

ILLINOIS GAS COMPANY

ILL. C.C. DOCKET NO. 06-0745

TWENTY-NINTH ANNUAL RECONCILIATION OF PGA
GAS REVENUE WITH RELATED COST OF GAS

TWELVE MONTHS ENDED DECEMBER 31, 2006

RESPONDENT'S EXHIBIT 3

ILLINOIS GAS COMPANY

ILL. C.C. DOCKET NO. 06-0745

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INDEPENDENT AUDITOR'S REPORT

Illinois Gas Company
Lawrenceville, Illinois

We have audited the accompanying statements 1 through 9 described in the preceding table of contents of Illinois Gas Company for the year ended December 31, 2006. These statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statements were prepared to present the reconciliation of revenue billed under uniform PGA charges with the adjusted cost of gas incurred of Illinois Gas Company pursuant to the Illinois Commerce Commission's Order 06-0745 dated November 21, 2006 and General Order 212, and is not intended to be a complete presentation of the Company's income and expenses.

In our opinion, the statements referred to above present fairly, in all material respects, the reconciliation of revenue billed under uniform PGA charges with the adjusted cost of gas incurred of Illinois Gas Company for the year ended December 31, 2006, in conformity with U. S. generally accepted accounting principles and the Illinois Commerce Commission's Order 06-0745 dated November 21, 2006 and General Order 212.

This report is intended solely for the information and use of the Board of Directors and Management of Illinois Gas Company and for filing with the Illinois Commerce Commission and should not be used for any other purpose.

Kemper CPA Group LLP

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Lawrenceville, Illinois
March 19, 2007

**RECONCILIATION OF REVENUE BILLED UNDER UNIFORM PGA CHARGES
WITH THE ADJUSTED COST OF GAS INCURRED
FOR THE RECONCILIATION PERIOD ENDED DECEMBER 31, 2006**

<u>Line No.</u> (1)	<u>Description</u> (2)	<u>Winter Seasonal Demand</u> (3)	<u>Summer Seasonal Demand</u> (4)	<u>Commodity</u> (5)	<u>Total</u> (6)
1	Unamortized Balance as of 12/31/05 per 2005 Reconciliation	\$0	\$0	\$0	\$0
2	Factor A Adjustments Amortized to Schedule I at 12/31/05 per 2005 Reconciliation	3,631	4,280	(164,877)	(156,966)
3	Factor O Collected (Refunded) During 2006	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
4	Balance to Be Collected(Refunded) During 2006 From Prior Periods, (Sum of lines 1-3)	3,631	4,280	(164,877)	(156,966)
5	2006 Recoverable Gas Costs	936,643	448,855	8,927,650	10,313,148
6	2006 PGA Revenues	(909,072)	(459,035)	(8,339,703)	(9,707,810)
7	Pipeline Surcharges (Refunds)	0	(41,450)	0	(41,450)
8	Other Adjustments	0	0	75	75
9	Interest	0	0	(2,547)	(2,547)
10	2006 Under/(Over) Recovery (Sum of lines 5-9)	<u>27,571</u>	<u>(51,630)</u>	<u>585,475</u>	<u>561,416</u>
11	Under/(Over) Recovery Balance at 12/31/2006 (Line 4 + Line 10)	31,202	(47,350)	420,598	404,450
12	Factor A Adjustments Amortized to Schedule I at 12/31/2006	31,202	(47,350)	420,598	404,450
13	Unamortized Balance at 12/31/06 (per Filing truing up actuals for Dec 2006)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
14	Requested Factor O (Line 11 - Line 12 - Line 13)	0	(0)	0	0

See auditor's report.

WINTER/D INVOICE COST AND ADJUSTMENTS VERSUS RECOVERY OF COSTS FOR SYSTEM GAS, CALENDAR YEAR 2006

Month (1) (2)	Vendor (3)	Winter Invoice Cost (4)	Commodity Volume MMBtu (5)	Avg Cost Therm (6)	Co Use & Franchise Therm (7)	Co Use & Franchise Cost (8)	Recoverable Cost (9)	Winter Therm (10)	Winter Eq. Rate (11)	Prorated Recovery (12)	Rider A FT Revenue (13)	Monthly PGA & Rider A Recovery (14)	Under (Over) Recovery (15)	Adjustments Factor (16)	Adjustments Factor A (17)	Adjusted Under (Over) Recovery (18)
Jan	(A) Texas Gas	\$207,747	153,766	\$0.1351	(7,297)	(\$986)	\$206,761	640,142	\$0.0903	\$57,604.82		\$141,729	\$65,032	\$0	(\$2,639)	\$62,393
Feb	(B) Texas Gas	171,069	168,490	0.1015	(6,253)	(838)	170,231	929,398	0.0903	83,924.64	\$0	144,746	25,485	0	(1,770)	23,715
Mar	(A) Texas Gas	189,398	124,949	0.1516	(5,750)	(872)	188,526	958,073	0.1008	96,573.76	0	167,606	20,920	0	8,040	28,960
April	(B) Texas Gas	0	50,222	0.0000	(1,166)	0	0	686,497	0.1467	100,709.11	0	52,114	(52,114)	0	62,393	10,279
May	(A) Texas Gas	0	40,957	0.0000	(709)	0	0	284,550	0.0980	24,228.15	0	22,524	(22,524)	0	23,715	1,191
June	(B) Texas Gas	0	26,875	0.0000	(326)	0	0	82,324	0.0711	16,670.39	0	31,238	(31,238)	0	28,960	(2,278)
July	(A) Texas Gas	0	25,075	0.0000	(288)	0	0	73,450	0.1464	10,753.08	0	12,628	(12,628)	0	10,279	(2,349)
Aug	(B) Texas Gas	0	24,751	0.0000	(270)	0	0	117,368	0.0690	8,086.39	0	4,515	(4,515)	0	1,191	(3,324)
Sep	(A) Texas Gas	0	34,681	0.0000	(388)	0	0	65,463	0.0250	1,638.58	0	2,582	(2,582)	0	(2,278)	(4,860)
Oct	(B) Texas Gas	0	77,281	0.0000	(2,380)	0	0	115,138	0.0098	2,878.45	0	3,367	(3,367)	0	(2,349)	(5,716)
Nov	(A) Texas Gas	183,288	118,199	0.1551	(4,940)	(766)	182,522	195,492	0.0049	1,915.82	0	179,931	2,591	0	(3,324)	(733)
Dec	(B) Texas Gas	189,398	162,112	0.1168	(6,807)	(795)	186,603	312,232	0.1582	49,395.10	0	146,092	42,511	0	(4,860)	37,651
Jan	(B)							825,133	0.1052	130,536.04	0	126				
Total		\$940,900	1,007,358		(38,594)	(\$4,257)	\$936,643	9,050,254	0.1052	99,772.42	\$0	\$909,072	\$27,571	\$0	\$117,358	\$144,929

NOTE A: This is the calculated volume of gas delivered on and after the first day of the month to which the current monthly PGA rate is applied.
NOTE B: This is the calculated volume of gas in current month's billing, applicable to the prior month's consumption and billed at the prior month's PGA rate.

See auditor's report.

SUMMER/D INVOICE COST AND ADJUSTMENTS VERSUS RECOVERY OF COSTS FOR SYSTEM GAS, CALENDAR YEAR 2006

Month (1) (2)	Vendor (3)	Summer Invoice Cost (4)	Commodity Volume MMBtu (5)	Avg Cost Therm (6)	Co Use & Franchise Therm (7)	Co Use & Franchise Cost (8)	Recoverable Cost (9)	Summer Therm (10)	Summer Pga Rate (11)	Prorated Recovery (12)	Rider A FT Revenue (13)	Monthly PGA & Rider A Recovery (14)	Under (Over) Recovery (15)	Adjustments Factor O (16)	Adjustments Factor A (17)	Adjusted Under (Over) Recovery (18)
Jan	(A) Texas Gas	\$0	153,766	\$0.0000	(7,297)	\$0	\$0	640,142	\$0.0033	\$2,112.47	\$0	\$5,407	(\$5,407)	\$0	\$5,765	\$358
	(B)															
Feb	(A) Texas Gas	0	168,490	0.0000	(8,253)	0	0	998,478	0.0033	3,294.98	\$0	300	(300)	0	(1,306)	(1,606)
	(B)															
Mar	(A) Texas Gas	0	124,949	0.0000	(5,750)	0	0	1,023,657	0.0002	204.73	0	3,611	(3,611)	0	(179)	(3,790)
	(B)															
April	(A) Texas Gas	108,969	50,222	0.2170	(1,186)	(257)	108,712	747,573	0.0030	2,242.72	0	87,850	20,862	0	358	21,220
	(B)															
May	(A) Texas Gas	41,836	40,957	0.1021	(709)	(72)	41,764	295,319	0.1515	44,740.83	0	36,246	5,518	0	(1,606)	3,912
	(B)															
June	(A) Texas Gas	40,486	26,875	0.1506	(326)	(49)	40,437	299,610	0.0949	28,432.99	0	39,112	1,325	0	(3,790)	(2,465)
	(B)															
July	(A) Texas Gas	41,836	25,075	0.1668	(288)	(48)	41,788	203,157	0.1414	28,726.40	0	65,218	(23,430)	0	21,220	(2,210)
	(B)															
Aug	(A) Texas Gas	41,836	24,751	0.1690	(270)	(46)	41,790	177,518	0.2682	47,610.33	0	46,279	(4,489)	0	3,912	(577)
	(B)															
Sep	(A) Texas Gas	40,486	34,681	0.1167	(388)	(45)	40,441	174,077	0.1932	33,631.68	0	46,259	(5,818)	0	(2,465)	(8,283)
	(B)															
Oct	(A) Texas Gas	134,337	77,281	0.1738	(2,380)	(414)	133,923	279,023	0.1333	37,193.77	0	135,625	(1,702)	0	(43,660)	(45,362)
	(B)															
Nov	(A) Texas Gas	0	118,199	0.0000	(4,940)	0	0	651,992	0.1745	113,772.60	0	(246)	246	0	(577)	(331)
	(B)															
Dec	(A) Texas Gas	0	162,112	0.0000	(6,807)	0	0	918,485	(0.0002)	(183.70)	0	(6,626)	6,626	0	(8,283)	(1,657)
	(B)															
Jan	(B)							1,032,099	(0.0045)	(4,644.45)	0	(5.39)				
Total		\$449,786	1,007,358		(38,594)	(\$931)	\$448,855	9,892,238		\$459,035.24	\$0	\$459,035	(\$10,180)	\$0	(\$30,611)	(\$40,791)

NOTE A: This is the calculated volume of gas delivered on and after the first day of the month to which the current monthly PGA rate is applied.
 B: This is the calculated volume of gas in current month's billing, applicable to the prior month's consumption and billed at the prior month's PGA rate.

See auditor's report.

COMMODITY INVOICE COST AND ADJUSTMENTS VERSUS RECOVERY OF COSTS FOR SYSTEM GAS, CALENDAR YEAR 2006

Month (1)	(2)	Vendor (3)	Commodity Invoice Cost (4)	Commodity Volume MMBtu (5)	Avg Cost Therm (6)	Co Use & Franchise Therm (7)	Co Use & Franchise Cost (8)	Recoverable Cost (9)	Commodity Therm (10)	Commodity Pga Rate (11)	Prorated Recovery (12)	Rider A FT Revenue (13)	Monthly PGA & Rider A Recovery (14)	Under (Over) Recovery (15)	Adjustments Factor O (16)	Adjustments Factor A (17)	Adjusted Under (Over) Recovery (18)
Jan	(A)	Texas Gas & Atmos	\$1,823,915	153,766	\$1,1862	(7,297)	(\$8,656)	\$1,815,259	640,142	\$1,3726	\$878,658.91		\$2,249,170	(\$433,911)	\$0	\$49,225	(\$384,686)
Feb	(B)	Texas Gas & Atmos	1,546,816	168,490	0.9180	(8,253)	(7,576)	1,539,240	988,478	1,3726	1,370,510.90	\$0	1,522,578	16,662	0	(71,882)	(55,220)
Mar	(A)	Texas Gas & Atmos	1,323,336	124,949	1.0591	(5,750)	(6,090)	1,317,246	1,023,657	1,0140	1,037,988.20	0	1,029,063	288,183	0	(142,220)	145,963
April	(B)	Texas Gas & Atmos	339,787	50,222	0.6786	(1,166)	(802)	338,985	747,573	0.8550	639,174.92	0	278,743	60,242	0	(96,018)	(35,776)
May	(A)	Texas Gas & Atmos	310,636	40,957	0.7584	(709)	(538)	310,098	295,319	0.4807	136,783.19	0	217,244	92,854	0	(71,242)	21,612
June	(B)	Texas Gas & Atmos	160,656	26,875	0.5978	(326)	(195)	160,461	284,550	0.5688	170,418.17	0	114,543	45,918	0	(32,180)	13,738
July	(A)	Texas Gas & Atmos	175,578	25,075	0.7002	(288)	(202)	175,376	73,450	0.4141	84,127.31	0	94,155	81,221	0	(45,284)	35,937
Aug	(B)	Texas Gas & Atmos	200,385	24,751	0.8096	(270)	(219)	200,166	65,662	0.5099	33,379.58	0	122,141	78,025	0	(22,596)	55,427
Sep	(A)	Texas Gas & Atmos	269,201	34,661	0.7762	(368)	(301)	268,900	177,518	0.6223	88,734.97	0	215,955	52,945	0	(14,935)	38,010
Oct	(B)	Texas Gas & Atmos	536,466	77,281	0.6942	(2,380)	(1,652)	534,814	279,023	0.5260	173,636.01	0	408,817	125,997	0	20,672	146,669
Nov	(A)	Texas Gas & Atmos	948,501	118,199	0.8025	(4,940)	(3,964)	944,537	651,992	0.5280	342,947.78	0	852,395	92,142	0	27,464	119,606
Dec	(B)	Texas Gas & Atmos	1,328,145	162,112	0.8193	(6,807)	(5,577)	1,322,568	312,232	0.6926	636,142.71	0	1,234,899	87,669	0	23,013	110,682
Jan	(B)	Texas Gas & Atmos							440,298	0.8387	369,277.93	0	1,004				376,957
Total			\$8,963,422	1,007,358		(38,594)	(\$35,772)	\$8,927,650	9,892,238	0.8387	865,621.43	\$0	\$8,339,703	\$587,947	\$0	(\$375,985)	\$211,962

NOTE A: This is the calculated volume of gas delivered on and after the first day of the month to which the current monthly PGA rate is applied.
 B: This is the calculated volume of gas in current month's billing, applicable to the prior month's consumption and billed at the prior month's PGA rate.

ILLINOIS GAS COMPANY
ILL. C.C. DOCKET NO. 06-0745

STATEMENT 7

Commodity Gas Charge - (Company Version)

ANALYSIS OF SCHEDULE II COSTS/REVENUES FROM JANUARY 2006 - DECEMBER 2006

Line #	Commodity	2006												2007	2006	TOTALS
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER			
1	Actual Recoverable Costs	724,318	1,429,319	2,365,530	1,815,259	1,539,240	1,317,246	338,985	310,098	175,376	200,166	268,900	534,814	944,537	1,322,568	8,927,650
2	Actual Purchased Gas Recoveries	703,233	1,626,744	2,474,616	2,249,170	1,522,528	1,029,063	278,743	217,244	94,155	122,141	215,955	408,817	852,395	1,234,899	(8,339,703)
3	Under/(Over) Recovery	21,085	(197,425)	(109,086)	(433,911)	16,662	288,183	60,242	92,854	81,221	78,025	52,945	125,997	92,142	81,669	387,947
4	Amount of Factor A Included in Gas Charge Calculation Prior Period (Schedule I)	28,140	46,569	44,635	49,225	(71,882)	(142,220)	(96,018)	(71,242)	(45,284)	(22,598)	(14,935)	20,672	27,464	23,013	23,013
5	Amount of Factor O Included in Gas Charge Calculation Prior Period (Schedule I)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Adjusted Under/(Over) Recovery	49,225	(150,856)	(64,451)	(384,686)	(55,220)	145,963	(35,776)	21,612	35,937	55,427	38,010	146,669	119,606	110,682	110,682
7	Supplier Refunds/Surcharges	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7.1	Other Adjustments	0	0	1,370	0	0	0	0	0	0	0	0	0	0	75	(75)
8	Unamortized Balance of Adjustment Factor Including Interest (Previous Filing Month Schedule II)	0	0	(79,139)	0	(289,882)	(274,887)	(97,107)	(87,927)	(43,881)	(15,265)	28,068	43,226	0	81,858	81,858
9	Total Adjustments Before Amortization	49,225	(150,856)	(142,220)	(384,686)	(345,102)	(128,924)	(132,883)	(66,315)	20,672	55,427	66,078	189,895	119,606	192,615	502,116
10	Factor A Amount to Schedule I	49,225	(71,882)	(142,220)	(96,018)	(71,242)	(32,180)	(45,284)	(22,598)	20,672	27,464	23,013	189,895	38,088	192,615	420,598
11	Unamortized Balance of Factor A	0	(78,974)	0	(288,668)	(273,860)	(96,744)	(87,599)	(43,717)	(15,208)	27,963	43,065	0	81,518	0	0
12	Unamortized Balance of Factor O	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	Total Unamortized Balances	0	(78,974)	0	(288,668)	(273,860)	(96,744)	(87,599)	(43,717)	(15,208)	27,963	43,065	0	81,518	0	0
14	Interest for 1 Month @ 2.5% Annual Rate	0	(165)	0	(1,423)	(1,027)	(363)	(328)	(164)	(57)	105	161	0	349	0	(2,547)
15	Total Unamortized Balances including Interest	0	(79,139)	0	(289,882)	(274,887)	(97,107)	(87,927)	(43,881)	(15,265)	28,068	43,226	0	81,858	0	0

Commodity	Number of Days in Amort Schedule	2006												2007	2006	TOTALS
		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER			
16	Number of Days in Amort Schedule	0	59	0	122	153	122	92	92	61	61	90	0	89	0	0
17	Number of Days in Effective Month	31	28	31	30	31	30	31	31	30	31	31	31	28	31	31
18	Line 9, Total Adj Before Amortization	49,225	(150,856)	(142,220)	(384,686)	(345,102)	(128,924)	(132,883)	(66,315)	20,672	55,427	66,078	189,895	119,606	192,615	502,116
19	Annual Interest Rate	2.50%	2.50%	2.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
20	Effective Month Principal	0	(71,593)	0	(84,595)	(69,923)	(31,703)	(44,776)	(22,345)	0	27,259	22,760	0	37,629	0	0
21	Effective Month Interest	0	(289)	0	(1,319)	(1,019)	(477)	(508)	(253)	(111)	205	253	0	459	0	0
22	Total to Line 10, Factor A	49,225	(71,882)	(142,220)	(96,018)	(71,242)	(32,180)	(45,284)	(22,598)	(15,265)	27,464	23,013	189,895	38,088	192,615	420,598

*: includes adj from feb

SUMMARY OF PURCHASED GAS ADJUSTMENT CHARGES

FROM JANUARY 1, 2006 TO DECEMBER 31, 2006

<u>Effective Date</u>	<u>Winter/D PGA Rate</u>	<u>Summer/D PGA Rate</u>	<u>Commodity PGA Rate</u>	<u>Total PGA Rate</u>
January 1st	\$0.0903	\$0.0033	\$1.3726	\$1.4662
February 1st	0.1008	0.0002	1.0140	1.1150
March 1st	0.1467	0.0030	0.8550	1.0047
April 1st	0.0980	0.1515	0.4807	0.7302
May 1st	0.0711	0.0949	0.5688	0.7348
June 1st	0.1464	0.1414	0.4141	0.7019
July 1st	0.0690	0.2682	0.3872	0.7244
August 1st	0.0250	0.1932	0.5099	0.7281
September 1st	0.0098	0.1333	0.6223	0.7654
October 1st	0.0049	0.1745	0.5260	0.7054
November 1st	0.1582	(0.0002)	0.6926	0.8506
December 1st	0.1052	(0.0045)	0.8387	0.9394

See auditor's report.