

**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 BAP 15.01-15.03**  
**Dated: August 2, 2007**

**REQUEST NO. BAP 15.03:**

Referring to North Shore/Peoples Gas Ex. JCH 1.0, lines 80 through 83, in which Mr. Hoover describes the operational performance measure that was "25% weighting for controlling operations and maintenance expenses (excluding environmental costs recovered through Rider 11 and the provision for uncollectible accounts)":

- a) Identify the specific component of the TIA Plan (as previously provided as Appendix A in response to Staff Data Request BAP 10.01) that includes "controlling operations and maintenance expenses"; and
- b) Explain in detail, how "controlling operations and maintenance expenses" is determined as a criterion under the TIA award (i.e., how is this measured); and
- c) Provide supporting calculations that were used to determine that operations and maintenance expenses were controlled and the corresponding impact of this factor as a component of the TIA to which Mr. Hoover refers during the 2006 test year, and;
- d) Quantify the impact of "controlling operations and maintenance expenses" in terms of direct benefit to ratepayers.

**RESPONSE:**

- a) Controlling operations and maintenance expenses is included in the Gas Distribution – Responsibility Costs measure of the TIA Plan (BAP 10.01, Appendix A, p. 2 of 12).
- b) The Award is based on actual operation and maintenance costs for the Gas Distribution Segment as compared to predetermined targeted levels. The calculation includes all costs under the control of Peoples Gas and North Shore Gas excluding: environmental costs recovered through Rider 11; the provision for bad debt; and rate case expenses. See BAP 10.01, Appendix A, p. 2 of 12 for the target levels and payout related to this measure for the test year.
- c) See the attached schedule BAP 15.03c for calculations.
- d) Customers, in their rates, pay the Company's operations and maintenance expenses. To the extent that the Companies' employees are provided an incentive to reduce operations and maintenance expenses, the Companies will have lower revenue requirements to be recovered through rates than would otherwise be the

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**Dated: June 18, 2007**

case. See the attached schedule BAP 15.03d for cost containment results from fiscal year 2001 through the test year.

The Peoples Gas Light and Coke Company  
North Shore Gas Company

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**Fiscal 2006 STIC Funding Measures Controllable Gas Distribution Costs**

Target levels are based on budget and actual is compared to budget to determine payout percent achievement.

	<u>Actual 2006</u>	<u>Budget 2006</u>
<b>PGL</b>		
PGL Projects	400,637,512	330,265,025
Less PGL Officers & Administrative	184,305,093	79,654,387
Less Administration - Business Services	<u>42,700,341</u>	<u>61,699,199</u>
Subtotal PGL	173,632,078 <sup>1</sup>	188,911,439
Add back direct charges PGL/NSG President	900,223	921,908
<b>NSG</b>		
NSG Projects	31,596,187	30,662,235
Less NSG Officers & Administrative	<u>15,136,559</u>	<u>12,496,931</u>
Subtotal NSG	16,459,628 <sup>2</sup>	18,165,304
<b>Unusual Items</b>		
Add Gas Supply project	8,050,000	
Less Rate Case	2,010,000	
Total	<u><u>197,031,929</u></u>	<u><u>207,998,651</u></u>

**Total Peoples Gas Light**

Labor	93,232,924
Material	22,702,458
Outside Services	28,515,169
Other Costs	19,862,339
Redistribution	0
Direct Capital Purchases	5,264,348
Direct Bill Items	<u>4,054,840</u>
Total Costs	<u><u>173,632,078</u></u> <sup>1</sup>

**Total North Shore Gas**

Labor	11,564,096
Material	3,111,620
Outside Services	2,852,296
Other Costs	(1,729,940)
Redistribution	0
Direct Capital Purchases	661,556
Direct Bill Items	<u>0</u>
Total Costs	<u><u>16,459,628</u></u> <sup>2</sup>

Achievement

	Level 1 Target	Level 2 Target	Actual
Gas Distribution Costs (in millions)	188	198	197
Payout Percentage	200%	150%	155%

The Peoples Gas Light and Coke Company  
North Shore Gas Company

**Controllable Gas Distribution Costs (in millions)**

	Actual	Target	Percentage Savings
2006	\$197.0	\$208.0	5.29%
2005	178.6	193.0	7.46%
2004	207.9	210.0	1.00%
2003	205.2	203.0	-1.08%
2002	209.3	216.0	3.10%
2001	226.1	230.0	1.70%

2001 is the earliest comparison period available