

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
North Shore Gas Company)	Docket No. 18-1739
)	
)	
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 2018 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 2018 supply and capacity and the resulting gas costs that North Shore
25 billed to customers.

26 **2018 PROCUREMENT OVERVIEW**

27 Q. Please describe North Shore's 2018 gas supply procurement process.

28 A. WBS provides services to North Shore under an affiliated interest
29 agreement that the Illinois Commerce Commission ("Commission") approved. In
30 general, Gas Supply Department personnel 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 2018 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 to accommodate the need for additional or reduced
53 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 two
57 general forms: field baseload and field call. .

58 Q. Please describe the field baseload form of purchases.

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

64 Q. Please describe the field call form of purchases.

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

72

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

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

78 Also, a significant portion of North Shore’s end use market opts for
79 deliveries of customer-owned gas under North Shore’s Schedule of Rates. This
80 gas was another source available to North Shore for system supply. However,

81 North Shore did not know the customer-owned gas quantity that it would receive
82 until customers and their suppliers nominated it and North Shore and the
83 pipelines confirmed it.

84 Q. How many suppliers did North Shore purchase from during the
85 reconciliation period?

86 A. During 2018 North Shore purchased gas from 30 suppliers.

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

89 A. During 2018 North Shore purchased the majority of its supply under firm
90 contracts with suppliers. It made these purchases under the terms of the
91 contracts that North Shore had with each supplier. North Shore purchased a
92 portion of its total supply volumes as spot purchases from various suppliers. It
93 made spot purchases, on an as-needed basis, from suppliers under the terms of
94 the contracts that North Shore had with each supplier.

95 Most capacity (both pipeline storage and transportation) transactions are
96 subject to contracts with the pipelines and the pipelines' Federal Energy
97 Regulatory Commission ("FERC") Gas Tariffs. North Shore also had a
98 Commission-approved firm transportation service with Northern Illinois Gas
99 Company d/b/a Nicor Gas Company and a Commission-approved storage
100 service with Peoples Gas.

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

103 A. No.

104 Q. Did North Shore conduct any after-the-fact analyses of its 2018 gas supply
105 procurement?

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

108 REQUESTS FOR PROPOSALS

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

111 A. Yes. The RFP process allows the market to competitively bid to
112 determine the fair value of the products sought. North Shore issued RFPs, with
113 specific directions to bidders, for the types of firm supply it purchased. The goal
114 of the RFP process is to reach as broad a market as possible to meet North
115 Shore’s requirements. North Shore attempted to be as clear as possible in what
116 it was seeking and what it would consider a conforming bid. This practice
117 provided North Shore with objective criteria with which to eliminate non-
118 conforming bids and make a comparison of conforming bids.

119 Q. You stated that North Shore tried to be as clear as possible when it
120 structured its RFPs. Please explain what you mean.

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

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

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

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

139 A. For its summer purchases (the months of April through October), North
140 Shore purchased firm supply on a monthly basis through a blast-type instant
141 message request process to several suppliers. It sent the instant message to at
142 least 10 suppliers each month. Like the RFP process described above, the
143 content of the instant message stated the location or locations where North
144 Shore was seeking baseload supply tied to the FOM index at the point(s). As a
145 check on the market, North Shore's traders had access to Intercontinental
146 Exchange Inc. ("ICE"), an electronic trading platform, which provided real time
147 trading information at the relevant locations.

148 Q. Why did North Shore use this process?

149 A. Prior to 2012, North Shore used a more seasonally structured RFP
150 process that resulted in baseload purchases that were fixed by location for the
151 season. While this was an effective process, it lacked flexibility to respond to
152 pipeline curtailments due to maintenance and *force majeure* restrictions that
153 limited transportation from any given location. The monthly baseload purchase

154 process allows North Shore to move the purchases around to avoid the
155 restrictions and limit the need to reconfigure or otherwise renegotiate the
156 baseload agreement with the seller.

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

159 A. No. North Shore completed one RFP prior to 2018 for gas that flowed in
160 2018. The types of supply procured under the RFP were baseload and non-
161 baseload, *i.e.*, call gas supplies.

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

164 A. The award criteria were lowest price first and, where applicable,
165 secondary considerations. Secondary considerations were the nomination
166 deadline, credit and the pipeline on which the supply was to be delivered.
167 Another criterion was vendor diversity, where applicable. In addition, for the non-
168 baseload RFP supplies, North Shore used a bid valuation model to evaluate
169 swing and call supply products with varying price, term and quantity attributes on
170 an equal footing.

171 Q. Did North Shore issue RFPs in 2018 for gas that flowed in 2018?

172 A. Yes. North Shore completed eight RFPs in 2018 for gas that flowed in
173 2018. The types of supply procured under those RFPs were summer 2018
174 baseload, winter 2018-2019 baseload and non-baseload, *i.e.*, call gas supplies.
175 The seven summer supply RFPs are discussed above.

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

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

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

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

188 **CITYGATE PURCHASES**

189 Q. Did North Shore purchase gas at the citygate in 2018?

190 A. Yes. North Shore purchased spot gas delivered at the citygate in 2018.
191 Citygate purchases accounted for about 1.4% of total purchase quantities and
192 about 1.6% of total purchase costs.

193

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

195 A. North Shore buys spot gas at the citygate to meet demands that vary daily
196 and are in excess of the transportation capacity held on interstate pipelines.
197 Also, North Shore buys at the citygate when it is economically favorable.

198 **SUPPLY INTERRUPTIONS**

199 Q. Did North Shore experience any supply interruptions in 2018?

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

203 **TRANSPORTATION AND STORAGE CAPACITY**

204 Q. Did any significant changes to North Shore's transportation and storage
205 capacity portfolio affect the 2018 portfolio?

206 A. Yes. North Shore modified and extended existing transportation and
207 storage contracts with ANR Pipeline Company's ("ANR"). North Shore also
208 extended existing transportation contracts with Nicor Gas Company and Northern
209 Border Pipeline Company ("Northern Border").

210 Q. Did any pipeline outages, interruptions, or restrictions affect North Shore
211 during 2018?

212 A. Yes. Natural Gas Pipeline Company of America ("Natural") experienced
213 outages and imposed restrictions during 2018.

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

216 A. Yes. North Shore received a total of \$46,143.22 in reservation credits
217 from Natural in April, May, August and November.

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

220 A. Yes. For the entire year North Shore incurred \$143.41 of overrun charges
221 on Natural.

222 Q. How did North Shore's planned and actual use of storage compare in
223 2018?

224 A. North Shore begins each season with an established storage plan based
225 on normal weather, estimated customer-owned gas deliveries and assumptions
226 for other factors not precisely known at the time it creates the plan. North Shore
227 cannot reasonably plan for other storage activity, notably no-notice balancing.
228 As a result, actual storage use will never exactly match planned storage use for a
229 given month, and North Shore may need to revise storage plans for future
230 months to accommodate these differences. During 2018, actual storage
231 withdrawals of 10,796 Mdth were approximately 394 Mdth (3.5%) less than
232 planned. The decreased planned withdrawals for the year were due to balancing
233 activities throughout the year.

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

236 A. Yes. Through a Commission-approved contract with Peoples Gas, North
237 Shore purchases a storage service. This storage accounts for 14% of North
238 Shore's peak day demand and about 11% of the capacity in its annual storage
239 capacity portfolio.

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

241 A. Yes.

242 Q. Please describe North Shore's use of the LP facility in 2018.

243 A. The LP facility was not used in 2018 to support any daily or hourly
244 deliveries.

245

246 **RESERVE MARGIN**

247 Q. What was North Shore's design day reserve margin in 2018?

248 A. North Shore's 2018 design day reserve margin was approximately 4%.

249 North Shore describes its design day calculation in detail in the response to Staff
250 data request ENG 1.17. In general, North Shore defines its design day as the
251 sendout expected to occur on a January weekday with a temperature of -19
252 degrees Fahrenheit (equivalent to 84 degree days) and an average wind speed
253 of 22 miles per hour ("mph") following a day with a temperature of -2 degrees
254 Fahrenheit and an average wind speed of 17 mph where the weather-normalized
255 monthly sales and number of customers are consistent with North Shore's most
256 recent normal weather budget forecast for the January containing the design day.
257 The temperature and wind data are based on a weighted average of two weather
258 stations (O'Hare and Waukegan). The percentage weighting comes from a
259 GasDay[®] weather optimization study.

260 The reserve margin is intended to ensure that North Shore will be able to
261 serve its customers under extreme conditions. Because of the serious effects on
262 public health and safety of a gas outage, in addition to the difficulties of restoring
263 gas service, it is imperative that North Shore plans for extreme conditions. Firm
264 gas supply and deliverability to North Shore's distribution system were thus set at
265 levels that provide a margin over North Shore's projected peak day requirements.
266 This reserve margin was necessary to accommodate, among other things, the
267 fact that North Shore is located near the end of Natural's and ANR's facilities, the

268 possibility of deliverability shortfalls in connection with storage and flow gas, and
269 the fact that requirements could exceed design day projections.

270 **PRICE RISK MANAGEMENT**

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

273 A. North Shore took several steps to address price volatility. During the year,
274 North Shore followed a price protection program, approved by the Wholesale
275 Energy and Fuel Financial Risk and Compliance group of WBS in March 2017,
276 which was specifically designed to mitigate the effects of gas price volatility. This
277 program protected a significant portion of North Shore's purchases using
278 approved financial derivative tools including fixed price swaps, call options,
279 synthetic calls, or consumer collars (purchasing call options and selling put
280 options simultaneously). These purchases were either hedged physically
281 through fixed forward purchases directly with a supplier or through the use of
282 financial derivative instruments. Under the plan, North Shore began executing its
283 hedges nineteen months prior to the start of each season (*i.e.*, winter or
284 summer). The timing of the transaction execution follows a time driven matrix
285 approach and results in 100% of the planned hedges in place prior to the start of
286 the season. Under normal weather conditions, North Shore would expect to
287 hedge between 25% and 50% of its annual purchases under this plan with a
288 target of 37.5%.

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

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

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

294 A. For the reconciliation period, 39% of actual annual purchases were
295 financially hedged. While the financially hedged percentage was above the
296 37.5% target noted above, it was within the plan parameters.

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

298 A. The “time driven matrix” approach means that North Shore executed its
299 hedge transactions on a defined schedule, unless predefined market conditions
300 were met and North Shore elected to accelerate its financial hedge purchases.
301 This contrasts with, for example, purchasing all of the hedges eighteen months
302 prior or waiting until one month prior to the hedged period to purchase the
303 hedges.

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

306 A. No.

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

308 A. No.

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

310 A. North Shore’s purchases under its price protection programs partially
311 insulated customers against price volatility. By taking fixed price positions on a
312 large portion of the anticipated baseload purchases, North Shore can dampen
313 the effect that large swings in gas prices have on its total gas costs. This leads

314 to more stable prices for North Shore's customers. In the absence of this
315 program, customers would be exposed to the full risk of market fluctuations.
316 North Shore's price protection strategies were not aimed at guaranteeing the
317 lowest possible price for gas. The purpose is to mitigate volatility.

318 **INTERSTATE SERVICES**

319 Q. Did North Shore enter into any off-system gas sales for resale during
320 2018?

321 A. Yes. North Shore entered into off-system sales transactions supported by
322 approximately 2.0% of North Shore's purchases in terms of quantity and
323 approximately 2.4% in terms of cost for the year. These transactions were for
324 asset optimization reasons.

325 Q. Did North Shore release any capacity in 2018?

326 A. Yes. North Shore released 25,000 dth/day Natural FT from NGPL's
327 interconnect with Rockies Express Pipeline (Rex) for the term November 1,
328 2018-March 31, 2019. This capacity release helped bring North Shore's 2019
329 Design Peak Day Reserve Margin closer to its targeted level of 3%. North Shore
330 also released 20,000 dth/day of ANR transport to storage capacity for the term
331 December 1, 2018-March 31, 2019 and certain Natural and Northern Border
332 transportation capacity that could be used to support peak day deliveries for the
333 term November 1, 2018-March 31, 2019. All capacity releases were recallable.

334 Q. Did North Shore acquire any capacity through a capacity release in 2018?

335 A. No. However in 2018, North Shore acquired a portion of Natural NSS
336 storage and the related FT from its affiliate, Peoples Gas that extends into 2019.

337 AFFILIATE TRANSACTIONS

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

340 A. Yes. In addition to the capacity release mentioned above, North Shore
341 purchased a storage service from Peoples Gas under a Commission-approved
342 agreement.

343 PRUDENCE OF 2018 GAS COSTS

344 Q. Were North Shore's incurred expenditures for 2018 gas supply prudent?

345 A. Yes. The 2018 incurred gas supply expenditures reflected North Shore's
346 continuing efforts to minimize the cost of its gas supply consistent with
347 operational and contractual constraints and the statutory obligation to provide
348 adequate and reliable service to customers throughout the year. In particular,
349 following RFP processes, North Shore purchased supply from a diverse pool of
350 suppliers to fill its storage services and to supply its customers. It purchased
351 supply at the citygate and in the field, which both diversifies the pricing applicable
352 to those purchases and enhances reliability. It met a large portion of its peak day
353 and seasonal requirements from storage. It also used storage to help it balance
354 its system on a daily and intra-day basis. Finally, it hedged a significant portion
355 of its annual purchases, which helps to mitigate price volatility for customers.

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

358 A. Yes. North Shore made efforts to maintain adequate, reliable services
359 from pipeline transporters and to keep gas costs to a minimum by active

360 participation in its pipeline transporters' rate and certificate proceedings and
361 other matters before the FERC. North Shore monitored the filings of its pipeline
362 suppliers of storage and transportation services -- Natural, Northern Border and
363 ANR. In addition, North Shore monitored FERC rulemaking and policy
364 proceedings.

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

369 **MEASUREMENT AND MONITORING OF PIPELINE DELIVERIES**

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

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

374 1. Gas that Natural delivered to North Shore is registered by North
375 Shore's electronic flow measurement ("EFM") equipment located at three
376 locations (excluding direct pipeline supplied customer locations), with a combined
377 total of seven meters. The quantities of gas received and delivered by Natural
378 were measured in accordance with the General Terms and Conditions of its
379 FERC Gas Tariff. North Shore has access to Natural's measurement equipment
380 at the receipt and delivery points under the tariff provisions to verify flow
381 calculations. The Gas Control Department reviewed and monitored the accuracy
382 of energy that was billed at all seven of those meters. If the Gas Control

383 Department's measurement review indicated a discrepancy, the Gas Control
384 Department would contact Natural to resolve the discrepancy. Natural also
385 calibrates its EFM equipment periodically. A North Shore representative may be
386 present at these calibrations. North Shore's representative is present for
387 physical changes (e.g., orifice plate inspection or replacement) involving a meter.

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

399 3. If the Gas Control Department's measurement verification between the
400 EFM equipment and nomination systems (North Shore's and pipelines'
401 nomination websites) indicates a discrepancy, the Gas Control Department will
402 contact the pipeline to resolve the discrepancy. Once Gas Control has resolved
403 all discrepancies, the Gas Supply Department will verify the amount of gas
404 nominated to the Gas Supply transaction tracking database ("TRM"). This

405 ensures that all gas nominated is recorded in TRM. The Fuel and Supply
406 Accounting Department confirms data from TRM with the pipelines' invoices.

407 4. ANR uses onsite chromatographs at its meter stations to determine
408 gas quality and heating value. Natural uses chromatographs at a point on its
409 system near Joliet, Illinois and at Peoples Gas' Manlove Field to determine gas
410 quality and heating value. North Shore uses chromatographs it owns at the
411 Busse and Tonne Road stations to independently monitor gas quality and
412 heating value. These chromatographs are calibrated on a regular basis.

413 5. Internal Audit Services examines the accuracy and performance of
414 procedures that management identified as SOX controls annually during its
415 Sarbanes-Oxley Act of 2002, Section 404, testing to support management's
416 assertion that the internal control structure is operating as designed. These tests
417 include examination of the various records and reports that the Fuel and Supply
418 Accounting Department used to record volumetric and pricing information
419 including the various reconciliations to source measurement and pipeline
420 information.

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

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

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

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

433 1. Each of these pipelines rendered monthly statements of the quantity of
434 gas received on behalf of North Shore from each supplier at each receipt point
435 and the quantity of gas each transporter delivered to North Shore. The quantities
436 of gas received and delivered by each transporter were measured in accordance
437 with the General Terms and Conditions of its respective FERC Gas Tariff. North
438 Shore has access to transporters' measurement equipment at the receipt and
439 delivery points under the tariff provisions. The Fuel and Supply Accounting
440 Department verified the accuracy of each monthly statement based on records
441 maintained by the Gas Supply area in coordination with each transporting
442 pipeline.

443 2. Transportation charges for each receipt point include a percentage
444 retained by the transporter from gas received for North Shore's account to
445 compensate for the transporter's compressor fuel and lost-and-unaccounted-for
446 gas. The Fuel and Supply Accounting Department reviewed for accuracy the
447 quantities that the transporter retained, the transportation and storage charges
448 and the reservation fees against published tariffs, contracts or discount letters or
449 agreements, as appropriate.

450 Q. Does this conclude your direct testimony?

451 A. Yes, it does.

STATE OF ILLINOIS
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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 26,
28 2018, 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. 18-1739 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, 2018. 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, 2018 ("2018 Statement") and Independent Auditors'
52 Report, as described in Rider 2, Section G, of North Shore's Schedule of Rates.

53 Q. Was the 2018 Statement prepared by you or under your supervision and
54 direction?

55 A. Yes, it was.

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

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 therms except standby therms
65 supplied to transportation customers.

66 The standby commodity charge applies to standby therms. 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 therms
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, 2017.

84 A. The unamortized balance at December 31, 2017, 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, 2017, reflects a recoverable balance of \$103,071.98 for
87 the CGC and a recoverable balance of \$190,527.16 for the NCGC, DGC, and
88 SGC, for a total recoverable amount of \$293,599.14. 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, 2017 ("2017 Statement"). North Shore filed this
92 document as NSG Ex. 2.1 with my direct testimony in Docket No.17-1016,
93 reconciliation of revenues collected under gas adjustment charges with actual
94 costs prudently incurred for the period January 1, 2017, through December 31,
95 2017.

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 2017 monthly filings but were not
98 yet reconciled through Schedule II of North Shore's monthly filings at December
99 31, 2017.

100 A. Total unreconciled adjustments to gas costs (Factor A) reflect a refundable
101 amount of \$57,605.62 for the CGC and a recoverable amount of \$93,150.16 for
102 the NCGC, DGC and SGC, for a total recoverable balance of \$35,544.54. These
103 adjustments, for the reported months of November and December 2017, were

104 not yet reconciled at December 31, 2017. However, they are reflected in the
105 respective Gas Charges for the effective months of January and February 2018.
106 These amounts are shown on Page 2, Line 2, of NSG Ex. 2.1. They are also
107 shown on Page 2, Line 13, of North Shore's 2017 Statement.

108 Q. What was North Shore's refundable or recoverable balance for the year
109 ended December 31, 2017?

110 A. North Shore's refundable or recoverable balance for the year ended
111 December 31, 2017, which is the sum of the amounts on Page 2, Lines 1 through
112 3, of NSG Ex. 2.1, reflects an under-recovery of \$45,466.36 for the CGC and an
113 under-recovery of \$283,677.32 for the NCGC, DGC and SGC, for a total under-
114 recovery of \$329,143.68. These amounts are shown on Page 2, Line 4, of NSG
115 Ex. 2.1. They are also shown on Page 2, Line 11 and Line 15, of North Shore's
116 2017 Statement.

117 Q. What are North Shore's 2018 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 \$67,659,562.54
121 for the CGC and \$26,261,046.21 for the NCGC, DGC and SGC for a total of
122 \$93,920,608.75 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 \$65,255,976.71 for the CGC and \$26,720,601.41 for
125 the NCGC, DGC and SGC, for a total of \$91,976,578.12 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 2018 monthly Gas Charge filings.

131 A. North Shore's 2018 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 2018.

135 A. North Shore's 2018 monthly Gas Charge filings included no other
136 separately reported adjustments.

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

139 A. Interest, calculated under Section 525.50, for inclusion in Adjustments for
140 Gas Costs (Factor A) is shown on Page 2, Line 9, of NSG Ex. 2.1, and reflects a
141 refundable amount of \$3,637.97 for the CGC and a refundable amount of
142 \$22,659.54 for the NCGC, DGC and SGC, for a total refundable amount of
143 \$26,297.51.

144 Q. What was North Shore's over- or under- recovery for 2018?

145 A. North Shore's over- or under-recovery for 2018 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 2018 reflects an under-recovery of \$2,399,947.86 for the CGC
153 and an over-recovery of \$482,214.74 for the NCGC, DGC and SGC, for a total
154 under-recovery of \$1,917,733.12.

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, 2018, 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 (2017
161 balance), reflects an under-recovery of \$2,445,414.22 for the CGC and an over-
162 recovery of \$198,537.42 for the NCGC, DGC and SGC, for a total under-
163 recovery of \$2,246,876.80.

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 2017), 13
166 (unreconciled adjustments to gas costs), and 14 (Factor O amounts).

167 Q. Please specify any unamortized balance at the end of 2018.

168 A. The unamortized balance at the end of 2018 is shown on Page 2, Line 12,
169 of NSG Ex. 2.1. North Shore's unamortized balance at the end of 2018 reflects a
170 recoverable balance of \$896,558.84 for the CGC and a refundable balance of
171 \$196,035.06 for the NCGC, DGC, and SGC, for a total recoverable amount of
172 \$700,523.78.

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, 2018.

175 A. Total unreconciled adjustments to gas costs, which are shown on Page 2,
176 Line 13, of NSG Ex. 2.1, reflect a recoverable amount of \$1,548,855.38 for the
177 CGC and a refundable amount of \$2,502.36 for the NCGC, DGC and SGC, for a
178 total recoverable balance of \$1,546,335.02. The unreconciled adjustments to
179 gas costs (Factor A), for the reported months of November and December 2018,
180 are not yet reconciled at the end of 2018. However, they are reflected in the
181 respective Gas Charges for the effective months of January and February, 2019.

182 Q. Please specify any Factor O amounts requested by North Shore for 2018.

183 A. North Shore is not requesting any Factor O amounts for 2018.

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 2018. 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.



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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, 2018, 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, 2018, 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

NSG Ex. 2.1.

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 the Board of Directors 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 12, 2019

North Shore Gas Company

STATEMENT TO ILLINOIS COMMERCE COMMISSION

DETERMINATION OF RECONCILIATION BALANCE

FOR GAS CHARGE

FOR THE YEAR ENDED DECEMBER 31, 2018

North Shore Gas Company
Statement to Illinois Commerce Commission - Determination of Reconciliation Balance (1)
For the Year Ended December 31, 2018

<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, 2017				
1	Unamortized Balance at December 31, 2017 (Refund)/Recovery (2)	\$103,071.98	\$190,527.16	\$293,599.14
2	Factor A Adjustments unreconciled at December 31, 2017 (Refund)/Recovery (3)	(57,605.62)	93,150.16	35,544.54
3	Factor O to be (Refunded)/Recovered	0.00	0.00	0.00
4	Cumulative (Refundable)/Recoverable December 31, 2017 (Line 1 + Line 2 + Line 3)	45,466.36	283,677.32	329,143.68
Year Ended December 31, 2018				
5	Costs Recoverable through the Gas Charge (4)	67,659,562.54	26,261,046.21	93,920,608.75
6	Revenues Arising through Application of the Gas Charge (5)	65,255,976.71	26,720,601.41	91,976,578.12
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	(3,637.97)	(22,659.54)	(26,297.51)
10	(Over)/Under Recovery For Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	2,399,947.86	(482,214.74)	1,917,733.12
11	Cumulative (Over)/Under Recovery Balance For Reconciliation Year (Line 4 + Line 10)	2,445,414.22	(198,537.42)	2,246,876.80
12	Unamortized Balance at December 31, 2018 (Refund) / Recovery (Line 11 - Line 13) (6)	\$896,558.84	(\$196,035.06)	\$700,523.78
13	Factor A Adjustments unreconciled at December 31, 2018 (Refund)/Recovery (7)	1,548,855.38	(2,502.36)	1,546,353.02
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	2,445,414.22	(198,537.42)	2,246,876.80

North Shore Gas Company

**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE
FOR THE COMMODITY GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2018**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 30, 2018				
1.	Gas Costs by Type:			
	a. Purchases	\$ 62,967,325.01		
	b. Liability For Redelivery of Customer-Owned Gas	<u>1,642,381.68</u>		
2.	TOTAL GAS COSTS		\$ 64,609,706.69	Sum Lines 1a - 1b
3.	Less: Franchise Gas	\$ (462,716.19)		
4.	a. Add: Gas Withdrawn from Storage	31,059,665.72		
	b. Less: Gas Injected into Storage	<u>(27,154,447.34)</u>		
5.	Less: Off-System Transaction Revenues	0.00		
6.	Less: Penalty / Imbalance Charge Revenues	<u>(167,279.63)</u>		
7.	a. Less: "Cash-Out" Schedule Revenues	<u>(365,988.96)</u>		
	b. Add: "Cash-Out" Schedule Costs	<u>140,622.25</u>		
8.	TOTAL OTHER COSTS / REVENUES		<u>3,049,855.85</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 67,659,562.54	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Commodity Gas Charge Revenues		<u>65,255,976.71</u>	
11.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
12.	Interest		(3,637.97)	
13.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>2,399,947.86</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, 2018**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
	ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 30, 2018			
1.	Gas Costs by Type:			
	a. Transportation	\$ 6,867,240.45		
	b. Storage	23,063,421.80		
	c. Demand Gas Charge Revenues	(1,632,438.27)		
	d. Storage Gas Charge Revenues	<u>(2,502,797.36)</u>		
2.	TOTAL GAS COSTS		\$ 25,795,426.62	Sum Lines 1a - 1d
3.	Less: Franchise Gas	\$ (49,292.79)		
4.	a. Add: Gas Withdrawn from Storage	3,409,020.66		
	b. Less: Gas Injected into Storage	<u>(2,894,108.88)</u>		
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>465,618.99</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 26,261,045.61	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Non-Commodity Gas Charge Revenues	26,747,733.27		
	b. Excess Bank Charge	(27,131.86)		
	c. Storage and Balancing Charges	<u>0.00</u>		
11.	TOTAL REVENUES		<u>26,720,601.41</u>	Sum Lines 10a - 10c
12.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
13.	Interest		(22,659.54)	
14.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>(482,215.34)</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, 2018

Line		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
	Reported Month	November 2017	December	January 2018	February	March	April	May	June	July	August	September	October	November	December	Total 2018	
	Effective Month	January 2018	February	March	April	May	June	July	August	September	October	November	December	January 2019	February		
1	Actual Recoverable Costs - Reported Month	5,658,382.00	10,492,973.75	11,542,732.70	11,452,868.97	6,486,063.53	6,163,400.14	969,485.11	2,841,773.83	964,754.75	1,202,364.41	891,091.97	3,864,235.67	9,144,407.68	12,136,383.78	67,659,562.54	1
2	Actual Recoveries - Reported Month	5,146,234.05	9,775,722.98	11,959,237.59	10,461,086.25	7,729,458.41	7,051,850.22	1,171,660.60	2,189,335.58	1,009,013.23	994,543.92	1,159,681.78	2,892,970.09	7,309,086.59	11,328,052.45	65,255,976.71	2
3	Under/(Over) Recovery - Reported Month	512,147.95	717,250.77	(416,504.89)	991,782.72	(1,243,394.88)	(888,450.08)	(202,175.49)	652,438.25	(44,258.48)	207,820.49	(268,589.81)	971,265.58	1,835,321.09	808,331.33	2,403,585.83	3
4	Factor A Included in Reported Month	(850,489.28)	(86,114.70)	(202,909.59)	145,303.97	(516,342.50)	435,520.26	(42,528.35)	(74,459.09)	(95,868.80)	(91,495.90)	(121,487.28)	(134,327.87)	(143,065.19)	(15,496.97)	(857,157.31)	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	(338,341.33)	631,136.07	(619,414.48)	1,137,086.69	(1,759,737.38)	(452,929.82)	(244,703.84)	577,979.16	(140,127.28)	116,324.59	(390,077.09)	836,937.71	1,692,255.90	792,834.36	1,546,428.52	6
7	Refunds/Pipeline Surcharges/Other Adjustments	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	7
8	Unamortized Balance Including Previous Interest	(246,979.05)	(382,888.80)	103,071.98	(0.00)	702,443.39	(1,016,034.10)	(1,396,247.96)	(1,547,014.35)	(878,636.21)	(898,397.81)	(648,555.03)	(896,686.39)	(44,307.02)	1,330,943.56		8
9	Total Adjustments Before Amortization	(585,320.38)	248,247.27	(516,342.50)	1,137,086.69	(1,057,293.99)	(1,468,963.92)	(1,640,951.80)	(969,035.19)	(1,018,763.49)	(782,073.22)	(1,038,632.12)	(59,748.68)	1,647,948.88	2,123,777.92		9
10	Total Amortization	(202,909.59)	145,303.97	(516,342.50)	435,520.26	(42,528.35)	(74,459.09)	(95,868.80)	(91,495.90)	(121,487.28)	(134,327.87)	(143,065.19)	(15,496.97)	319,772.35	1,229,083.03	749,303.69	10
11	Unamortized Balance - Factor A	(382,410.79)	102,943.30	(0.00)	701,566.43	(1,014,765.64)	(1,394,504.83)	(1,545,083.00)	(877,539.29)	(897,276.21)	(647,745.35)	(895,566.93)	(44,251.71)	1,328,176.53	894,694.89		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		12
13	Total Unamortized Balances	(382,410.79)	102,943.30	(0.00)	701,566.43	(1,014,765.64)	(1,394,504.83)	(1,545,083.00)	(877,539.29)	(897,276.21)	(647,745.35)	(895,566.93)	(44,251.71)	1,328,176.53	894,694.89		13
14	Interest	(478.01)	128.68	0.00	876.96	(1,268.46)	(1,743.13)	(1,931.35)	(1,096.92)	(1,121.60)	(809.68)	(1,119.46)	(55.31)	2,767.03	1,863.95	(3,637.97)	14
15	Unamortized Balance Including Interest	(382,888.80)	103,071.98	(0.00)	702,443.39	(1,016,034.10)	(1,396,247.96)	(1,547,014.35)	(878,636.21)	(898,397.81)	(648,555.03)	(896,686.39)	(44,307.02)	1,330,943.56	896,558.84		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, 2018

Line		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
		Reported Month	Effective Month	January 2018	February	March	April	May	June	July	August	September	October	November	December	January 2019	
1	Actual Recoverable Costs - Reported Month	2,854,075.33	4,188,246.01	3,898,388.95	3,556,216.79	3,195,622.22	1,622,287.95	1,116,183.75	1,152,918.77	1,097,631.15	1,219,446.04	1,213,265.23	1,453,045.71	3,227,077.84	3,508,961.21	26,261,045.61	1
2	Actual Recoveries - Reported Month	2,799,852.17	4,454,236.30	5,361,038.48	4,616,685.48	3,621,536.79	2,786,889.80	522,823.78	883,644.03	422,331.66	345,546.67	451,317.74	1,086,253.79	2,809,633.15	3,812,900.04	26,720,601.41	2
3	Under/(Over) Recovery - Reported Month	54,223.16	(265,990.29)	(1,462,649.53)	(1,060,468.69)	(425,914.57)	(1,164,601.85)	593,359.97	269,274.74	675,299.49	873,899.37	761,947.49	366,791.92	417,444.69	(303,938.83)	(459,555.80)	3
4	Factor A Included in Reported Month	172,100.87	322,876.90	43,268.98	49,881.18	(228,450.15)	(281,708.70)	(77,468.33)	(81,646.49)	(76,963.32)	(97,673.02)	(88,105.85)	(232,033.22)	(170,168.22)	(141,883.27)	(1,382,950.41)	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	226,324.03	56,886.61	(1,419,380.55)	(1,010,587.51)	(654,364.72)	(1,446,310.55)	515,891.64	187,628.25	598,336.17	776,226.35	673,841.64	134,758.70	247,276.47	(445,822.10)	(1,842,506.21)	6
7	Refunds/Pipeline Surcharges/Other Adjustments	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	7
8	Unamortized Balance Including Previous Interest	0.00	183,283.87	190,527.16	(1,001,653.74)	(1,732,695.72)	(2,312,479.10)	(3,681,739.59)	(3,092,745.74)	(2,810,953.78)	(2,127,167.40)	(1,120,306.46)	(276,641.97)	0.00	199,695.55		8
9	Total Adjustments Before Amortization	226,324.03	240,170.48	(1,228,853.39)	(2,012,241.25)	(2,387,060.44)	(3,758,789.65)	(3,165,847.95)	(2,905,117.49)	(2,212,617.61)	(1,350,941.05)	(446,464.82)	(141,883.27)	247,276.47	(246,126.55)		9
10	Total Amortization	43,268.98	49,881.18	(228,450.15)	(281,708.70)	(77,468.33)	(81,646.49)	(76,963.32)	(97,673.02)	(88,105.85)	(232,033.22)	(170,168.22)	(141,883.27)	47,996.09	(50,498.45)	(1,478,602.93)	10
11	Unamortized Balance - Factor A	183,055.05	190,289.30	(1,000,403.24)	(1,730,532.55)	(2,309,592.11)	(3,677,143.16)	(3,088,884.63)	(2,807,444.47)	(2,124,511.76)	(1,118,907.83)	(276,296.60)	0.00	199,280.38	(195,628.10)		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		12
13	Total Unamortized Balance	183,055.05	190,289.30	(1,000,403.24)	(1,730,532.55)	(2,309,592.11)	(3,677,143.16)	(3,088,884.63)	(2,807,444.47)	(2,124,511.76)	(1,118,907.83)	(276,296.60)	0.00	199,280.38	(195,628.10)		13
14	Interest	228.82	237.86	(1,250.50)	(2,163.17)	(2,886.99)	(4,596.43)	(3,861.11)	(3,509.31)	(2,655.64)	(1,398.63)	(345.37)	0.00	415.17	(407.56)	(22,659.54)	14
15	Unamortized Balance Including Interest	183,283.87	190,527.16	(1,001,653.74)	(1,732,695.72)	(2,312,479.10)	(3,681,739.59)	(3,092,745.74)	(2,810,953.78)	(2,127,167.40)	(1,120,306.46)	(276,641.97)	0.00	199,695.55	(196,035.66)		15

North Shore Gas Company
Statement to Illinois Commerce Commission
Determination of Reconciliation Balance for Gas Charge
For the Year Ended December 31, 2018

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, 2017. 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, 2018 and February 1, 2018 and not yet reconciled for the reporting months of November 2017 and December 2017, 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, 2018. 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, 2019 and February 1, 2019 and not yet reconciled for the reporting months of November 2018 and December 2018, 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)

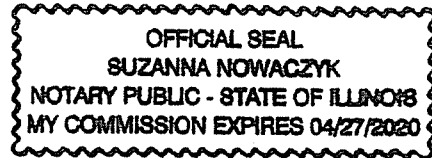
Charles Matthews, of lawful age, being first duly sworn on oath, states that he is President and Chief Executive Officer of North Shore Gas Company; that he has read the foregoing Statement to Illinois Commerce Commission - Determination of Reconciliation Balance for Gas Charge for the Year Ended December 31, 2018, 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
Charles Matthews
President and Chief Executive
Officer

SUBSCRIBED and SWORN TO before me this 10th day of April, 2019.

By: Suzanna Nowaczyk

My Commission Expires: 4-27-2020



STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
North Shore Gas Company)	
)	Docket No. 18-1739
)	
)	
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 **Direct Testimony and Exhibits** 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. 18-1739, in accordance with requirements of the Commission’s Rules of Practice.

Dated at Chicago, Illinois, this 12th day of April, 2019.

By: /S/ KOBY BAILEY

Koby Bailey
An Attorney for
North Shore Gas Company