STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION


Reconciliation of revenues collected under gas adjustment charges with actual costs prudently incurred.

ORDER

By the Commission:

I. PROCEDURAL HISTORY

On November 26, 2018, pursuant to Section 9-220 of the Public Utilities Act ("Act"), the Illinois Commerce Commission ("Commission") entered an Initiating Order commencing this reconciliation proceeding. 220 ILCS 5/9-220. Pursuant to the Initiating Order, Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") was ordered to reconcile total revenue collected under the purchased gas adjustment ("PGA") with total cost of gas and demonstrate that its gas supplies purchased during the reconciliation period were prudently purchased.

Staff of the Commission ("Staff") participated in this proceeding. No petitions to intervene were filed.

On April 12, 2019, Nicor Gas filed its direct testimony. The following witnesses presented direct testimony on behalf of Nicor Gas: Michelle M. Carbone, Manager, Gas Supply for Nicor Gas; and Michael P. Naughton, Senior Rates Analyst for Nicor Gas.

On October 8, 2019, Staff filed direct testimony. The following witnesses presented direct testimony on behalf of Staff: Theresa Ebrey, Accountant, Accounting Department, Financial Analysis Division; and Brett Seagle, Gas Engineer in the Energy Engineering Program, Safety and Reliability Division.

Pursuant to due notice as required by law and by the rules and regulations of the Commission, a prehearing conference was held in this matter before a duly-authorized Administrative Law Judge ("ALJ") at the Commission’s office in Chicago, Illinois on December 20, 2018, and an evidentiary hearing was held on October 16, 2019. At the evidentiary hearing, the written testimony and exhibits of Nicor Gas and Staff were admitted into the record by affidavit. The ALJ marked the record “Heard and Taken” on October 31, 2019.
There were no contested issues at the completion of the evidentiary hearing. On November 20, 2019, Nicor Gas submitted a Draft Order that had been previously reviewed by Staff and to which Staff did not object.

II. LEGAL STANDARD

The Commission initiated this proceeding pursuant to Section 9-220 of the Act. 220 ILCS 5/9-220. Section 9-220 of the Act provides, in pertinent part, as follows:

(a) ... the Commission may authorize the increase or decrease of rates and charges based upon changes in the cost of fuel used in the generation or production of electric power, changes in the cost of purchased power, or changes in the cost of purchased gas through the application of fuel adjustment clauses or purchased gas adjustment clauses. The Commission may also authorize the increase or decrease of rates and charges based upon expenditures or revenues resulting from the purchase or sale of emission allowances ... through such fuel adjustment clauses, as a cost of fuel ... Annually, the Commission shall initiate public hearings to determine whether the clauses reflect actual costs of fuel, gas, power, or coal transportation purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual costs of fuel, power, gas, or coal transportation prudently purchased.

220 ILCS 5/9-220.

The Commission has a well-established articulation of the standard by which utility prudence is reviewed under Section 9-220:

Prudence is that 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. In determining whether or not a judgment was prudently made, only those facts available at the time judgment was exercised can be considered. Hindsight review is impermissible.

_In re: Commonwealth Edison Co.,_ Docket No. 84-0395, Order at 17 (Oct. 7, 1987); _see also_ _Ill. Power Co. v. Ill. Commerce Comm’n,_ 339 Ill. App. 3d 425, 428 (5th Dist. 2003).

III. FACTUAL BACKGROUND

A. Rider 6, Gas Supply Cost

The Commission approved Nicor Gas’ Rider 6, Gas Supply Cost (“Rider 6”) as compliant with the Commission’s PGA clause requirements in Docket No. 94-0403. Rider 6 – which is intended to recover from sales customers Nicor Gas’ net gas supply cost without markup or profit – prescribes the method of computing Nicor Gas’ end-user charges, or rates, for the recovery of the Company’s Cost of Gas Distributed (“GSC charges”). These charges are designed to recover the costs the Company incurs for
quantities of gas that the Company purchases, transports, stores and sells for the purpose of serving its end-user customers. The gas costs that are recovered through Rider 6 are: (1) gas costs based on volumes of gas purchased from suppliers, referred to as Commodity Gas Costs (“CGC”); and (2) gas costs other than those defined as commodity related, which include costs incurred from demand charges, as well as charges for transportation and storage, referred to as Non-Commodity Gas Costs (“NCGC”).

Rider 6 provides for an annual reconciliation, which compares the revenue the Company recovered under its Rider 6 charges with the Company’s actual GSC Charges for the preceding year. If Nicor Gas’ Rider 6 charges recovered a different amount of revenue than the Company’s actual GSC Charges, then the Rider 6 charges for the following year are set at a level to ensure that the difference is either returned to or collected from customers, depending on the over- or under-recovery for that year.

Pursuant to Rider 6, if after hearing, the Commission finds that the utility has not shown all costs to be prudently incurred or has made errors in its reconciliation statement for such reconciliation year, the difference determined by the Commission shall be refunded or recovered, as appropriate, under the Ordered Reconciliation Factor (“Factor O”), along with any interest or other carrying charge authorized by the Commission.

Nicor Gas provided its annual reconciliation statement for 2018 with its direct testimony. Nicor Gas Ex. 2.0 at 10; see Nicor Gas Ex. 2.2. This reconciliation statement compares the total revenues recorded under the various charges of the Company’s Rider 6 provisions, with the appropriate category of recoverable Cost of Gas Distributed, to arrive at the balance to be refunded or recovered under the two individual reconciliation balances. Id. at 11.

B. Gas Supply Operations

Nicor Gas utilized both “spot market” and “firm supply” purchases for its gas purchases in 2018. The spot market is a market characterized by short-term natural gas purchase and sale contracts for specified volume and price. Firm supply refers to firm gas supply purchased through agreements with producers and marketers and the cost of firm pipeline transportation service held by Nicor Gas. Firm supply is considered more reliable because the contract typically contains charges for non-performance. Nicor Gas Ex. 1.0 at 9-10.

With respect to the 2018 reconciliation period, Nicor Gas utilized a “best-cost” gas purchasing strategy, wherein monthly purchase decisions were made within the limits of available gas supply and transportation agreements in force, within the limits of Nicor Gas’ general system facilities, and within the context of long-term decisions to change or revise gas supply and transportation agreements. The Company plans for its gas supply purchasing requirements by evaluating and estimating four parameters. Nicor Gas Ex. 1.0 at 7-8. First, the Company projects its peak day and monthly send-out over the planning horizon. Id. Second, the Company considers the operational needs of its on-system storage fields when evaluating the underground gas storage capability to meet both daily and seasonal winter peak loads. As such, the timing of the Company’s monthly gas purchases must recognize an appropriate gas storage inventory and injection/withdrawal activity schedule to support design day storage withdrawals and to meet monthly and seasonal storage targets that are intended to maximize overall storage
flexibility. *Id.* Third, Nicor Gas estimates volumes to be received into its system from third party customers. *Id.* Finally, Nicor Gas determines which supply contracts in its portfolio to utilize, taking into consideration available price information and the need to maintain flexibility to adjust purchases as conditions change. *Id.*

Nicor Gas’ supply planning is directed toward acquiring sufficient gas supplies to meet projected demand at the best possible cost, consistent with the fundamental responsibility of providing safe, reliable, long-term service to the Company’s customers. As part of this strategy, when contracting for firm supply, firm transportation capacity, and firm storage service, Nicor Gas considers future expected firm requirements, relative security and reliability of supply, and expected long-term costs. In addition, Nicor Gas seeks to maintain sufficient flexibility in its contracts and its operating practices to enable it to respond to changing industry conditions. Nicor Gas Ex. 1.0 at 6-7.

C. Nicor Gas Storage Operations

Nicor Gas arranges for gas supplies and storage inventories that are adequate to serve all its customers and operate its system through each winter season, assuming severe weather occurs. Nicor Gas also supplies firm backup service for many of its transportation customers and must be in a position to supply gas to transportation customers to the extent they have storage banking service rights. Nicor Gas also needs to operate and maintain its system so that unexpected changes in customer usage, often caused by weather, or unexpected changes in third party customer gas receipts can be managed effectively. Nicor Gas Ex. 1.0 at 4.

To maintain the inventory levels and related aquifer pressures necessary to meet peak, seasonal and daily needs, appropriate storage injection/withdrawal schedules are established based on operational experience and historical aquifer performance data. The schedule is designed to maintain the aquifer performance necessary to satisfy design peak day withdrawal requirements through January 20 of each heating season, as well as post-design day peak periods through March 15, while meeting seasonal withdrawal targets. Nicor Gas Ex. 1.0 at 4-5.

The Company’s inventory activity is reflected in the Company’s reconciliation statement as line items that reflect the Company’s 2018 gas storage activity (injections and withdrawals) for its own storage reservoirs and for purchased storage arrangements with interstate pipelines. Nicor Gas Ex. 1.0 at 5.

D. Staff’s Position

Staff witness Ebrey proposed no adjustments to the Company’s reconciliation of 2018 costs and recoveries. Staff Ex. 1.0 at 2. She recommended that the Commission approve the PGA reconciliation as presented on Staff Exhibit 1.0, Schedule 1. The reconciliation reflects $957,556,163 in 2018 Gas Costs and $913,816,586 in 2018 PGA Revenues, and $144,643 in 2018 interest expense resulting in a $43,594,934 under-recovery of gas costs for the 2018 reconciliation year. Staff Ex. 1.0 at 3.

Ms. Ebrey further testified that the under-recovery of $43,594,934, when combined with the over-recovery balance from prior periods of $64,809,573 results in a $21,214,639 over-recovered balance at December 31, 2018. Staff Ex. 1.0 at 3. That amount combined with the Factor A Adjustments of $21,214,639 and the Unamortized Balance of zero as
of December 31, 2018 results in a Factor O of zero; therefore, the reconciliation in this proceeding does not require a Factor O. *Id.*

Citing the Commission's definition of prudence set forth above, Staff witness Seagle testified that he found no reason to dispute the Company’s assertion that all gas supply purchases were prudently incurred during the reconciliation period. Staff Ex. 2.0 at 2-3.

**IV. COMMISSION ANALYSIS AND CONCLUSION**

There are no disputed issues between the parties for the Commission to resolve in this proceeding. The Commission agrees with Staff that all gas supply costs were prudently incurred during the reconciliation period. Accordingly, based on the record herein, the Commission sees no need for adjustments to Nicor Gas’ Rider 6 reconciliation calculations for the year ended December 31, 2018, and, therefore, the reconciliation amounts summarized in Staff Exhibit 1.0, Schedule 1, which is attached hereto as an Appendix, should be approved.

**V. FINDINGS AND ORDERING PARAGRAPHS**

The Commission having reviewed the entire record herein and being fully advised in the premises, is of the opinion and finds that:

1. Northern Illinois Gas Company d/b/a Nicor Gas Company is an Illinois corporation engaged in the distribution of natural gas to the public in the State of Illinois and, as such, is a “public utility” as defined in Section 3-105 of the Public Utilities Act;
2. the Commission has jurisdiction over the parties hereto and the subject matter herein;
3. the recitals of fact set forth in the prefatory portion of this Order are supported by the evidence and the record and are hereby adopted as findings of fact;
4. Northern Illinois Gas Company d/b/a Nicor Gas Company’s purchased gas adjustment costs for the year ended December 31, 2018 were reasonably and prudently incurred;
5. Northern Illinois Gas Company d/b/a Nicor Gas Company’s calculations for its 2018 Rider 6 reconciliation are accurate; and
6. Northern Illinois Gas Company d/b/a Nicor Gas Company’s 2018 Rider 6 reconciliation summarized in the Appendix attached hereto shall be approved.

IT IS THEREFORE ORDERED that the reconciliation submitted by Northern Illinois Gas Company d/b/a Nicor Gas Company under Rider 6 – Gas Supply Cost for the year ended December 31, 2018, and summarized in the Appendix attached hereto, is hereby approved.

IT IS FURTHER ORDERED that any objections, motions or petitions filed in this proceeding that remain unresolved should be disposed of in a manner consistent with the ultimate conclusions contained in this Order.
IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, any application for rehearing shall be filed within 30 days after service of the Order on the party.

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

By Order of the Commission this 19th day of December, 2019.

(SIGNED) CARRIE ZALEWSKI

Chairman