Docket Nos. 07-0241/07-0242
Consolidated
ICC Staff Exhibit 13.0

REBUTTAL TESTIMONY

of

Dianna Hathhorn
Accountant

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company

The Peoples Gas Light and Coke Company

Docket Nos. 07-0241 and 07-0242 Consolidated

August 21, 2007

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SCHEDULES

ATTACHMENTS

Witness Identification

Q. Please state your name and business address.

A. My name is Dianna Hathhorn. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Have you previously filed testimony in this proceeding?

A. Yes, my direct testimony is ICC Staff Exhibit 1.0.

Purpose of Testimony

Q. What is the purpose of this testimony?

A. The purpose of my testimony is as follows:

1. to present the Staff adjusted operating statements and rate base of The Peoples Gas Light and Coke Company ("Peoples Gas") and North Shore Gas Company ("North Shore") (individually, the "Company" and collectively, the "Companies"); and
2. to respond to the Companies opposition to my adjustments for pre-increase uncollectibles expense, pro-forma collection agency fees, and allocation of PEC officer and directors fees; and
3. to respond to the Companies concerning a) a change in Rider VBA and UBA's Factor O formula, b) an alternative proposal

for deferred accounting treatment instead of various Rider proposals, c) Peoples Gas' response to Staff's recommendations on Rider ICR, and d) the Companies' alternative Rider WNA.

Revenue Requirement Schedules

Q. Are you sponsoring any schedules as part of your direct testimony?

A. Yes. I prepared (or supervised the preparation of) the following schedules for the Company, which show data as of, or for the test year ending, September 30, 2006:

Schedule 13.1 P and N -	Statement of Operating Income with Adjustments
Schedule 13.2 P and N -	Adjustments to Operating Income
Schedule 13.3 P and N -	Rate Base
Schedule 13.4 P and N-	Adjustments to Rate Base
Schedule 13.5 P and N-	Interest Synchronization Adjustment
Schedule 13.6 P and N-	Gross Revenue Conversion Factor
Schedules 13.7 P and N-	Adjustment to Remove Non-Base Rate Revenues and Expenses
Schedules 13.8 P and N-	Adjustment to Pro Forma Collection Agency Fees
Schedules 13.9 P and N-	Adjustment to Allocation of PEC Officer Costs and Director Fees

Q. Please describe Schedules 13.1 P and N, Statement of Operating Income with Adjustments.

A. Schedules 13.1 P and N, are the same as ICC Staff Exhibit 1.0, Schedules 1.1 P and N, described in my direct testimony, except that it incorporates the Companies' rebuttal positions described in Peoples Gas and North Shore Exhibits SF-2.5P and N, and Staff's rebuttal positions.

Q. Please describe Schedules 13.2 P and N, Adjustments to Operating Income.

A. Schedules 13.2 P and N identify Staff's adjustments to Operating Income. The source of each adjustment is shown in the heading of each column. The final column is carried forward to Schedule 13.1 P and N, Column (c).

Q. Please describe Schedules 13.3 P and N, Rate Base.

A. Schedule 13.3 P and N are the same as ICC Staff Exhibit 1.0, Schedules 1.3 P and N described in my direct testimony, except that it incorporates the Companies' and Staff's rebuttal positions.

Q. Please describe Schedules 13.4 P and N, Adjustments to Rate Base.

A. Schedules 13.4 P and N identify Staff's adjustments to rate base. The source of each adjustment is shown in the heading of each column. Column (i) of Schedule 13.4 P and N are carried forward to Schedule 13.3 P and N, Column (c).

Q. Please describe Schedules 13.5 P and N, Interest Synchronization Adjustment.

A. Schedules 13.5 P and N use the same concept as ICC Staff Exhibit 1.0, Schedules 1.5 P and N. The theory is discussed at page 7 of my direct testimony.

Q. Please describe Schedule 13.6, Gross Revenue Conversion Factor.

A. Schedule 13.6 uses the same concept as ICC Staff Exhibit 1.0, Schedule 1.6. The theory is discussed in my direct testimony. (ICC Staff Exhibit 1.0, p. 7, lines 133-143)

<u>Attachments</u>

Q. Have you included any attachments as part of your direct testimony?

A. Yes, I have included

- Attachment A, Annual Report of Exelon Business Services Company, for the year ended December 31, 2006, Supplemental Corporate Governance Information And

- Attachment B, Peoples Gas response to Staff Data Request DLH-24.01.

The reasons that I attach these documents are discussed later in my testimony.

Uncontested Adjustments

Q. Did the Companies accept any adjustments from Staff's direct testimony?

A. Yes. The following adjustments were accepted by the Companies and are therefore included in the Companies' beginning rebuttal position numbers in Staff Schedules 13.1 P and N (Operating Statement) and 13.3 P and N (Rate Base).

1. Schedules 1.9 P and N- Adjustment for Civic, Political and Related Activities Allocated from Parent
2. Schedules 1.11 P and N- Adjustment to Correct Invested Capital Tax
3. Schedules 1.13 P and N- Adjustment for Penalties Allocated from Parent
4. Schedules 1.14 P and N- Adjustment for Employee Recreation Expenses Allocated from Parent
5. Schedules 2.1 P and N- Non Payroll Inflation
6. Schedules 2.3 P and N- Executive Perquisites
7. Schedule 2.4 N- Customer Installations
8. Schedule 2.5 P- Termination Allowance
9. Schedules 2.6 P and N- Correction of Pro Forma Wages
10. Schedules 3.2 P and N- Advertising Expense
11. Schedules 3.3 P and N- Lobbying Expense

12. Schedule 3.4 P- Membership Dues Expense

Q. Did the Companies accept any adjustments from Intervenor direct testimony?

A. Yes. The following adjustments were proposed by Intervenors, accepted by the Companies, and Staff has no objection to the adjustments; therefore, these are also included in the Companies' beginning rebuttal position numbers in Staff Schedules 13.1 P and N (Operating Statement) and 13.3 P and N (Rate Base).

1. GCI Exhibit 2.0- Medical and Insurance Costs
2. GCI Exhibit 2.0- Accumulated Deferred Income Taxes ("ADIT") Related to Gas Cost Reconciliation
3. GCI Exhibit 2.0- Alternative Minimum Taxes ADIT on Gas Cost Settlement Charge

Q. Did the Companies contest any adjustments from Staff direct testimony that Staff no longer proposes?

A. Yes. After reviewing witness Kallas' rebuttal testimony, I am withdrawing my Schedules 1.10 P and N, Adjustment to Pre-Increase Uncollectibles Expense since my adjustment duplicated adjustments that the Companies already made to the post-increase level of uncollectibles expense. Staff has not objected to the Companies' rebuttal adjustments to uncollectibles related to the cost of gas, reflected in Exhibits SF-2.10P and N. Therefore, Uncollectibles

Expense in Schedules 13.1 P and N reflect the Companies' rebuttal position, assuming the Commission rejects Rider UBA.

<u>Adjustment to Remove Non-Base Rate Revenues and Expenses</u>

Q. Please describe ICC Staff Exhibit 13.0, Schedules 13.7 P and N, Adjustment to Remove Non-Base Rate Revenues and Expenses.

A. Schedules 13.7 P and N remove cost of gas (Rider 2) and coal tar (Rider 11) expenses and revenues since these are not subject to the increase pending in the instant proceeding. They are identical to the Schedules 1.7 P and N in my direct testimony. These adjustments reclassify revenues and expenses in order to reflect the percentage increase on delivery services rates only; they have no effect on operating income. This adjustment was not addressed in the Companies' rebuttal testimony.

<u>Contested Adjustments</u>

Q. Did the Companies accept any adjustments from Intervenor direct testimony that Staff opposes?

A. Yes, the Companies accepted the Governmental and Consumer Intervenors' ("GCI") adjusted allowance for major maintenance expense related to the repair of a compressor crankshaft (GCI Exhibit 2.0) into the rebuttal revenue requirement for Peoples Gas only. However, Staff witness Lounsberry (ICC Staff Exhibit 23.0) proposes an adjustment to disallow the non-recurring expense from the rebuttal revenue requirement for Peoples Gas.

Adjustment to Pro-Forma Collection Agency Fees

Q. Please describe ICC Staff Exhibit 13.0, Schedules 13.8 P and N, Adjustment to Pro Forma Collection Agency Fees.

A. Schedules 13.8 P and N disallow the applicable Company's proposed increase to normalize test year collection agency fees, since the evidence reflects that the unadjusted test year expense is more likely to recur in the future than each Company's calculated increase. These schedules are identical to Schedules 1.8 P and N except for the updated 2007 annualized expense amounts on page 2, line 9, that I discuss below.

Q. In North Shore/Peoples Gas Ex. LK-2.0, pages 5-6, the Company disagrees with your disallowance for the proposed pro-forma increase in collection agency fees. The Companies state that not only are 2006 fees understated due to the Settlement Agreement, but 2007 fees as well. (North Shore/Peoples Gas Ex. LK-2.0, page 5, lines 94-96) Have the Companies provided additional discovery on the 2007 amount of collection agency fees?

A. Yes. In response to Staff data request DLH-23.01, the Companies have provided additional 2007 expense amounts. Using this nine months of data, that I annualized and summarized below, the evidence further supports that no increase to test year collection agency fees is warranted since the level of fees incurred by the Companies has not risen since the 2006 test year.

Table 1	Peoples Gas	North Shore
Updated 2007 Annualized Post Test Year Fees	$736,000	$22,000
2006 Test Year Fees	$1,132,000	$29,000
Company Requested Fees	$2,902,000	$105,000

Q. When are collection fees incurred by the Companies?

A. The Companies explain in response to Staff data request DLH-23.01that it is not uncommon for collections to take place several years after the bill is turned over to a collection agency. The Settlement Agreement affected accounts through September 30, 2005. The Companies may be correct that at some unknown point in time in the future, its collection agency fees may eventually rise back to the pre-settlement level. However, due to the lag in collections, and resulting fees incurred, it is clear that the 2006 and 2007 expenses are far below the 2004 and previous years' amounts. Therefore, for the period of time the rates from the instant proceeding will be in effect, the Companies' proposed average based on the 2003 through 2005 experience is inappropriate and overstates the expected collection agency fees going forward.

Q. The Company also disagrees that its adjustment represents an attempt to collect costs incurred from the Settlement Agreement. (North Shore/Peoples Gas Ex. LK-2.0, page 6, beginning line 123) Please respond.

A. The Company's opinion appears to be derived from its understanding of the intention of the agreement. "[T]his adjustment follows the intent of the agreement to eliminate all effects of the settlement….This is no different than any other adjustment to historical costs that are impacted by unusual activity." *Id.* line 131-132. As indicated in my direct testimony, Staff will address this issue in its briefs, but I note now that this is not "any adjustment for unusual activity" as it was borne out of the Company's conduct and settlement of the issues in Docket No. 01-0707. My understanding is that the settlement represents, at least in part, the return to ratepayers of costs that the Company should not have recovered as prudently incurred costs. Thus, the Company's adjustment to "eliminate all effects of the settlement" with respect to uncollectibles has the effect, contrary to the intent of the settlement, to treat all costs as prudently incurred costs.

<u>Adjustment to Allocation of PEC Officer Costs and Director Fees</u>

Q. Please describe ICC Staff Exhibit 13.0, Schedules 13.9 P and N, Adjustment to Allocation of PEC Officer Costs and Director Fees.

A. Schedules 13.9 P and N disallow a portion of Peoples Energy Corporation ("PEC") officer costs and director fees allocated to the Companies. As a result, with Staff's adjustment, a reasonable percentage of these costs are allocated to PEC, the Companies' parent company during the test year. These schedules are the same as Schedules 1.12 P and N.

Q. In North Shore/Peoples Gas Ex. LK-2.0, page 7, lines 140-148, the Companies oppose your adjustment to allocate 10% of PEC's officer costs and director fees to its subsidiaries, because "PEC is a holding company with no independent activity", and therefore these expenses, mainly related to corporate oversight, are for the benefit of the subsidiaries only and should be allocated as such. Is the Company's position on the allocation of holding company corporate governance costs based on any administrative rules or Commission orders?

A. No, I do not believe so. The USOA for Gas Utilities in Illinois is silent on the specific treatment of holding company costs, but does provide that any costs from affiliates must be supported. (*See* ICC Staff Ex. 1.0, pages 20-21, lines 419-433) Also, these costs are subject to the allocation methodology approved in its affiliate interest agreement ("AIA"). However since the Companies have recently petitioned in Docket No. 07-0361 to form a shared services company[1] and for a new AIA, there is not yet a controlling AIA in place for the time period when the rates which result from these consolidated dockets will be in place. Finally, the Federal Energy Regulatory Commission ("FERC") has recently enacted a USOA for centralized service companies in a holding company system. (18 CFR 367) While the issue of the future, proper and specific allocation of holding company costs will be fully pursued with the Companies in Docket No. 07-0361, I note that 18 CFR 367, designed specifically for the proper accounting of holding company and service company costs, does not contain any unilateral provision consistent with the Company's position that all holding company costs must be allocated to its subsidiaries.

Q. How does the proposed change in organizational structure of the Companies affect your adjustment?

A. It does not. My adjustment simply reflects the fact that corporate governance costs, as in the form of director and officers costs, are incurred for the benefit for multiple subsidiaries including the parent organization. It does not matter whether the parent company is PEC or Integrys Energy Group. According to the Companies <u>none</u> of these costs should be borne by the parent; my adjustment makes a reasonable allocation to the parent based upon the available test year cost data. While the exact corporations and allocations of costs may be incurred somewhat differently under the Integrys umbrella, the need to eliminate cross-subsidization of costs remains.

Q. Is the Company's opinion regarding the allocation of holding company costs consistent with the treatment of these similar costs by other Illinois utilities in a holding company system?

A. I have not completed a review of all such scenarios, but I am aware that Exelon Corporation ("Exelon"), the holding company of Commonwealth Edison Company ("ComEd"), an Illinois electric utility, retains about 10% of corporate governance costs of the activities and services

[1] See Petition in Docket No. 07-0361, for the formation Integrys Business Support, LLC as a centralized services company for the Integrys Energy Group, Inc. holding company system.

"reasonably determined to be necessary for the lawful and effective management of Exelon System business"[2], in contrast to the Companies' proposal here. Exelon's and ComEd's corporate governance costs for calendar year 2006 are contained in the Annual Report of Exelon Business Services Company, for the year ended December 31, 2006, Supplemental Corporate Governance Information filed with the ICC as a supplement to its 2006 Form 21, a copy of which is attached to my testimony as Attachment A.

Q. How does the Companies' rebuttal testimony address the fact that for 2006, most officers and directors estimated that they spend 10% of their time for PEC activities, as reflected in ICC Staff Exhibit 1.0, Table 2 (page 16)?

A. The Companies' rebuttal testimony does not address this fact.

<u>Response to Companies' Revision to Staff Proposed Rider VBA and UBA</u>

Q. The Company proposes revisions in tariff language to Riders VBA and UBA, to remove Factor O from the RA2 calculation and instead be defined under RA. (North Shore/Peoples Gas Ex. VG-2.0, page 49,

[2] Per Section 7 of ComEd's General Services Agreement with Exelon, approved in Docket No. 00-0295.

lines 1086-1089 and page 50, lines 1107-1110) Is this revision acceptable to Staff?

A. While Staff's primary position continues to be that the Commission should reject these riders in their entirety, in the event the Commission accepts the Company's VBA rider proposal Staff is not opposed to this revision.

<u>Response to Companies' Deferred Accounting Alternatives to Riders</u>

Q. Please describe your understanding of the Companies' rebuttal proposal for deferred accounting rather than adopting Riders VBA and UBA, and GCI's direct testimony proposal for deferred accounting rather than adopting Rider EEP.

A. The Companies state that should Rider VBA be rejected on the grounds that it is administratively complex and burdensome, then they would propose deferred accounting in which "any Rider VBA revenues would be tracked in a deferred account until the Commission allows such amounts to be refunded to or recovered from customers through a charge or an adjustment to base rates. This could occur on an annual basis or in a future rate case proceeding. The Companies would propose that such amounts be refunded or recovered on an annual basis." (North Shore/Peoples Gas Ex. VG-2.0, page 50, lines 1097-1101)

In regard to Rider UBA, the Companies propose the same alternative if the Commission were to reject Rider UBA. (*Id.* page 51 at line 1118)

For Rider EEP, the Companies agree to accept GCI's proposal to use a deferral accounting mechanism to track and reconcile differences between recovery and disbursements made by each utility for conservation programs, with the unspent balance in the deferral account evaluated and recognized in the next rate case to establish a revised ongoing recovery level in new base rates. (GCI Ex-MLB-1.0, pages 72-73) The Companies agree to this proposal with the exception to recover such costs on an annual basis rather than waiting until the next rate case proceeding. (North Shore/Peoples Gas Ex. VG-2.0, page 51, lines 1129-1134)

Q. What is your general understanding of whether deferred expenses can be recovered in future rate cases?

A. Although I am not an attorney and am not offering a legal opinion, it is my understanding that deferred expenses are not allowable test year operating expenses. I understand that the Illinois Supreme Court[3] has stated that the inclusion of non-test year deferred operating expenses in a test year is a violation of the Commission's test year rules, as quoted below:

> As this court stated the last time this case was before it, "[t]he Commission may alter or amend its past practice, but it must follow the procedures set forth in its rules and the Act." (Business & Professional People I, 136 Ill. 2d at 226.) The Commission could have amended its test-year rules to deal with the particular problems created by regulatory delay. Instead the Commission attempted to circumvent the existing rules by improperly treating depreciation as if it were not an operating expense. For this reason, we find the Commission violated its own rules to the detriment of the intervenors and, therefore, committed reversible error. Business & Professional People I, 136 Ill. 2d at 227.
>
> Because decommissioning expense is a test-year item, we again find the Commission violated its own rules to the detriment of the intervenors and, therefore, committed reversible error. Business & Professional People I, 136 Ill. 2d at 227.

Q. Are you aware of any Illinois utilities being allowed to recover non-test year deferred operating expenses in a test year?

A. No I am not. As observed by the Court, this would allow recovery of non-test year expenses in a rate case, contrary to the ICC's test year rules.

[3] Business and Professional Peoples For The Public Interest v. The Illinois Commerce Commission, 146 Ill. 2d 175; 585 N.E.2d 1032; 1991 Ill. LEXIS 124; 166 Ill. Dec. 10 (1991)

Q. Please explain what you mean by "ICC test year rules."

A. Part 287 (83 Ill. Adm. Code 287) contains the Commissions' test year rules. Section 287.20 defines the two test years that utilities may propose as either a historical or future test year. Section 287.30 promulgates when and how utilities can update their future test year data. Section 287.40 sets forth the requirements for pro forma adjustments to historical test years. Neither Section 287.30 nor Section 287.40 allow the test year to be updated or adjusted for actual expenses that were incurred prior to the test year. Therefore, the Companies' requests for deferred accounting would not be in compliance with the Commission's test year rules.

<u>Response to Peoples Gas' Rebuttal Testimony Concerning Rider ICR</u>

Q. Please describe your understanding of Peoples Gas' rebuttal testimony regarding Staff's alternative proposal and language, presented in ICC Staff Exhibit 1.0, Attachment A, to its Rider ICR.

A. Mr. Schott, in North Shore/Peoples Gas Ex. JFS-2.0, pages 4-5, agreed to the four key components of Staff's alternative proposal, and previously stated no opposition to Staff's recommendation for an internal audit of any rider adopted. (See ICC Staff Ex. 1.0, page 26, lines 546-550) Ms. Grace testified in rebuttal that Peoples Gas needed more time to evaluate the detailed calculations and provisions proposed in my direct testimony. (North Shore/Peoples Gas Ex. VG-2.0, page 52 at line 1140) Since that time, on August 17, 2007, I have received a response to Staff data request DLH-24.01 which outlines some concerns Peoples Gas has with the compliance and functioning of Staff's proposal. This response is Attachment B to my testimony, and includes Peoples Gas' proposed changes to Staff's proposed Rider QIP (qualified infrastructure plant surcharge) language.

Q. Do you have any objections to any of the proposed language revisions to Rider QIP in Attachment B recommended by Peoples Gas?

A. First, I want to reiterate that Staff's primary position remains that the Commission should reject Rider QIP, and my testimony provided additional concerns in the event the Commission decided to accept the Company's proposal for Rider QIP. My only objection is to Peoples Gas' revisions to delete parts of Section H Annual Reconciliation. Peoples Gas' revisions remove the requirement outlined in Section H a) and c) to credit Rider QIP for revenues collected under Rider QIP if the Company's actual rate of return exceeds the level authorized in its last general rate proceeding. The Company states only that it proposes to delete the "broad language requiring a credit arising from a rate of return test" with no further explanation for this position. However, in my opinion, if the Company is exceeding its authorized overall rate of return, there is no reason not to implement this credit provision to prevent the Company from excess earnings under this rider. I note this provision is also a current requirement for water and sewer companies under Part 656, Section 656.80, of the Commission rules.

<u>Response to the Companies Weather Normalization Adjustment ("WNA") Rider Alternative to Rider VBA</u>

Q. Please describe your understanding of the Companies' rebuttal testimony regarding its Rider VBA and WNA proposals.

A. Ms. Grace, in North Shore/Peoples Gas Ex. VG-2.0, page 56, lines 1224-1226, explains that the Companies still support their Rider VBA proposal but now offer Rider WNA as a "second best" approach.

Q. Has Staff formed an opinion on Rider WNA?

A. For the reasons explained by Staff witness Lazare in ICC Staff Exhibit 20.0, Staff recommends Rider WNA be rejected. If the Commission chooses to accept Rider WNA, however, I recommend two changes to the rider. These changes should not be taken as an endorsement of Rider WNA or the methodology the Companies have presented.

Q. What is your first recommendation?

A. Section D of Rider WNA states the Companies will file an annual report by September 30th. I recommend this section be clarified that this report will be made with the Chief Clerk. Further, the filing of the annual report should initiate an annual ICC review of compliance of WNA for the preceding year. My revised language for Section D is as follows:

> An annual report postmarked by September 30, <u>filed with the Chief Clerk of the ICC</u>, shall show, by month, the amounts billed to or credited to customers under this rider in each applicable rate classification, for the previous October through May period. The annual report shall also show, by month, the actual heating degree-days and the normal heating degree-days for the previous October through May period. <u>At this same time, the Company shall also file a petition with the ICC seeking initiation of an annual reconciliation to determine the accuracy of the annual report.</u>

Q. What is your second recommendation?

A. I recommend a Section E be added to Rider WNA to require an annual internal audit of the rider to determine it is functioning in compliance with the rider. My recommended language for a new Section E is as follows:

<u>Section E – Audit</u>

<u>The Company shall file annually with the Manager of the Accounting Department of the ICC's Financial Analysis Division, no later than November 1, an internal audit report that determines whether or not the WNA and information provided in Section D have been calculated in accordance with this Tariff.</u>

Conclusion

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

ANNUAL REPORT OF EXELON BUSINESS SERVICES COMPANY

For the Year Ended December 31, 2006

SUPPLEMENTAL CORPORATE GOVERNANCE INFORMATION

Instruction:
Summarize the direct charges for each corporate governance functional area during the year and the indirect charges using the Modified Massachusetts Formula. The schedule should present the dollar amount and percentage amounts charged to each Exelon company.

(in thousands)

	Commonwealth Edison Company	Exelon Corporation	Exelon Enterprises Company, LLC	Exelon Generation Company, LLC	PECO Energy Company
Executives					
Direct Charges	$ 393	$ 113	$ -	$ 6,867	$ 97
% of total direct charges	5.26%	1.52%	0.00%	91.92%	1.30%
Indirect Charges	16,352	4,810	-	22,051	9,998
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
Finance & Acctg.					
Direct Charges (1)	214	1,020	26	24,568	379
% of total direct charges	0.82%	3.89%	0.10%	93.75%	1.44%
Indirect Charges	40,769	11,993	-	54,978	24,928
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
Communications					
Direct Charges	5,145	(21)	-	3	2,133
% of total direct charges	70.87%	-0.29%	0.00%	0.04%	29.38%
Indirect Charges	4,223	1,242	-	5,694	2,582
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
Govt & Public Affairs					
Direct Charges	0	107	-	1	1
% of total direct charges	0.32%	98.61%	0.00%	0.52%	0.55%
Indirect Charges	4,473	1,316	-	6,031	2,735
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
Legal Governance					
Direct Charges	11	381	-	1	4
% of total direct charges	2.80%	95.96%	0.00%	0.24%	1.00%
Indirect Charges	6,757	1,988	-	9,113	4,132
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
Security					
Direct Charges	1	13	-	2	-
% of total direct charges	7.26%	77.52%	0.00%	15.22%	0.00%
Indirect Charges	963	283	-	1,299	589
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%
HR Services					
Direct Charges	118	4	5	214	693
% of total direct charges	11.39%	0.37%	0.48%	20.71%	67.05%
Indirect Charges	1,780	524	-	2,400	1,088
% of total indirect	30.73%	9.04%	0.00%	41.44%	18.79%

(1) Excludes $(43,400) billed to Genco for NEIL distribution declared in December 2006.

(2) In general, HR services directly charged to affiliates, other than Exelon Corporation, are considered corporate support not Governance.

ICC Docket Nos. 07-0241 and 07-0242
The Peoples Gas Light and Coke Company's and North Shore Gas Company's Response to Staff Data Requests DLH 24.01
Dated: August 3, 2007

REQUEST NO. DLH 24.01:

Referring to North Shore/Peoples Gas Ex. VG 2.0, page 52, lines 1140-1141 and the example included with this data request in document example.pdf, state any issues or concerns the Company has with Staff's proposed tariff language in ICC Staff Ex. 1.0, Attachment A.

RESPONSE:

See the attached Rider QIP for Peoples Gas' proposed modifications of Staff's proposed tariff language. Some modifications are editorial in nature while others are more significant. To minimize the editorial revision marking, Peoples Gas did not make certain changes to confirm the format to other riders in its tariff, but, if approved by the Commission, Peoples Gas would propose to format the rider in a consistent manner (for example, definitions would be in bold type and not set out in quotation marks). The more significant concerns are described below:

1. Section D - Qualifying Infrastructure Plant, a) and c). Peoples Gas proposes a definition that is more consistent with that in Part 656, which is the basis for the Staff's proposal.
2. Section F – Determination of the Qualifying Infrastructure Surcharge. Peoples Gas proposes to include language that would allow an Annual Prospective Operation to accommodate future rate case filings in which the Company may use a future test year.
3. Section H – Annual Reconciliation. Peoples Gas proposes to delete the broad language requiring a credit arising from a rate of return test.

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider QIP

Qualifying Infrastructure Plant

Applicable to Service Classification Nos. 1H, 2 and 4

The Qualifying Infrastructure Plant ~~(QIP~~ surcharge~~)~~ shall be determined in accordance with the provisions of this rider. The qualifying infrastructure plant surcharge (QIP surcharge) shall be applied to bills of customers.

Section A – Applicability
The purpose of the QIP surcharge is to recover a return on, and depreciation expense related to, the ~~utility~~Company's investment in QIP as described in Section D of this ~~Part~~ rider.

Section B – Definitions
As used in this rider, the terms below are defined as follows:

"Act" means the Public Utilities Act [220 ILCS 5/1-101].

"Information sheet" means a tariff sheet filed in accordance with this rider ~~Part~~ to initiate or modify a QIP surcharge percentage.

"Operation year" means the calendar year (or portion thereof) during which a QIP surcharge percentage is applied to customer bills.

"QIP base rate revenues" mean revenues recorded in the certain accounts and their sub-accounts described in 83 Ill. Adm. Code Part 505~~, the Uniform System of Accounts for Gas Utilities~~. QIP base rate revenues shall include revenues recorded in accounts 480, 481, and 482. QIP base rate revenues, however, shall not include revenues resulting from the QIP surcharge or any revenues attributable to Purchased Gas Adjustment charges developed pursuant to 83 Ill. Adm. Code Part 525.

"QIP surcharge percentage" is the percentage determined in accordance with Section F of this ~~Part~~ rider for filing in an information sheet.

"QIP-related costs" or "QIP costs" mean costs that are recoverable through the QIP surcharge percentage as determined in accordance with Sections E and F of this ~~Part~~ rider.

"Qualifying infrastructure plant surcharge" or "QIP surcharge" means the amount added to a customer bill when the QIP surcharge percentage is applied in accordance with Section F (a) of this ~~Part~~ rider.

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider QIP

Qualifying Infrastructure Plant

Applicable to Service Classification Nos. 1H, 2 and 4

"Qualifying infrastructure plant" means certain non-revenue producing ~~eligible~~ plant that is not reflected in the rate base used to establish the ~~utility~~Company's base rates and is consistent with the terms of Section D of this ~~Part~~ rider. "Non-revenue producing plant" is plant that is not constructed or installed for the purpose of serving a new customer.

"Reconciliation year" means the calendar year period for which actual QIP costs and revenues associated with the QIP surcharge are to be reconciled.

"Test year" means the test year period used by the ~~utility~~Company in its last rate case as defined in 83 Ill. Adm. Code Sec. ~~285.150~~287.20.

~~"The utility" means The Peoples Gas Light and Coke Company.~~

Section C - Terms and Conditions ~~General Requirements~~

a) The QIP surcharge shall be capped at 5% of the QIP base rate revenues billed to customers. The QIP surcharge shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Gas Adjustment clause developed pursuant to 83 Ill. Adm. Code Part 525, or to any other revenues not recorded in a QIP base rate revenues account as described in Section B of this ~~Part~~ rider.

b) On the effective date of new base rates that provide for the recovery of the costs that had previously been recovered under ~~the QIP surcharge~~this rider, the QIP surcharge percentage ~~for the applicable rate zone~~ shall be reset to zero.

c) The ~~utility~~Company shall provide notice of the QIP surcharge rider and subsequent filings and billing as follows:

1) The ~~utility~~Company shall maintain and keep open for public inspection a copy of each filing of a QIP surcharge ~~rider~~ and subsequent information sheets and shall post public notice in each office of the ~~utility~~Company in accordance with 83 Ill. Adm. Code Sec. 255.20(a).

2) For the initial filing of a QIP surcharge ~~rider~~, the ~~utility~~Company shall provide notice by newspaper publication in accordance with 83 Ill. Adm. Code Sec. 255.20(f)(1) and by mailing a notice of the filing to each of its customers to whom this rider is applicable.

3) In connection with the initial billing of each change in a QIP surcharge percentage as specified in an information sheet (other than a change to a zero percentage), including information sheets resulting from the annual reconciliation and Commission-ordered adjustments, the ~~utility~~Company shall provide an explanation of the QIP surcharge to be stated on, or included with, the initial billing of the new QIP surcharge percentage.

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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4) Except as noted above, no other notice of the filing or billing of the QIP surcharge ~~rider~~ or an information sheet shall be required except as may be provided by law or by Order of the Commission.

d) The QIP surcharge shall be presented as a separate line item on customer bills.

e) The revenues resulting from ~~each~~ this ~~QIP surcharge~~ rider shall be recorded in a separate revenue subaccount.

Section D – Qualifying Infrastructure Plant

a) To be classified as QIP, the plant additions must meet the following criteria:

1) Plant additions must be replacements of existing plant items from the accounts listed in subsection (b);

2) Such replacements must be non-revenue producing;

3) Such replacements are installed to replace cast iron and ductile steel main and ancillary infrastructure including such facilities that are worn out or deteriorated or to replace such facilities that are obsolete and at the end of their useful service lives due to a change in law or a change in the regulations of a governmental agency;

4) Such replacements are installed after the conclusion of the test year in the ~~utility~~Company's ~~latest~~ last rate case; and

5) Such replacements were not included in the calculation of the rate base in the ~~utility~~Company's last rate case.

b) The plant additions shall include items from the following accounts, pursuant to 83 Ill. Adm. Code Part 505:

1) Account 376, Distribution Mains;

2) Account 380, Services;

3) Account 381 and Account 382, Meters and Meter Installations; and

4) Account 383, House Regulators.

c) In addition to replacements, the following items may be classified as QIP: main extensions recorded in Account 376 that are constructed to eliminate dead ends and the unreimbursed costs recorded in the appropriate accounts listed in subsections (b) that are associated with relocations of mains, services, meters, and regulators occasioned by street or highway construction.

~~c~~d) QIP shall include only plant additions installed on or after January 1 of the year in which the ~~utility~~Company files its initial QIP surcharge ~~rider in accordance with Section G of this Part~~.

Asterisks do not indicate changes
since the entire sheet has changed

Issued by James F. Schott, Vice President
130 East Randolph Drive, Chicago, Illinois 60601

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Section E - Recoverable Qualifying Infrastructure Plant Costs
a) QIP costs shall include the pre-tax return on QIP and the net depreciation expense applicable to QIP.

1) The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the ~~utility~~Company's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor~~ (GRCF)~~. The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$GRCF = \frac{1}{(1 - SIT)(1 - FIT)}$$

$$PTR = ((WCCE + WCPE) \times GRCF) + WCLTD + WCSTD$$

Where:

GRCF = Gross Revenue Conversion Factor.

SIT = Illinois State income tax rate in effect at the time of the initial, annual or quarterly filing.

FIT = Federal income tax rate in effect at the time of the initial, annual or quarterly filing.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the ~~utility~~Company's last rate case.

WCPE = Weighted cost of preferred equity from the ~~utility~~Company's last rate case.

WCLTD = Weighted cost of long term debt from the ~~utility~~Company's last rate case.

WCSTD = Weighted cost of short term debt from the ~~utility~~Company's last rate case.

2) Net depreciation expense shall be calculated by applying the ~~utility~~Company's approved depreciation rate to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

Section F - Determination of the Qualifying Infrastructure Plant Surcharge Percentage
a) The QIP surcharge percentage shall be expressed as a percentage carried to two decimal places. The QIP surcharge percentage shall be applied to the total amount billed to each customer ~~located in the same rate zone~~ based on the ~~utility~~Company's otherwise applicable rates and charges. The QIP surcharge percentage shall not be applied to the exclusions listed in Section C (a) of this ~~Part~~ rider.

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b) In calculating the QIP surcharge percentage, the ~~utility~~Company may choose either annual prospective operation or~~shall use~~ quarterly historical operation based on QIP investment data for a prior three-month period. Annual prospective operation may be selected only if the Company's last rate case utilized a future test year as defined in 83 Ill. Adm. Sec. Code 287.20 and the Company's submits the information required by Section G(c)(6) of this rider.

1) Annual Prospective Operation

If the Company chooses annual prospective operation it shall determine the QIP surcharge percentage for the operation year using the following formula:

$$S\% = \frac{(NetQIP \times PTR) + Net\ Dep + (R \times 1.33) + ((O + INT) \times Om)}{PAR} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = The average forecasted cost of the investment in QIP for the operation year less forecasted accumulated depreciation in QIP for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

PTR = Pre-tax return as described in Section E (a) (1) of this rider.

Net Dep = Net depreciation expenses related to the average investment in QIP for the operation year. Depreciation expenses shall be calculated by multiplying the average forecasted cost of the investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-the-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

R = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (c) of this rider. The reconciliation component shall be collected over nine months from April through December.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (h) of this rider.

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Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 1.33.

PAR = The projected total QIP base rate revenues for the period from January 1 through December 31 of the operation year. The projected revenue shall not include the exclusions listed in Section C (a) of this rider.

2) Quarterly Historical Operation

If the Company chooses quarterly historical operation it ~~Utilities~~ shall determine the QIP surcharge percentage for the quarter using the following formula:

$$S\% = \frac{(NetQIP \times PTR \times .25) + NetQDep + (R \times .33) + ((O + INT) \times Om)}{PQR} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = Original cost of QIP less accumulated depreciation. NetQIP shall be the level of investment in QIP existing at the end of the calendar month ~~for~~ preceding the month in which an information sheet is filed.

PTR = Pre-tax return as described in Section E (a) (1) of this ~~Part~~ rider.

NetQDep = Net quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to the plant being retired.

R = ~~Utility~~Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section H (~~d~~c) of this ~~Part~~ rider. The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.

O = Commission-ordered adjustment component.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H (~~i~~h) of this ~~Part~~ rider.

Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be .33.

Date Issued: **Date Effective:**

Issued by James F. Schott, Vice President
130 East Randolph Drive, Chicago, Illinois 60601

The Peoples Gas Light and Coke Company

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PQR = Projected quarterly ~~gas~~ QIP base rate revenues during the calendar quarter when the QIP surcharge percentage shall be in effect. The projected quarterly revenue shall not include the exclusions listed in Section C (a) of this ~~Part~~ rider.

Section G ~~Rider and~~ Information Sheet Filings

a) ~~A utility shall file a proposed QIP surcharge rider consistent with this Rider pursuant to Section 9-201 of the Act. After a QIP surcharge rider is in effect, the~~The QIP surcharge percentage shall be filed on an information sheet with supporting data no later than the 20th day of the month preceding the effective date of the QIP surcharge percentage. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

b) If the Company elects annual prospective operation it may file its initial information sheet with a QIP surcharge percentage for the initial operation year with an effective date of the first day of any month. The effective date of any subsequent information sheet with a QIP surcharge percentage is January 1 (and April 1 if the R component is modified). The Company may, at its option, file an information sheet modifying the QIP surcharge percentage, with an effective date of the first day of any month during the operation year, when necessary to recognize a material change in assumptions used in developing the QIP surcharge percentage (including, but not limited to, a change in depreciation rates). The Company's shall also file an information sheet to implement a Commission-ordered O component.

c) If the Company elects quarterly historical operation ~~A~~ a new surcharge percentage may become effective on April 1, July 1, October 1, and January 1 (with a new R component becoming effective, if required, on April 1). ~~A utility~~The Company may elect not to file an information sheet showing an increased QIP surcharge percentage for any quarter provided that the QIP costs that would have been reflected for that quarter in excess of the level reflected in developing the QIP surcharge percentage in effect for the quarter are disregarded in calculating the R component and O component for the affected reconciliation year.

d) If the Company elects annual prospective operation it shall provide the following with the filing of each information sheet to become effective on January 1:

1) A calculation of the QIP surcharge percentage, PTR, and GRCF;

2) A schedule showing the amount of forecasted expenditures for QIP during the operation year by plant account;

3) A description of the projects included in each plant account by type of project;

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4) A detailed description individual QIP projects with a forecasted cost in excess of $100,000;

5) A detailed schedule showing the calculation of depreciation expense; and

6) A statement verified by an officer of the Company that, in the belief of management:

A) The forecast used in developing the QIP surcharge percentage was prepared in accordance with the Guidelines for Presentation of Projected Financial Information (April 1, 1999) established by the American Institute of Certified Public Accountants, Inc.; and

B) The accounting treatment applied to events and transactions in the forecast is the same as the accounting treatment to be applied in recording the events once they occur.

e) If the Company elects quarterly historical operation it~~A utility~~ shall submit with each information sheet:

1) A calculation of the QIP surcharge percentage, PTR, and GRCF;
2) A detailed schedule providing the following information for each completed QIP eligible project whose cost has been transferred to utility plant with the closing of the QIP eligible project's work order:

A) Plant account number and title;
B) Category of project;
C) Project name;
D) Description of project;
E) Work order number;
F) Dollar amount in the month of closing; and
G) Month and year of closing; and

3) A detailed schedule showing the calculation of depreciation expense.

Section H Annual Reconciliation

a) On or before March 15 of each year in which, ~~a utility~~the Company ~~that~~ had a QIP surcharge in effect for all or part of the immediately preceding calendar year, the Company shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the ~~utility~~Company. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under ~~the QIP surcharge~~this rider in effect during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year.

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~~In the event that the earnings report filed under this Section shows that the utility's actual rate of return has exceeded the level authorized in the utility's last general rate proceeding, as applicable, then the R component shall include the credit required by subsections (c) and (d).~~ Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

b) With the annual reconciliation, the ~~utility~~Company shall file a petition seeking initiation of ~~the~~ an annual reconciliation hearing~~s required by Section 9-220.2 of the Act~~. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the QIP surcharge ~~rider~~ during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the ~~utility~~Company to the R component of the QIP surcharge percentage).

~~c) In the annual reconciliation, the utility shall include data showing operating income and rate base for the reconciliation year, such data being developed in accordance with subsection (f)(4). If, for any such rate zone, the actual rate of return on rate base for the reconciliation year exceeds the overall rate of return allowed in the utility's last rate proceeding, revenues collected under the QIP surcharge rider shall be reflected as a credit through the R component of the QIP surcharge to the extent that such revenues contributed to the realization of a rate of return above the last approved level. A credit value for the R component will result in a reduction of the QIP surcharge percentage. To the extent, if any, that a required adjustment for a reconciliation year has not been already made by the utility (through the R component), the Commission shall require (through the O component) that such an adjustment be made after the annual reconciliation hearing.~~

~~d~~c) The ~~utility~~Company shall calculate the R component using the following formula:

R = (ActNetQIP x PTR) + ActNetDep - QIPRev + Rpy + Opy ~~– EEA~~

Where:

R = ~~Utility~~Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the reconciliation year less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year. The amount of the ActNetQIP shall be limited by the provisions of Section G (c~~b~~) of this ~~Part~~ rider.

PTR = Pre-tax return as described in Section E (a) (1) of this ~~Part~~ rider.

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ActNetDep = Actual net depreciation expense related to the average investment in QIP ~~for the rate zone~~ for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The amount of the ActNetDep shall be limited by the provisions of Section G (~~b~~c) of this ~~Part~~ rider.

QIPRev = Actual QIP revenues collected during the reconciliation year through the QIP surcharge.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components included in the calculation of the QIP surcharge percentage during the reconciliation year.

~~EEA = Excess earnings amount calculated in accordance with subsections (a), (c) and (f)(4) of this Section. There will only be an EEA when the utility's actual rate of return for the reconciliation year exceeds the overall rate of return authorized by the Commission in the utility's last rate proceeding.~~

~~e~~d) Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.

~~f~~e) Each annual reconciliation shall include the following schedules:

1) A schedule showing the QIP costs for the reconciliation year;
2) A schedule showing the revenues arising through the application of the QIP surcharge during the reconciliation year;
3) A schedule showing the reconciliation component determined by the ~~utility~~Company showing the amount to be recovered or refunded over a nine-month period commencing on April 1; and
~~4) Schedules showing the utility's calculation of actual operating income and 13-month average rate base for the reconciliation year by rate zone. This calculation of actual operating income and 13-month average rate base shall be adjusted for any applicable adjustments accepted by the Commission in the utility's last rate case.~~

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~~In calculating the amount of federal and State income tax expense reflected in operating income, the utility shall reflect as deductible interest expense for tax purposes the product that results when the weighted embedded cost-of-debt reflected in the overall rate of return calculation used in the utility's last rate proceeding is multiplied by the rate base for the applicable rate zone as shown in the annual reconciliation. In the event that the actual rate of return for any rate zone exceeds the rate of return allowed in the utility's last gas rate proceeding, a schedule showing the extent to which revenues provided by operation of the QIP surcharge contributed to the difference between the actual and last-authorized rate of return also shall be provided. The amount of the revenues provided by the QIP surcharge that contributed to the actual rate of return exceeding the overall rate of return authorized by the Commission in the utility's last gas rate proceeding shall be included as a credit in the calculation of the R component.~~

~~g~~f) The first reconciliation year shall begin on the effective date of the first QIP surcharge information sheet and end on December 31 of the calendar year in which the first information sheet became effective. Each subsequent reconciliation year shall end on December 31.

~~h~~g) When the ~~utility~~Company files its annual reconciliation, the ~~utility~~Company shall provide copies of the following items to the Commission's Manager of the Accounting Department:

1) Copies of all workpapers pertaining to the reconciliation;
2) A detailed summary of all invoices supporting the costs for eligible QIP surcharge projects;
3) Copies of the applicable general ledger or comparable material supporting the recovery of the QIP surcharge;
4) A detailed worksheet showing the calculation of any ~~utility~~Company-determined reconciliation component (R component) amount based upon the annual reconciliation; and
5) Information regarding the prudence of the ~~utility~~Company's investment in QIP.

~~i~~h) Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code Sec. 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the QIP surcharge.

~~j~~i) If the annual reconciliation filed by ~~a utility~~the Company shows that the revenues collected by application of the QIP surcharge rider exceed actual QIP costs for three or more consecutive reconciliation years, the Commission may initiate hearings under Section 9-250 of the Act [220 ILCS 5/9-250] to determine whether ~~the utility's QIP surcharge~~this rider should be canceled.

Section I – Audit
The ~~utility~~Company shall file annually with the Manager of the Accounting Department of the Commission's ~~ICC's~~ Financial Analysis Division, no later than July 1, an internal audit report that determines whether or not the QIP surcharge and information provided in Section H have been calculated in accordance with this ~~Part~~ rider.

North Shore Gas Company
Statement of Operating Income with Adjustments
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Company Pro Forma Present Adjusted for Rebuttal (Exhibit SF-2.5N)	Staff Adjustments (Sch 13. 2 N)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Exhibit SF-2.5N Col. F + G)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rate Revenues	$ 62,013	$ -	$ 62,013	$ 4,245	$ -	$ 66,258	$ (5,652)	$ 60,606
2	PGA Revenues	226,316	(226,316)	-	-	-	-	-	-
3	Coal Tar Revenues	2,065	(2,065)	-	-	-	-	-	-
4	Other Revenues	1,639	-	1,639	-	-	1,639	-	1,639
5	Total Operating Revenue	292,033	(228,381)	63,652	4,245	-	67,897	(5,652)	62,245
6	Uncollectibles Expense	1,982	-	1,982	30	-	2,012	(40)	1,972
7	Cost of Gas	226,316	(226,316)	-	-	-	-	-	-
8	Other Production	170	-	170	-	-	170	-	170
9	Distribution	7,615	-	7,615	-	-	7,615	-	7,615
10	Customer Accounts	6,308	(76)	6,232	-	-	6,232	-	6,232
11	Customer Service and Informational Services	40	-	40	-	-	40	-	40
12	Sales	35	-	35	-	-	35	-	35
13	Administrative and General	21,249	(2,959)	18,290	-	-	18,290	-	18,290
14	Depreciation	6,166	(72)	6,094	-	-	6,094	-	6,094
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	95	-	95	-	-	95	-	95
17	Taxes Other than Income	2,074	(24)	2,050	-	-	2,050	-	2,050
18	Total Operating Expense								
19	Before Income Taxes	272,050	(229,447)	42,603	30	-	42,633	(40)	42,593
20	State Income Tax	3	104	107	308	-	415	(410)	5
21	Federal Income Tax	2,195	463	2,658	1,367	1	4,026	(1,821)	2,205
22	Deferred Taxes and ITCs Net	3,497	-	3,497	-	-	3,497	-	3,497
23	Total Operating Expenses	277,745	(228,880)	48,865	1,705	1	50,571	(2,271)	48,300
24	NET OPERATING INCOME	$ 14,288	$ 499	$ 14,787	$ 2,540	$ (1)	$ 17,326	$ (3,381)	$ 13,945
25	Staff Rate Base (Schedule 13.3 N, column (d), line 23)								$ 181,328
26	Staff Overall Rate of Return (ICC Staff Exhibit 17.0, Schedule 17.1)								7.69%
27	Revenue Change (column (i), line 5 minus column (d), line 5)								$ (1,407)
28	Percentage Change (column (i), line 27 divided by column (d), line 5)								-2.21%

North Shore Gas Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Interest Synchronization (Sch.13.5 N)	Non-Base Rate Revs. & Exps. (Sch. 13.7 N)	Collection Agency Fees (Sch. 13.8 N)	PEC Officer Costs (Sch. 13.9 N)	Incentive Compensation (Sch. 14.1 N)	Capital Additions (Sch. 15.2 N)	Rate Case Expense (Sch. 16.1 N)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	-	(226,316)	-	-	-	-	-	(226,316)
3	Coal Tar Revenues	-	(2,065)	-	-	-	-	-	(2,065)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	-	(228,381)	-	-	-	-	-	(228,381)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	-	(226,316)	-	-	-	-	-	(226,316)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	-	-	(76)	-	-	-	-	(76)
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	-	(2,065)	-	(100)	(552)	-	(138)	(2,855)
14	Depreciation	-	-	-	-	-	(72)	-	(72)
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	-	-	-	-	(24)	-	-	(24)
18	Total Operating Expense								
19	Before Income Taxes	-	(228,381)	(76)	(100)	(576)	(72)	(138)	(229,343)
20	State Income Tax	26	-	6	7	42	5	10	96
21	Federal Income Tax	117	-	25	32	187	23	45	429
22	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
23	Total Operating Expenses	143	(228,381)	(45)	(61)	(347)	(44)	(83)	(228,818)
24	NET OPERATING INCOME	$ (143)	$ -	$ 45	$ 61	$ 347	$ 44	$ 83	$ 437

North Shore Gas Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	Injuries & Damages (Sch. 16.2 N)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Base Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	(226,316)	-	-	-	-	-	-	(226,316)
3	Coal Tar Revenues	(2,065)	-	-	-	-	-	-	(2,065)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	(228,381)	-	-	-	-	-	-	(228,381)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	(226,316)	-	-	-	-	-	-	(226,316)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	(76)	-	-	-	-	-	-	(76)
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	(2,855)	(104)	-	-	-	-	-	(2,959)
14	Depreciation	(72)	-	-	-	-	-	-	(72)
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	(24)	-	-	-	-	-	-	(24)
18	Total Operating Expense								
19	Before Income Taxes	(229,343)	(104)	-	-	-	-	-	(229,447)
20	State Income Tax	96	8	-	-	-	-	-	104
21	Federal Income Tax	429	34	-	-	-	-	-	463
22	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
23	Total Operating Expenses	(228,818)	(62)	-	-	-	-	-	(228,880)
24	NET OPERATING INCOME	$ 437	$ 62	$ -	$ -	$ -	$ -	$ -	$ 499

Docket Nos. 07-00241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.3 N

North Shore Gas Company
Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Company Rebuttal Adjusted Rate Base (Exhibit SF-2.1N)	Staff Adjustments (Sch.13.4 N)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	$ 380,084	$ (1,780)	$ 378,304
2	Accumulated Provision for Depreciation and Amortization	(148,643)	90	(148,553)
3		-	-	-
4	Net Plant	$ 231,441	$ (1,690)	$ 229,751
5	Additions to Rate Base:			
6	Materials and Supplies	1,539	-	1,539
7	Gas in Storage	10,507	(7,521)	2,986
8	Budget Plan Balances	849	-	849
9	Unamortized Rate Case Expense	2,290	(2,290)	-
10		-	-	-
11		-	-	-
12	Deductions From Rate Base:			
13	Accumulated Deferred Income Taxes	(45,325)	3,980	(41,345)
14	Customer Advances for Construction	(748)	-	(748)
15	Customer Deposits	(2,860)	-	(2,860)
16	Cash Working Capital	(1,124)	(626)	(1,750)
17	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	(7,094)	(7,094)
18		-	-	-
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	$ 196,569	$ (15,241)	$ 181,328

Docket Nos. 07-00241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.4 N

North Shore Gas Company
Adjustments to Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Incentive Compensation (Sch. 14.1 N)	Cash Working Capital (Sch. 15.1 N)	Capital Additions (Sch. 15.2 N)	Gas in Storage Accts Payable (Sch. 15.3 N)	Rate Case Expense (Sch. 16.1 N)	Working Capital Allowance (Sch. 23.1 N)	OPEB Liability (Sch. 14.2 N)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant	$ (46)	$ -	$ (1,734)	$ -	$ -	$ -	$ -	$ (1,780)
2	Accumulated Provision for Depreciation and Amortization	18	-	72	-	-	-	-	90
3		-	-	-	-	-	-	-	-
4	Net Plant	$ (28)	$ -	$ (1,662)	$ -	$ -	$ -	$ -	$ (1,690)
5	Additions to Rate Base:								
6	Materials and Supplies	-	-	-	-	-	-	-	-
7	Gas in Storage	-	-	-	(6,098)	-	(1,423)	-	(7,521)
8	Budget Plan Balances	-	-	-	-	-	-	-	-
9	Unamortized Rate Case Expense	-	-	-	-	(2,290)	-	-	(2,290)
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12	Deductions From Rate Base:	-	-	-	-	-	-	-	-
13	Accumulated Deferred Income Taxes	-	-	50	-	910	-	3,020	3,980
14	Customer Advances for Construction	-	-	-	-	-	-	-	-
15	Customer Deposits	-	-	-	-	-	-	-	-
16	Cash Working Capital	-	(626)	-	-	-	-	-	(626)
17	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	-	-	-	-	-	(7,094)	(7,094)
18		-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	$ (28)	$ (626)	$ (1,612)	$ (6,098)	$ (1,380)	$ (1,423)	$ (4,074)	$ (15,241)

Docket Nos. 07-00241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.5 N

North Shore Gas Company
Interest Synchronization Adjustment
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount
	(a)	(b)
1	Rate Base	$ 181,328 (1)
2	Weighted Cost of Debt	2.37% (2)
3	Synchronized Interest Per Staff (Line 1 x Line 2)	$ 4,297
4	Company Interest Expense	4,659 (3)
5	Increase (Decrease) in Interest Expense	$ (362)
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	$ 26
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	$ 117

(1) Source: Schedule 13.3, column (d), line 23
(2) Source: ICC Staff Exhibit 17.0, Schedule 17.1
(3) Source: Company Exhibit SF-2.14 N, line 3

Docket Nos. 07-00241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.6 N

North Shore Gas Company
Gross Revenue Conversion Factor
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	0.7000%	0.007000	
3	State Taxable Income		0.993000	
4	State Income Tax	7.3000%	0.072489	0.073000
5	Federal Taxable Income		0.920511	0.927000
6	Federal Income Tax	35.0000%	0.322179	0.324450
7	Operating Income		0.598332	0.602550
8	Gross Revenue Conversion Factor Per Staff (Line 1 / Line 7)		1.671313	1.659613

Docket Nos. 07-00241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.7 N

North Shore Gas Company
Adjustment to Remove Non-Base Rate Revenues and Expenses
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	PGA Revenues and Cost of Gas per Staff	$ -	
2	PGA Revenues and Cost of Gas per Company	226,316	Schedule E-5, Section A, Col. L, line 24
3	Staff Proposed Adjustment	$ (226,316)	Line 1 - line 2
4	Coal Tar Revenues and Expenses per Staff	$ -	
5	Coal Tar Revenues and Expenses per Company	2,065	Schedule E-5, Section A, Col. M, line 24
6	Staff Proposed Adjustment	$ (2,065)	Line 4 - line 5

North Shore Gas Company
Adjustment to Pro Forma Collection Agency Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Collection Agency Fees per Staff	$ 29	Schedule 13.8 N, page 2, line 8
2	Collection Agency Fees per Company	105	Schedule 13.8 N, page 2, line 2
3	Staff Proposed Adjustment	$ (76)	Line 1 - line 2

North Shore Gas Company
Adjustment to Pro Forma Collection Agency Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Company Pro forma Adjustment	$ 76	Company Schedule C-2.19, line 9
2	Normalized Test Year Collection Agency Fees Per Compan	$ 105	Line 1 + line 8
3	Historical Collection Agency Fees		
4	2002	$ 67	Company Response AG 2.28 Exhibit 1
5	2003	138	Company Workpaper WPC-2.19.1
6	2004	124	Company Workpaper WPC-2.19.1
7	2005	55	Company Workpaper WPC-2.19.1
8	2006	29	Company Workpaper WPC-2.19.1
9	2007 Annualized	22	Note 1

Note 1:

Calculated using October 2006 through June 2007 Collection Agency Fees amount of $16, divided by 9 months, multiplied by 12 months. Data provided i Company Response DLH 23.02.

North Shore Gas Company
Adjustment to Allocation of PEC Officer Costs and Director Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Total Officer Costs and Directors Fees per Staff	$ 896	Line 6
2	Total Officer Costs and Directors Fees per Company	996	Schedule 13.9 N, page 2, line 2, col. (f)
3	Staff Proposed Adjustment	$ (100)	Line 1 - line 2
4	Total Officer Costs and Directors Fees per Staff	10,045	Schedule 13.9 N, page 2, line 5, col. (f)
5	Staff Proposed Allocation Factor for North Shore	9%	Schedule 13.9 N, page 2, line 2, col. (h)
6	Total Officer Costs and Directors Fees per Staff	$ 896	Line 4 x Line 5

North Shore Gas Company
Adjustment to Allocation of PEC Officer Costs and Director Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Company	PEC Officer Costs Direct Billed (1)	PEC Officer Costs Corporate Allocation (1)	Total PEC Officer Costs (Cols. b + c)	Directors Fees & Exps. Corporate Allocation (2)	Total Officer Costs and Director Fees (Cols. d + e)	Percentage Per Company	Percentage Per Staff (3)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Peoples Gas	$4,294	$1,389	$5,683	$1,333	$7,016	70%	63%
2	North Shore	633	185	818	178	996	10%	9%
3	Other Affiliates	1,488	278	1,766	267	2,033	20%	18%
4	PEC	-	-	-	-	-	0%	10%
5	Total	$6,416	$1,851	$8,267	$1,778	$10,045	100%	100%

(1) Source: Company response to Staff data request DLH-19.01
(2) Source: Company response to Staff data request DLH-13.06
(3) Calculated for North Shore as 10% - (10% x 10% PEC)

The Peoples Gas Light and Coke Company
Statement of Operating Income with Adjustments
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Company Pro Forma Present Adjusted for Rebuttal (Exhibit SF-2.5P)	Staff Adjustments (Sch 13. 2 P)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Exhibit SF-2.5P Col. F + G)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rate Revenues	$ 374,901	$ -	$ 374,901	$ 98,999	$ 1	$ 473,901	$ (44,930)	$ 428,971
2	PGA Revenues	1,084,326	(1,084,326)	-	-	-	-	-	-
3	Coal Tar Revenues	31,588	(31,588)	-	-	-	-	-	-
4	Other Revenues	15,688	-	15,688	-	-	15,688	-	15,688
5	Total Operating Revenue	1,506,503	(1,115,914)	390,589	98,999	1	489,589	(44,930)	444,659
6	Uncollectibles Expense	37,493	-	37,493	2,514	1	40,008	(1,141)	38,867
7	Cost of Gas	1,084,326	(1,084,326)	-	-	-	-	-	-
8	Other Production	557	-	557	-	-	557	-	557
9	Distribution	63,466	-	63,466	-	-	63,466	-	63,466
10	Customer Accounts	35,996	(1,765)	34,231	-	-	34,231	-	34,231
11	Customer Service and Informational Services	363	-	363	-	-	363	-	363
12	Sales	1,355	-	1,355	-	-	1,355	-	1,355
13	Administrative and General	131,923	(38,803)	93,120	-	-	93,120	-	93,120
14	Depreciation and Amortization	59,405	(959)	58,446	-	-	58,446	-	58,446
15	Storage	9,993	(1,648)	8,345	-	-	8,345	-	8,345
16	Transmission	2,568	-	2,568	-	-	2,568	-	2,568
17	Taxes Other than Income	18,827	(255)	18,572	-	-	18,572	-	18,572
18	Total Operating Expense								
19	Before Income Taxes	1,446,272	(1,127,756)	318,516	2,514	1	321,031	(1,141)	319,890
20	State Income Tax	4,747	1,074	5,821	7,043	-	12,864	(3,197)	9,667
21	Federal Income Tax	37,829	4,776	42,605	31,305	-	73,910	(14,207)	59,703
22	Deferred Taxes and ITCs Net	(31,363)	-	(31,363)	-	-	(31,363)	-	(31,363)
23	Total Operating Expenses	1,457,485	(1,121,906)	335,579	40,862	1	376,442	(18,545)	357,897
24	NET OPERATING INCOME	$ 49,018	$ 5,992	$ 55,010	$ 58,137	$ -	$ 113,147	$ (26,385)	$ 86,762
25	Staff Rate Base (Schedule 13.3 P, column (d), line 23)								$ 1,159,924
26	Staff Overall Rate of Return (ICC Staff Exhibit 17.0, Schedule 17.1)								7.48%
27	Revenue Change (column (i), line 5 minus column (d), line 5)								$ 54,070
28	Percentage Change (column (i), line 27 divided by column (d), line 5)								13.84%

The Peoples Gas Light and Coke Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Interest Synchronization (Sch.13.5 P)	Non-Base Rate Revs. & Exps. (Sch. 13.7 P)	Collection Agency Fees (Sch. 13.8 P)	PEC Officer Costs (Sch. 13.9 P)	Incentive Compensation (Sch. 14.1 P)	Capital Additions (Sch. 15.2 P)	Rate Case Expense (Sch. 16.1 P)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Base Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	-	(1,084,326)	-	-	-	-	-	(1,084,326)
3	Coal Tar Revenues	-	(31,588)	-	-	-	-	-	(31,588)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	-	(1,115,914)	-	-	-	-	-	(1,115,914)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	-	(1,084,326)	-	-	-	-	-	(1,084,326)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	-	-	(1,770)	-	-	-	-	(1,770)
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	-	(31,588)	-	(702)	(5,121)	-	(136)	(37,547)
14	Depreciation and Amortization	-	-	-	-	-	(439)	-	(439)
15	Storage	-	-	-	-	-	-	-	-
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	-	-	-	-	(255)	-	-	(255)
18	Total Operating Expense								
19	Before Income Taxes	-	(1,115,914)	(1,770)	(702)	(5,376)	(439)	(136)	(1,124,337)
20	State Income Tax	210	-	129	51	392	32	10	824
21	Federal Income Tax	935	-	574	228	1,744	142	44	3,667
22	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
23	Total Operating Expenses	1,145	(1,115,914)	(1,067)	(423)	(3,240)	(265)	(82)	(1,119,846)
24	NET OPERATING INCOME	$ (1,145)	$ -	$ 1,067	$ 423	$ 3,240	$ 265	$ 82	$ 3,932

The Peoples Gas Light and Coke Company
Adjustments to Operating Income
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Subtotal Operating Statement Adjustments	Injuries & Damages (Sch. 16.2 P)	Non-Recurring Compressor Expense (Staff Ex. 23.0)	Hub Services (Staff Ex. 24.0)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Base Rate Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	PGA Revenues	(1,084,326)	-	-	-	-	-	-	(1,084,326)
3	Coal Tar Revenues	(31,588)	-	-	-	-	-	-	(31,588)
4	Other Revenues	-	-	-	-	-	-	-	-
5	Total Operating Revenue	(1,115,914)	-	-	-	-	-	-	(1,115,914)
6	Uncollectibles Expense	-	-	-	-	-	-	-	-
7	Cost of Gas	(1,084,326)	-	-	-	-	-	-	(1,084,326)
8	Other Production	-	-	-	-	-	-	-	-
9	Distribution	-	-	-	-	-	-	-	-
10	Customer Accounts	(1,770)	-	-	5	-	-	-	(1,765)
11	Customer Service and Informational Services	-	-	-	-	-	-	-	-
12	Sales	-	-	-	-	-	-	-	-
13	Administrative and General	(37,547)	(750)	-	(506)	-	-	-	(38,803)
14	Depreciation and Amortization	(439)	-	-	(520)	-	-	-	(959)
15	Storage	-	-	(136)	(1,512)	-	-	-	(1,648)
16	Transmission	-	-	-	-	-	-	-	-
17	Taxes Other than Income	(255)	-	-	-	-	-	-	(255)
18	Total Operating Expense								
19	Before Income Taxes	(1,124,337)	(750)	(136)	(2,533)	-	-	-	(1,127,756)
20	State Income Tax	824	55	10	185	-	-	-	1,074
21	Federal Income Tax	3,667	243	44	822	-	-	-	4,776
22	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
23	Total Operating Expenses	(1,119,846)	(452)	(82)	(1,526)	-	-	-	(1,121,906)
24	NET OPERATING INCOME	$ 3,932	$ 452	$ 82	$ 1,526	$ -	$ -	$ -	$ 5,992

The Peoples Gas Light and Coke Company

Rate Base

For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Company Rebuttal Adjusted Rate Base (Exhibit SF-2.1P)	Staff Adjustments (Sch.13.4 P)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant	$ 2,439,299	$ (58,554)	$ 2,380,745
2	Accumulated Provision for Depreciation and Amortizatic	(934,421)	4,723	(929,698)
3		-	-	-
4	Net Plant	$ 1,504,878	$ (53,831)	$ 1,451,047
5	Additions to Rate Base:			
6	Materials and Supplies	8,796	-	8,796
7	Cash Working Capital	30,896	(14,298)	16,598
8	Gas in Storage	86,667	(40,277)	46,390
9	Budget Plan Balances	14,080	-	14,080
10	Unamortized Rate Case Expense	2,908	(2,908)	-
11		-	-	-
12	Deductions From Rate Base:			
13	Accumulated Deferred Income Taxes	(310,757)	26,467	(284,290)
14	Pre-1971 Investment Tax Credits	(54)	-	(54)
15	Reserve for Injuries and Damages	(4,422)	-	(4,422)
16	Customer Advances for Construction	(392)	-	(392)
17	Customer Deposits	(32,176)	-	(32,176)
18	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	(55,653)	(55,653)
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	$ 1,300,424	$ (140,500)	$ 1,159,924

The Peoples Gas Light and Coke Company
Adjustments to Rate Base
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Incentive Compensation (Sch. 14.1 P)	Cash Working Capital (Sch. 15.1 P)	Capital Additions (Sch. 15.2 P)	Gas in Storage Accts Payable (Sch. 15.3 P)	Rate Case Expense (Sch. 16.1 P)	Working Capital Allowance (Sch. 23.1 P)	Hub Services (Staff Ex. 24.0)	Subtotal Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant	$ (303)	$ -	$ (19,232)	$ -	$ -	$ -	$ (39,019)	$ (58,554)
2	Accumulated Provision for Depreciation and Amortization	122	-	439	-	-	-	4,162	4,723
3		-	-	-	-	-	-	-	-
4	Net Plant	$ (181)	$ -	$ (18,793)	$ -	$ -	$ -	$ (34,857)	$ (53,831)
5	Additions to Rate Base:								
6	Materials and Supplies	-	-	-	-	-	-	-	-
7	Cash Working Capital	-	(14,298)	-	-	-	-	-	(14,298)
8	Gas in Storage	-	-	-	(26,727)	-	(13,550)	-	(40,277)
9	Budget Plan Balances	-	-	-	-	-	-	-	-
10	Unamortized Rate Case Expense	-	-	-	-	(2,908)	-	-	(2,908)
11		-	-	-	-	-	-	-	-
12	Deductions From Rate Base:	-	-	-	-	-	-	-	-
13	Accumulated Deferred Income Taxes	-	-	1,228	-	1,156	-	-	2,384
14	Pre-1971 Investment Tax Credits	-	-	-	-	-	-	-	-
15	Reserve for Injuries and Damages	-	-	-	-	-	-	-	-
16	Customer Advances for Construction	-	-	-	-	-	-	-	-
17	Customer Deposits	-	-	-	-	-	-	-	-
18	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	-	-	-	-	-	-	-
19		-	-	-	-	-	-	-	-
20		-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	$ (181)	$ (14,298)	$ (17,565)	$ (26,727)	$ (1,752)	$ (13,550)	$ (34,857)	$ (108,930)

The Peoples Gas Light and Coke Company

Adjustments to Rate Base

For the Test Year Ending September 30, 2006

(In Thousands)

Line No.	Description	Subtotal Rate Base Adjustments	OPEB Liability (Sch. 14.2 P)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)
1	Gross Utility Plant	$ (58,554)	$ -	$ -	$ -	$ -	$ -	$ -	$ (58,554)
2	Accumulated Provision for Depreciation and Amortization	4,723	-	-	-	-	-	-	4,723
3	-	-	-	-	-	-	-	-	-
4	Net Plant	(53,831)	-	-	-	-	-	-	(53,831)
	-								
5	Additions to Rate Base:								-
6	Materials and Supplies	-	-	-	-	-	-	-	-
7	Cash Working Capital	(14,298)	-	-	-	-	-	-	(14,298)
8	Gas in Storage	(40,277)	-	-	-	-	-	-	(40,277)
9	Budget Plan Balances	-	-	-	-	-	-	-	-
10	Unamortized Rate Case Expense	(2,908)	-	-	-	-	-	-	(2,908)
11	-	-	-	-	-	-	-	-	-
12	Deductions From Rate Base:	-	-	-	-	-	-	-	-
13	Accumulated Deferred Income Taxes	2,384	24,083	-	-	-	-	-	26,467
14	Pre-1971 Investment Tax Credits	-	-	-	-	-	-	-	-
15	Reserve for Injuries and Damages	-	-	-	-	-	-	-	-
16	Customer Advances for Construction	-	-	-	-	-	-	-	-
17	Customer Deposits	-	-	-	-	-	-	-	-
18	Accrued Postretirement Benefits Other than Pensions ("OPEB")	-	(55,653)	-	-	-	-	-	(55,653)
19	-	-	-	-	-	-	-	-	-
20	-	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	$ (108,930)	$ (31,570)	$ -	$ -	$ -	$ -	$ -	$ (140,500)

Docket Nos. 07-0241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.5 P

The Peoples Gas Light and Coke Company
Interest Synchronization Adjustment
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	
	(a)	(b)	
1	Rate Base	$ 1,159,924	(1)
2	Weighted Cost of Debt	2.05%	(2)
3	Synchronized Interest Per Staff (Line 1 x Line 2)	$ 23,778	
4	Company Interest Expense	26,659	(3)
5	Increase (Decrease) in Interest Expense	$ (2,881)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 7.300%	$ 210	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 935	

(1) Source: Schedule 13.3 P, column (d), line 23
(2) Source: ICC Staff Exhibit 17.0, Schedule 17.1
(3) Source: Company Exhibit SF-2.14 P, line 3

Docket Nos. 07-0241/07-0242
Consolidated
ICC Staff Ex. 13.0
Schedule 13.6 P

The Peoples Gas Light and Coke Company

Gross Revenue Conversion Factor

For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	1.000000
2	Uncollectibles	2.5400%	0.025400	
3	State Taxable Income		0.974600	
4	State Income Tax	7.3000%	0.071146	0.073000
5	Federal Taxable Income		0.903454	0.927000
6	Federal Income Tax	35.0000%	0.316209	0.324450
7	Operating Income		0.587245	0.602550
8	Gross Revenue Conversion Factor Per Staff (Line 1 / Line 7)		1.702867	1.659613

The Peoples Gas Light and Coke Company
Adjustment to Remove Non-Base Rate Revenues and Expenses
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	PGA Revenues and Cost of Gas per Staff	$ -	
2	PGA Revenues and Cost of Gas per Company	1,084,326	Schedule E-5, Section A, Col. L, line 33
3	Staff Proposed Adjustment	$ (1,084,326)	Line 1 - line 2
4	Coal Tar Revenues and Expenses per Staff	$ -	
5	Coal Tar Revenues and Expenses per Company	31,588	Schedule E-5, Section A, Col. M, line 33
6	Staff Proposed Adjustment	$ (31,588)	Line 4 - line 5

The Peoples Gas Light and Coke Company
Adjustment to Pro Forma Collection Agency Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Collection Agency Fees per Staff	$ 1,132	Schedule 13.8 P, page 2, line 8
2	Collection Agency Fees per Company	2,902	Schedule 13.8 P, page 2, line 2
3	Staff Proposed Adjustmen	$ (1,770)	Line 1 - line 2

The Peoples Gas Light and Coke Company
Adjustment to Pro Forma Collection Agency Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description		Amount	Source
	(a)		(b)	(c)
1	Company Pro forma Adjustment	$	1,770	Company Schedule C-2.19, line 9
2	Normalized Test Year Collection Agency Fees Per Compar	$	2,902	Line 1 + line 8
3	Historical Collection Agency Fees			
4	2002	$	1,819	Company Response AG 2.31 Exhibit 1
5	2003		2,521	Company Workpaper WPC-2.19.1
6	2004		3,491	Company Workpaper WPC-2.19.1
7	2005		2,693	Company Workpaper WPC-2.19.1
8	2006		1,132	Company Workpaper WPC-2.19.1
9	2007 Annualized		736	Note 1

Note 1:

Calculated using October 2006 through June 2007 Collection Agency Fees amount of $552, divided by 9 months, multiplied by 12 months.
Data provided in Company Response DLH 23.02.

The Peoples Gas Light and Coke Company
Adjustment to Allocation of PEC Officer Costs and Director Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Description	Amount	Source
	(a)	(b)	(c)
1	Total Officer Costs and Directors Fees per Staff	$ 6,315	Line 6
2	Total Officer Costs and Directors Fees per Company	7,016	Schedule 13.9 P, page 2, line 1, col. (f)
3	Staff Proposed Adjustment	$ (702)	Line 2 - line 1
4	Total Officer Costs and Directors Fees per Staff	$ 10,045	Schedule 13.9 P, page 2, line 5, col. (f)
5	Staff Proposed Allocation Factor for Peoples Gas	63%	Schedule 13.9 P, page 2, line 1, col. (h)
6	Total Officer Costs and Directors Fees per Staff	$ 6,315	Line 4 x Line 5

The Peoples Gas Light and Coke Company
Adjustment to Allocation of PEC Officer Costs and Director Fees
For the Test Year Ending September 30, 2006
(In Thousands)

Line No.	Company	PEC Officer Costs Direct Billed (1)	PEC Officer Costs Corporate Allocation (1)	Total PEC Officer Costs (Cols. b + c)	Directors Fees & Exps. Corporate Allocation (2)	Total Officer Costs and Director Fees (Cols. d + e)	Percentage Per Company	Percentage Per Staff (3)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Peoples Gas	$4,294	$1,389	$5,683	$1,333	$7,016	70%	63%
2	North Shore	633	185	818	178	996	10%	9%
3	Other Affiliates	1,488	278	1,766	267	2,033	20%	18%
4	PEC	-	-	-	-	-	0%	10%
5	Total	$6,416	$1,851	$8,267	$1,778	$10,045	100%	100%

(1) Source: Company response to Staff data request DLH-19.01
(2) Source: Company response to Staff data request DLH-13.06
(3) Calculated for Peoples Gas as 70% - (70% x 10% PEC)