

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
North Shore Gas Company)	Docket No. 16-0564
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)	
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").
- 5 Q. What position do you hold with WBS?
- 6 A. I am Manager Gas Supply (PGL/NSG) for Respondent, North Shore Gas
- 7 Company ("North Shore"), and The Peoples Gas Light and Coke Company
- 8 ("Peoples Gas").
- 9 Q. What are your responsibilities in that position?
- 10 A. I am responsible for directing the activities of the Gas Supply Department
- 11 for North Shore and Peoples Gas, as well as the activities of Peoples Gas'
- 12 interstate services area.

13 Q. Please summarize your educational background and experience.

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

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

20 A. The purpose of my testimony is to describe North Shore's 2016 supply
21 and capacity procurement practices, including negotiation of contracts and
22 related accounting and auditing practices. In addition, I discuss steps that North
23 Shore took to reduce gas price volatility. I also address the prudence of North
24 Shore's 2016 supply and capacity and the resulting gas costs that North Shore
25 billed to customers.

26 **2016 PROCUREMENT OVERVIEW**

27 Q. Please describe North Shore's 2016 gas supply procurement process.

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

35 Q. What procedure did North Shore follow in 2016 in order to select its
36 resource mix?

37 A. Prior to the start of the year, North Shore developed a number of
38 interconnected forecasts, including: a peak day forecast, a long-term sales
39 forecast, and a gas sendout requirements forecast. These forecasts support the
40 Gas Dispatch Model, which calculates daily sendout requirements and balances
41 the normal year's daily requirements with available gas supply, including term
42 purchases, spot market purchases, customer-owned deliveries and gas available
43 for withdrawal or injection. The Gas Dispatch Model optimizes, from a full-year
44 perspective, the daily gas dispatching activities by forecasting the supply and
45 storage mix to meet the expected customer sendout requirements for each day
46 of the forecast year.

47 Using the annual Gas Dispatch Model as a starting point and just prior to
48 the start of each month, the Gas Supply Department computed at least three
49 potential load forecasts for the coming month and met to address purchasing
50 decisions for the month. After establishing the monthly plan, Gas Supply
51 personnel, on a daily basis, as changing requirements and the market dictated,
52 addressed any changes needed to accommodate the need for additional or
53 reduced amounts of supply or capacity.

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

56 A. North Shore purchased firm gas supply from many parties under four
57 general forms: field baseload, citygate delivered baseload, field call, and citygate
58 delivered call.

59 Q. Please describe the field baseload and citygate delivered baseload
60 purchases.

61 A. North Shore contracted for firm baseload supplies that it purchased at field
62 locations and transported to the citygate using its transportation. North Shore
63 also contracted for firm baseload supplies bought directly at the citygate. North
64 Shore made these purchases on a seasonal and month-to-month basis. The
65 baseload contracts called for North Shore to purchase the same quantity each
66 day and most were priced using a first of the month ("FOM") index price.

67 Q. Please describe the field call purchases.

68 A. Field call purchases are firm supplies that were available at a daily index
69 price and, when purchased, were transported to the citygate using North Shore's
70 transportation. North Shore made these purchases on a seasonal basis. In each
71 case, the quantity that North Shore could purchase each day could vary between
72 zero and the maximum quantity stated in the contract. Under these contracts,
73 the supplier had the obligation to deliver the gas, but North Shore had no
74 obligation to ever purchase any gas.

75 Q. Please describe the citygate delivered call purchases.

76 A. Citygate delivered call purchases are firm supplies that were, when
77 requested by North Shore, delivered to the citygate by the supplier and available
78 on any day during the November 2015 through March 2016 period and the

79 November 2016 through March 2017 period. Under these contracts the supplier
80 had the obligation to deliver the gas, but North Shore had no obligation to ever
81 purchase any gas.

82 Citygate delivered call purchases are priced in two forms: at a daily index
83 or on an average of the FOM prices for specified months. For purchases under
84 the second form, the supplier had the obligation to deliver the gas, and if North
85 Shore did not purchase the full quantity, then a cashout occurred at an index
86 defined in the transaction confirmation.

87 Some transactions also included what the contract calls a “minimum term
88 purchase quantity” for federal regulatory reasons.

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

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

94 Also, a significant portion of North Shore’s end use market opts for
95 deliveries of customer-owned gas under North Shore’s Schedule of Rates. This
96 gas was another source available to North Shore for system supply. However,
97 North Shore did not know the customer-owned gas quantity that it would receive
98 until customers and their suppliers nominated it and North Shore and the
99 pipelines confirmed it.

100 Q. How many suppliers did North Shore purchase from during the
101 reconciliation period?

102 A. During 2016 North Shore purchased gas from 30 suppliers.

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

105 A. During 2016 North Shore purchased the majority of its supply under firm
106 contracts with suppliers. It made these purchases under the terms of the
107 individual contracts that North Shore had with each supplier. North Shore
108 purchased a portion of its total supply volumes as spot purchases from various
109 suppliers. It made spot purchases, on an as-needed basis, from suppliers under
110 the terms of the individual contracts that North Shore had with each supplier.

111 Capacity (both pipeline storage and transportation) transactions are
112 subject to contracts with the pipelines and the pipelines' Federal Energy
113 Regulatory Commission ("FERC") Gas Tariffs. North Shore also had a
114 Commission-approved firm transportation service with Northern Illinois Gas
115 Company d/b/a Nicor Gas Company and a Commission-approved storage
116 service with Peoples Gas.

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

119 A. No.

120 Q. Did North Shore conduct any after-the-fact analyses of its 2016 gas supply
121 procurement?

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

124 **REQUESTS FOR PROPOSALS**

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

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

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

137 A. One of North Shore’s goals is to receive bids that are in an identical format
138 so that it can make fair comparisons. In its RFPs, it specifies all the key
139 commercial terms of service to limit the number of variables that it must consider
140 in evaluating bids. For example, a typical RFP would specify the location(s) at
141 which North Shore would take delivery of supply; whether the supply would be
142 baseload or swing and, if it is a swing supply, the conditions under which North
143 Shore may call on the supply; acceptable pricing structures, such as based on
144 specific FOM or daily indices and whether demand charges would be acceptable;
145 and any quantity limitations, such as bids must be in increments of 5,000 dth¹/d.
146 In addition, the RFP specifies the credit terms that will apply to the winning

¹ “dth” means dekatherm. “Mdth” means one thousand dekatherms.

147 bidder, and bidders must be parties to a master contract that will govern the
148 transaction. Generally, the supplier need only select an acceptable delivery
149 location from among those specified, specify a daily contract quantity and bid a
150 price in the required form, for example, an addition to or subtraction from an
151 index that North Shore identified in the RFP. North Shore can then perform an
152 apples-to-apples comparison among the conforming bids and promptly notify the
153 winning bidder(s).

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

155 A. For its summer purchases (the months of April through October), North
156 Shore purchased firm supply on a monthly basis through a blast-type instant
157 message request process to several suppliers. It sent the instant message to at
158 least 10 suppliers each month. Like the RFP process described above, the
159 content of the instant message stated the location or locations where North
160 Shore was seeking baseload supply tied to the FOM index at the point(s). As a
161 check on the market North Shore's traders had access to the
162 IntercontinentalExchange ("ICE"), an electronic trading platform, which provided
163 real time trading information at the relevant locations.

164 Q. Why did North Shore use this process?

165 A. Prior to 2012, North Shore used a more seasonally structured RFP
166 process that resulted in baseload purchases that were fixed by location for the
167 season. While this was an effective process, it lacked flexibility to respond to
168 pipeline curtailments due to maintenance and *force majeure* restrictions that
169 limited transportation from any given location. By moving to a monthly baseload

170 purchase process North Shore could move the purchases around to avoid the
171 restrictions and limit the need to reconfigure or otherwise renegotiate the
172 baseload agreement with the seller.

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

175 A. No. North Shore completed one RFP prior to 2016 for gas that flowed in
176 2016. The types of supply procured under the RFP were baseload and non-
177 baseload, *i.e.*, call gas supplies.

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

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

186 Q. Did North Shore issue RFPs in 2016 for gas that flowed in 2016?

187 A. Yes. North Shore completed eight RFPs in 2016 for gas that flowed in
188 2016. The types of supply procured under those RFPs were summer 2016
189 baseload, winter 2016-2017 baseload and non-baseload, *i.e.*, call gas supplies.
190 The seven summer supply RFPs are discussed above.

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

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

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

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

203 **CITYGATE PURCHASES**

204 Q. Did North Shore purchase gas at the citygate in 2016?

205 A. Yes. North Shore purchased term gas and spot gas delivered at the
206 citygate in 2016. Citygate purchases accounted for about 7% of total purchase
207 quantities and about 7% of total purchase costs.

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

211 A. North Shore buys gas at the citygate for two main reasons. First, in the
212 case of the call gas, citygate purchases limit the amount of pipeline capacity that
213 North Shore needs to hold. Winter-only firm capacity is typically unavailable and
214 year-round capacity would only be needed for winter or peaking requirements.
215 Second, it diversifies the type of pricing in the portfolio. The Gas Charge will

216 include a mix of field index purchases, citygate index purchases, and fixed price
217 purchases.

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

219 A. North Shore buys spot gas at the citygate to meet demands that vary daily
220 and are in excess of the transportation capacity held on interstate pipelines.

221 Because demands vary based on weather and customer-owned gas deliveries
222 and, as such, are unpredictable, holding additional firm transportation from field
223 locations to meet them is not reasonable. Also, North Shore buys at the citygate
224 when it is economically favorable.

225 **SUPPLY INTERRUPTIONS**

226 Q. Did North Shore experience any supply interruptions in 2016?

227 A. None of North Shore's suppliers failed to deliver the quantity of gas that
228 was requested. However, as discussed later, pipeline restrictions and outages
229 occurred that affected nominated gas flow.

230 **TRANSPORTATION AND STORAGE CAPACITY**

231 Q. Did any significant changes to North Shore's transportation and storage
232 capacity portfolio affect the 2016 portfolio?

233 A. Yes. North Shore added some Natural Gas Pipeline Company of America
234 ("Natural") Nominated Storage Service ("NSS") and the related Firm
235 Transportation ("FT") needed to effectuate injections and withdrawals as part of a
236 capacity release from its affiliate Peoples Gas in 2016. The capacity release
237 made the proportions of Peoples Gas' and North Shore's flowing supply, storage
238 and peaking supplies more closely aligned. In particular, it reduced North

239 Shore's reliance on market area flowing supply and increased North Shore's
240 reliance on storage. In addition, the capacity release more properly allocated
241 primary delivery rights to North Shore's city gate by moving these rights from
242 Peoples Gas to North Shore.

243 North Shore also participated in Natural's Chicago Market Expansion
244 Project. North Shore contracted for 25,000 dth/d of gas delivered from Natural's
245 connection with Rockies Express Pipeline at the Moultrie point to North Shore's
246 Tonne Road citygate point starting November 1, 2016. This new contract allows
247 North Shore direct access to eastern shale gas while gaining additional long haul
248 transport capacity directly to North Shore's citygate.

249 Q. Were there any significant pipeline outages, interruptions, or restrictions
250 during 2016 that affected North Shore?

251 A. Yes. Natural experienced outages and imposed restrictions during 2016.

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

254 A. Yes. North Shore received a total of \$32,369.24 in reservation credits
255 from Natural in June and July.

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

258 A. No.

259 Q. Did North Shore receive any other credits?

260 A. Yes. In 2016, ANR Pipeline Company ("ANR") filed a general rate case
261 and FERC approved an uncontested settlement. As part of that settlement,

262 North Shore received \$658,253.26 from ANR as its portion of a refund
263 associated with PBOP (post-employment benefits other than pensions).

264 Q. How did North Shore's planned and actual use of storage compare in
265 2016?

266 A. North Shore begins each season with an established storage plan based
267 on normal weather, estimated customer-owned gas deliveries and assumptions
268 for other factors not precisely known at the time it creates the plan. North Shore
269 cannot reasonably plan for other storage activity, notably no-notice balancing.
270 As a result, actual storage use will never exactly match planned storage use for a
271 given month, and North Shore may need to revise storage plans for future
272 months to accommodate these differences. During 2016, actual storage
273 withdrawals of 8,078 Mdth were approximately 577 Mdth (7%) less than planned.
274 The less than planned withdrawals for the year were due to the warmer than
275 normal weather in the last quarter of 2016.

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

278 A. Yes. Through a Commission-approved contract with Peoples Gas, North
279 Shore purchases a storage service. This storage accounts for 14% of North
280 Shore's peak day demand and about 17% of the capacity in its annual storage
281 capacity portfolio.

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

283 A. Yes.

284 Q. Please describe North Shore's use of the LP facility in 2016.

285 A. The LP facility was not used in 2016 to support any daily or hourly
286 deliveries.

287 **RESERVE MARGIN**

288 Q. What was North Shore's design day reserve margin in 2016?

289 A. North Shore's 2016 design day reserve margin was approximately 3%.
290 North Shore describes its design day calculation in detail in the response to Staff
291 data request ENG 1.17. In general, North Shore defines its design day as the
292 sendout expected to occur on a January weekday with a temperature of -19
293 degrees Fahrenheit (equivalent to 84 degree days) and an average wind speed
294 of 22 miles per hour ("mph") following a day with a temperature of -2 degrees
295 Fahrenheit and an average wind speed of 17 mph where the weather-normalized
296 monthly sales and number of customers are consistent with North Shore's most
297 recent normal weather budget forecast for the January containing the design day.
298 The temperature and wind data listed above are based on the weighted average
299 of two weather stations (O'Hare and Waukegan). The percentage weighting
300 comes from a GasDay[®] weather optimization study.

301 The reserve margin is intended to ensure that North Shore will be able to
302 serve its customers under extreme conditions. Because of the serious effects on
303 public health and safety of a gas outage, in addition to the difficulties of restoring
304 gas service, it is imperative that North Shore plan for extreme conditions. Firm
305 gas supply and deliverability to North Shore's distribution system were thus set at
306 levels that provide a margin over North Shore's projected peak day requirements.
307 This reserve margin was necessary to accommodate, among other things, the

308 fact that North Shore is located near the end of Natural's and ANR's facilities, the
309 possibility of deliverability shortfalls in connection with storage and flow gas, and
310 the fact that requirements could exceed design day projections.

311 **PRICE RISK MANAGEMENT**

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

314 A. North Shore took several steps to address price volatility. During the year,
315 North Shore followed a price protection program, approved by the former
316 Integrys Regulated Risk Oversight Committee, and continued in 2016, which was
317 specifically designed to mitigate the effects of gas price volatility. This program
318 protected a significant portion of North Shore's purchases using approved
319 financial derivative tools including fixed price swaps, call options, synthetic calls,
320 or consumer collars (purchased calls and sold puts simultaneously). These
321 purchases were either hedged physically through fixed forward purchases
322 directly with a supplier or through the use of financial derivative instruments.
323 Under the plan, North Shore began executing its hedges nineteen months prior
324 to the start of each season (*i.e.*, winter or summer). The timing of the transaction
325 execution follows a time driven matrix approach and results in 100% of the
326 planned hedges in place prior to the start of the season. Under normal weather
327 conditions, North Shore would expect to hedge between 25% and 50% of its
328 annual purchases under this plan with a target of 37.5%.

329 North Shore's supply portfolio also contained contractual storage assets
330 that allowed it to use the natural physical hedge that seasonal storage provides.

331 North Shore also purchased gas supplies from a variety of parties and from
332 different producing regions to protect against regional price anomalies.

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

334 A. For the reconciliation period, 34% of actual annual purchases were
335 financially hedged. While the financially hedged percentage was below the
336 37.5% target noted above, it was within the plan parameters.

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

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

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

346 A. No.

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

348 A. No.

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

350 A. North Shore’s purchases under its price protection programs partially
351 insulated customers against price volatility. By taking fixed price positions on a
352 large portion of the anticipated baseload purchases, North Shore can dampen
353 the effect that large swings in the price of gas have on its total cost of gas. This,

354 in turn, leads to more stable prices for North Shore's customers. In the absence
355 of this program, customers would be exposed to the full risk of market
356 fluctuations. North Shore's price protection strategies were not aimed at
357 guaranteeing the lowest possible price for gas. The purpose is to mitigate
358 volatility.

359 **INTERSTATE SERVICES**

360 Q. Did North Shore enter into any off-system gas sales for resale during
361 2016?

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

366 Q. Did North Shore release any capacity in 2016?

367 A. No.

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

369 A. Yes. As mentioned earlier, North Shore acquired a portion of Natural NSS
370 storage and the related FT from its affiliate, Peoples Gas.

371 **AFFILIATE TRANSACTIONS**

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

374 A. Yes. In addition to the capacity release mentioned earlier, North Shore
375 also purchased a storage service from Peoples Gas pursuant to a Commission-
376 approved agreement.

377 PRUDENCE OF 2016 GAS COSTS

378 Q. Were North Shore's incurred expenditures for 2016 gas supply prudent?

379 A. Yes. The 2016 incurred gas supply expenditures reflected North Shore's
380 continuing efforts to minimize the cost of its gas supply consistent with
381 operational and contractual constraints and the statutory obligation to provide
382 adequate and reliable service to customers throughout the year. In particular,
383 following RFP processes, North Shore purchased supply from a diverse pool of
384 suppliers to fill its storage services and to supply its customers. It purchased
385 supply at the citygate and in the field, which both diversifies the pricing applicable
386 to those purchases and enhances reliability. It met a large portion of its peak day
387 and seasonal requirements from storage. It also used storage to help it balance
388 its system on a daily and intra-day basis. Finally, it hedged a significant portion
389 of its annual purchases, which helps to mitigate price volatility for customers.

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

392 A. Yes. North Shore made efforts to maintain adequate, reliable services
393 from pipeline transporters and to keep gas costs to a minimum by active
394 participation in its pipeline transporters' rate and certificate proceedings and
395 other matters before the FERC. North Shore monitored the filings of its pipeline
396 suppliers of storage and transportation services -- Natural, Northern Border
397 Pipeline Company ("Northern Border"), and ANR. In addition, North Shore
398 monitored FERC rulemaking and policy proceedings.

399 Based on its review of pipeline filings, North Shore intervened in
400 significant proceedings, including the ANR rate case mentioned above. North
401 Shore also continued to participate actively as a member of the American Gas
402 Association in FERC rulemakings and other generic proceedings affecting its
403 customers.

404 **MEASUREMENT AND MONITORING OF PIPELINE DELIVERIES**

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

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

409 1. Gas that Natural delivered to North Shore is registered by North
410 Shore's electronic flow measurement ("EFM") equipment located at three
411 locations (excluding direct pipeline supplied customer locations), with a combined
412 total of seven meters. The quantities of gas received and delivered by Natural
413 were measured in accordance with the General Terms and Conditions of its
414 FERC Gas Tariff. North Shore has access to Natural's measurement equipment
415 at the receipt and delivery points under the tariff provisions for verification of flow
416 calculations. The Gas Control Department reviewed and monitored the accuracy
417 of energy that was billed at all seven of those meters. If the Gas Control
418 Department's measurement review indicated a discrepancy, the Gas Control
419 Department would contact Natural to resolve the discrepancy. Natural also
420 calibrates its EFM equipment periodically. A North Shore representative may be

421 present at these calibrations. North Shore's representative is present for
422 physical changes (e.g., orifice plate inspection or replacement) involving a meter.

423 2. ANR operates EFM equipment at its station near Paris, Wisconsin.
424 ANR calibrates its EFM equipment once a month. North Shore's representatives
425 may be present at these calibrations. North Shore's representative is present for
426 physical changes (e.g., orifice plate inspections or replacement) involving a
427 meter. The quantities of gas received and delivered by ANR were measured in
428 accordance with the General Terms and Conditions of its FERC Gas. North
429 Shore has access to ANR's measurement equipment at the receipt and delivery
430 points under the tariff provisions for verification of flow calculations. The Gas
431 Control Department reviews and monitors the accuracy of energy that is billed
432 from ANR's meters. If this review identified a discrepancy, Gas Control would
433 contact ANR and resolve the discrepancy.

434 3. If the Gas Control Department's measurement verification between the
435 EFM equipment and nomination systems (North Shore's and pipelines'
436 nomination websites) indicates a discrepancy, the Gas Control Department will
437 contact the pipeline to resolve the discrepancy. Once Gas Control has resolved
438 all discrepancies, the Gas Supply Department will verify the amount of gas
439 nominated to the Gas Supply transaction tracking database ("TRM"). This
440 ensures that all gas nominated is recorded in TRM. The Fuel and Supply
441 Accounting Department confirms data from TRM with the pipelines' invoices.

442 4. ANR determines gas quality and heating value by use of onsite
443 chromatographs at its meter stations. Natural determines gas quality and

444 heating value by use of chromatographs at a point on its system near Joliet,
445 Illinois and at Peoples Gas' Manlove Field. North Shore independently monitors
446 gas quality and heating value by means of chromatographs owned by North
447 Shore at the Busse and Tonne Road stations. These chromatographs are
448 calibrated on a regular basis.

449 5. Internal Audit Services examines the accuracy and performance of
450 procedures identified by management as SOX controls annually during its
451 Sarbanes-Oxley Act of 2002, Section 404, testing to support management's
452 assertion that the internal control structure is operating as designed. These tests
453 include examination of the various records and reports used by the Fuel and
454 Supply Accounting Department to record volumetric and pricing information
455 including the various reconciliations to source measurement and pipeline
456 information.

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

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

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

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

469 1. Each of these pipelines rendered monthly statements of the quantity of
470 gas received on behalf of North Shore from each supplier at each receipt point
471 and the quantity of gas each transporter delivered to North Shore. The quantities
472 of gas received and delivered by each transporter were measured in accordance
473 with the General Terms and Conditions of its respective FERC Gas Tariff. North
474 Shore has access to transporters' measurement equipment at the receipt and
475 delivery points under the tariff provisions. The Fuel and Supply Accounting
476 Department verified the accuracy of each monthly statement based on records
477 maintained by the Gas Supply area in coordination with each transporting
478 pipeline.

479 2. Transportation charges for each of the various receipt points include a
480 percentage retained by the transporter from gas received for North Shore's
481 account to compensate for the transporter's compressor fuel and lost-and-
482 unaccounted-for gas. The Fuel and Supply Accounting Department reviewed for
483 accuracy the quantities that the transporter retained, the transportation and
484 storage charges and the reservation fees against published tariffs, contracts or
485 discount letters or agreements, as appropriate.

486 Q. Does this conclude your direct testimony?

487 A. Yes, it does.

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DIRECT TESTIMONY
OF
SONIA HOLLER

- 1 Q. Please state your name and business address.
- 2 A. Sonia Holler, 200 East Randolph Street, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. WEC Business Services LLC.
- 5 Q. What position do you hold with WEC Business Services LLC?
- 6 A. I am a Project Specialist 3 in Regulatory Affairs.
- 7 Q. What are your responsibilities in that position?
- 8 A. I am responsible for gas charge related matters involving the maintenance
- 9 and forecasts of gas fuel costs, gas charge revenues, reconciliation balances
- 10 and rates as they pertain to Rider 2 of the rate schedules for Respondent, North
- 11 Shore Gas Company ("North Shore"), and an affiliate, The Peoples Gas Light

12 and Coke Company (“Peoples Gas”). In addition, I am responsible for
13 performing activities related to rate and tariff administration.

14 Q. Please summarize your educational background and experience.

15 A. I have a Bachelor of Science Degree from Illinois Institute of Technology. I
16 have been employed by Peoples Gas or its affiliates since 1985 in various
17 positions in Gas Supply, State Regulatory Affairs, Gas Accounting and in the
18 Rates area. I have been in my present position since 2008.

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

20 A. North Shore is a corporation organized and existing under the laws of the
21 State of Illinois, having its principal office at 200 East Randolph Street, Chicago,
22 Illinois 60601. It is engaged in the business of purchasing, distributing and
23 selling natural gas to approximately 160,000 customers in Cook and Lake
24 Counties, Illinois. North Shore is a public utility within the meaning of the Public
25 Utilities Act.

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

27 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 22,
28 2016, the Illinois Commerce Commission (“Commission”) entered a citation order
29 (“order”) directed to Illinois gas utilities, including North Shore. The order
30 requires North Shore to present evidence to the Commission at a public hearing
31 in Docket No. 16-0564 reconciling revenue collected under the purchased gas
32 adjustment clause (Rider 2, Gas Charge, of North Shore’s Schedule of Rates)
33 with the actual costs prudently incurred and recoverable under Rider 2, for the
34 twelve months ended December 31, 2016. The order also requires North

35 Shore's filing to reflect fifteen specified data for each of its Gas Charges. The
36 order further requires that North Shore make notice of the filing of this evidence
37 under the requirements of 83 Illinois Administrative Code Part 255.

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

39 A. When North Shore made its filing in this proceeding, it placed copies of the
40 filed evidence, available for public inspection, in each of its offices. It also posted
41 public notice of the filing in each of these offices. Further, North Shore will cause
42 notice of the filing to be published in the Lake County News-Sun, a secular
43 newspaper of general circulation in North Shore's service territory, under the
44 requirements of 83 Illinois Administrative Code Part 255.

45 Q. Please describe NSG Ex. 2.1.

46 A. NSG Ex. 2.1 includes a copy of the audit report of North Shore's
47 independent public accountants, Deloitte & Touche LLP, and the verification by
48 North Shore's President and Chief Executive Officer, Charles Matthews. The
49 audit report includes a copy of North Shore's Statement to Illinois Commerce
50 Commission - Determination of Reconciliation Balance for Gas Charge for the
51 Year Ended December 31, 2016 ("2016 Statement") and Independent Auditors'
52 Report, as described in Rider 2, Section G, of North Shore's Schedule of Rates.

53 Q. Was the 2016 Statement prepared under your supervision and direction?

54 A. Yes, it was.

55 Q. Are the verification and the audit report true and correct copies of Mr.
56 Matthews' verification and the audit report of the independent public
57 accountants?

58 A. Yes, they are.

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

61 A. Each month, North Shore files a Commodity Gas Charge (“CGC”), a Non-
62 Commodity Gas Charge (“NCGC”), a Demand Gas Charge (“DGC”), and a
63 Storage Gas Charge (“SGC”). The sum of the CGC and NCGC is the Gas
64 Charge, which applies to all North Shore-supplied terms except standby terms
65 supplied to transportation customers.

66 The standby commodity charge applies to standby terms. North Shore
67 uses published price indices prescribed in the riders to determine the standby
68 commodity charge.

69 The CGC recovers commodity-related costs. The NCGC recovers non-
70 commodity related costs. The DGC also recovers non-commodity related costs
71 but from transportation customers. North Shore credits revenues arising from the
72 application of the DGC against the non-commodity related costs used in
73 computing the NCGC.

74 The SGC recovers non-commodity related costs from customers served
75 under Riders CFY and SST. The SGC applies to all storage capacity terms
76 allocated to or subscribed by customers served under these riders. North Shore
77 credits revenues arising from the application of the SGC against the non-
78 commodity related costs used in computing the NCGC. Given that the NCGC,
79 DGC, and SGC all recover non-commodity related costs, North Shore jointly
80 reconciles revenues recovered under these charges with such costs.

81 Q. The Commission's order requires North Shore to include certain data from
82 the prior reconciliation year in its determination of the current year's
83 reconciliation. Please specify any unamortized balance at December 31, 2015.

84 A. The unamortized balance at December 31, 2015, for each Gas Charge is
85 shown on Page 2, Line 1, of NSG Ex. 2.1. North Shore's unamortized Factor A
86 balance at December 31, 2015, reflects a refundable balance of \$1,265,138.57
87 for the CGC and a recoverable balance of \$654,518.77 for the NCGC, DGC and
88 SGC, for a total refundable balance of \$610,619.80. These amounts are also
89 shown on Page 2, Line 12, of North Shore's Statement to Illinois Commerce
90 Commission, Determination of Reconciliation Balance for Gas Charge for the
91 Year Ended December 31, 2015 ("2015 Statement"). North Shore filed this
92 document as NSG Ex. 2.1 with my direct testimony in Docket No. 15-0520,
93 reconciliation of revenues collected under gas adjustment charges with actual
94 costs prudently incurred for the period January 1, 2015, through December 31,
95 2015.

96 Q. Please specify the total adjustments to gas costs (that is, Factor A) that
97 were amortized to Schedule I in North Shore's 2015 monthly filings but were not
98 yet reconciled through Schedule II of North Shore's monthly filings at December
99 31, 2015.

100 A. Total unreconciled adjustments to gas costs (Factor A) reflect a refundable
101 amount of \$1,532,297.31 for the CGC and a recoverable amount of \$652,600.10
102 for the NCGC, DGC and SGC, for a total refundable Factor A of \$879,697.21.
103 These adjustments, for the reported months of November and December 2015,

104 were not yet reconciled at December 31, 2015. However, they are reflected in
105 the respective Gas Charges for the effective months of January and February
106 2016. These amounts are shown on Page 2, Line 2, of NSG Ex. 2.1. They are
107 also shown on Page 2, Line 13, of North Shore's 2015 Statement.

108 Q. What was North Shore's refundable or recoverable balance for the year
109 ended December 31, 2015?

110 A. North Shore's refundable or recoverable balance for the year ended
111 December 31, 2015, which is the sum of the amounts on Page 2, Lines 1 through
112 3, of NSG Ex. 2.1, reflects a refundable balance of \$2,797,435.88 for the CGC
113 and a recoverable balance of \$1,307,118.87 for the NCGC, DGC and SGC, for a
114 total refundable balance of \$1,490,317.01. These amounts are shown on Page
115 2, Line 4, of NSG Ex. 2.1. They are also shown on Page 2, Line 11 and Line 15,
116 of North Shore's 2015 Statement.

117 Q. What are North Shore's 2016 recoverable gas costs and revenues?

118 A. Recoverable gas costs and revenues are summarized and shown on Page
119 2, Line 5 and Line 6, respectively, of NSG Ex. 2.1. Recoverable gas costs
120 summarized and shown on Page 2, Line 5, of NSG Ex. 2.1 are \$54,655,930.11
121 for the CGC and \$21,665,781.13 for the NCGC, DGC and SGC, for a total of
122 \$76,321,711.24 to be recovered under the Gas Charge. Revenues arising
123 through the application of each Gas Charge summarized and shown on Page 2,
124 Line 6, of NSG Ex. 2.1 are \$51,653,172.30 for the CGC and \$23,148,913.15 for
125 the NCGC, DGC and SGC, for a total of \$74,802,085.45 recovered under the
126 Gas Charge. Recoverable gas costs and revenues are shown in more detail on

127 Pages 3 and 4 of NSG Ex. 2.1 for the CGC, and the NCGC, DGC and SGC,
128 respectively.

129 Q. Please specify the pipeline refunds or surcharges that North Shore
130 separately reported in 2016 monthly Gas Charge filings.

131 A. North Shore's 2016 monthly Gas Charge filings included no separately
132 reported pipeline refunds or surcharges.

133 Q. Please specify any other adjustments that North Shore separately reported
134 in 2016.

135 A. North Shore's 2016 monthly Gas Charge filings included no other
136 separately reported adjustments.

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

139 A. Interest, calculated pursuant to Section 525.50, for inclusion in
140 Adjustments for Gas Costs (Factor A) is shown on Page 2, Line 9, of NSG Ex.
141 2.1, and reflects a refundable amount of \$8,057.33 for the CGC and a
142 recoverable amount of \$601.34 for the NCGC, DGC and SGC, for a total
143 refundable amount of \$7,455.99.

144 Q. What was North Shore's over- or under- recovery for 2016?

145 A. North Shore's over- or under-recovery for 2016 is shown on Page 2, Line
146 10, of NSG Ex. 2.1. The over- or under-recovery for each Gas Charge can be
147 determined by deducting the amount on Line 6 (revenues arising through the
148 application of each Gas Charge) from the amount on Line 5 (costs recoverable
149 through each Gas Charge) and adding the amounts on Line 7 (separately

150 reported pipeline refunds or surcharges), Line 8 (separately reported other
151 adjustments), and Line 9 (interest). Using this calculation, North Shore's over- or
152 under-recovery for 2016 reflects an under-recovery of \$2,994,700.48 for the CGC
153 and an over-recovery of \$1,482,530.68 for the NCGC, DGC and SGC, for a total
154 under-recovery of \$1,512,169.80.

155 Q. Please specify the cumulative recovery balance for the reconciliation year.

156 A. The cumulative recovery balance for the reconciliation year, which reflects
157 the sum of the (refundable)/recoverable balances for prior periods and for the
158 year ended December 31, 2016, for each respective Gas Charge, is shown on
159 Page 2, Line 11, of NSG Ex. 2.1. This amount, which can be determined by
160 summing the amounts on Line 4 (prior period balance) and Line 10 (2016
161 balance), reflects an under-recovery of \$197,264.60 for the CGC and an over -
162 recovery of \$175,411.81 for the NCGC, DGC and SGC, for a total under-
163 recovery of \$21,852.79.

164 These amounts are also shown on line 15 and equal the sum of the
165 amounts shown on lines 12 (unamortized balance at the end of 2016), 13
166 (unreconciled adjustments to gas costs), and 14 (requested Factor O amounts).

167 Q. Please specify any unamortized balance at the end of 2016.

168 A. The unamortized balance at the end of 2016 is shown on Page 2, Line 12,
169 of NSG Ex. 2.1. North Shore's unamortized balance at the end of 2016 reflects a
170 recoverable balance of \$406,704.82 for the CGC and a refundable balance of
171 \$318,316 for the NCGC, DGC, and SGC, for a total recoverable amount of
172 \$88,388.82.

173 Q. Please specify any adjustments to gas costs that were not yet reconciled
174 through Schedule II of North Shore's monthly filings at December 31, 2016.

175 A. Total unreconciled adjustments to gas costs, which are shown on Page 2,
176 Line 13, of NSG Ex. 2.1, reflect a refundable amount of \$209,440.22 for the CGC
177 and a recoverable amount of \$142,904.19 for the NCGC, DGC and SGC, for a
178 total refundable balance of \$66,536.03. The unreconciled adjustments to gas
179 costs (Factor A), for the reported months of November and December 2016, are
180 not yet reconciled at the end of 2016. However, they are reflected in the
181 respective Gas Charges for the effective months of January and February, 2017.

182 Q. Please specify any Factor O amounts requested by North Shore for 2016.

183 A. North Shore is not requesting any Factor O amounts for 2016.

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

186 A. Yes. NSG Ex. 2.1 includes a summary of the detailed Schedule II,
187 Adjustments to Gas Costs (Factor A) reports that North Shore filed as part of its
188 monthly Gas Charge reports for 2016. Pages 5 and 6 of NSG Ex. 2.1 reflect
189 Schedule II reports filed for the CGC, and the NCGC, DGC and SGC,
190 respectively. These reports reflect the monthly reconciliation of recoverable gas
191 costs and Gas Charge revenues, adjustments to gas costs (Factor A), refunds
192 and other adjustments, Factor A amortizations and unamortized balances, Factor
193 O amortizations and unamortized balances, and interest determined for each
194 Gas Charge. Finally, Page 7 of NSG Ex. 2.1 contains notes that explain Gas
195 Charge reconciliation summary items noted on Page 2 of NSG Ex. 2.1.

196 Q. Does this conclude your direct testimony?

197 A. Yes, it does.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying Report to the 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, 2016, pursuant to Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above, presents fairly, in all material respects, the information set forth therein for the year ended December 31, 2016, in accordance with Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission.

Basis of Accounting

The Statement was prepared by the Company on the basis of Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Illinois Commerce Commission referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of 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 13, 2017

North Shore Gas Company

STATEMENT TO ILLINOIS COMMERCE COMMISSION

DETERMINATION OF RECONCILIATION BALANCE

FOR GAS CHARGE

FOR THE YEAR ENDED DECEMBER 31, 2016

North Shore Gas Company
Statement to Illinois Commerce Commission - Determination of Reconciliation Balance (1)
For the Year Ended December 31, 2016

<u>Line</u>		<u>Commodity Gas Charge (CGC)</u>	<u>Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge (NCGC, DGC and SGC)</u>	<u>Total Gas Charge</u>
Year Ended December 31, 2015				
1	Unamortized Balance at December 31, 2015 (Refund)/Recovery (2)	(\$1,265,138.57)	\$654,518.77	(\$610,619.80)
2	Factor A Adjustments unreconciled at December 31, 2015 (Refund)/Recovery (3)	(1,532,297.31)	652,600.10	(879,697.21)
3	Factor O to be (Refunded)/Recovered	0.00	0.00	0.00
4	Cumulative (Refundable)/Recoverable December 31, 2015 (Line 1 + Line 2 + Line 3)	(2,797,435.88)	1,307,118.87	(1,490,317.01)
Year Ended December 31, 2016				
5	Costs Recoverable through the Gas Charge (4)	54,655,930.11	21,665,781.13	76,321,711.24
6	Revenues Arising through Application of the Gas Charge (5)	51,653,172.30	23,148,913.15	74,802,085.45
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	(8,057.33)	601.34	(7,455.99)
10	(Over)/Under Recovery For Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	2,994,700.48	(1,482,530.68)	1,512,169.80
11	Cumulative (Over)/Under Recovery Balance For Reconciliation Year (Line 4 + Line 10)	197,264.60	(175,411.81)	21,852.79
12	Unamortized Balance at December 31, 2016 (Refund) / Recovery (Line 11 - Line 13) (6)	\$406,704.82	(\$318,316.00)	\$88,388.82
13	Factor A Adjustments unreconciled at December 31, 2016 (Refund)/Recovery (7)	(209,440.22)	142,904.19	(66,536.03)
14	Factor O to be (Refunded)/Recovered in Future Periods	\$0.00	\$0.00	\$0.00
15	Cumulative (Over)/Under Recovery Balance For Reconciliation Year (Line 12 + Line 13 + Line 14) = Line 11	197,264.60	(175,411.81)	21,852.79

North Shore Gas CompanySTATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE
FOR THE COMMODITY GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2016

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2016				
1.	Gas Costs by Type:			
	a. Purchases	\$ 65,465,205.09		
	b. Liability For Redelivery of Customer-Owned Gas	<u>(936,454.32)</u>		
2.	TOTAL GAS COSTS		\$ 64,528,750.77	Sum Lines 1a - 1b
3.	Less: Franchise Gas	\$ (358,361.56)		
4.	a. Add: Gas Withdrawn from Storage	21,650,471.12		
	b. Less: Gas Injected into Storage	<u>(31,170,648.74)</u>		
5.	Less: Off-System Transaction Revenues	0.00		
6.	Less: Penalty / Imbalance Charge Revenues	<u>(8,822.11)</u>		
7.	a. Less: "Cash-Out" Schedule Revenues	<u>(53,743.77)</u>		
	b. Add: "Cash-Out" Schedule Costs	<u>68,284.40</u>		
8.	TOTAL OTHER COSTS / REVENUES		<u>(9,872,820.66)</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 54,655,930.11	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Commodity Gas Charge Revenues		<u>51,653,172.30</u>	
11.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
12.	Interest		(8,057.33)	
13.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>2,994,700.48</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 STORAGE GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2016				
1.	Gas Costs by Type:			
	a. Transportation	\$ 8,587,195.36		
	b. Storage	18,141,972.29		
	c. Demand Gas Charge Revenues	(1,549,760.92)		
	d. Storage Gas Charge Revenues	<u>(2,221,612.48)</u>		
2.	TOTAL GAS COSTS		\$ 22,957,794.25	Sum Lines 1a - 1d
3.	Less: Franchise Gas	\$ (46,800.95)		
4.	a. Add: Gas Withdrawn from Storage	2,827,486.90		
	b. Less: Gas Injected into Storage	(4,072,699.07)		
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>(1,292,013.12)</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 21,665,781.13	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Non-Commodity Gas Charge Revenues	23,135,299.25		
	b. Excess Bank Charge	13,613.90		
	c. Storage and Balancing Charges	<u>0.00</u>		
11.	TOTAL REVENUES		<u>23,148,913.15</u>	Sum Lines 10a - 10c
12.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
13.	Interest		601.34	
14.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>(1,482,530.68)</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, 2016

Line	Reported Month	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
		November 2015	December	January 2016	February	March	April	May	June	July	August	September	October	November	December	Total 2016	
	Effective Month	January 2016	February	March	April	May	June	July	August	September	October	November	December	January 2017	February		
1	Actual Recoverable Costs - Reported Month	5,225,361.94	6,721,159.74	10,889,430.51	7,939,384.34	4,591,985.11	4,151,780.52	1,866,424.29	816,274.03	1,589,550.53	1,530,483.96	1,570,145.32	2,387,170.27	4,986,711.41	12,336,589.82	54,655,930.11	1
2	Actual Recoveries - Reported Month	5,133,258.62	6,499,378.82	9,464,651.20	8,828,542.95	5,649,987.16	3,506,270.99	1,639,377.51	1,218,996.84	1,116,706.27	1,151,551.71	1,376,911.07	2,598,855.52	5,014,111.45	10,087,209.63	51,653,172.30	2
3	Under/(Over) Recovery - Reported Month	92,103.32	221,780.92	1,424,779.31	(889,158.61)	(1,058,002.05)	645,509.53	227,046.78	(402,722.81)	472,844.26	378,932.25	193,234.25	(211,685.25)	(27,400.04)	2,249,380.19	3,002,757.81	3
4	Factor A Included in Reported Month	(283,947.57)	(662,318.92)	(732,030.06)	(800,267.25)	(153,474.35)	(301,716.76)	(388,255.06)	(196,331.22)	(450,070.36)	(179,456.96)	(113,355.02)	(110,493.66)	(215,137.06)	(315,988.36)	(3,956,576.12)	4
5	Factor O Included in Reported Month	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
6	Adjusted (Over)/Under Recovery - Reported Month	(191,844.25)	(440,538.00)	692,749.25	(1,689,425.86)	(1,211,476.40)	343,792.77	(161,208.28)	(599,054.03)	22,773.90	199,475.29	79,879.23	(322,178.91)	(242,537.10)	1,933,391.83	(953,818.31)	6
7	Refunds/Pipeline Surcharges/Other Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7
8	Unamortized Balance Including Previous Interest	(2,163,850.18)	(1,624,340.90)	(1,265,138.57)	(419,089.52)	(1,807,551.45)	(2,631,868.95)	(2,092,616.52)	(1,804,506.00)	(2,225,029.78)	(2,089,771.24)	(1,780,543.87)	(1,486,146.55)	(1,492,958.91)	(1,164,796.06)		8
9	Total Adjustments Before Amortization	(2,355,694.43)	(2,064,878.90)	(572,389.32)	(2,108,515.38)	(3,019,027.85)	(2,288,076.18)	(2,253,824.80)	(2,403,560.03)	(2,202,255.88)	(1,890,295.95)	(1,700,664.64)	(1,808,325.46)	(1,735,496.01)	768,595.77		9
10	Total Amortization	(732,030.06)	(800,267.25)	(153,474.35)	(301,716.76)	(388,255.06)	(196,331.22)	(450,070.36)	(179,456.96)	(113,355.02)	(110,493.66)	(215,137.06)	(315,988.36)	(571,669.81)	362,229.59	(2,633,719.03)	10
11	Unamortized Balance - Factor A	(1,623,664.37)	(1,264,611.65)	(418,914.97)	(1,806,798.62)	(2,630,772.79)	(2,091,744.96)	(1,803,754.44)	(2,224,103.07)	(2,088,900.86)	(1,779,802.29)	(1,485,527.58)	(1,492,337.10)	(1,163,826.20)	406,366.18		11
12	Unamortized Balance - Factor O	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12
13	Total Unamortized Balances	(1,623,664.37)	(1,264,611.65)	(418,914.97)	(1,806,798.62)	(2,630,772.79)	(2,091,744.96)	(1,803,754.44)	(2,224,103.07)	(2,088,900.86)	(1,779,802.29)	(1,485,527.58)	(1,492,337.10)	(1,163,826.20)	406,366.18		13
14	Interest	(676.53)	(526.92)	(174.55)	(752.83)	(1,096.16)	(871.56)	(751.56)	(926.71)	(870.38)	(741.58)	(618.97)	(621.81)	(969.86)	338.64	(8,057.33)	14
15	Unamortized Balance Including Interest	(1,624,340.90)	(1,265,138.57)	(419,089.52)	(1,807,551.45)	(2,631,868.95)	(2,092,616.52)	(1,804,506.00)	(2,225,029.78)	(2,089,771.24)	(1,780,543.87)	(1,486,146.55)	(1,492,958.91)	(1,164,796.06)	406,704.82		15

North Shore Gas Company
Statement to Illinois Commerce Commission - Determination of Reconciliation Balance
Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge

Summary of Schedule II
For the Year Ended December 31, 2016

Line		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
		Reported Month	Effective Month	January 2016	February	March	April	May	June	July	August	September	October	November	December	January 2017	
1	Actual Recoverable Costs - Reported Month	2,722,072.23	2,671,092.38	3,308,469.90	2,993,277.94	2,800,927.77	1,183,590.26	812,859.92	891,088.70	730,877.75	947,743.07	1,205,906.74	1,476,608.20	2,790,539.99	2,523,890.89	21,665,781.13	1
2	Actual Recoveries - Reported Month	1,781,771.32	2,197,078.56	3,932,356.23	3,584,614.83	2,354,951.10	2,069,701.06	1,124,470.04	568,217.68	564,440.68	455,849.34	500,538.56	1,019,230.48	1,993,094.84	4,981,448.31	23,148,913.15	2
3	Under/(Over) Recovery - Reported Month	940,300.91	474,013.82	(623,886.33)	(591,336.89)	445,976.67	(886,110.80)	(311,610.12)	322,871.02	166,437.07	491,893.73	705,368.18	457,377.72	797,445.15	(2,457,557.42)	(1,483,132.02)	3
4	Factor A Included in Reported Month	(15,213.60)	(21,767.91)	158,414.97	494,185.13	50,320.21	23,759.52	65,860.96	(60,707.99)	(36,714.64)	(50,624.46)	(6,184.77)	51,515.45	371,134.83	1,113,049.86	2,174,009.07	4
5	Factor O Included in Reported Month	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
6	Adjusted (Over)/Under Recovery - Reported Month	925,087.31	452,245.91	(465,471.36)	(97,151.76)	496,296.88	(862,351.28)	(245,749.16)	262,163.03	129,722.43	441,269.27	699,183.41	508,893.17	1,168,579.98	(1,344,507.56)	690,877.05	6
7	Refunds/Pipeline Surcharges/Other Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.00	7
8	Unamortized Balance Including Previous Interest	(70,776.91)	696,185.39	654,518.77	138,785.00	17,881.17	448,503.89	(353,286.54)	(562,555.36)	(249,871.94)	(114,012.23)	275,856.48	604,156.69	-	937,747.95	-	8
9	Total Adjustments Before Amortization	854,310.40	1,148,431.30	189,047.41	41,633.24	514,178.05	(413,847.39)	(599,035.70)	(300,392.33)	(120,149.51)	327,257.04	975,039.89	1,113,049.86	1,168,579.98	(406,759.61)	-	9
10	Total Amortization	158,414.97	494,185.13	50,320.21	23,759.52	65,860.96	(60,707.99)	(36,714.64)	(50,624.46)	(6,184.77)	51,515.45	371,134.83	1,113,049.86	231,612.84	(88,708.65)	1,664,313.16	10
11	Unamortized Balance - Factor A	695,895.43	654,246.17	138,727.20	17,873.72	448,317.09	(353,139.40)	(562,321.06)	(249,767.87)	(113,964.74)	275,741.59	603,905.06	-	936,967.14	(318,050.96)	-	11
12	Unamortized Balance - Factor O	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12
13	Total Unamortized Balance	695,895.43	654,246.17	138,727.20	17,873.72	448,317.09	(353,139.40)	(562,321.06)	(249,767.87)	(113,964.74)	275,741.59	603,905.06	-	936,967.14	(318,050.96)	-	13
14	Interest	289.96	272.60	57.80	7.45	186.80	(147.14)	(234.30)	(104.07)	(47.49)	114.89	251.63	-	780.81	(265.04)	601.34	14
15	Unamortized Balance Including Interest	696,185.39	654,518.77	138,785.00	17,881.17	448,503.89	(353,286.54)	(562,555.36)	(249,871.94)	(114,012.23)	275,856.48	604,156.69	-	937,747.95	(318,316.00)	-	15

North Shore Gas Company
Statement to Illinois Commerce Commission
Determination of Reconciliation Balance for Gas Charge
For the Year Ended December 31, 2016

Notes

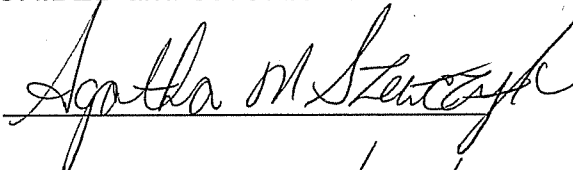
- (1) North Shore Gas Company (the “Company”) maintains its financial books and records in accordance with accounting principles generally accepted in the United States of America. This Statement to Illinois Commerce Commission – Determination of Reconciliation Balance for Gas Charge has been prepared from the financial books and records of the Company on the basis of Section G of the Company’s Rider 2, in effect and on file with the Illinois Commerce Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Illinois Commerce Commission.
- (2) Unamortized (refundable)/recoverable balance at December 31, 2015. For the Commodity Gas Charge, see Page 5, Line 15, Column B. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 6, Line 15, Column B.
- (3) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2016 and February 1, 2016 and not yet reconciled for the reporting months of November 2015 and December 2015, 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 Storage 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 Storage Gas Charge provided on Page 4.
- (5) 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 Storage Gas Charge provided on Page 4.
- (6) Unamortized balance at December 31, 2016. For the Commodity Gas Charge, see Page 5, Line 15, Column N. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 6, Line 15, Column N.
- (7) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2017 and February 1, 2017 and not yet reconciled for the reporting months of November 2016 and December 2016, 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 Storage Gas Charge, see Page 6, Line 10 and sum the amounts in Column M and Column N.

STATE OF ILLINOIS)
)
COUNTY OF COOK)

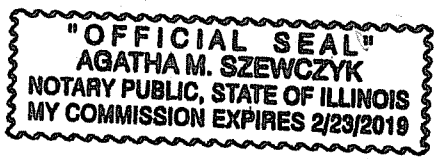
Charles Matthews, of lawful age, being first duly sworn on oath, states that he is President and Chief Executive Officer of North Shore Gas Company; that he has read the foregoing Statement to Illinois Commerce Commission - Determination of Reconciliation Balance for Gas Charge for the Year Ended December 31, 2016, and knows the contents thereof; and that the facts therein stated are true to the best of his knowledge, information and belief.

By: 
Charles Matthews
President and Chief Executive
Officer

SUBSCRIBED and SWORN TO before me this 12th day of April, 2017.

By: 

My Commission Expires: 2/23/2019



STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
North Shore Gas Company)	
)	Docket No. 16-0564
)	
)	
Reconciliation of revenues)	
collected under gas adjustment)	
charges with actual costs prudently)	
incurred.)	

NOTICE OF FILING AND CERTIFICATE OF SERVICE

I hereby certify that North Shore Gas Company filed its direct testimony on the Illinois Commerce Commission's e-docket system and served by electronic mail upon each person designated in the official service list compiled in this proceeding, Docket No. 16-0564, in accordance with requirements of the Commission's Rules of Practice.

Dated at Chicago, Illinois, this 13th day of April, 2017.

By: /S/ MARY KLYASHEFF

Mary Klyasheff
An Attorney for
North Shore Gas Company