions in 2015?

233 A. None of North Shore's suppliers failed to deliver the quantity of gas that
234 was requested. However, as discussed later, pipeline restrictions did result in
235 some supply not being purchased.

236 **TRANSPORTATION AND STORAGE CAPACITY**

237 Q. Did any significant changes to North Shore's transportation and storage
238 capacity portfolio affect the 2015 portfolio?

239 A. No.

240 Q. Were there any significant pipeline outages, interruptions, or restrictions
241 during 2015 that affected North Shore?

242 A. Yes. Natural Gas Pipeline Company of America ("Natural") experienced
243 outages and imposed restrictions during 2015.

244 Q. Did North Shore receive reservation charge credits associated with any of
245 these outages?

246 A. Yes. North Shore received a total of \$13,879 in reservation charge credits
247 in January and August.

248 Q. Did North Shore incur any overrun charges or other pipeline charges
249 associated with the outages, cuts restrictions or other reasons?

250 A. Yes. For the entire year North Shore incurred \$791 of overrun charges on
251 Natural and \$13,259 of overrun charges on ANR Pipeline Company ("ANR").

252 Q. How did North Shore's planned and actual use of storage compare in
253 2015?

254 A. North Shore begins each season with an established storage plan based
255 on normal weather, estimated customer-owned gas deliveries and assumptions
256 for other factors not precisely known at the time it creates the plan. North Shore
257 cannot reasonably plan for other storage activity, notably no-notice balancing.
258 As a result, actual storage use will never exactly match planned storage use for a

259 given month, and North Shore may need to revise storage plans for future
260 months to accommodate these differences. During 2015, actual storage
261 withdrawals of 8,376 Mdth were approximately 320 Mdth (4%) less than planned.
262 The less than planned withdrawals for the year were due to the warmer than
263 normal weather in the last quarter of 2015.

264 Q. Is Peoples Gas' storage field, Manlove Field, part of North Shore's storage
265 plan?

266 A. Yes. Through a Commission-approved contract with Peoples Gas, North
267 Shore purchases a storage service. This storage accounts for 14% of North
268 Shore's peak day demand and about 18% of the capacity in its annual storage
269 capacity portfolio.

270 Q. Does North Shore own and operate an LP facility?

271 A. Yes.

272 Q. Please describe North Shore's use of the LP facility in 2015.

273 A. The LP facility was not used in 2015 to support any daily or hourly
274 deliveries.

275 **RESERVE MARGIN**

276 Q. What was North Shore's design day reserve margin in 2015?

277 A. North Shore's 2015 design day reserve margin was approximately 3%.
278 North Shore describes its design day calculation in detail in the response to Staff
279 data request ENG 1.17. In general, North Shore defines its design day as the
280 sendout expected to occur on a January weekday with a temperature of -21
281 degrees Fahrenheit (equivalent to 86 degree days) and an average wind speed

282 of 22 miles per hour (“mph”) following a day with a temperature of -3 degrees
283 Fahrenheit and an average wind speed of 16 mph where the weather-normalized
284 monthly sales and number of customers are consistent with North Shore’s most
285 recent normal weather budget forecast for the January containing the design day.
286 The temperature and wind data listed above are based on the weighted average
287 of two weather stations (O’Hare and Waukegan). The percentage weighting
288 comes from a GasDay[®] weather optimization study.

289 The reserve margin is intended to ensure that North Shore will be able to
290 serve its customers under extreme conditions. Because of the serious effects on
291 public health and safety of a gas outage, in addition to the difficulties of restoring
292 gas service, it is imperative that North Shore plan for extreme conditions. Firm
293 gas supply and deliverability to North Shore’s distribution system were thus set at
294 levels that provide a margin over North Shore’s projected peak day requirements.
295 This reserve margin was necessary to accommodate, among other things, the
296 fact that North Shore is located near the end of Natural’s and ANR’s facilities, the
297 possibility of deliverability shortfalls in connection with storage and flow gas, and
298 the fact that requirements could exceed design day projections.

299 **PRICE RISK MANAGEMENT**

300 Q. Please describe the steps taken to address price volatility, including any
301 hedging strategies.

302 A. North Shore took several steps to address price volatility. During the year,
303 North Shore followed a price protection program, approved by the Regulated
304 Risk Oversight Committee, which was specifically designed to mitigate the

305 effects of gas price volatility. This program protected a significant portion of
306 North Shore's purchases using approved financial derivative tools including fixed
307 price swaps, call options, synthetic calls, or consumer collars (purchased calls
308 and sold puts simultaneously). These purchases were either hedged physically
309 through fixed forward purchases directly with a supplier or through the use of
310 financial derivative instruments. Under the plan, North Shore began executing its
311 hedges nineteen months prior to the start of each season (*i.e.*, winter or
312 summer). The timing of the transaction execution follows a time driven matrix
313 approach and results in 100% of the planned hedges in place prior to the start of
314 the season. Under normal weather conditions, North Shore would expect to
315 hedge between 25% and 50% of its annual purchases under this plan with a
316 target of 37.5%.

317 North Shore's supply portfolio also contained contractual storage assets
318 that allowed it to use the natural physical hedge that seasonal storage provides.
319 North Shore also purchased gas supplies from a variety of parties and from
320 different producing regions to protect against regional price anomalies.

321 Q. How much of its annual purchases did North Shore hedge under its plan?

322 A. For the reconciliation period, 36% of actual annual purchases were
323 financially hedged. While the financially hedged percentage was below the
324 37.5% target noted above, it was within the plan parameters.

325 Q. What is a "time driven matrix" approach?

326 A. The "time driven matrix" approach means that North Shore executed its
327 hedge transactions on a defined schedule, unless predefined market conditions

328 were met and North Shore elected to accelerate its financial hedge purchases.
329 This is in contrast to, for example, purchasing all of the hedges eighteen months
330 prior or waiting until one month prior to the hedged period to purchase the
331 hedges.

332 Q. Were there any changes made to this plan that affected the reconciliation
333 period?

334 A. No.

335 Q. Were there any significant deviations from this plan?

336 A. No.

337 Q. Please describe the impact on the Gas Charge of the hedging strategies.

338 A. North Shore's purchases under its price protection programs partially
339 insulated customers against price volatility. By taking fixed price positions on a
340 large portion of the anticipated baseload purchases, North Shore can dampen
341 the effect that large swings in the price of gas have on its total cost of gas. This,
342 in turn, leads to more stable prices for North Shore's customers. In the absence
343 of this program, customers would be exposed to the full risk of market
344 fluctuations. North Shore's price protection strategies were not aimed at
345 guaranteeing the lowest possible price for gas. The purpose is to mitigate
346 volatility.

347 **INTERSTATE SERVICES**

348 Q. Did North Shore enter into any off-system gas sales for resale during
349 2015?

350 A. Yes. North Shore entered into off-system sales transactions that were
351 supported by approximately 1% of North Shore's purchases in terms of quantity
352 and approximately 1% in terms of cost for the year. These transactions were for
353 asset optimization reasons.

354 Q. Did North Shore release any capacity in 2015?

355 A. Yes. North Shore released 10,000 dth of Northern Border Pipeline
356 Company ("Northern Border") capacity to a marketer in August.

357 Q. Did North Shore acquire any capacity through a capacity release?

358 A. No.

359 **AFFILIATE TRANSACTIONS**

360 Q. Did North Shore enter into any transactions with any affiliate that affected
361 its Gas Charge?

362 A. Yes. North Shore purchased a storage service from Peoples Gas, an
363 affiliate, pursuant to a Commission-approved agreement.

364 **PRUDENCE OF 2015 GAS COSTS**

365 Q. Were North Shore's incurred expenditures for 2015 gas supply prudent?

366 A. Yes. The 2015 incurred gas supply expenditures reflected North Shore's
367 continuing efforts to minimize the cost of its gas supply consistent with
368 operational and contractual constraints and the statutory obligation to provide
369 adequate and reliable service to customers throughout the year. In particular,
370 following RFP processes, North Shore purchased supply from a diverse pool of
371 suppliers to fill its storage services and to supply its customers. It purchased
372 supply at the citygate and in the field, which both diversifies the pricing applicable

373 to those purchases and enhances reliability. It met a large portion of its peak day
374 and seasonal requirements from storage. It also used storage to help it balance
375 its system on a daily and intra-day basis. Finally, it hedged a significant portion
376 of its annual purchases, which helps to mitigate price volatility for customers.

377 Q. Has North Shore made other efforts to ensure that pipelines serving it
378 provide reliable services on a best-cost basis?

379 A. Yes. North Shore made efforts to maintain adequate, reliable services
380 from pipeline transporters and to keep gas costs to a minimum by active
381 participation in its pipeline transporters' rate and certificate proceedings and
382 other matters before the FERC. North Shore monitored the filings of its pipeline
383 suppliers of storage and transportation services -- Natural, Northern Border, and
384 ANR. In addition, North Shore monitored FERC rulemaking and policy
385 proceedings.

386 Based on its review of pipeline filings, North Shore intervened in
387 significant proceedings. North Shore also continued to participate actively as a
388 member of the American Gas Association in FERC rulemakings and other
389 generic proceedings affecting its customers.

390 **MEASUREMENT AND MONITORING OF PIPELINE DELIVERIES**

391 Q. Please describe the control procedures and monitoring related to contract
392 enforcement for North Shore's pipeline purchases.

393 A. The control procedures and monitoring related to enforcement of contracts
394 for gas delivered by pipelines interconnecting with North Shore were as follows:

395 1. Gas that Natural delivered to North Shore is registered by North
396 Shore's electronic flow measurement ("EFM") equipment located at three
397 locations (excluding direct pipeline supplied customer locations), with a combined
398 total of seven meters. North Shore independently operates equipment verifying
399 the accuracy of Natural's meters. The Gas Control Department reviewed and
400 monitored the accuracy of energy that was billed at all seven of those meters on
401 a daily basis. If the Gas Control Department's measurement review indicated a
402 discrepancy, the Gas Control Department would contact Natural to resolve the
403 discrepancy. Natural also calibrates its EFM equipment once a month. A North
404 Shore representative may be present at these calibrations. North Shore's
405 representative is present for physical changes (e.g., orifice plate inspection or
406 replacement) involving a meter.

407 2. ANR operates EFM equipment at its station near Paris, Wisconsin.
408 ANR calibrates its EFM equipment once a month. North Shore's representatives
409 may be present at these calibrations. North Shore's representative is present for
410 physical changes (e.g., orifice plate inspections or replacement) involving a
411 meter. North Shore independently operates equipment verifying the accuracy of
412 ANR's measurement equipment. The Gas Control Department reviews and
413 monitors the accuracy of energy that is billed from ANR's meters. If this review
414 identified a discrepancy, Gas Control would contact ANR and resolve the
415 discrepancy.

416 3. If the Gas Control Department's measurement verification between the
417 EFM equipment and nomination systems (North Shore's and pipelines'

418 nomination websites) indicates a discrepancy, the Gas Control Department will
419 contact the pipeline to resolve the discrepancy. Once Gas Control has resolved
420 all discrepancies, the Gas Supply Department will verify the amount of gas
421 nominated to the Gas Supply transaction tracking database ("TRM"). This
422 ensures that all gas nominated is recorded in TRM. The Fuel and Supply
423 Accounting Department confirms data from TRM with the pipelines' invoices.

424 4. ANR determines gas quality and heating value by use of onsite
425 chromatographs at its meter stations. Natural determines gas quality and
426 heating value by use of chromatographs at a point on its system near Joliet,
427 Illinois and at Peoples Gas' Manlove Field. North Shore independently monitors
428 gas quality and heating value by means of chromatographs owned by North
429 Shore at the citygates. These chromatographs are calibrated on a regular basis.

430 5. Internal Audit Services examines the accuracy and performance of
431 procedures identified by management as SOX controls annually during its
432 Sarbanes-Oxley Act of 2002, Section 404, testing to support management's
433 assertion that the internal control structure is operating as designed. These tests
434 include examination of the various records and reports used by the Fuel and
435 Supply Accounting Department to record volumetric and pricing information
436 including the various reconciliations to source measurement and pipeline
437 information.

438 Q. Please describe the control procedures and monitoring programs related
439 to enforcement of North Shore's contracts for purchases from suppliers.

440 A. The gas purchased by North Shore from each supplier was invoiced
441 based on quantities delivered at the agreed delivery points. Each month the Fuel
442 and Supply Accounting Department verified that suppliers used the appropriate
443 unit prices in their invoicing to North Shore, and it also confirmed that suppliers
444 delivered volumes based on the agreed to delivery point on the pipeline invoices.

445 Q. Please describe the control procedures and monitoring programs that
446 North Shore used with respect to its gas transportation contracts.

447 A. The control procedures and monitoring related to the enforcement of the
448 transportation contracts and point operator agreements with ANR, Northern
449 Border and Natural were as follows:

450 1. Each of these pipelines rendered monthly statements of the quantity of
451 gas received on behalf of North Shore from each supplier at each receipt point
452 and the quantity of gas each transporter delivered to North Shore. The quantities
453 of gas received and delivered by each transporter were measured in accordance
454 with the General Terms and Conditions of its respective FERC Gas Tariff. North
455 Shore has access to transporters' measurement equipment at the receipt and
456 delivery points under the tariff provisions. The Fuel and Supply Accounting
457 Department verified the accuracy of each monthly statement based on records
458 maintained by the Gas Supply area in coordination with each transporting
459 pipeline.

460 2. Transportation charges for each of the various receipt points include a
461 percentage retained by the transporter from gas received for North Shore's
462 account to compensate for the transporter's compressor fuel and lost-and-

463 unaccounted-for gas. The Fuel and Supply Accounting Department reviewed for
464 accuracy the quantities that the transporter retained, the transportation and
465 storage charges and the reservation fees against published tariffs, contracts or
466 discount letters or agreements, as appropriate.

467 Q. Does this conclude your direct testimony?

468 A. Yes, it does.