

STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	)	
On Its Own Motion	)	
	)	
v.	)	
	)	
North Shore Gas Company	)	Docket No. 10-0692
	)	
	)	
Reconciliation of revenues	)	
collected under gas adjustment	)	
charges with actual costs prudently	)	
incurred.	)	

DIRECT TESTIMONY  
OF  
DANIEL MARSHALL

- 1 Q. Please state your name and business address.
- 2 A. Daniel Marshall, 130 East Randolph Street, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. Integrys Business Support, LLC.
- 5 Q. What position do you hold with Integrys Business Support, LLC?
- 6 A. I am a Regulatory Fuel Cost Recovery Analyst in the Gas Regulatory
- 7 Services department.
- 8 Q. What are your responsibilities in that position?
- 9 A. I am responsible for gas charge related matters involving the maintenance
- 10 and forecasts of gas fuel costs, gas charge revenues, reconciliation balances
- 11 and rates as they pertain to Rider 2 of the rate schedules for Respondent, North

12 Shore Gas Company (“North Shore”) and an affiliate, The Peoples Gas Light and  
13 Coke Company (“Peoples Gas”).

14 Q. Please summarize your educational background and experience.

15 A. My educational background includes Northern Illinois University and De  
16 Paul University with emphases in the accounting and finance disciplines. I have  
17 been employed by Peoples Gas or its affiliates since 1982 in various positions in  
18 the treasury, internal auditing, regulatory affairs, gas accounting and rates areas.  
19 I have been in my present position since June 2007.

20 Q. Please give a brief description of the operations and status of North Shore.

21 A. I am advised by counsel that North Shore is a corporation organized and  
22 existing under the laws of the State of Illinois, having its principal office at 130  
23 East Randolph Street, Chicago, Illinois 60601. It is engaged in the business of  
24 purchasing, distributing, and selling natural gas to approximately 158,000  
25 customers. North Shore’s service territory covers approximately 275 square  
26 miles in the eastern portion of Lake County and a small portion of northeastern  
27 Cook County. I am advised by counsel that North Shore is a public utility within  
28 the meaning of the Public Utilities Act.

29 Q. Please describe the subject matter of this proceeding.

30 A. Pursuant to Section 9-220 of the Public Utilities Act, on December 2, 2010,  
31 the Illinois Commerce Commission (“Commission”) entered a citation order  
32 (“order”) directed to eleven Illinois gas utilities, including North Shore. The order  
33 requires North Shore to present evidence to the Commission at a public hearing  
34 in Docket No. 10-0692 reconciling revenue collected under the purchased gas

35 adjustment clause (Rider 2, Gas Charge, of North Shore's Schedule of Rates)  
36 with the actual costs prudently incurred and recoverable under Rider 2, for the  
37 twelve months ended December 31, 2010. The order also requires North  
38 Shore's filing to reflect fourteen specified data for each of its Gas Charges. The  
39 order further requires that notice of the filing of this evidence be made in  
40 accordance with the requirements of 83 Illinois Administrative Code Part 255.

41 Q. Please describe the notice of the filing that North Shore gave in this case.

42 A. At the time North Shore made the filing in this proceeding, it placed copies  
43 of the filed evidence, available for public inspection, in each of its offices. It also  
44 posted public notice of the filing in each of these offices. Further, North Shore  
45 published notice of the filing in the Lake County News-Sun, a secular newspaper  
46 of general circulation in North Shore's service territory, in accordance with the  
47 requirements of 83 Illinois Administrative Code Part 255.

48 Q. Please describe NSG Ex. 2.1.

49 A. NSG Ex. 2.1 includes a copy of the audit report of North Shore's  
50 independent public accountants, Deloitte & Touche LLP, and the verification by  
51 North Shore's President, Willard S. Evans, Jr. The audit report includes a copy  
52 of North Shore's Statement to Illinois Commerce Commission – Determination of  
53 Reconciliation Balance for Gas Charge for the Year Ended December 31, 2010  
54 ("Statement") and Independent Auditors' Report, as described in Rider 2, Section  
55 G, of North Shore's Schedule of Rates.

56 Q. Was the Statement prepared under your supervision and direction?

57 A. Yes, it was.

58 Q. Are the verification and the audit report true and correct copies of Mr.  
59 Evans' verification and the audit report of the independent public accountants?

60 A. Yes, they are.

61 Q. What are the types of Gas Charges that North Shore files pursuant to its  
62 Rider 2 and what costs do the Gas Charges recover?

63 A. Each month, North Shore files a Commodity Gas Charge ("CGC"), a Non-  
64 Commodity Gas Charge ("NCGC"), a Demand Gas Charge ("DGC"), and an  
65 Aggregation Balancing Gas Charge ("ABGC"). The sum of the CGC and NCGC  
66 is the Gas Charge, which is applied to all North Shore-supplied therms except  
67 standby therms supplied to transportation customers.

68 Standby therms are priced at the standby commodity charge. Until  
69 January 28, 2010, the standby commodity charge was the sum of the CGC and  
70 25% of the NCGC. With rates effective January 28, 2010, the standby  
71 commodity charge was determined on a daily price component and a monthly  
72 price component as defined in Rider SST, Section L, of North Shore's Schedule  
73 of Rates.

74 The CGC recovers commodity-related costs. The NCGC recovers non-  
75 commodity related costs. The DGC also recovers non-commodity related costs  
76 but from transportation customers. A Diversity Factor is applied to the DGC,  
77 which is applied to each therm of transportation customers' contracted for  
78 standby service. North Shore credits revenues arising from the application of the  
79 DGC against the non-commodity related costs used in computing the NCGC.  
80 The ABGC also recovers non-commodity related costs, but from participants

81 under North Shore's small volume transportation program. The ABGC is applied  
82 to all therms delivered or estimated to be delivered by North Shore to customers  
83 served under Rider CFY. North Shore credits revenues arising from the  
84 application of the ABGC against the non-commodity related costs used in  
85 computing the NCGC. Given that the NCGC, DGC and ABGC all recover non-  
86 commodity related costs, revenues recovered under these three charges are  
87 jointly reconciled with such costs.

88 Q. The Commission's order requires North Shore to include certain data from  
89 the prior reconciliation year in its determination of the current year's  
90 reconciliation. Please specify any unamortized balance at December 31, 2009.

91 A. The unamortized balance at December 31, 2009, for each respective Gas  
92 Charge is shown on Page 2, Line 1, of NSG Ex. 2.1. North Shore's unamortized  
93 Factor A balance at December 31, 2009, reflects a refundable balance of  
94 \$4,053,315.68 for the CGC, and a recoverable balance of \$3,387.25 for the  
95 NCGC, DGC and ABGC, for a total refundable balance of \$4,049,928.43. These  
96 amounts are also reflected on Page 2, Line 13, of North Shore's Statement to  
97 Illinois Commerce Commission, Determination of Reconciliation Balance for Gas  
98 Charge for the Year Ended December 31, 2009 ("2009 Statement"). North Shore  
99 filed this document as NSG Ex. 2.1 with my direct testimony in Docket No. 09-  
100 0545, reconciliation of revenues collected under gas adjustment charges with  
101 actual costs prudently incurred for the period January 1, 2009, through  
102 December 31, 2009.

103 Q. Please specify the total adjustments to gas costs (that is, Factor A) that  
104 were amortized to Schedule I in North Shore's 2009 monthly filings but were not  
105 yet reconciled through Schedule II of North Shore's monthly filings at December  
106 31, 2009.

107 A. Total unreconciled adjustments to gas costs (Factor A) reflect a refundable  
108 amount of \$5,786,933.98 for the CGC, and a recoverable amount of \$260,776.79  
109 for the NCGC, DGC and ABGC, for a total refundable Factor A of \$5,526,157.19.  
110 These adjustments, for the reported months of November and December 2009,  
111 were not yet reconciled at December 31, 2009. However, they are reflected in  
112 the CGC, and the NCGC, DGC and ABGC Gas Charges for the effective months  
113 of January and February 2010. These amounts are shown on Page 2, Line 2, of  
114 NSG Ex. 2.1. They are also reflected on Page 2, Line 12, of North Shore's 2009  
115 Statement.

116 Q. What was North Shore's refundable or recoverable balance for the year  
117 ended December 31, 2009?

118 A. North Shore's refundable or recoverable balance for the year ended  
119 December 31, 2009, which is determined by summing the amounts on Page 2,  
120 Lines 1 and 2, of NSG Ex. 2.1, reflects a refundable balance of \$9,840,249.66 for  
121 the CGC, and a recoverable balance of \$264,164.04 for the NCGC, DGC and  
122 ABGC, for a total refundable balance of \$9,576,085.62. These amounts are  
123 reflected on Page 2, Line 11, of North Shore's 2009 Statement.

124 Q. Where there any other amounts relating to prior periods that affected North  
125 Shore's refundable or recoverable balances?

126 A. Yes, there are other amounts that affected North Shore's refundable  
127 balance relating to the reconciliation of revenues collected under gas adjustment  
128 charges with actual costs prudently incurred for the period October 1, 2005,  
129 through December 31, 2006 (Dockets No. 06-0751/07-0311 Cons.). In its order  
130 dated May 25, 2010, the Commission directed North Shore to implement a  
131 Factor O refund of \$47,486.45 through its Commodity Gas Charge in the first  
132 monthly Gas Charge filing after the order. Appropriate interest calculated from  
133 the end of the reconciliation period to the date of the order totaled \$4,606.31, for  
134 a total Factor O refundable amount of \$52,092.76 for the Commodity Gas  
135 Charge. This Factor O amount was refunded in 2010 and is reflected on Page 2,  
136 Line 3, of the Statement.

137 Q. What was North Shore's total refundable or recoverable balance relating to  
138 prior periods?

139 A. North Shore's refundable or recoverable balance from prior periods, which  
140 is determined by summing the amounts on Page 2, Lines 1 through 3, of NSG  
141 Ex. 2.1, reflects a refundable balance of \$9,892,342.42 for the CGC, and a  
142 recoverable balance of \$264,164.04 for the NCGC, DGC and ABGC, for a total  
143 refundable balance of \$9,628,178.38. These amounts are shown on Page 2,  
144 Line 4, of NSG Ex. 2.1.

145 Q. What are North Shore's 2010 recoverable gas costs and revenues?

146 A. Recoverable gas costs and revenues are summarized and shown on Page  
147 2, Line 5 and Line 6, respectively, of NSG Ex. 2.1. Recoverable gas costs  
148 summarized and shown on Page 2, Line 5, of NSG Ex. 2.1 are \$108,303,490.84

149 for the CGC, and \$18,751,723.93 for the NCGC, DGC and ABGC, for a total of  
150 \$127,055,214.77 to be recovered under the Gas Charge. Revenues arising  
151 through the application of each Gas Charge summarized and shown on Page 2,  
152 Line 6, of NSG Ex. 2.1 are \$104,787,985.96 for the CGC, and \$19,132,708.16 for  
153 the NCGC, DGC and ABGC, for a total of \$123,920,694.12 recovered under the  
154 Gas Charge. Recoverable gas costs and revenues are shown in more detail on  
155 Pages 3 and 4 of NSG Ex. 2.1 for the CGC, and the NCGC, DGC and ABGC,  
156 respectively.

157 Q. Please specify the pipeline refunds or surcharges that North Shore  
158 separately reported in 2010 monthly Gas Charge filings.

159 A. No pipeline refunds were separately reported in 2010 monthly Gas Charge  
160 filings. Any pipeline refunds received were recorded directly into the relevant  
161 gas cost account as offsets to total costs. In 2010, North Shore received a total  
162 of \$6,005.28 in pipeline refunds accounted for in this manner. This amount was  
163 included as an offset to recoverable gas costs for the NCGC, DGC and ABGC.

164 Q. Please specify any other adjustments that were separately reported in  
165 2010.

166 A. There were no other adjustments that were separately reported in 2010.

167 Q. Please specify the interest, calculated pursuant to Section 525.50 of the  
168 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

169 A. Interest, calculated pursuant to Section 525.50, for inclusion in  
170 Adjustments to Gas Costs (Factor A), is shown on Page 2, Line 9, of NSG Ex.  
171 2.1, and reflects a refundable amount of \$34,556.10 for the CGC, and a

172 refundable amount of \$1,263.16 for the NCGC, DGC and ABGC, for a total  
173 refundable amount of \$35,819.26.

174 Q. What was North Shore's over- or under- recovery for 2010?

175 A. North Shore's over- or under-recovery for 2010 is shown on Page 2, Line  
176 10, of NSG Ex. 2.1. The over- or under-recovery for each Gas Charge can be  
177 determined by deducting the amount on Line 6 (revenues arising through the  
178 application of each Gas Charge) from the amount on Line 5 (costs recoverable  
179 through each Gas Charge) and adding the amounts on Line 7 (separately  
180 reported pipeline refunds or surcharges), Line 8 (separately reported other  
181 adjustments), and Line 9 (interest). Using this calculation, North Shore's over- or  
182 under-recovery for 2010 reflects an under-recovery of \$3,480,948.78 for the  
183 CGC, and an over-recovery of \$382,247.39 for the NCGC, DGC and ABGC, for a  
184 total under-recovery of \$3,098,701.39.

185 Q. Please specify the recovery balance for the reconciliation year.

186 A. The recovery balance for the reconciliation year, which reflects the sum of  
187 the (refundable)/recoverable balances for prior periods and for the year ended  
188 December 2010 for each respective Gas Charge, is shown on Page 2, Line 11,  
189 of NSG Ex. 2.1. This amount, which can be determined by summing the  
190 amounts on Line 4 (prior periods balance) and Line 10 (2010 balance), reflects  
191 an over-recovery of \$6,411,393.64 for the CGC, and an over-recovery of  
192 \$118,083.35 for the NCGC, DGC and ABGC, for a total over-recovery of  
193 \$6,529,476.99.

194 Q. Please specify any adjustments to gas costs that were not yet reconciled  
195 through Schedule II of North Shore's monthly filings at December 31, 2010.

196 A. Total unreconciled adjustments to gas costs, which are shown on Page 2,  
197 Line 12, of NSG Ex. 2.1, reflect a refundable amount of \$3,905,713.54 for the  
198 CGC, and a recoverable amount of \$192,824.50 for the NCGC, DGC and ABGC,  
199 for a total refundable amount of \$3,712,889.04. The unreconciled adjustments to  
200 gas costs (Factor A), for the reported months of November and December 2010,  
201 are not yet reconciled at the end of 2010. However, they are reflected in the  
202 CGC, NCGC, DGC and ABGC Gas Charges for the effective months of January  
203 and February, 2011.

204 Q. Please specify any unamortized balance at the end of 2010.

205 A. The unamortized balance at the end of 2010 is shown on Page 2, Line 13,  
206 of NSG Ex. 2.1. The unamortized balance for each respective Gas Charge can  
207 be derived by deducting the amount on Line 12 (unreconciled adjustments) from  
208 the amount on Line 11 (the over- or under-recovery balance for the reconciliation  
209 year). North Shore's unamortized balance at the end of 2010 reflects a  
210 refundable balance of \$2,505,680.10 for the CGC, and a refundable balance of  
211 \$310,907.85 for the NCGC, DGC and ABGC, for a total refundable balance of  
212 \$2,816,587.95.

213 Q. Please specify any Factor O amounts requested by North Shore for 2010.

214 A. North Shore is not requesting any Factor O amounts for 2010.

215 Q. Does NSG Ex. 2.1 include other reports that support the summary  
216 amounts shown on Page 2?

217 A. Yes. NSG Ex. 2.1 includes a summary of the detailed Schedule II,  
218 Adjustments to Gas Costs (Factor A) reports that North Shore filed as part of its  
219 monthly Gas Charge reports for 2010. Pages 5 and 6 of NSG Ex. 2.1 reflect  
220 Schedule II reports filed for the CGC, and NCGC, DGC and ABGC, respectively.  
221 These reports reflect the monthly reconciliation of recoverable gas costs and Gas  
222 Charge revenues, adjustments to gas costs (Factor A), refunds and other  
223 adjustments, Factor A amortizations and unamortized balances, Factor O  
224 amortizations and unamortized balances, and interest determined for each Gas  
225 Charge. Finally, Page 7 of NSG Ex. 2.1 contains notes that explain Gas Charge  
226 reconciliation summary items noted on Page 2 of NSG Ex. 2.1.

227 Q. Does this conclude your direct testimony?

228 A. Yes, it does.

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DIRECT TESTIMONY  
OF  
RICHARD E. DOBSON

- 1 Q. Please state your name and business address.
- 2 A. My name is Richard E. Dobson. My business address is 130 E. Randolph
- 3 Street, Chicago, Illinois 60601.
- 4 Q. By whom are you employed?
- 5 A. Integrys Business Support, LLC ("IBS").
- 6 Q. What position do you hold with IBS?
- 7 A. I am Manager of Gas Supply for Respondent, North Shore Gas Company
- 8 ("North Shore"), and The Peoples Gas Light and Coke Company ("Peoples
- 9 Gas").
- 10 Q. What are your responsibilities in that position?

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

14 Q. Please summarize your educational background and experience.

15 A. I have a Bachelor's Degree in Geology from the University of Illinois and a  
16 Masters of Engineering Degree in Mining Engineering and Mineral Economics  
17 from The University of California, Berkeley. I have been employed by Peoples  
18 Gas or its affiliates since 1992 in positions related to gas supply, regulatory  
19 affairs and asset development. Prior to joining Peoples Gas, I was employed by  
20 The California Public Utilities Commission in various regulatory and rate  
21 positions, with an emphasis on gas supply markets and federal regulatory policy  
22 matters.

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

24 A. The purpose of my testimony is to describe North Shore's 2010 supply  
25 and capacity procurement practices, including negotiation of contracts and  
26 related accounting and auditing practices. In addition, I discuss steps that North  
27 Shore took to reduce gas price volatility. I also address the prudence of North  
28 Shore's 2010 supply and capacity and the resulting gas costs that North Shore  
29 billed to customers.

30 **2010 PROCUREMENT OVERVIEW**

31 Q. Please describe North Shore's 2010 gas supply procurement process.

32 A. IBS provides services for North Shore under an affiliated interest  
33 agreement approved by the Illinois Commerce Commission ("Commission"). In

34 general, personnel in the Gas Supply Department, and others, as appropriate,  
35 developed specific gas supply recommendations and put those forward for  
36 management approval. The Gas Supply Department was responsible for  
37 entering into and administering contracts for gas supply and for purchases of  
38 transportation and storage services.

39 Q. What procedure did North Shore follow in 2010 in order to select its  
40 resource mix?

41 A. Prior to the start of the year, North Shore developed a number of  
42 interconnected forecasts, including: a peak day forecast, a long-term sales  
43 forecast, and a gas sendout requirements forecast. These forecasts support the  
44 Gas Dispatch Model, which calculates daily sendout requirements and balances  
45 the normal year's daily requirements with available gas supply, including term  
46 purchases, spot market purchases, customer-owned deliveries and gas available  
47 for withdrawal or injection. The Gas Dispatch Model optimizes, from a full-year  
48 perspective, the daily gas dispatching activities by forecasting the supply and  
49 storage mix to meet the expected customer sendout requirements for each day  
50 of the forecast year. Using the annual Gas Dispatch Model as a starting point  
51 and just prior to the start of each month, the Gas Supply Department computed  
52 at least three potential load forecasts for the coming month and met to address  
53 purchasing decisions for the upcoming month. After establishing the monthly  
54 plan, Gas Supply personnel, on a daily basis, as changing requirements and the  
55 market dictated, addressed any changes necessary to accommodate the need  
56 for additional or reduced amounts of supply or capacity.

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

59 A. North Shore purchased firm gas supply from many parties under four  
60 general forms: field baseload, citygate baseload, field swing, and citygate  
61 delivered swing and call.

62 Q. Please describe the field baseload purchases.

63 A. North Shore contracted for baseload supplies that it purchased at field  
64 locations and transported to the citygate using its transportation. North Shore  
65 made these purchases on a seasonal basis. The baseload contracts called for  
66 North Shore to purchase the same quantity each day and were priced on a First  
67 of the Month ("FOM") index price.

68 Q. Please describe the citygate baseload purchases.

69 A. North Shore contracted for firm baseload supplies delivered to the citygate  
70 on a firm basis by the supplier. North Shore made these purchases on a  
71 seasonal basis. The baseload contracts called for North Shore to purchase the  
72 same quantity each day and were priced on an FOM index price or with a fixed  
73 price (discussed below).

74 Q. Please describe the field swing purchases.

75 A. Field swing purchases are firm supplies that were available at a daily  
76 index price, and, when purchased, were transported to the citygate using  
77 transportation held by North Shore. North Shore made these purchases on a  
78 seasonal basis. In each case, the quantity that North Shore could purchase each  
79 day could vary between zero and the maximum quantity stated in the contract.

80 Under these contracts, the supplier had the obligation to deliver the gas, but  
81 North Shore had no obligation to ever purchase any gas.

82 Q. Please describe the citygate delivered swing and call purchases.

83 A. Citygate delivered swing purchases are firm supplies that were, when  
84 requested by North Shore, delivered to the citygate by the supplier and available  
85 on any day during January 2010 only, the November 2009 through March 2010  
86 period and the November 2010 through March 2011 period at a daily index price.

87 Under these contracts, the supplier had the obligation to deliver the gas, but  
88 North Shore had no obligation to ever purchase any gas.

89 Citygate delivered call purchases are firm supplies that were, when  
90 requested by North Shore, delivered to the citygate by the supplier subject to the  
91 unique call rights specified in the contract. The call rights were in two forms:  
92 available on any day during January 2010 at an FOM price, but for no more than  
93 a specified number of days during that month; and available on any day during  
94 January 2010 at an FOM price, provided a criterion tied to the temperature  
95 forecast for O'Hare was met. For both forms, the supplier had the obligation to  
96 deliver the gas, but North Shore had no obligation to ever trigger the call.

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

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

102           Also, a significant portion of North Shore's end use market opts for  
103 deliveries of customer-owned gas under North Shore's Schedule of Rates. This  
104 gas was another source available to North Shore for system supply. However,  
105 North Shore did not know the customer-owned gas quantity that it will receive  
106 until customers and their suppliers nominated it and North Shore and the  
107 pipelines confirmed it.

108 Q.     How many suppliers did North Shore purchase from during the  
109 reconciliation period?

110 A.     During 2010 North Shore purchased gas from 28 suppliers.

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

113 A.     During 2010 North Shore purchased the majority of its supply under firm  
114 contracts with suppliers. It made these purchases under the terms of the  
115 individual contracts that North Shore had with each supplier. North Shore  
116 purchased a portion of its total supply volumes as spot purchases from various  
117 suppliers. It made spot purchases, on an as-needed basis, from suppliers under  
118 the terms of the individual contracts that North Shore had with each supplier.

119           Capacity (both pipeline storage and transportation) transactions are  
120 subject to contracts with the pipelines and the pipelines' Federal Energy  
121 Regulatory Commission ("FERC") Gas Tariffs.

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

124 A.     No.

125 Q. Did North Shore conduct any after-the-fact analyses of its 2010 gas supply  
126 procurement?

127 A. Yes, three kinds of after-the-fact analyses were conducted. One reviewed  
128 the performance on a monthly basis. The second analysis reviewed the peaking  
129 and call options included in the winter season portfolio. The third analysis looked  
130 at the entire year across a number of parameters.

### 131 **REQUESTS FOR PROPOSALS**

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

134 A. Yes. North Shore believes the RFP process allows the market to  
135 competitively bid to determine the fair value of the products sought. North Shore  
136 issued RFPs, with specific directions to bidders, for each of the term field  
137 baseload and swing purchases as well as, the citygate delivered baseload and  
138 call purchases. The goal of the RFP process is to reach as broad a market as  
139 possible to meet North Shore’s requirements. North Shore attempted to be as  
140 clear as possible in what it was seeking and what it would consider a conforming  
141 bid. This practice provided North Shore with objective criteria with which to  
142 eliminate non-conforming bids and make a fair apples-to-apples comparison of  
143 bids received.

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

146 A. One of North Shore’s goals is to receive bids that are in an identical format  
147 so that it can make fair comparisons. In its RFPs, it specifies all the key

148 commercial terms of service to limit the number of variables that it must consider  
149 in evaluating bids. For example, a typical RFP would specify the location(s) at  
150 which North Shore would take delivery of supply; whether the supply would be  
151 baseload or swing and, if it is a swing supply, the conditions under which North  
152 Shore can call on the supply; acceptable pricing structures, such as based on  
153 specific FOM or daily indices and whether demand charges would be acceptable;  
154 and any quantity limitations, such as bids must be in increments of 5,000  
155 dekatherms (“dth”) per day. In addition, the RFP specifies the credit terms that  
156 will apply to the winning bidder, and bidders must be parties to a master contract  
157 that will govern the transaction. Generally, the supplier need only select an  
158 acceptable delivery location from among those specified, specify a daily contract  
159 quantity and bid a price in the required form, for example, an addition to or  
160 subtraction from an index that North Shore identified in the RFP. North Shore  
161 can then perform an apples-to-apples comparison among the conforming bids  
162 and promptly notify the winning bidder(s).

163 Q. Did North Shore conduct any RFPs that differed from the form it used in  
164 prior years?

165 A. Yes. North Shore conducted one RFP using an electronic auction  
166 platform operated by World Energy Solutions, Inc.

167 Q. What is the World Energy platform?

168 A. The platform is an automated, web-based auction platform that supports  
169 both forward and reverse auctions. North Shore used the reverse auction  
170 functionality of the platform to acquire baseload gas for various periods, generally

171 covering the May 2010 through October 2010 period, at four different field  
172 locations. The auctions occurred on April 21, 2010.

173 Q. What is a reverse auction?

174 A. A reverse auction is one where the prices from individual bidders go lower,  
175 rather than higher, as the auction progresses.

176 Q. Who was responsible for selecting the winning bids?

177 A. North Shore selected the winning bids and was responsible for contacting  
178 the winning bidders to make the award.

179 Q. Were all bids open to all bidders?

180 A. No. While North Shore could see all bid information, including prices and  
181 bidder names, individual bidders could only see their own bids and the current  
182 low price bid at the time.

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

185 A. No. North Shore completed two RFPs prior to 2010 for gas that flowed in  
186 2010. The types of supply procured under those RFPs were baseload and non-  
187 baseload, *i.e.*, swing and call, gas supplies. The baseload supply obtained under  
188 one of the RFPs was for fixed price supply.

189 Q. Please describe what a fixed price means.

190 A. A fixed price is one that over the term of the agreement does not change.

191 Q. How was the fixed price established?

192 A. The fixed price was reached through an RFP with a two step process used  
193 to establish the final price. The first step was to determine the basis for the gas

194 to be purchased. Once the basis was established, within a short period of time  
195 North Shore had the right to lock in a NYMEX reference price. Adding together  
196 the two parts of the price provided a final fixed price.

197 Q. In the process described above, you stated that North Shore used a  
198 NYMEX reference price. Does that mean North Shore entered into a financial  
199 position on the NYMEX or with the winning supplier(s)?

200 A. No. North Shore used the NYMEX as purely a reference to the then  
201 existing market price. North Shore did not enter into any financial contracts in  
202 support of these transactions.

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

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

211 Q. Did North Shore issue RFPs in 2010 for gas flowed in 2010?

212 A. Yes. North Shore completed two RFPs during 2010 for gas that flowed in  
213 2010. The types of supply procured under those RFPs were baseload and non-  
214 baseload, *i.e.*, swing gas supplies.

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

217 A. The award criteria were lowest price first, and, where applicable,  
218 secondary considerations. Secondary considerations were the nomination  
219 deadline and the pipeline on which the supply was to be delivered. Another  
220 criterion was vendor diversity, which was applied where applicable. Also, for the  
221 non-baseload RFP supplies, North Shore used a bid valuation model to evaluate  
222 swing and call supply products with varying price, term and quantity attributes on  
223 an equal footing.

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

225 A. No. North Shore purchased all its spot gas pursuant to bilateral  
226 discussions with suppliers or through trades on the IntercontinentalExchange, an  
227 electronic trading platform.

#### 228 **CITYGATE PURCHASES**

229 Q. Did North Shore purchase gas at the citygate in 2010?

230 A. Yes. North Shore purchased term gas and spot gas delivered at the  
231 citygate in 2010. Citygate purchases accounted for about 14% of total purchase  
232 quantities and about 16% of total purchase costs.

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

236 A. North Shore buys term gas at the citygate for two main reasons. First, in  
237 the case of the call gas, citygate purchases limit the amount of pipeline capacity  
238 that North Shore needs to hold. Winter-only firm capacity is typically unavailable  
239 and year-round capacity would only be needed for winter or peaking

240 requirements. Second, it diversifies the type of pricing in the portfolio. The Gas  
241 Charge will include a mix of field index purchases, citygate index purchases and  
242 fixed price purchases.

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

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

#### 250 **TRANSPORTATION AND STORAGE CAPACITY**

251 Q. Did any significant changes to North Shore's transportation and storage  
252 capacity portfolio occur in 2010?

253 A. No.

254 Q. Were there any significant pipeline outages or interruptions during 2010?

255 A. North Shore experienced three interstate pipeline outages during the  
256 reconciliation period.

257 The first event occurred August 17 - October 13, 2010. Natural Gas  
258 Pipeline Company of America ("NGPL") declared force majeure and performed a  
259 hydrostatic test of two short sections of its Amarillo Line located in Iowa. This  
260 work reduced capacity through the affected area to 77%. During the repair  
261 period additional problems occurred, further reducing the capacity to 70%. This  
262 additional capacity constraint took place September 22 - October 13, 2010.

263           The second occurrence caused reductions on October 21-26, 2010, when  
264   NGPL had a compressor outage in Kansas. NGPL declared force majeure and  
265   scheduled primary firm and secondary in-path firm transportation at 65% of  
266   contract quantity through the affected compressor.

267   Q.     How did North Shore's planned and actual use of storage compare in  
268   2010?

269   A.     North Shore begins each season with an established storage plan based  
270   on normal weather, estimated customer-owned gas deliveries and assumptions  
271   for other factors not precisely known at the time it creates the plan. North Shore  
272   cannot reasonably plan for other storage activity, notably no-notice balancing.  
273   As a result, actual storage use will never exactly match planned storage use for a  
274   given month, and North Shore may need to revise storage plans for future  
275   months to accommodate these differences. During 2010, actual storage  
276   withdrawals of 10,128 Mdth (thousand dekatherms) were 488 Mdth (4.6%) less  
277   than planned. The decreased withdrawal activity was driven by reduced  
278   withdrawals and increased purchases in November and December.

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

281   A.     Yes. Through a Commission-approved contract with Peoples Gas, North  
282   Shore purchases a storage service. This storage accounts for 14% of North  
283   Shore's peak day demand and about 16% of the capacity in its annual storage  
284   capacity portfolio.

285 **RESERVE MARGIN**

286 Q. What was North Shore's design day reserve margin in 2010?

287 A. North Shore's 2010 design day reserve margin was approximately 3%.

288 North Shore defines its design day as the sendout expected to occur on a  
289 January weekday with a temperature of -20 degrees Fahrenheit (equivalent to 85  
290 degree days) and an average wind speed of 23.5 miles per hour (mph) following  
291 a day with a temperature of -2 degrees Fahrenheit and an average wind speed of  
292 21 mph where the weather-normalized monthly sales and number of customers  
293 are consistent with North Shore's most recent normal weather budget forecast for  
294 the January containing the design day.

295 The reserve margin is intended to ensure that North Shore will be able to  
296 serve its customers under extreme conditions. Because of the serious effects on  
297 public health and safety of a gas outage, in addition to the difficulties of restoring  
298 gas service, it is imperative that North Shore plan for extreme conditions. Firm  
299 gas supply and deliverability to North Shore's distribution system were thus set at  
300 levels that provide a margin over North Shore's projected peak day requirements.  
301 This reserve margin was necessary to accommodate, among other things, the  
302 fact that North Shore is located near the end of NGPL's and ANR Pipeline  
303 Company's ("ANR") facilities, the possibility of deliverability shortfalls in  
304 connection with storage and flow gas, and the fact that requirements could  
305 exceed design day projections.

306 **PRICE RISK MANAGEMENT**

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

309 A. North Shore took several steps to address price volatility. During the year,  
310 North Shore followed a price protection program, approved by the Regulated  
311 Risk Oversight Committee, which was specifically designed to mitigate the  
312 effects of gas price volatility. Under this program a significant portion of North  
313 Shore's purchases were protected using approved financial derivative tools  
314 including fixed price swaps, call options, synthetic calls or consumer collars  
315 (purchased calls and sold puts simultaneously). These purchases were either  
316 hedged physically through fixed forward purchases directly with a supplier or  
317 through the use of financial derivative instruments. Under the plan, North Shore  
318 began executing its hedges nineteen months prior to the start of each season  
319 (*i.e.*, winter or summer). The timing of the transaction execution follows a time  
320 driven matrix approach and results in 100% of the planned hedges in place prior  
321 to the start of the season. Under normal weather conditions, North Shore would  
322 expect to hedge between 25% and 50% of its annual purchases under this plan  
323 with a target of 37.5%.

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

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

329 A. For the reconciliation period, slightly less than 37% of actual annual  
330 purchases were financially hedged. While the financially hedged percentage was  
331 below the 37.5% target noted above, it was within the plan parameters.

332 Q. What is a “time driven matrix” approach?

333 A. The “time driven matrix” approach is meant to convey that North Shore  
334 executed its hedge transactions on a defined schedule, unless predefined market  
335 conditions were met and North Shore elected to accelerate its financial hedge  
336 purchases. This is in contrast to, for example, purchasing all of the hedges  
337 eighteen months prior or waiting until one month prior to the hedged period to  
338 purchase the hedges.

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

341 A. No. Further, the plan was reauthorized by the Regulated Risk Oversight  
342 Committee in September, 2010.

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

344 A. No.

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

346 A. As a result of North Shore’s purchases under its price protection  
347 programs, customers were partially insulated against price volatility. By taking  
348 fixed price positions on a large portion of the anticipated baseload purchases,  
349 North Shore can dampen the effect that large swings in the price of natural gas  
350 have on its total cost of gas. This, in turn, leads to more stable prices for North  
351 Shore’s customers. In the absence of this program, customers would be

352 exposed to the full risk of market fluctuations. North Shore's price protection  
353 strategies were not aimed at guaranteeing the lowest possible price for gas. The  
354 programs' purpose is to mitigate volatility.

#### 355 **INTERSTATE SERVICES**

356 Q. Did North Shore enter into any off-system gas sales for resale during  
357 2010?

358 A. Yes. North Shore entered into off-system sales transactions that were  
359 supported by approximately 0.2% of North Shore's purchases in terms of quantity  
360 and approximately 0.2% in terms of cost for the year. These transactions were  
361 for asset optimization reasons.

362 Q. Did North Shore release any capacity in 2010?

363 A. Yes, North Shore released a small amount of NGPL capacity in August  
364 2010.

#### 365 **AFFILIATE TRANSACTIONS**

366 Q. Did North Shore enter into any transactions with any affiliate that affected  
367 the Gas Charge?

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

#### 370 **PRUDENCE OF 2010 GAS COSTS**

371 Q. Were North Shore's incurred expenditures for 2010 gas supply prudent?

372 A. Yes. The incurred gas supply expenditures for 2010 reflected North  
373 Shore's continuing efforts to minimize the cost of its gas supply consistent with  
374 operational and contractual constraints and the statutory obligation to provide

375 adequate and reliable service to customers during all periods of the year. In  
376 particular, following RFP processes, North Shore purchased supply from a  
377 diverse pool of suppliers to fill its storage services and to supply its customers. It  
378 purchased supply at the citygate and in the field, which both diversifies the  
379 pricing applicable to those purchases and enhances reliability. It met a large  
380 portion of its peak day and seasonal requirements from storage. It also used  
381 storage to help it balance its system on a daily and intra-day basis. Finally, it  
382 hedged a significant portion of its annual purchases, which helps to mitigate price  
383 volatility for customers.

384 Q. What other efforts has North Shore made to ensure that pipelines serving  
385 it provide reliable services on a best-cost basis?

386 A. North Shore made efforts to maintain adequate, reliable services from  
387 pipeline transporters and to keep gas costs to a minimum by active participation  
388 in its pipeline transporters' rate and certificate proceedings and other matters  
389 before the FERC. North Shore monitored the filings of its pipeline suppliers of  
390 storage and transportation services -- NGPL, Northern Border Pipeline Company  
391 ("Northern Border"), and ANR. In addition, North Shore monitored FERC  
392 rulemaking and policy proceedings.

393 Based on its review of pipeline filings, North Shore intervened in  
394 significant proceedings, including NGPL's Section 5 rate review proceeding that  
395 FERC initiated. North Shore also continued to participate actively as a member  
396 of the American Gas Association in FERC rulemakings and other generic  
397 proceedings affecting its customers.

398 **MEASUREMENT AND MONITORING OF PIPELINE DELIVERIES**

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

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

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

415 2. ANR operates EFM equipment at its station near Paris, Wisconsin.  
416 ANR calibrates its EFM equipment once a month. North Shore's representatives  
417 may be present at these calibrations. North Shore's representative is present for  
418 physical changes (e.g., orifice plate inspections or replacement) involving a  
419 meter. North Shore independently operates equipment verifying the accuracy of  
420 ANR's measurement equipment. The Gas Control Department reviews and

421 monitors the accuracy of energy that is billed from ANR's meters. If this review  
422 identified a discrepancy, Gas Control would contact ANR and resolve the  
423 discrepancy.

424 3. If the Gas Control Department's measurement verification between the  
425 EFM equipment and nomination systems (North Shore's and pipelines'  
426 nomination websites) indicates a discrepancy, the Gas Control Department will  
427 contact the pipeline to resolve the discrepancy. Once Gas Control has resolved  
428 all discrepancies, the Gas Supply Department will verify the amount of gas  
429 nominated to the Gas Supply transaction tracking database (TRM, formerly  
430 Monaco). This ensures that all gas nominated is recorded in TRM. The Fuel and  
431 Supply Accounting Department confirms data from TRM with the pipelines'  
432 invoices.

433 4. ANR determines gas quality and heating value by use of onsite  
434 chromatographs at its meter stations. NGPL determines gas quality and heating  
435 value by use of chromatographs at a point on its system near Joliet, Illinois and  
436 at Peoples Gas' Manlove Field. North Shore independently monitors gas quality  
437 and heating value by means of chromatographs owned by North Shore at the  
438 citygates. These chromatographs are calibrated on a regular basis.

439 5. Internal Audit Services examines the accuracy and performance of  
440 procedures identified by management as SOX controls annually during its  
441 Sarbanes-Oxley Act of 2002, Section 404, testing to support management's  
442 assertion that the internal control structure is operating as designed. These tests  
443 include examination of the various records and reports used by the Fuel and

444 Supply Accounting Department to record volumetric and pricing information  
445 including the various reconciliations to source measurement and pipeline  
446 information.

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

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

454 Q. Please describe the control procedures and monitoring programs that  
455 North Shore uses with respect to its gas transportation contracts.

456 A. The control procedures and monitoring related to the enforcement of the  
457 transportation contracts and point operator agreements with ANR, Northern  
458 Border and NGPL were as follows:

459 1. Each of these pipelines rendered monthly statements of the quantity of  
460 gas received on behalf of North Shore from each supplier at each receipt point  
461 and the quantity of gas each transporter delivered to North Shore. The quantities  
462 of gas received and delivered by each transporter were measured in accordance  
463 with the General Terms and Conditions of its respective FERC Gas Tariff. North  
464 Shore has access to transporters' measurement equipment at the receipt and  
465 delivery points under the tariff provisions. The Fuel and Supply Accounting  
466 Department verified the accuracy of each monthly statement based on records

467 maintained by the Gas Supply area in coordination with each transporting  
468 pipeline.

469 2. Transportation charges for each of the various receipt points include a  
470 percentage retained by the transporter from gas received for North Shore's  
471 account to compensate for the transporter's compressor fuel and lost-and-  
472 unaccounted-for gas. The Fuel and Supply Accounting Department reviewed for  
473 accuracy the quantities that the transporter retained, the transportation charges  
474 and the reservation fees against published tariffs, contracts or discount letters or  
475 agreements, as appropriate.

476 Q. Does this conclude your direct testimony?

477 A. Yes, it does.

# North Shore Gas Company

Statement to Illinois Commerce Commission  
Determination of Reconciliation Balance for Gas Charge  
for the Year Ended December 31, 2010, and  
Independent Auditors' Report



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
North Shore Gas Company  
Chicago, Illinois

We have audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the standards of the Public Company Accounting Oversight Board (United States), the financial statements of North Shore Gas Company (the "Company") for the year ended December 31, 2010, and have issued our report thereon dated February 28, 2011 (which report expresses an unqualified opinion). We have also audited the accompanying Statement to Illinois Commerce Commission — Determination of Reconciliation Balance for Gas Charge (the "Statement") of North Shore Gas Company (the "Company") for the year ended December 31, 2010, pursuant to Rider 2 of the Company's rate schedule in effect and on file with the Illinois Commerce Commission. This Statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this Statement based on our audit.

We conducted our audit of the Statement in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as it relates to the Statement as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting as it relates to the Statement. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statement was prepared for the purpose of complying with Rider 2 of the Company's rate schedule in effect and on file with the Illinois Commerce Commission and is not intended to be a complete presentation of the Company's revenues and expenses, nor is it intended to be a presentation in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, the Statement referred to above presents fairly, in all material respects, the information set forth therein of the Company for the year ended December 31, 2010, in accordance with Rider 2 of the Company's rate schedule in effect and on file with the Illinois Commerce Commission.

This report is intended solely for the information and use of the management and the Board of Directors of the Company and the Illinois Commerce Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte & Touche LLP*

April 8, 2011

North Shore Gas Company

STATEMENT TO ILLINOIS COMMERCE COMMISSION

DETERMINATION OF RECONCILIATION BALANCE

FOR GAS CHARGE

FOR THE YEAR ENDED DECEMBER 31, 2010

**North Shore Gas Company**  
**Statement to Illinois Commerce Commission - Determination of Reconciliation Balance (1)**  
**For the Year Ended December 31, 2010**

<u>Line</u>	<u>Commodity Gas Charge</u> (CGC)	<u>Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge</u> (NCGC, DGC and ABGC)	<u>Total Gas Charge</u>	
<b>Year Ended December 31, 2009</b>				
1	Unamortized Balance at December 31, 2009 (Refund)/Recovery (2)	(\$4,053,315.68)	\$3,387.25	(\$4,049,928.43)
2	Factor A Adjustments unreconciled at December 31, 2009 (Refund)/Recovery (3)	(5,786,933.98)	260,776.79	(5,526,157.19)
3	Factor O (Refunded)/Recovered in 2010	(52,092.76)	0.00	(52,092.76)
4	Balance (Refundable)/Recoverable from Prior Periods (Line 1 + Line 2 + Line 3)	(9,892,342.42)	264,164.04	(9,628,178.38)
<b>Year Ended December 31, 2010</b>				
5	Costs Recoverable through the Gas Charge (4) (5)	108,303,490.84	18,751,723.93	127,055,214.77
6	Revenues Arising through Application of the Gas Charge (6)	104,787,985.96	19,132,708.16	123,920,694.12
7	Separately Reported Pipeline Refunds or Surcharges	0.00	0.00	0.00
8	Separately Reported Other Adjustments	0.00	0.00	0.00
9	Interest	(34,556.10)	(1,263.16)	(35,819.26)
10	(Over)/Under Recovery For Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	3,480,948.78	(382,247.39)	3,098,701.39
11	(Over)/Under Recovery Balance For Reconciliation Year (Line 4 + Line 10)	(6,411,393.64)	(118,083.35)	(6,529,476.99)
12	Factor A Adjustments unreconciled at December 31, 2010 (Refund)/Recovery (7)	(3,905,713.54)	192,824.50	(3,712,889.04)
13	Unamortized Balance at December 31, 2010 (Refund) / Recovery (Line 11 - Line 12) (8)	(\$2,505,680.10)	(\$310,907.85)	(\$2,816,587.95)
14	Requested Factor O (Line 12 - Line 13 - Line 14)	\$0.00	\$0.00	\$0.00

**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE  
FOR THE COMMODITY GAS CHARGE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
	ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2010			
1.	Gas Costs by Type:			
	a. Purchases	\$ 110,207,268.35		
	b. Liability For Redelivery of Customer-Owned Gas	<u>(2,180,663.53)</u>		
2.	TOTAL GAS COSTS		\$ 108,026,604.82	Sum Lines 1a - 1b
3.	Less: Franchise Gas	\$ (715,473.09)		
4.	a. Add: Gas Withdrawn from Storage	50,378,540.89		
	b. Less: Gas Injected into Storage	<u>(49,364,041.02)</u>		
5.	Less: Off-System Transaction Revenues	(4,828.91)		
6.	Less: Penalty / Imbalance Charge Revenues	(1,645.58)		
7.	a. Less: "Cash-Out" Schedule Revenues	(153,008.23)		
	b. Add: "Cash-Out" Schedule Costs	<u>137,341.96</u>		
8.	TOTAL OTHER COSTS / REVENUES		<u>276,886.02</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 108,303,490.84	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Commodity Gas Charge Revenues		<u>104,787,985.96</u>	
11.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
12.	Interest		(34,556.10)	
13.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>3,480,948.78</u>	Line 9 - Line 10 + Line 11 + Line 12

## North Shore Gas Company

**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE  
FOR THE NON-COMMODITY GAS CHARGE, DEMAND GAS CHARGE AND AGGREGATION BALANCING GAS CHARGE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2010				
1.	Gas Costs by Type:			
	a. Transportation	\$ 6,282,074.51		
	b. Storage	14,791,044.75		
	c. FERC Order 636 Transition Costs	0.00		
	d. Demand Gas Charge Revenues	(1,295,900.22)		
	e. Aggregation Balancing Gas Charge Revenues	<u>(1,042,718.31)</u>		
2.	TOTAL GAS COSTS		\$ 18,734,500.73	Sum Lines 1a - 1e
3.	Less: Franchise Gas	\$ (41,414.61)		
4.	a. Add: Gas Withdrawn from Storage	2,916,037.39		
	b. Less: Gas Injected into Storage	(2,857,399.58)		
5.	Less: Off-System Transaction Revenues	0.00		
6.	Less: Penalty / Imbalance Charge Revenues	0.00		
7.	a. Less: "Cash-Out" Schedule Revenues	0.00		
	b. Add: "Cash-Out" Schedule Costs	<u>0.00</u>		
8.	TOTAL OTHER COSTS / REVENUES		<u>17,223.20</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 18,751,723.93	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Non-Commodity Gas Charge Revenues	18,916,983.35		
	b. Excess Bank Charge	163,524.81		
	c. Rider TB Critical Day Balancing Charge	0.00		
	d. Rider TB Non-Critical Day Balancing Charge	0.00		
	e. Rider TB Daily Storage Charge	52,200.00		
	f. Rider TB Daily Scheduling Charge	<u>0.00</u>		
11.	TOTAL REVENUES		<u>19,132,708.16</u>	Sum Lines 10a - 10f
12.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
13.	Interest		(1,263.16)	
14.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>(382,247.39)</u>	Line 9 - Line 11 + Line 12 + Line 13

North Shore Gas Company  
 Statement to Illinois Commerce Commission - Determination of Reconciliation Balance  
 Commodity Gas Charge

Summary of Schedule II  
 For the Year Ended December 31, 2010

Line	Reported Month	[A] November 2009	[B] December	[C] January 2010	[D] February	[E] March	[F] April	[G] May	[H] June	[I] July	[J] August	[K] September	[L] October	[M] November	[N] December	[O] Total 2010
	Effective Month	January 2010	February	March	April	May	June	July	August	September	October	November	December	January 2011	February	
1	Actual Recoverable Costs - Reported Month	10,023,557.24	20,982,419.86	28,602,503.78	21,418,684.84	10,733,864.58	3,449,286.41	3,562,413.30	2,751,427.39	1,343,428.16	2,272,763.90	730,895.80	3,871,515.96	8,637,472.05	20,829,294.87	108,303,480.84
2	Actual Recoveries - Reported Month	9,649,050.18	18,494,361.75	24,390,843.92	20,171,294.60	15,321,830.53	5,267,861.67	2,710,531.24	1,839,851.25	2,638,941.57	2,062,192.78	2,359,257.58	4,132,997.27	7,414,393.48	16,478,250.07	104,787,985.96
3	Under/(Over) Recovery - Reported Month	374,507.06	2,488,058.11	4,211,659.86	1,247,390.24	(4,587,965.95)	(1,818,575.26)	851,882.06	911,776.14	(1,295,513.41)	210,631.12	(1,628,411.78)	(161,481.31)	1,223,088.57	4,351,044.60	3,515,504.88
4	Factor A Included in Reported Month	(1,470,819.44)	(2,542,303.74)	(3,124,283.70)	(2,662,650.28)	(577,054.55)	(775,306.24)	(1,029,286.83)	(1,005,905.52)	(586,986.72)	(325,444.98)	(305,084.21)	(684,417.24)	(1,306,602.53)	(2,444,061.09)	(14,832,068.19)
5	Factor C Included in Reported Month	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(52,092.76)	0.00	0.00	0.00	0.00	0.00	(52,092.76)
6	Adjusted (Over)/Under Recovery - Reported Month	(1,096,306.38)	(54,245.63)	1,087,378.16	(1,415,260.04)	(5,165,020.50)	(2,593,901.50)	(177,404.77)	(94,133.38)	(1,934,502.89)	(115,813.86)	(1,937,495.99)	(945,888.55)	(83,514.26)	1,906,893.51	(11,368,895.07)
7	Refunds/Pipeline Surcharges/Other Adjustments	(519.72)	(45.59)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8	Unamortized Balance Including Previous Interest	(8,694,670.32)	(6,659,986.56)	(4,053,315.68)	(2,389,880.34)	(3,031,096.57)	(7,169,816.42)	(8,761,457.48)	(8,355,945.48)	(8,126,418.48)	(9,756,000.47)	(9,191,225.17)	(9,826,210.88)	(8,231,476.59)	(9,624,583.28)	
9	Total Adjustments Before Amortization	(9,781,496.42)	(6,714,277.78)	(2,965,939.52)	(3,805,140.38)	(8,196,117.07)	(9,763,717.92)	(8,938,862.26)	(8,449,476.86)	(10,061,021.37)	(9,871,814.33)	(11,128,721.16)	(10,872,109.43)	(8,314,990.95)	(3,717,598.77)	
10	Total Amortization	(3,124,283.70)	(2,662,650.28)	(577,054.55)	(775,306.24)	(1,029,286.83)	(1,005,905.52)	(586,986.72)	(326,444.98)	(309,084.21)	(684,417.24)	(1,306,602.83)	(2,444,061.09)	(2,692,750.27)	(1,212,963.27)	(12,950,877.75)
11	Unamortized Balance - Factor A	(6,657,212.72)	(4,051,627.50)	(2,388,884.97)	(3,029,834.14)	(7,166,830.24)	(8,757,808.40)	(8,351,865.54)	(8,123,033.88)	(9,751,937.16)	(9,187,397.09)	(9,822,118.33)	(8,228,048.34)	(8,622,240.68)	(2,504,636.50)	
12	Unamortized Balance - Factor C	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
13	Total Unamortized Balances	(6,657,212.72)	(4,051,627.50)	(2,388,884.97)	(3,029,834.14)	(7,166,830.24)	(8,757,808.40)	(8,351,865.54)	(8,123,033.88)	(9,751,937.16)	(9,187,397.09)	(9,822,118.33)	(8,228,048.34)	(8,622,240.68)	(2,504,636.50)	
14	Interest	(2,773.84)	(1,688.18)	(956.37)	(1,262.43)	(2,986.18)	(3,649.09)	(3,479.94)	(3,384.60)	(4,063.31)	(3,828.08)	(4,092.85)	(3,428.35)	(2,342.60)	(1,045.60)	(34,566.10)
15	Unamortized Balance Including Interest	(6,659,986.56)	(4,053,315.68)	(2,389,880.34)	(3,031,096.57)	(7,169,816.42)	(8,761,457.48)	(8,355,945.48)	(8,126,418.48)	(9,759,000.47)	(9,191,225.17)	(9,826,210.88)	(8,231,476.89)	(8,624,996.28)	(2,509,680.10)	

North Shore Gas Company  
 Statement to Illinois Commerce Commission - Determination of Reconciliation Balance  
 Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge  
 Summary of Schedule II  
 For the Year Ended December 31, 2010

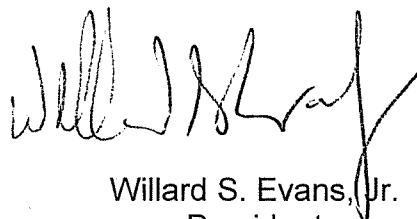
Line	Reported Month	[A]		[B]		[C]		[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]
		November 2009	January 2010	December 2009	February 2010	January 2010	March	April	May	June	July	August	September	October	November 2011	December	January 2011	February	Total 2010
1	Actual Recoverable Costs - Reported Month	1,925,007.80	2,532,850.63	2,532,850.63	2,340,458.12	2,142,128.77	1,087,637.40	1,255,928.90	1,070,021.58	945,551.87	863,119.11	946,869.28	1,065,387.02	1,985,209.83	2,530,341.04	18,751,724.13	1		
2	Actual Recoveries - Reported Month	1,721,103.64	3,216,163.48	3,216,163.48	4,108,879.22	3,181,123.23	1,932,241.09	706,573.84	545,100.53	425,639.25	390,670.52	505,823.42	956,050.60	2,022,381.57	3,981,324.00	19,132,708.16	2		
3	Under/(Over) Recovery - Reported Month	203,903.96	(683,312.85)	(683,312.85)	(840,865.01)	(209,887.68)	391,063.56	710,828.37	691,320.69	519,712.62	492,448.59	440,745.86	109,336.42	(97,171.74)	(1,450,982.96)	(380,984.03)	3		
4	Factor A Included in Reported Month	120,513.25	142,015.97	142,015.97	258,547.20	2,229.59	(284,303.82)	(384,238.20)	(127,224.76)	(51,767.18)	(5,417.69)	24,063.87	93,984.02	181,842.11	272,063.98	(101,357.17)	4		
5	Factor O Included in Reported Month	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5		
6	Adjusted (Over)/Under Recovery - Reported Month	324,417.21	(541,296.88)	(541,296.88)	(1,358,980.81)	(838,435.52)	(54,416.14)	(3,174.64)	583,603.81	600,164.40	467,945.44	487,030.90	203,330.44	144,670.37	(1,178,896.98)	(482,341.20)	6		
7	Refunds/Pipeline Surcharges/Other Adjustments	0.00	(3,459.17)	(3,459.17)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7		
8	Unamortized Balance Including Previous Interest	484,272.24	550,371.48	550,371.48	3,387.25	(1,091,724.44)	(1,536,561.73)	(1,464,363.01)	(1,376,954.85)	(741,893.05)	(136,367.76)	700,980.77	884,348.36	915,976.32	717,015.19	0.00	8		
9	Total Adjustments Before Amortization	808,669.45	5,615.43	5,615.43	(1,555,573.56)	(1,930,159.96)	(1,590,877.87)	(1,467,537.95)	(783,351.24)	(141,728.85)	794,682.84	1,165,780.50	1,187,878.80	1,060,646.68	(461,883.79)	0.00	9		
10	Total Amortization	259,547.20	2,229.59	2,229.59	(264,303.82)	(394,238.20)	(91,156.29)	(91,156.29)	(5,417.69)	24,053.87	93,994.02	181,842.11	272,063.98	343,930.13	(151,105.63)	(169,309.46)	10		
11	Unamortized Balance - Factor A	550,142.25	3,385.84	3,385.84	(1,091,269.74)	(1,535,921.76)	(1,463,753.11)	(1,376,381.36)	(741,584.06)	(136,310.96)	700,688.82	883,938.39	915,594.82	716,716.56	(310,776.16)	0.00	11		
12	Unamortized Balance - Factor O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	12		
13	Total Unamortized Balance	550,142.25	3,385.84	3,385.84	(1,091,269.74)	(1,535,921.76)	(1,463,753.11)	(1,376,381.36)	(741,584.06)	(136,310.96)	700,688.82	883,938.39	915,594.82	716,716.56	(310,776.16)	0.00	13		
14	Interest	229.23	1.41	1.41	(454.70)	(639.97)	(609.90)	(574.49)	(308.99)	(56.80)	291.95	409.97	381.50	296.63	(129.49)	(1,263.16)	14		
15	Unamortized Balance Including Interest	550,371.48	3,387.25	3,387.25	(1,091,724.44)	(1,536,561.73)	(1,464,363.01)	(1,376,954.85)	(741,893.05)	(136,367.76)	307,651.84	884,348.36	915,976.32	717,015.19	(310,807.65)	0.00	15		

**North Shore Gas Company**  
**Statement to Illinois Commerce Commission**  
**Determination of Reconciliation Balance for Gas Charge**  
**For the Year Ended December 31, 2010**  
**Notes**

- (1) North Shore Gas Company (the "Company") maintains its financial books and records in accordance with accounting principles generally accepted in the United States of America. This Statement to Illinois Commerce Commission – Determination of Reconciliation Balance for Gas Charge has been prepared from the financial books and records of the Company in accordance with the annual reconciliation provision of Rider 2 of the Company's rate schedule in effect and on file with the Illinois Commerce Commission.
- (2) Unamortized (refundable)/recoverable balance at December 31, 2009. For the Commodity Gas Charge, see Page 5, Line 15, Column B. For the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge, see Page 6, Line 15, Column B.
- (3) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2010 and February 1, 2010 and not yet reconciled for the reporting months of November 2009 and December 2009, respectively. For the Commodity Gas Charge, see Page 5, Line 10 and sum the amounts in Column A and Column B. For the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge, see Page 6, Line 10 and sum the amounts in Column A and Column B.
- (4) Detail of costs recoverable through the Commodity Gas Charge provided on Page 3. Detail of costs recoverable through the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge provided on Page 4.
- (5) Total of costs recoverable through the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge differs from the total costs recoverable as reported in the monthly filing schedules by \$0.20, see Page 6, Line 1, Column O. This difference pertains to the Schedule II statement for the reported month of May 2010; an adjustment resolving the difference was included on the Schedule II statement for the reported month of February 2011.
- (6) Revenue arising through the application of the Gas Charge including the Adjustment for Gas Costs (Factor A). Detail of revenue arising from the Commodity Gas Charge provided on Page 3. Detail of revenue arising from the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge provided on Page 4.
- (7) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2011 and February 1, 2011 and not yet reconciled for the reporting months of November 2010 and December 2010, respectively. For the Commodity Gas Charge, see Page 5, Line 10 and sum the amounts in Column M and Column N. For the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge, see Page 6, Line 10 and sum the amounts in Column M and Column N.
- (8) Unamortized balance at December 31, 2010. For the Commodity Gas Charge, see Page 5, Line 15, Column N. For the Non-Commodity Gas Charge, Demand Gas Charge and Aggregation Balancing Gas Charge, the total amount in the Summary of Schedule II differs by \$0.20; a result of the difference as detailed in note (5) above; see Page 6, Line 15, Column N.

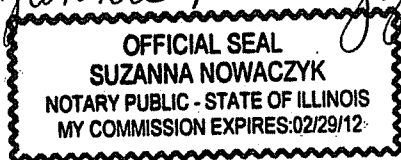
STATE OF ILLINOIS    )  
                                  )   SS  
COUNTY OF COOK    )

Willard S. Evans, Jr., of lawful age, being first duly sworn on oath, states that he is President of North Shore Gas Company; that he has read the foregoing Financial Statement to Illinois Commerce Commission – Determination of Reconciliation Balance for Gas Charge for the Year Ended December 31, 2010, and Independent Auditor's Report, and knows the contents thereof; and that the facts therein stated are true to the best of his knowledge, information and belief.

By:   
Willard S. Evans, Jr.  
President

SUBSCRIBED and SWORN TO before me this 12 th day of April, 2011.

By: 



My Commission Expires: 2-29-2012