I. Refund

A. According to the February 28th filings, the Commission may choose any method of disbursing the proposed $100 million settlement that it sees fit. What methods of disbursing the refund are available to the Commission?

RESPONSE: Generally, the Commission’s options are either to have the $100 million refund distributed through the PGA, which would distribute the refund on a “usage” basis or as a direct refund paid to customers as a separate credit on a per capita basis.

Distribution Through PGA on Usage Basis
If the refund is distributed through the PGA, it would be distributed to customers of The Peoples Gas Light and Coke Company (“Peoples Gas”) and North Shore Gas Company (“North Shore”) (collectively “the Companies”) through Factor O of the Gas Charge pursuant to 83 Ill. Admin. Code § 525.60(b).

If the refund is distributed through Factor O, the Commission has three ways this could be done:

a. The Companies are willing to accelerate the $100 refund to be distributed as quickly as possible even though not contemplated by the Settlement Agreement by distributing it as quickly as possible through Factor O beginning within thirty days of approving the Settlement Agreement, which would eliminate the payment of prospective interest;¹

b. amortized over twelve months, with prospective interest as allowed in the Illinois Administrative Code; or

c. two separate Factor O amounts of $50 million, one within 30 days of approving the Settlement Agreement and the other eleven months latter, with interest paid on the second $50 million as allowed by the Illinois Administrative Code.

Distribution as Direct Refund on Per Capita Basis

The January 17, 2006 Settlement Agreement (the “Settlement Agreement”) provided for the $100 million refund to be distributed to the current customers of the Companies on a per capita basis in two $50 million installments: one within 30 days of approval of the Settlement Agreement, and the second 12 months thereafter. This refund would be delivered as a direct credit on each customer’s billing statement. It is the position of the Settling Parties that in the context of a settlement, the Commission has the discretion to fashion the payment of a refund in such a manner.

B. According to the February 28th filing by the Attorney General (“AG”), Peoples Gas and North Shore Gas (“the Companies”) agree to pay prospective interest according to Illinois Administrative Code parts 525.60(b) and 280.70(e)(1). How did the parties decide that this is the appropriate way to determine interest? If the Commission approves the settlement, what happens if the refund is disbursed through a means other than through the PGA?

Response: This means of determining prospective interest on any unpaid portion of the refund pending its distribution was suggested by ICC Staff and the

¹ It is expected that the $100 million refund will be larger than the actual gas costs for the month of April 2006, so may need to be amortized over more than one month, with appropriate interest.
Companies agreed to pay interest calculated on this basis during the course of settlement negotiations. If the refund is disbursed through a means other than through the PGA, the Companies agree to pay interest similarly calculated for any portion of the refund that remains unpaid as if it were being distributed through the PGA, with the total amount of such interest being paid to the Companies’ customers on a per capita basis. If the $100 million is paid at one time, then no prospective interest will be necessary.

C. According to the AG’s February 26th memo, the value of the settlement is “more than adequate” to address the harm caused by the companies.

i. Is the value referred to here the $100 refund plus prospective interest? If not, what is the “value” referred to here?

Response: The “value” referred to is the value of all the consideration to be paid by the Companies as part of the Settlement Agreement: the $100 million refund, any prospective interest on that amount, the forgiveness to individual customers of $207 million in bad debt from Fiscal Year 2000 through 2005, the reconnection and debt forgiveness of Hardship Cases, the up to $5 million per year for 6 years paid for conservation and weatherization programs up to $30 million, the write-off of the $52.3 million in projected bad debt expense for fiscal year 2006, the $9.4 million in credits for Hub revenue that will flow through the gas charge this fiscal year and the over $10.6 million in Hub revenue that will not be contested in the Fiscal Year 2005 reconciliation proceeding.

ii. The AG believes that the refund amount is more than adequate since most of the questionable activities with Enron took place during the 2000 reconciliation year. Please detail any accounting or economic analysis to support its conclusion that the $100 million refund is “more than adequate”?

Response: The Companies provided documentation and explanation to the ICC Staff and parties demonstrating that the consideration to be paid by the Companies under the Settlement Agreement was a fair value for compromise of the outstanding reconciliation dockets in light of the potential disallowances that could be recovered for those fiscal years through future litigation.

The Companies will file a separate response to the ICC Staff’s statement of estimated disallowances for the relevant fiscal years, both the ICC Staff’s original $240 million estimate for Fiscal Years 2000 and 2002 through 2005 and its revised estimate disclosed publicly in the ICC Staff’s filing on March 1, 2006.
D. What is the time frame that interest will be accrued with regards to the refund amount?

i. Will interest be calculated from the end of the reconciliation period (September 1, 2001)? If not, why not?

Response: The potential for the recovery of interest was a factor considered by the Settling Parties in determining the overall value of consideration to be paid by the Companies in the Settlement Agreement. In agreeing to the total package of consideration to be paid by the Companies (refund plus non-refund components of the Settlement Agreement), however, the Settling Parties did not assign specific values of that consideration to particular components of potential disallowances or interest. If the Commission believes it necessary, however, some portion of the $100 million refund can be identified as being a compromise amount for pre-Final Order interest.

ii. Will interest be accrued only during the year in which the refund will be paid out?

Response: Yes, if a portion of the refund remains pending, then interest will accrue on that portion of the refund until it is paid. This is the only provision for the calculation and payment of interest agreed to by the parties, although as stated above, the potential for payment of pre-Final Order interest was considered by the Settling Parties in reaching the total value of consideration to be paid by the Companies under the Settlement Agreement.

iii. The proposed amendments to the Settlement Agreement state “that the ICC may order refund payments to be made in 12 equal payments not including interest accumulated as agreed to in Amendment Section 5 below.” What does this mean?

Response: This was agreed to in response to a proposal from ICC Staff. See the Companies’ response to Data Request I.A, above, for the description of the distribution methods the Companies believe the Commission should choose from.

E. How will customers who received service during the 2000-2004 reconciliation years but are no longer Peoples or North Shore customers benefit from this?

Response: With respect to the $100 million refund, as is typically the case of any refund ordered to be paid through Factor O in a reconciliation proceeding, former customers of the Companies would not benefit from the payment of the $100 million refund whether it is distributed to current customers on a usage basis through the PGA or a per capita basis as outlined in the Settlement
Agreement. The Companies state, however, that the Attorney General outlined a plan to allocate a portion of the first payment received under the Conservation and Weatherization provision of the Settlement Agreement (Section II) to establish a fund to make payments to former customers from the relevant time period. Such customers with bad debt will benefit from the forgiveness of that bad debt from Fiscal Years 2000 through 2005.

F. Have the companies conducted any analysis of consumption patterns of their residential customers?

**Response:** Yes, the Companies regularly assess and analyze consumption patterns of their customers, including residential customers, by service classification, class and heating type. This includes analysis of heating, base load and total usage as well as average usage per customer.

i. Since lower income households generally cannot afford to purchase more efficient furnaces and water heaters and may not have appropriate windows and insulation, do these households consume more natural gas than other households?

**Response:** The Companies do not have any specific analysis on whether low income households consume more natural gas than other households. However, the level of gas usage depends on more than the energy efficiency of the dwelling unit and appliances. It also depends on the type, size and location of the dwelling unit, personal habits and heating preferences, price sensitivity and the number of occupants in the household. The level of a customer’s gas usage is driven by all these factors.

ii. Is the statement true that wealthier customers will receive a greater benefit from the $100 million refund if it is distributed on a usage basis?

**Response:** While the Companies do not possess any analysis proving that wealthier customers will receive a greater benefit from the refund if it is distributed on a usage basis, it is a practical conclusion that wealthier customers are more likely to be heating larger homes which may consume more gas than a low-income customer. Moreover, on a usage basis, commercial customers have a significantly larger usages than residential customers and thus will receive larger refunds than residential customers generally.

II. **Hardship Reconnection**

Please explain in detail how the “Hardship Reconnection” program will work.

A. What are the parameters of the program?
Response: The Hardship Reconnect program is designed to provide a safety net for residential heating customers who have been disconnected for non-payment and who have not been able to qualify under other reconnection programs. For persons qualifying for this program, the Companies will forgive their debt, remove any adverse reporting from their credit bureau reports and reconnect their service without charge. For the purposes of this program the Companies, with input from other parties, established a definition of hardship as a customer whose income was up to 200% of the poverty level (based on family members in the household). For elderly or disabled customers this income threshold is up to 300% of the poverty level. In addition, for customers to be reconnected under the Hardship Reconnect program, they need to still reside at the premise where their service was disconnected, must still be off the system and must not be unauthorized users of the system (i.e., not involved in theft of service). Customers may be reconnected under this program by designation of the Attorney General, the City of Chicago or the Companies.

B. How will the eligible customers initially be identified?

Response: As part of the Hardship Reconnect program described in the January 17th Settlement Agreement the Companies identified approximately 12,000 residential heating customers whose service was disconnected for non-payment. These customers comprise the group eligible for reconnect under this program. As announced in the Companies’ March 1 Report, “Peoples Companies have agreed to permanently enact the ‘Hardship Cases’ provisions for Section IV of the Agreement to allow those defined as Hardship cases in the Agreement to continue to seek reconnection”.

C. How will the companies keep track of eligible customers throughout the course of the program?

Response: We have identified the approximately 12,000 customers described above and have created a database with their address and arrears information. In addition, we will identify these customers within our Customer Information System so any company employee who accesses the customer’s account will be able to identify this customer as “Hardship Reconnect Eligible”.

D. Once a customer is reconnected under this program, will the Companies disconnect that customer if future arrearages occur? If customers continue to accrue debt, will the Companies automatically forgive that debt?

Response: Once a customer is reconnected under the Hardship Reconnect program they will be considered a “normal” customer. Regular collection activities would commence on any past due balances that accrue for service after
the date on which the customer is reconnected. The Companies will not automatically forgive future debt on these accounts.

E. How does permanently instating this program “add value” to the agreement in real dollar amounts?

Response: The principal value of this program is in the safety net that it provides to customers facing hardships that are not otherwise contemplated. If any of these customers contact the Company to establish service at the same address as the original disconnection they will be able to have their debt forgiven, any adverse actions on their credit report removed, and their service reconnected without charge. While it is difficult to estimate the total dollar value of this program, the Companies already have reconnected 828 customers under this program, with average balances of $1,960 each. The Companies have preliminarily estimated that they will forgive as much as $3.9M in debt during the first few months of the program.

F. Will the Companies forego recovery of any or all expenses associated with this program for as long as the program is in existence?

Response: Yes, the Companies will forego recovery of all expenses for as long as the program is in effect.

G. How will the Companies keep track of the expenses associated with this program?

Response: The Companies are keeping an up-to-date database of all customers who are reconnected pursuant to Hardship Reconnection program. This database includes the total accounts receivable balance forgiven for each account. From this database the Companies can calculate the total expenses associated with the program.

H. Will receiving benefits under this program affect whether these customers may receive LIHEAP or Good Samaritan Initiative benefits?

Response: No receiving benefits under this program will not effect whether customers can receive benefits under LIHEAP or Good Samaritan.

I. If someone qualifies for the Hardship Reconnection Program is there a limit as to the years of participation?

Response: The Companies will assess eligibility for the Hardship program on a case by case basis. If an individual incurs hardship circumstances in a
subsequent year, they will be eligible for this safety net protection if the foregoing requirements of the program are met.

J. Is it possible for the customers that qualify for this Program to never have to pay a natural gas bill?

Response: Customers reconnected under the Hardship Reconnection program are fully responsible for all accrued balances once they are reconnected. See also response to Data request II.D, above.

K. Do the Companies intend to submit detailed reports describing the progress of the program and number of participants to the Commission on a regular basis?

Response: Yes, the Companies will submit detailed reports describing the progress of the program and the number of participants if desired by the Commission.

L. Explain Item 7 of the February 28th filings. Specifically, how do the Companies plan to continue this program into the future? Additionally, once a consumer is identified as meeting the criteria for the program, would there be a limit on the amount of times they could be reconnected after disconnection for non payment?

Response: We have identified approximately 12,000 customers and have created a database with their information. We will also identify these customers within our Customer Information System so any company employee who accesses the customer account will be able to identify this customer as “Hardship Reconnect Eligible”. The Companies will evaluate the success of the program after this initial year and in subsequent years, will take whatever further steps are needed to provide a meaningful safety net for hardship cases that would otherwise go without gas service.

When any of these customers contact the Companies to establish service at the same premise, the Companies will be able to identify them as potentially eligible for this offer. If the customer meets the requirements of the program, we will offer to forgive their debt, remove any adverse credit data from their credit bureau reports and reconnect their service.

III. Conservation and weatherization programs

A. According to the January 17 agreement, up to $30 million will be paid to the City of Chicago and the AG over six years to develop conservation and weatherization programs. Is it correct that Peoples Energy Corporation, the Companies’ parent, will be paying for these programs?
Response: No, the Companies will be paying these amounts.

B. Does either PGL or North Shore intend to seek recovery (through base rates or otherwise) for amounts paid by the parent company for these programs?

Response: No, neither Company intends to seek recovery of the specific dollars paid to the City and Attorney General for conservation programs. In the future the Companies may propose their own conservation programs and would intend to seek recovery of those costs.

C. Is this provision subject to Commission approval? If yes, why?

Response: The entire Settlement Agreement as a whole is subject to Commission Approval. Under the terms of the Settlement Agreement (see Section II.A), the payment by the Companies of funds for conservation and weatherization programs is contingent upon the Commission’s approval of the Settlement Agreement. The reason is that the payment of such funds by the Companies would be made as part of the consideration given in exchange for a compromise settlement of the outstanding reconciliation dockets, so that if there is no settlement and litigation of the reconciliation dockets continues, the Companies will not pay this consideration.

IV. Management proposals

A. According to the January 17th agreement, the Companies agree to update their operating agreements. What updates do they intend to include?

Response: The Companies are currently parties to an operating agreement (what the Companies refer to as an intercompany services agreement) that is dated July 17, 1969, and that was approved by the Illinois Commerce Commission in Docket No. 55071 by order dated September 10, 1969. In Docket Nos. 01-0706 and 01-0707, the Companies agreed to amend the current agreement and stated that, given how old the existing agreement was and the changes that have taken place in the organization of Peoples Energy Corporation and its subsidiaries, a new agreement made sense. The Companies intend to file a new agreement that, relative to the current agreement, describes in much more detail, the furnishing of facilities, provision of services and transfers of assets, and the associated charges for each type of activity. Each category of transaction and the associated charges would be defined with more precision than exists in the current agreement. The Companies anticipate that the new agreement would be modeled on agreements approved by the Commission for other Illinois utilities, such as the agreement for Northern Illinois Gas Company.
approved in Docket 00-0537. The new agreement will be filed and be subject to Commission approval.

B. According to the same agreement, the Companies agree to perform annual internal audits of gas purchasing practices for five years and submit a copy of the reports to the Manager of the ICC’s Accounting Department. What five year period does this provision intend to cover?

Response: The five years to be covered by this provision would be Fiscal Years 2006 through 2010.

C. According to the same document, the Companies agree to engage an outside consultant to conduct a management audit of gas purchasing practices, gas storage operations and storage activities. What period of time will this audit cover? Do the Companies intend to recover the costs associated with this audit through base rates or otherwise?

Response: As outlined in the Settlement Agreement and Finding 15 of the ALJ’s Proposed Order, this management audit is to be an audit completed within 18 months after the entry of a final order. The parties have agreed that the audit can include an examination of Fiscal Years 1999 through 2004 for purposes of making prospective behavioral and other recommendations, but not to suggest any further monetary adjustments. The Companies do not plan to recover the costs of this audit through base rates or otherwise.

D. According to the February 28th filings, the Companies agree to comply with findings 7, 8, 9, 11, 12, 14 and 15 of ALJ Sainsot’s proposed order in Docket 01-0707.

i. Finding 7 would require the companies to update their operating agreements. The Companies already agreed to do this in the January 17th agreement. How does this improve the settlement agreement?

Response: This agreement was made at the request of ICC Staff and adds value because it ensures that the Companies’ revision of their operating agreements complies with the scope and timing requirements set forth in the ALJ’s Proposed Order.

ii. Finding 15 would require the Companies to engage outside consultants to conduct management audits of gas purchasing practices, gas storage operations and storage activities. Most of the parties already agreed to the substance of Finding 15 in the January 15th agreement. How
does agreeing to abide by Finding 15 improve the settlement?

**Response:** This agreement was made at the request of ICC Staff and adds value because it ensures that the audit to be performed complies with the scope and timing requirements set forth in the ALJ’s Proposed Order.

### iii. Finding 13

Finding 13 directs Peoples to perform an annual internal audit of gas purchasing and submit a copy of the audit report to the Manager of the Commission’s Accounting Department. Why is Finding #13 not included as part of the Settlement Agreement? This appears to be a “good faith” gesture that the Companies can make to demonstrate to the Commission that it is seriously looking at its PGA transactions.

**Response:** The substance of Finding #13 was agreed to by the Settling Parties in the Settlement Agreement at Section III.A.2, which provides: “For a period of five years, Peoples Gas and North Shore Gas each shall perform an annual internal audit of gas purchasing and submit a copy of the audit report to the Manager of the ICC’s Accounting Department.” This presumably is why ICC Staff did not raise a concern regarding Finding #13 in its Recommendations to the Commission on the Settlement Agreement. If the Commission believes the better way to indicate that the Companies are agreeing to perform what is required by Finding #13 from the Proposed Order is to refer explicitly to that finding, then the Companies will do so in a revised settlement agreement.

### iv. Addition 3

Addition 3 of the February 28\textsuperscript{th} revised settlement terms excludes finding 10 of the PEPO which requires Peoples to account for all of its third-party non-Commission tariff revenues. However, Addition number 1 of the February 28\textsuperscript{th} filing includes the language from this finding. Do the Companies intend to agree to finding 10 of the PEPO?

**Response:** In their filings advising the Commission of the revised settlement terms agreed to by the Settling Parties, the Settling Parties did not just refer to Finding #10 from the Proposed Order because the Settling Parties wanted to make clear that the Companies would, in settlement, agree to account for its third-party non-Commission tariff revenues by flowing them through the PGA going forward as well as for Fiscal Year 2001. Accordingly, the Settling Parties used the language they did because they viewed this as a more expansive agreement than the language of Finding #10, which will add immediate value to ratepayers because the Companies will not contest this issue in its fiscal year 2005 reconciliation proceeding, will not litigate this issue as part of its next rate case, and will begin using these revenues to offset PGA costs now.
This means that now, in Fiscal Year 2006, an additional approximately $9.4 million will be credited to the gas charges to offset gas costs for ratepayers in Fiscal Year 2006. Hub revenues to date (through February 2006) for Fiscal Year 2006 total approximately $7.3 million and could be credited to the PGA as early as in the April gas charge filing. Expected Hub revenues for the remainder of Fiscal Year 2006 total $2.1 million and could be credited to the gas charge on a monthly basis as they are booked.

Furthermore, when the Fiscal Year 2005 reconciliation is concluded, a refund including an amount for Hub revenues that year will be ordered. Hub revenues for Fiscal Year 2005 were $10,662,268.

v. If the Commission does not enter a Proposed Order in Docket 01-0707 how will these findings be formally incorporated in the Settlement?

Response: The Commission can enter a final order that includes or incorporates the terms of the Settlement Agreement, as revised by the Settling Parties, or enter a order attaching the Settlement Agreement with addendum containing the additional terms as an appendix to its final order in the reconciliation dockets being resolved by this settlement.

V. Projected Bad Debt

A. According to Section V of the January 17th settlement, the Companies agree to absorb, record and write off approximately $52.3 million in bad debt accumulating in fiscal year 2006.

i. Please define “absorb”.
ii. Please define “record”.
iii. Please define “write off”.

Response: $52.3 million is the mid-December projection or estimate of the fiscal 2006 (year ending September 30, 2006) accounting provision for bad debt expense for financial reporting purposes.

i. “Absorb” means that this amount will reduce fiscal 2006 earnings.
ii. “Record” means that this amount will be reflected as bad debt expense in the Companies’ financial statements.
iii. “Write-off” means that accounts receivable for this amount are expected to be deemed uncollectible and removed from the Companies’ accounting records.
B. In the same section, the Companies agree not to pursue collection of any bad debt relating to “hardship cases”. Do the Companies intend to pursue collection of bad debt amounts from non-hardship cases if this debt is “written off”? If so, how will the companies treat any amounts collected, in terms of both accounting and cost recovery?

Response: According to the terms of the January 17th Settlement Agreement, the Companies fully intend to pursue collection of bad debt amounts from non-hardship cases whether or not this debt is written-off. However, under the revised terms of the Settlement Agreement disclosed in the Settling Parties’ February 28th filings with the Commission, the Companies will be forgiving any debt that has already been written-off from Fiscal Years 2000 through 2005. Under this scenario the Companies will cease collection action on these written-off accounts. Amounts collected are reflected as income in the year in which they are collected, which can be years after the debt was incurred.

At the time accounts are written-off to bad debt the Accounts Receivable balance and Reserve balance are reduced by a like amount equal to the balance in the customer’s account. Likewise any amounts recovered after an account was written-off to bad debt would result in an increase to both accounts.

C. Provide a breakdown of the ratepayer debt, by year and by customer class, of which the Companies are actively pursuing collection. Do the Companies’ calculations of bad debt include amounts that were owed off-system customers or other entities that are not ratepayers? If so, describe the entities and quantify the bad debt associated with these entities.

Response: The breakdown of the $207 million in bad debt by class is not available within the time to respond. However, the table below provides a general approximation of how the $207 million would breakdown.

<table>
<thead>
<tr>
<th>Account Type</th>
<th>FY 2000</th>
<th>FY 2001</th>
<th>FY 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td># Accounts</td>
<td>Write-Off</td>
<td># Accounts</td>
</tr>
<tr>
<td>Com/Res Heating</td>
<td>591</td>
<td>$1,047,052</td>
<td>422</td>
</tr>
<tr>
<td>Com/Res Non-Heating</td>
<td>72</td>
<td>$98,901</td>
<td>54</td>
</tr>
<tr>
<td>Commercial Heating</td>
<td>1,766</td>
<td>$1,293,287</td>
<td>1,262</td>
</tr>
<tr>
<td>Commercial Non-Heating</td>
<td>89</td>
<td>$51,797</td>
<td>69</td>
</tr>
<tr>
<td>Industrial</td>
<td>88</td>
<td>$336,003</td>
<td>68</td>
</tr>
<tr>
<td>Residential Heating</td>
<td>28,944</td>
<td>$13,439,639</td>
<td>21,539</td>
</tr>
<tr>
<td>Account Type</td>
<td>FY 2003 # Accounts</td>
<td>FY 2004 # Accounts</td>
<td>FY 2005 # Accounts</td>
</tr>
<tr>
<td>-------------------------</td>
<td>--------------------</td>
<td>--------------------</td>
<td>--------------------</td>
</tr>
<tr>
<td>Com/Res Heating</td>
<td>977</td>
<td>747</td>
<td>678</td>
</tr>
<tr>
<td>Com/Res Non-Heating</td>
<td>107</td>
<td>92</td>
<td>120</td>
</tr>
<tr>
<td>Commercial Heating</td>
<td>2,163</td>
<td>1,831</td>
<td>1,572</td>
</tr>
<tr>
<td>Commercial Non-Heating</td>
<td>133</td>
<td>93</td>
<td>84</td>
</tr>
<tr>
<td>Industrial</td>
<td>92</td>
<td>113</td>
<td>66</td>
</tr>
<tr>
<td>Residential Heating</td>
<td>37,958</td>
<td>40,038</td>
<td>38,217</td>
</tr>
<tr>
<td>Residential Non-Heating</td>
<td>13,781</td>
<td>13,142</td>
<td>12,998</td>
</tr>
<tr>
<td>Totals</td>
<td>55,211</td>
<td>56,056</td>
<td>53,735</td>
</tr>
</tbody>
</table>

D. According to the AG’s February 28th statement, the companies agree to forgive an additional $207 million in consumer debt covering 250,000 customer accounts.

i. Please provide data to support the $207 million debt estimate.

Response: The $207 million referred to in the settlement documents relates to customer accounts receivable that was written off to bad debt during Peoples Gas’ and North Shore’s fiscal years 2000 through 2005. The individual amounts for each company and fiscal year can be found on Schedule II, column D in the Peoples Energy, The Peoples Gas Light and Coke Company, and North Shore Gas Company combined Form 10-K as filed with the Securities and Exchange Commission. Copies of the applicable schedules are attached.

ii. How many households are the 250,000 customer accounts associated with?

Response: The Companies cannot determine how many households these accounts represent. To clarify, the 250,000 accounts was an estimate and a more exact number is that there are 277,881 residential heating and non-heating accounts that were written off between 2000 and 2005.
iii. What is the value of writing off the $260 million to the inactive accounts? Are these people who have died, moved or otherwise disappeared? Is that why the Companies are only pursuing $70 million out of the $260 million? Who comprises the inactive accounts? What percentage are commercial accounts? Is the fact that the Companies are only pursuing $70 million out of the $260 million in bad debt evidence that they are unable to locate the account holders responsible for the other $190?

Response: The value of the $207 million in debt forgiveness is different depending upon who is being examined. To the individual consumers whose debt is being forgiven, they are having large amounts of their personal debt eliminated and wiped from their credit records. To the Companies, they are walking away and foregoing collection of millions of dollars from their former customers. With respect to ratepayers generally, there will be no cost as these amounts will not be sought from ratepayers in any future rate case.

The value to the individual customers is this: the Companies pursue collection actively on ALL written-off and past due balances. Ceasing collection activities on these accounts will have significant, real dollar impact for those customers with arrears that are eligible for this program as well as for the Companies ongoing profits.

It is likely that some of the customers associated with this written-off debt have died while others may have moved. However, the companies, as well as our collection agencies, utilize sophisticated skip-tracing technology to locate and contact customers who have moved from the premises where the debt was accumulated. These tools allow the companies to continually pursue collections on this written-off debt.

To reiterate - the companies pursue collection actions on all debt – we have not stopped or ceased collection activity on any debt – written-off or not. We currently have almost $150 million in debt at collection agencies. This debt is actively worked by a total of 5 primary and secondary collection agencies. In addition, the companies keep records within our Customer Information System on all written-off accounts. Before a customer can open up an account, our Customer Information System automatically searches all inactive (including written-off accounts) to determine if the applicant owes money from a previous bad debt account. A customer would be required to pay the entire written-off amount before the new account would be established. In addition, the companies continue to report these accounts to major credit bureaus as a collection tool to collect written-off debt.
E. What customer classes are covered by this provision (residential, commercial, industrial)? What percentage are residential/commercial/other?

**Response:** The provision covers all customer classes – Residential, Commercial and Industrial. The table below identifies the percentages of each class.

<table>
<thead>
<tr>
<th>Account Type</th>
<th>% Total Accounts</th>
<th>% Total Write-Off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>94.2%</td>
<td>82.9%</td>
</tr>
<tr>
<td>Commercial</td>
<td>5.9%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Industrial</td>
<td>0.21%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

F. How many of these customers are LIHEAP eligible?

**Response:** It is not possible for us to determine how many of these customers where LIHEAP eligible as we do not keep LIHEAP eligibility longer than 1 year. However, we have pulled together historical information on the number of LIHEAP recipients each year since 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>DVP</th>
<th>ES</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>46,873</td>
<td>3,028</td>
<td>51,901</td>
</tr>
<tr>
<td>2001</td>
<td>79,040</td>
<td>1,276</td>
<td>82,317</td>
</tr>
<tr>
<td>2002</td>
<td>69,295</td>
<td>5,908</td>
<td>75,203</td>
</tr>
<tr>
<td>2003</td>
<td>80,137</td>
<td>6,760</td>
<td>88,797</td>
</tr>
<tr>
<td>2004</td>
<td>71,931</td>
<td>6,456</td>
<td>79,375</td>
</tr>
<tr>
<td>2005</td>
<td>79,896</td>
<td>7,109</td>
<td>87,005</td>
</tr>
<tr>
<td>2006 *</td>
<td>80,542</td>
<td>5,089</td>
<td>85,631</td>
</tr>
</tbody>
</table>

* Please note that the 2006 numbers are through February 24th, 2006

G. According to the Companies’ February 28th statement, this debt is associated with accounts that have been disconnected and no payment has been made for six months.

i. How many of these accounts are eligible for reconnection under the Hardship Reconnection program?

**Response:** Approximately 12,000 of these accounts were originally identified as eligible for the reconnect program.
ii. If these customers are not receiving any new usage bills, will they be eligible to receive any refund amount? If yes, please explain how under each possible refund mechanism.

**Response:** Only active customers consuming gas would receive a refund. Any customer not receiving new usage bills would not be eligible for a refund.

H. What criteria do the Companies follow in determining whether to discontinue service to a customer? Please provide all rules, regulations, laws, and internal policies.

**Response:** The Companies follow the provisions of the Public Utilities Act, especially Article VIII; 83 Ill. Admin. Code Part 280; and the Companies’ Schedules of Rates, on file with the Commission.

I. Describe the entire process of disconnection and collection of arrears, including times that each part of the process begins and ends. How long does the Companies pursue collection of arrearages from a residential customer that has been disconnected? At what point, if any, in the collection process is a disconnected customer’s account turned over to a collection agency? Do the Companies enter into service arrangements to sell arrearages to affiliated or unaffiliated entities and transfer the right to collect amounts due to those entities? If so, explain the entire process, including the amount of arrearages and when they are sold. How long do the Companies actively pursue disconnected residential, commercial, and industrial customers with arrearages? What happens once the Companies decide to no longer pursue collection? Please provide all rules, regulations, laws, and internal policies supporting the response to this request.

**Response:** The collection process for all arrears is controlled through 140 individual collection schedules in our Customer Information System. These schedules are based on Customer class, age of receivable, dollar amount of receivable and the time of year. The collection process is full automated within our system. For residential customers these schedules are also based on an internally generated score which helps identify the relative risk of one account compared to another.

These collection schedules have “events” which are triggered by the number of days a customer is past due. As an example of one of the collection schedules we offer the following collection schedule for a high risk residential customer during non-moratorium months.

A bill is rendered for the customer

Day 21 - The bill is due
Day 30 – The account bills again – if not payment received – the customer is 30 days past due

Day 31 – Day 41 – Outbound collection calls are made to the customer

Day 51 – The bill is Due

Day 60 – New bill issues to customer – if no payment received – the customer is 60 days past due

Day 61 – Disconnection notice sent to customer

Day 71 – Disconnect order is dispatched to field for Disconnection

Day 72 – Service Disconnected

Day 73 – Final Bill Issued to Customer

Day 94-Day 183 - The company pursues internal and external collection activity on an account including outbound calls, letters, collection notices, bill messages.

Day 183 - The account is sent to a Primary Collection Agency for collection Activity

Day 253 – The account will be written off – (assumes no payments received)

Day 548 – The account is recalled from the Primary Collection Agency and sent to a secondary collection agency.

Collection activity continues – the account is never recalled from the secondary collection agent.

The Companies pursue collection of residential accounts indefinitely. As shown in the above timeline, accounts stay with Secondary Collection Agencies indefinitely. In addition, the Companies keep records within our Customer Information System on all written-off accounts. Before a customer can open up an account, our Customer Information System automatically searches all inactive (including written-off accounts) to determine if the applicant owes money from a previous bad debt account. A customer would be required to pay the entire written-off amount before the new account would be established. In addition, the companies continue to report these accounts to major credit bureaus as a collection tool to collect written-off debt.

Accounts are turned over to Primary Collection agencies 110 days after disconnection. Primary Collection Agencies have the accounts for 365 days. After 365 days the account is pulled from the Primary Collection Agency and
given to a Secondary Collection Agency where the collection agency continues collection action indefinitely.

The Companies do not enter into agreements to sell arrearages or debt that has been written off.

The Companies continue active collection activity on all residential, commercial and industrial accounts indefinitely.

The Companies follow ICC Part 280 regulations on all collection of arrears and disconnection of service.

**J.** What, if any impact, will the forgiveness of the bad debt have on those customers that had been disconnected, but were able to obtain the necessary financial resources to be reconnected, but still owe the company a large amount of money?

**Response:** When a former customer is reconnected and receiving service, the amounts that customer owes is not bad debt, but arrearages. Consequently, the forgiveness of bad debt provisions will not have any impact on such customers. However, these customers will benefit from the refund which most of the customers receiving forgiveness will not.

**K. General Bad Debt Expense**

  **i.** How much do the Companies collect for bad debt expenses through its current rates? Break down by company.

**Response:** In Docket No. 95-0031, North Shore’s last rate case, the Commission allowed $814,000 of uncollectible expense for the test year. In Docket No 95-0032, Peoples Gas’ last rate case, the Commission allowed $26,602,000 of uncollectible expense for the test year.

  **ii.** Is the $260 million of bad debt identified in the settlement above and beyond what the Companies have collected in base rates over the past six years?

**Response:** The settlement documents identify $207 million of bad debt for fiscal years 2000-2005 and $52.3 million of anticipated bad debt for fiscal 2006. These amounts are total actual bad debt written off or anticipated to be written off. In a rate case the Commission allows a certain level of test year expenses and this level of total expense is used in the calculation of rates. The bad debt expense in years 2000-2005 exceeded the bad debt expense allowed to be recovered in the current rates.
iii. How much bad debt has been carried on the Companies’ balance sheets as an asset in the years under question? Break down by Company.

**Response:** The Companies’ policy is to accrue bad debt expense based on a percentage of revenues recorded each period. The credit side of this entry is recorded in the Reserve for Uncollectible Accounts. The Reserve for Uncollectible Accounts is reflected on the balance sheet as a contra account (subtraction) to the Accounts Receivable balance. At the time accounts are written-off to bad debt the Accounts Receivable balance and Reserve balance are reduced by a like amount equal to the balance in the customer’s account. Likewise any amounts recovered after an account was written-off to bad debt would result in an increase to both accounts. The attached balance sheets identify for each Company and each period ended September 30, 2000 through 2005, the net Accounts Receivable balance and the applicable Reserve balance. These balance sheets can be found in the Peoples Energy, The Peoples Gas Light and Coke Company, and North Shore Gas Company combined Form 10-K as filed with the Securities and Exchange Commission.

iv. What are the tax consequences of writing off the bad debt as proposed in the Settlement Agreement for the Companies?

**Response:** That portion of the amount of $207 million written-off to bad debt during fiscal years 2000 through 2004 was included as a deduction in the tax return applicable to each year. The fiscal year 2005 tax return has not yet been filed although an estimate of the potential write-offs were included for determining quarterly payments during fiscal 2005. The tax return will include a deduction for the actual write-offs for fiscal year 2005. To the extent estimated recoveries of prior years’ write-offs are included in the current year’s estimated tax payments (fiscal 2006), future payments may be decreased if this settlement results in few, if any, recoveries from prior year write-offs.

v. Is the difference between “bad debt” and arrearages the difference between inactive accounts (bad debt) and active accounts (arrearages)? Does the settlement only deal with inactive accounts?

**Response:** Six months after an account has been made final, amounts owed are written off as bad debt. Up until that point, amounts owed by a former customer would be considered arrearages. Amounts past due by current customers are also considered arrearages. The forgiveness of bad debt provisions apply only to bad debt.

vi. How does the existence of bad debt – above and beyond what the Companies are already collecting in rates - affect rate payers in general?
Response: Bad debt expenses included in current rates were based on the forecasted level of bad debt in the test year of their last rate cases—fiscal year 1996 for both Companies. To the extent that actual bad debt is “above and beyond” what is reflected in rates, customers are not required to pay this amount. However, if actual bad debt is substantially higher than the amount reflected in rates, this would be a factor in determining whether and when to file for rate relief.

vii. In a rate case setting, is the Commission obligated to allow recovery of bad debt beyond what the company was authorized to collect in rates accumulated in previous years?

Response: No, in a rate case setting, the Commission is not obligated to allow recovery of bad debt beyond what the company was authorized to collect in rates accumulated in previous years.

viii. Does the existence of the $260 million in bad debt from 2000 through 2005 have any effect on the level of rates that the Companies would charge post-2005? In the inverse, does wiping out the $260 million in bad debt as proposed in the settlement agreement have any affect on ratepayers in general in 2007? And beyond?

Response: The base rates charged after fiscal year 2005 are based on the Companies’ last rate cases, filed in fiscal year 1995, and will not change until the Companies file rate cases and the Commission enters orders in such cases. Similarly, “wiping out” bad debt would not change the Companies base rates. When the Companies file for rate increases, bad debt will be based upon the expected level for the test year in the proceeding years going forward.

ix. What is the value, if any, of writing off the $260 million to ratepayers in general?

Response: With respect to bad debt forgiveness, it is only the $207 million in bad debt from Fiscal Years 2000 through 2005 that is being forgiven, plus the additional bad debt of the Hardship cases.

The value of this forgiveness is significant for the individual customers whose debt is being forgiven. For the hardship cases it meant receiving service this winter with all balances forgiven on their account and having their future credit report show no adverse action from the Company related to the forgiven amount. For all customers whose debt is forgiven, it will improve their credit report, allow customers whose service is off to be reconnected, eliminate payment arrangement obligations associated with the bad debt being forgiven.
and result in a cessation of collection activity. Merely writing off, as opposed to forgiving, bad debt does not produce these benefits.

Bad debt does not go away when written off. It is kept on the Companies’ computer system forever. It is reported to the credit agencies up to the time period allowed by law. If a customer ever wants to get reconnected for service, the debt will be attached to their new account and they will have to pay it to get connected or enter into payment arrangements. In addition, some customers who are off our system have entered into payment arrangements to pay off their debt. This debt is being erased and they will not have to make these payments. Also, the Companies aggressively pursue recovery of bad debt as described in response to question l. So there is a group of customers who will no longer be subject to collection activity and should enjoy the benefits of an improved credit rating.

With regard to ratepayers in general, to the extent that the hardship cases and other customers take advantage of this opportunity to obtain service and continue to pay their bills and stay on the system, all customers benefit by the Companies having more customers from whom to recover fixed costs. Moreover, the Companies will not seek to recover this forgiven debt from ratepayers in any future rate case.

x. What is the bottom line impact on the Companies from this write-off? Break down by Company.

Response: As stated previously, the $207 million identified in the settlement has already been written off to bad debt. Ceasing all collection activity related to these accounts will have the effect of reducing write-off recoveries in the current year. This lack of recoveries will ultimately affect the Company’s income in that the effective bad debt rate for any year includes adjustments to bad debt expense for any shortfall or overage in the Reserve as compared to anticipate net write-offs. If less recoveries are achieved it will directly increase the shortfall or reduce the overage. For the remainder of fiscal 2006, the Company was anticipating prior year recoveries of approximately $6 million and $200,000 for Peoples Gas and North Shore, respectively.

L. Provide all documents supporting all numbers in the revised settlement agreement associated with bad debt, consumer debt, and disconnected customers. Explain whether these documents have been audited or reviewed by any external parties and provide any auditing of these documents and input from outside parties.

Response: As stated previously, the $207 million is supported by the Form 10-K Schedule II. Although this schedule is not included as part of the outside auditor’s opinion letter, the accounts and activity identified on the Schedule are part of the formal audit. The $52.3 million related to fiscal year 2006 represents
the anticipated write-offs of current year revenue. This amount was developed as part of the Companies’ normal forecast update during late December of last year. The Companies followed its normal process in calculating that amount by applying the current bad debt rate to anticipated revenue for the year. This process is reviewed by the Companies’ external auditors as part of its review of certain transactions that rely on the forecast but is not directly audited. See response to the question V.D.ii regarding the disconnected customers.

M. Explain how the Commission can verify the accuracy of the numbers associated with bad debt, consumer debt, and disconnected customers in the settlement agreement given the short timeline for review.

Response: To the extent possible, the Companies have provided numbers that are available publicly, including numbers that have been filed with the Commission in various reports. Moreover, all of the “numbers” and other data provided to the Commission Staff in response to its requests for information have been verified and supported by affidavits.

VI. Hub revenue provisions

A. According to the joint statement filed by the AG, CUB and the City of Chicago on February 28, the Companies agree to flow future HUB revenues through the PGA. Additionally, the companies agree not to oppose HUB revenue offsets for the 2005 and 2006 PGA reconciliations. If the Illinois Administrative Code already requires this of the companies, how does this add “value” to the settlement agreement?

Response: Only Peoples Gas provides Hub services. Peoples Gas disagrees that the Illinois Administrative Code requires the treatment of Hub revenues in this manner. In the absence of a settlement, Peoples Gas would continue to litigate this issue in the Commission and, if necessary, to the appellate courts. For the reasons stated in its briefs filed in ICC Docket No. 01-0707, Peoples Gas views this as an improper legal interpretation of the Illinois Administrative Code and an unjustifiable change from the Commission’s previous treatment of such revenues from Peoples Gas and other utilities, such as Nicor. Peoples Gas would seek what it views to be the proper treatment of Hub revenues in its next rate case, and continue accounting for those revenues in this manner until the issue was finally resolved, probably by the courts.

By adding this agreement to the settlement, however, value is added because Peoples Gas would cease litigating this issue not only for the settled reconciliation dockets, but in its pending Fiscal Year 2005 reconciliation proceeding, would adopt the approach urged by ICC Staff in its next rate case, and, significantly, would immediately begin crediting its Hub revenues to the gas
charge. As outlined above the response to Data Request IV.D.iv, this would result in an approximately $9.4 million credit to the gas charge to offset costs as early as in Fiscal Year 2006, and over $10.6 million in refunds in the Fiscal Year 2005 reconciliation proceeding. Thus, this agreement provides additional immediate monetary relief to ratepayers.

B. When an off-system transaction uses an asset and the revenues are collected through the PGA, the revenues from that transaction should flow to the customers through the PGA, according to the Illinois Administrative Code.

i. Does the Settlement only address Hub related revenues? If yes, why? How do the Companies define Hub related revenues?

Response: The Settlement Agreement only addresses Hub-related revenues, which are the revenues associated with the types of transactions described in Finding 10 in the Proposed Order. Hub-related revenues are transactions that are supported through the use of facilities for which Peoples Gas recovers costs in its base rates and not resources for which costs are recovered through the Gas Charge. These are “on-system” transactions, i.e., gas receipts and deliveries occur on Peoples Gas’ transmission and distribution system, including its storage field. Hub transactions include two classes of transactions: (1) transactions pursuant to an Operating Statement on file with and approved by the Federal Energy Regulatory Commission, and (2) exchange transactions authorized by Federal Energy Regulatory Commission rules (18 C.F.R. 284.402). (Currently, only Peoples Gas provides Hub transactions. If North Shore were to provide such transactions, the Settlement would apply to those transactions.) The Settlement applies only to Hub transactions because this is the class of transactions that were in dispute in Docket No. 01-0707. The Companies did not (and do not) dispute that the revenues from off-system transactions are flowed through the Gas Charge. Off-system transactions, by virtue of receipt or deliveries of gas or other elements of the transaction occurring at a point off of the Companies’ transmission and distribution systems, involve the use of recoverable gas costs and the resulting revenues are flowed through the gas charge.

ii. What are the other off-system transactions? Are they included in the Settlement agreement? If no, why not?

Response: Hub transactions are not off-system transactions, as explained in the response to subpart (i). Off-system transactions include, for example, sales of gas for resale or releases of transportation capacity. As stated in the response to subpart (i), the Settlement Agreement does not address off-system transaction because, unlike Hub transactions, there is no dispute that revenues associated
with such transactions are flowed through the Gas Charge under the Commission’s current rules (83 Ill. Admin. Code 525.40(d)).

iii. What are the off-system and Hub revenues for 2001 through 2005? Should they be incorporated into the Settlement Agreement? Please explain your answer.

Response: All off-system revenues were flowed through the Gas Charge in fiscal years 2001-2005. They should not be included in the Settlement because such revenues have already been reflected as credits to gas costs in those years. Hub revenues are as follows:

Fiscal Year 2001  $6,870,216
Fiscal Year 2002  $11,689,703
Fiscal Year 2003  $11,230,405
Fiscal Year 2004  $7,619,737
Fiscal Year 2005  $10,662,268

Hub revenues for fiscal year 2005 are addressed in the Settlement Agreement (the Companies would not oppose a disallowance in the Fiscal Year 2005 reconciliation proceeding for these revenues). The Companies committed not to contest this matter in their pending reconciliation cases and will so state in their testimony on those cases. Accordingly, customers will receive these revenues. The Settling Parties were provided the foregoing data when they agreed to the Settlement Agreement. The Settlement Agreement is a comprehensive agreement that does not assign specific values to specific items.

C. The proposed amendments to the Settlement Agreement explicitly exclude Finding 10 from the Agreement. Finding 10 states:

The Peoples Gas Light and Coke Company shall account for all of its third party non-Commission tariff revenues in accordance with 83 Ill. Adm. Code 525.49(d).

All of those revenues shall serve to offset PGA costs. If this is the law and the Companies must abide by it, why is this finding not included in the proposed agreement?

Response: As explained in the response to Data Request IV.D.iv, above, the Companies in their revised settlement terms set forth in their February 28, 2006 filing with the Commission have agreed to include the substance of Finding #10 and more as part of the settlement if it is approved.
As set forth above in response to Data Requests IV.D.iv and VI.A, Peoples Gas disagrees with this interpretation of the law and, in the absence of a settlement will continue to litigate this issue in the Commission and the appellate courts, if necessary. For the reasons stated in its briefs filed in ICC Docket No. 01-0707, Peoples Gas views this as an improper legal interpretation of the Illinois Administrative Code and an unjustifiable change from the Commission’s previous treatment of such revenues from Peoples Gas and other utilities, such as Nicor.

VII. Legal Issues

A. Please thoroughly explain the legal basis for the Commission’s authority to approve a settlement agreement without unanimous support (signatures) from all parties involved in any of the dockets to be covered by the settlement.

Response: Under Business and Professional Peoples for the Public Interest v. Illinois Commerce Commission (“BPI”), 136 Ill. 2d 192 (1989), if the parties other than ICC Staff unanimously support a settlement, it can be approved. Only in absence of unanimous support is the Commission required to find that the settlement is based upon substantial evidence in the record. ICC Staff agreed with this statement of the law in its Recommendations to the Commission on the Settlement Agreement filed on January 31, 2006.

Here, with respect to the reconciliation dockets for Fiscal Years 2002 through 2004 (Docket Nos. 02-0727, 02-0727, 03-0704, 03-0705, 04-0682 and 04-0683), all of the parties other than ICC Staff unanimously have agreed to and executed the Settlement Agreement. Accordingly, with respect to those dockets, the Commission can approve the Settlement Agreement without taking evidence and without ICC Staff’s approval.

The Cook County States Attorney is a party only to the Fiscal Year 2001 reconciliation proceedings (Docket Nos. 01-0706 and 01-0707), and was a party to the closed Fiscal Year 2000 proceedings (closed Docket Nos. 00-0719 and 00-0720). In those proceedings, however, hearings have been held and substantial evidence is in the record. As the ICC Staff stated in its Recommendations (at 11): “the Proposed Settlement could be supported by the record in Ill.C.C. Docket No. 01-0707 (and Docket No, 01-0706) as to the amount of the refund.” Moreover, the Fiscal Year 2000 reconciliation cases are not open and need not be re-opened as part of resolving the outstanding reconciliation dockets. Accordingly, the fact that the Cook County States Attorney has not executed the Settlement Agreement poses no obstacle to its approval and the resolution of these matters.

B. According the joint memo in support of the additional settlement terms, nothing in the settlement is intended to preclude the
Commission from entering an order in Docket 01-0707 including findings of imprudence for Peoples actions during the 2000 reconciliation year. To be clear, the settlement will stand even if the Commission enters an order including findings of imprudence as long as the order refers to the settlement agreement for any refund amounts?

Response: It is the position of the Companies that any party, and by extension, the Commissioners can make any public statements they deem appropriate about the Settlement Agreement or their perception of the Companies’ conduct, but that the Companies have not and do not admit any wrongdoing or liability as part of the Settlement Agreement or otherwise. Accordingly, if the Commission approves the Settlement Agreement, but Commissioners make their own statements concerning the settlement or the Companies’ conduct, the settlement will stand as long as the terms of the Settlement Agreement, as revised by the parties' agreements, are approved.

VII. Miscellaneous

A. Consider all of the non-refund portions of the revised settlement agreement. Provide the dollar amount that the Companies would be willing to flow through the PGA, above the $100 million, in exchange for eliminating the non-refund portions of the revised settlement agreement. Assume the same criteria for applying interest as the criteria that were assumed in deriving the $1.5 million of interest in the revised settlement agreement. Assign a dollar amount for each individual, non-refund component of the settlement agreement. Do not provide any response other than a dollar amount. (For example, do not claim that the settlement agreement is a whole package and cannot be separated or provide any other excuse as to why a dollar value cannot be assigned to the non-refund components of the settlement).

Response: The Companies are not willing to flow any dollar amounts above the $100 million refund in exchange for eliminating the non-refund portions of the revised settlement agreement.

Dollar amounts for the value of the individual, non-refund components of the settlement agreement:

- Conservation and Weatherization Program: Up to $5 million a year for 6 years (up to $30 million)
- Forgiveness of Bad Debt from FY 2000-2005: $207 million
Accounting for Hub revenues through the PGA: $9.4 million in FY 2006 and $10,662,268 in the reconciliation case for FY 2005.

Reconnection of hardship cases and forgiveness of their debt: $14 million.

Writing off FY 2006 Bad Debt: $52.3 million (projected).

Prospective Interest (on amortized or unpaid portion of refund): $1.5 million.

B. Provide an executed copy of the revised settlement agreement.

Response: The Settling Parties have not yet prepared or executed a revised settlement agreement. They intend to have an addendum executed by Monday, March 6, 2006 prior to the Commission’s Special Open Meeting scheduled for that day at 1:30 p.m.

C. How can the Commission ensure that the expenses related to the conservation payments and debt write-off agreed to by Peoples Companies in Item 6 of the February 28th filing will not be recovered in future rate or reconciliation cases?

Response: The Companies commit that they will not seek recovery of the conservation payments or the bad debt forgiveness or write offs that are part of the Settlement Agreement in a future Commission proceeding. In addition, as part of any future rate case or reconciliation case the Staff and intervenors have complete access to the Companies' information and can verify that no recovery is being sought.

D. Section I(E) of the January 17th agreement states that the agreement will be null and void if the Commission does not approve it, with the exception of Section III(B), IV and V. III(B) allows the Companies to forego management and financial audits of gas purchasing practices for 1999-2004 fiscal years. Section IV deals with the Hardship Reconnection Program. Section V deals with the debt forgiveness. To be clear, do Peoples and North Shore agree to institute the debt forgiveness program and the Hardship Reconnection program, even if the Commission declines to approve the settlement agreement? If the answer is yes, please explain how they intend to treat the costs associated with these provisions in the future (i.e. do the Companies intend to recover costs associated with those programs? If so, how?)?

2 Approximately $7.3 million in April 2006 gas charge filings and an expected total of $2.1 million throughout the remainder of fiscal year 2006. And Hub revenues will continue to flow through the gas charge in subsequent fiscal years as well.
**Response:** If the Commission does not approve the Settlement Agreement, the Companies have agreed to continue with the Reconnection and Debt Forgiveness of Disconnected Customers (Section IV) and the Projected Bad Debt (Section V) provisions as stated in the Settlement Agreement executed on January 17, 2006. This debt forgiveness extends only to the Hardship Cases identified pursuant to the Settlement Agreement. The Companies do not intend to recover the costs associated with those programs.

To be clear, however, the $207 million in debt forgiveness offered by the Companies in the revised settlement terms disclosed in the Settling Parties’ February 28, 2006 filings would **not** take place if the Commission does not approve the Settlement Agreement.

Dated at Chicago, Illinois this 27th day of February, 2006.

Respectfully submitted,

The Peoples Gas Light and Coke Company
and North Shore Gas Company

By: /S/ Theodore R. Tetzlaff
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