

**RIDER SMP  
SYSTEM MODERNIZATION PROJECTS ADJUSTMENT**

**Applicable to All Rates Except Rate RESS7 and Rate MSPS7**

**APPLICABILITY.**

This rider is applicable to all retail customers.

**PURPOSE.**

The purpose of this rider is to allow the Company to begin to recover in a timely fashion a return on and of investment expenditures related to the Company's investment in System Modernization Projects, as defined in the Definitions section of this rider.

**DEFINITIONS.**

The following definitions are for use in this rider.

**Most Recent Rate Case**

Most recent rate case means the most recent Illinois Commerce Commission (ICC) jurisdictional proceeding during which the Company requested a change in its delivery service revenue requirement and for which the ICC issued a final order.

**Net Operating Income**

Net operating income means the weather normalized ICC jurisdictional delivery service net operating income from the Company's most recent Federal Energy Regulatory Commission Form 1: Annual Report of Major Electric Utilities, Licensees and Others (FERC Form1) calculated on a rate making basis reflective of rate making adjustments consistent with the ICC's final order in the most recent rate case, including but not limited to, adjustments to remove the effects of one time or nonrecurring items.

**Rate Base**

Rate Base means the sum of (a) the ICC jurisdictional delivery service rate base calculated using the Company's most recent FERC Form 1 applied on a rate making basis reflective of rate making adjustments consistent with the ICC's final order in the most recent rate case; and (b) the SMP Plant that is recorded as Construction Work In Progress (CWIP) on December 31 of the year for which such FERC Form 1 is applicable, for SMPs that are otherwise eligible for Allowance for Funds Used During Construction (AFUDC).

**Return on Rate Base**

Return on Rate Base means (a) net operating income, divided by (b) Rate Base.

**System Modernization Project**

System Modernization Project (SMP) means any project, for which there are capital investments (a) that the Company classifies as pertaining to the improvement of the Company's distribution system for the purposes of enhancing service provided by the Company to its retail customers; and (b) for which the Company requests recovery to begin through this rider; and (c) for which recovery to begin under this rider is approved by the ICC. SMPs may include, but are not limited to, projects with capital investments that (1) automate operation of the Company's distribution system; (2) provide for hourly or more frequent recording of retail customer electric consumption data; (3) provide methods of daily or more frequent transmittal of retail customer electric consumption information over a communications network to a central location or repository; (4) enable retail customers to participate in existing or newly designed electric demand response programs or elect alternative electricity pricing options; (5) provide improved monitoring or performance of the Company's distribution system; or (6) implement innovative or otherwise novel approaches to providing electric service to retail customers or increasing operational efficiency.

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**DEFINITIONS (CONTINUED).**

**SMP Application Period**

SMP Application Period means a period of twelve consecutive monthly billing periods beginning with a January monthly billing period and extending through the following December monthly billing period during which SMP Adjustments are applied to retail customers.

**SMP Base Rate Revenue**

SMP Base Rate Revenue means (a) the sum of the annual revenues recorded as Operating Revenue in (1) Account 440 - residential sales, (2) Account 442 - Commercial and industrial sales, (3) Account 444 - Public street and highway lighting, (4) Account 445 - Other sales to public authorities, (5) Account 446 - Sales to railroads and railways (Major only), and (6) Account 447 - Sales for resale, identified in the Uniform System of Accounts for Electric Utilities in 83 Illinois Administrative Code Part 415 (USOA-EU); reduced by (b) the Company's annual purchased power costs and transmission-related revenues. Notwithstanding the provisions of the previous sentence, SMP Base Rate Revenue does not include revenues attributable to the application of the SMP Adjustment, as described in the SMP Adjustment section of this rider.

**SMP Plant**

SMP Plant means plant additions in which the Company invests pursuant to SMPs.

**SMP Reconciliation Period**

SMP Reconciliation Period means the calendar year corresponding to an SMP Application Period.

**SMP Recovery Amount**

SMP Recovery Amount means the sum of (a) the pre-tax return (PTR) on SMP Plant, and (b) the net depreciation expenses applicable to SMP Plant, and (c) if applicable, the amortization of the regulatory asset associated with SMPs. The SMP Recovery Amount and the PTR are determined in accordance with the provisions of the SMP% Determination section of this rider. The SMP Recovery Amount is recovered by the Company through the application of the SMP Adjustment determined in accordance with the SMP Adjustment section of this rider.

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(Continued from Sheet No. 627)

**APPROVAL PROCESS.**

On or before May 1 each year, beginning in 2009, the Company may make a filing with the ICC that requests, through the application of this rider, recovery on and of capital investments for a proposed list of projects. For each such proposed project, the Company must provide the ICC with (a) justification for designating the project as an SMP; (b) the timeline for completion of the project; and (c) the forecasted capital expenditures for the project for the twelve (12) months beginning with the following January 1. After such filing, the ICC initiates an approval process during which the ICC conducts a review of the proposed projects, and no later than 180 calendar days after the date of the Company's filing, issues an order designating which of the proposed projects are SMPs. Through the approval process the ICC determines (1) which projects or portions of such projects from the list proposed by the Company are SMPs and (2) the reasonableness of undertaking each SMP. For any previously approved SMP with forecasted capital expenditures that extend beyond twelve (12) months, the Company must submit the the project as part of the proposed list of projects for each corresponding subsequent filing in order to have the portion of the project associated with the subsequent capital investments that extend beyond twelve (12) months considered for designation as an SMP.

Notwithstanding the provisions of the previous paragraph, for the initial approval process the ICC makes its determinations with respect to (1) which projects or portions of projects are SMPs and (2) the reasonableness of undertaking each SMP, based upon projects proposed by the Company to be designated as SMPs in its most recent general rate proceeding filed prior to December 1, 2007. During such rate proceeding, for each such proposed project the Company must have provided the ICC with (a) justification for designating the project as an SMP; (b) the timeline for completion of the project; and (c) the forecasted capital expenditures for the project for the fifteen (15) months beginning October 1, 2008. Recovery under this rider for such initial SMPs is for investments made during the fifteen (15) month period extending from October 1, 2008 through December 31, 2009. Such recovery begins with the application of an SMP Adjustment, as described in the SMP Adjustment section of this rider, during the January 2009 monthly billing period.

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(Continued from Sheet No. 628)

**SMP ADJUSTMENT.**

The SMP Adjustment is computed in accordance with the following equation:

$$\text{SMP Adjustment} = \frac{\text{SMP}\%}{100} \times (\text{CC} + \text{SMSC} + \text{DFA} + \text{R})$$

Where:

- SMP Adjustment = System Modernization Project Adjustment, in dollars rounded to the cent (\$), applied to each retail customer during the monthly billing period.
- SMP% = System Modernization Project Percentage, in % rounded to the hundredths of a percent, determined in accordance with the applicable equation in the SMP% Determination section of this rider.
- CC = Customer Charge, in \$, applicable to the retail customer for the monthly billing period.
- SMSC = Standard Metering Service Charge, in \$, applicable to the retail customer for the monthly billing period.
- DFA = Distribution Facilities Amount, in \$, applicable to the retail customer for the monthly billing period, and equal to the Distribution Facilities Charge applicable to the retail customer for the monthly billing period multiplied by the kilowatts, kilowatt-hours, or number of fixtures applicable to the retail customer for the monthly billing period.
- R = Rental Amount, in \$, applicable to the retail customer for the monthly billing period, and equal to the sum of rental amounts applied in accordance with the provisions of Rider NS - Nonstandard Services and Facilities (Rider NS) and/or Rider ML - Meter-Related Facilities Lease (Rider ML).

The SMP Adjustment is applied to each retail customer during the monthly billing period, and such SMP Adjustment is shown as a separate line item on each retail customer's monthly bill for electric service.

Revenues resulting from the application of the SMP Adjustment must be recorded by the Company in a separate USOA-EU revenue subaccount designated specifically for SMP Adjustments. Such revenues are not to exceed five percent (5%) of SMP Base Rate Revenue for the SMP Application Period.

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(Continued from Sheet No. 629)

**SMP% DETERMINATION.**

In order to determine the SMP Adjustment, the SMP% is computed in accordance with the following equation:

$$\text{SMP\%} = \frac{\text{SMP Recovery Amount} + (\text{AR} \times 0.5) + (\{\text{OR} + \text{INT}\} \times \text{OT})}{\text{PQB}} \times 100\%$$

Where:

SMP Recovery Amount = System Modernization Project Recovery Amount, in \$, determined in accordance with the applicable equation in this SMP% Determination section.

AR = Annual Reconciliation, in \$, equal to zero for any SMP% that is applicable for the January through June monthly billing periods, otherwise determined in accordance with the applicable equation in the Annual Reconciliation section of this rider for any SMP% that is applicable during the July through December monthly billing periods.

OR = Ordered Reconciliation, in \$, equal to an amount ordered by the ICC that is to be refunded to or collected from retail customers to correct for errors associated with the computation of a previously applied SMP%, or to correct for an improperly applied SMP%, or to provide for reconciliation between revenues resulting from previously applied SMP Adjustments and prudently incurred investment costs for SMP, as determined by the ICC during the reconciliation proceeding described in the Annual Reconciliation section of this rider.

INT = Ordered Interest, in \$, equal to the interest accrued with respect to the OR determined at the rate established by the ICC in accordance with 83 Illinois Administrative Code Section 280.70(e)(1). Such interest is determined for the period of time beginning on the day following the end of the SMP Reconciliation Period for which the OR was determined and extending through the final date that the OR is applied.

OT = Ordered Timing Factor, in decimal format, equal to a factor directed by the ICC to be used to allow for the application of the OR for a specified number of monthly billing periods.

PQB = Projected Quarterly Billings, in \$, forecasted for the applicable three monthly billing periods in the SMP Application Period by the Company in accordance with its tariffs on file with the ICC and applicable to retail customers that are associated with customer charges, standard metering service charges, distribution facilities charges, and rentals.

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(Continued from Sheet No. 629.1)

**SMP% DETERMINATION (CONTINUED).**

In order to determine the SMP%, the SMP Recovery Amount is computed in accordance with the following equation:

$$\text{SMP Recovery Amount} = (\text{NetSMPP} \times \text{PTR} \times 0.25) + \text{NetQDep} + \text{QAmort}$$

Where:

- NetSMPP = Net SMP Plant Costs, in \$, equal to the original cost of investment, including AFUDC eligible investment in CWIP, in SMP Plant less accumulated depreciation and deferred income taxes in SMP Plant, determined as the level of investment in SMP Plant existing at the end of the month preceding the month in which the SMP% is filed in accordance with the Informational Filings section of this rider.
- PTR = Pre-tax return, in decimal format, determined in accordance with the applicable equation in this SMP% Determination section.
- NetQDep = Net quarterly depreciation, in \$, determined in accordance with the applicable equation in this SMP% Determination section.
- QAmort = Quarterly amortization, in \$, equal to the three (3) month amortization of the regulatory asset associated with SMPs.

The SMP Recovery Amount does not include amounts for AFUDC. Only the costs of investments in SMP Plant that are otherwise eligible for AFUDC are included in the SMP Recovery Amount during construction, although AFUDC is not applied due to its inclusion in the SMP Recovery Amount. If certain investments related to an SMP are not eligible for AFUDC, the costs of such investments in such SMP are included in the SMP Recovery Amount at the time the SMP Plant associated with such SMP is placed in service.

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(Continued from Sheet No. 629.2)

**SMP% DETERMINATION (CONTINUED).**

In order to determine the SMP Recovery Amount, the PTR is computed in accordance with the following equation:

$$\text{PTR} = \left( \frac{\text{WCCE}}{(1 - \text{UF}) \times (1 - \text{SIT}) \times (1 - \text{FIT})} \right) + \text{WCLTD}$$

Where:

- WCCE = Weighted Cost of Common Equity approved by the ICC in the most recent rate case.
- UF = Uncollectible Factor used in the determination of the Company's delivery service revenue requirement as approved by the ICC in the most recent rate case.
- SIT = Illinois State Income Tax rate in effect at the time that the ICC issued its final order in the most recent rate case.
- FIT = Federal Income Tax rate in effect at the time that the ICC issued its final order in the most recent rate case.
- WCLTD = Weighted Cost of Long Term Debt approved by the ICC in the most recent rate case.

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(Continued from Sheet No. 629.3)

**SMP% DETERMINATION (CONTINUED).**

In order to determine the SMP Recovery Amount, the NetQDep is computed in accordance with the following equation:

$$\text{NetQDep} = \sum_{\text{acct}} [(\text{SMPP} \times \text{QSMPPRate}) - (\text{RetP} \times \text{QRate})]$$

Where:

- $\sum_{\text{acct}}$  = summation over applicable USOA-EU accounts.
- SMPP = SMP Plant, in \$, equal to the cost of investments for SMPs since the most recent rate case that have been placed into service in account, acct.
- QSMPPRate = Annual depreciation rate associated with the SMP Plant in account, acct, divided by four (4).
- RetP = Retired Plant, in \$, equal to the plant that is replaced by SMP Plant and is included in the rate base approved in the most recent rate case in account, acct.
- QRate = Annual depreciation rate reflected in the most recent rate case for the Retired Plant in account, acct, divided by four (4).

**SMP% CHANGES IN COMPLIANCE WITH ICC ORDERS.**

For a situation in which any or all delivery service charges applicable to retail customers are changed as a result of a filing by the Company of new or revised tariff sheets in compliance with an order of the ICC entered in a rate case, the then current SMP% must be revised, as applicable, by the Company to reflect the change to such delivery service charges. The revised SMP% is determined in accordance with the provisions of the SMP% Determination section of this rider by incorporating the changed charges into the determination of PQB.

For a situation in which plant additions, previously designated as SMP Plant, are included in the rate base approved by an order of the ICC entered in a rate case, recovery of such previously designated SMP Plant under this rider ceases and the then current SMP% must be revised, as applicable, by the Company to reflect such change in designation. The revised SMP% is determined in accordance with the provisions of such SMP% Determination section by removing applicable amounts from the NetSMPP and NetQDep components in the determination of the SMP Recovery Amount.

For a situation in which the PTR is revised by an order of the ICC entered in a rate case, the then current SMP% must be revised, as applicable, by the Company to reflect such change in PTR. The revised SMP% is determined in accordance with the provisions of such SMP% Determination section by incorporating the revised PTR in the determination of the SMP Recovery Amount.

For a situation in which an OR is ordered or changed by the ICC for inclusion in the determination of the SMP%, as described in the Annual Reconciliation section of this rider, the then current SMP% must be revised, as applicable, by the Company to reflect such ordered or changed OR. The revised SMP% is determined in accordance with the provisions of such SMP% Determination section by incorporating the revised OR in the determination of the SMP%.

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**SMP% APPLICATION.**

Generally, for a given SMP Application Period, four (4) SMP%s are determined. The four SMP%s are computed for application during the January through March monthly billing periods, the April through June monthly billing periods, the July through September monthly billing periods, and the October through December monthly billing periods, respectively. The initial SMP% is applicable for the January through March 2009 monthly billing periods.

Notwithstanding the previous provisions of this SMP% Application section, in the event that a revised SMP% is determined in accordance with an ICC order to include or change an OR, as described in the SMP% Changes in Compliance with ICC Orders section of this rider, such revised SMP% is applicable in the computation of the SMP Adjustment for the period beginning with the monthly billing period following the filing of such revised SMP% in accordance with the Informational Filings section of this rider, and extending through the end of the monthly billing period during which the SMP% replaced by the revised SMP% was scheduled to be applicable.

Notwithstanding the previous provisions of this SMP% Application section, in the event that a revised SMP% is determined in accordance with an ICC order entered in a rate case, as described in the SMP% Changes in Compliance with ICC Orders section of this rider, such revised SMP% is applicable in the computation of the SMP Adjustment for the period beginning with the effective date of the charges for delivery service that reflect such order and extending through the end of the monthly billing period corresponding to the end of the monthly billing period during which the SMP% replaced by the revised SMP% was scheduled to be applicable.

**INFORMATIONAL FILINGS.**

The SMP%, along with supporting work papers and documentation must be filed by the Company with the ICC for informational purposes.

For the SMP% that is applicable in the computation of the SMP Adjustment for the January through March monthly billing periods, the Company must file such SMP% with the ICC for informational purposes, no later than the twentieth day of December prior to the start of such January monthly billing period. For the SMP% that is applicable in the computation of the SMP Adjustment for the April through June monthly billing periods, the Company must file such SMP% with the ICC for informational purposes, no later than the twentieth day of March prior to the start of such April monthly billing period. For the SMP% that is applicable in the computation of the SMP Adjustment for the July through September monthly billing periods, the Company must file such SMP% with the ICC for informational purposes, no later than the twentieth day of June prior to the start of such July monthly billing period. For the SMP% that is applicable in the computation of the SMP Adjustment for the October through December monthly billing periods, the Company must file such SMP% with the ICC for informational purposes, no later than the twentieth day of September prior to the start of such October monthly billing period.

Notwithstanding the previous provisions of this Informational Filings section, in the event that a revised SMP% is determined in accordance with an ICC order to include or change an OR, as described in the provisions of the SMP% Changes in Compliance with ICC Orders section of this rider, the Company must file such revised SMP% with the ICC for informational purposes, no later than the twentieth day of the month prior to the start of the monthly billing period during which such revised SMP% becomes applicable.

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**INFORMATIONAL FILINGS (CONTINUED).**

Any informational filing of an SMP% postmarked after the twentieth day of a month, as applicable, but prior to the start of the monthly billing period during which such SMP% is scheduled to become effective is acceptable only if such filing corrects an error or errors from a timely filed SMP% for such monthly billing period. Any other such filing postmarked after such twentieth day, as applicable, is acceptable only if such filing is made in accordance with the special permission request provisions of Section 9-201(a) of the Public Utilities Act (Act).

Notwithstanding the previous provisions of this Informational Filings section, in the event that a revised SMP% is determined in accordance with an ICC order entered in a rate case, as described in the SMP% Changes in Compliance with ICC Orders section of this rider, the Company must file such revised SMP% with the ICC for informational purposes concurrently with the Company's filing made in compliance with such order. Any informational filing of such SMP% postmarked after the date of the filing made in compliance with such order, but prior to the date on which such SMP% is scheduled to become effective is acceptable only if such informational filing corrects an error or errors from a timely filed SMP%. Any other such informational filing postmarked after the date of the filing made in compliance with such order, is acceptable only if such informational filing is made in accordance with the special permission request provisions of Section 9-201(a) of the Act.

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**ANNUAL RECONCILIATION.**

Each year, on or before June 1, beginning in 2010, in the event that an SMP Adjustment had been applicable to retail customers during all or part of the immediately previous SMP Application Period, the Company must submit to the ICC an annual reconciliation report that summarizes the operation of this rider during the SMP Reconciliation Period corresponding to such SMP Application Period. In such report, the Company must include (a) a schedule with detailed work papers showing the determination of the AR, in accordance with the equation provided in this Annual Reconciliation section, that becomes applicable beginning with the July monthly billing period immediately following the date that such AR is submitted to the ICC; and (b) testimony addressing the reasonableness of the investment costs incurred for the SMPs. Such report must include the results of an annual audit that examines (1) costs recovered pursuant to this rider to verify that such costs are recovered only pursuant to this rider and to confirm that any such costs are not also being recovered inappropriately through charges imposed under other tariffs; (2) adjustments determined pursuant to this rider that are included in retail customers' bills for electric service to verify that such charges and adjustments are properly applied; (3) revenues resulting from the application of this rider to verify that such revenues are correctly stated; and (4) costs recovered pursuant to this rider to verify that such costs are properly identified, recorded, and reflected in computations made pursuant to this rider. Such report must be submitted to the ICC in an informational filing, with copies of such report provided to the Manager of the Staff's Accounting Department and the Director of the Staff's Financial Analysis Division. Such report must be verified by an officer of the Company.

Along with the annual reconciliation report, the Company must file a petition seeking initiation of an SMP reconciliation hearing. After such hearing, the ICC determines the amount, if any, to be included in the OR in order to (a) correct for errors in SMP%<sup>s</sup> applied during the SMP Reconciliation Period, (b) correct for improperly applied SMP%<sup>s</sup> during the SMP Reconciliation Period, (c) reconcile the revenue resulting from the application of the SMP Adjustment during the SMP Reconciliation Period to the prudently incurred investment costs associated with SMPs during such SMP Reconciliation Period, and (d) in the event that the Return on Rate Base exceeds the rate of return approved for the Company by the ICC in the most recent rate case, order refunds to the extent that the revenue resulting from the application of SMP Adjustments during the SMP Reconciliation Period contributed to such Return on Rate Base exceeding such approved rate of return. Such OR is determined to the extent that any of the aforementioned items (a) through (d) is not already reflected in the AR determined by the Company. After any such OR is determined by the ICC, the Company must revise its SMP% to reflect such OR in accordance with an order entered by the ICC that provides the terms under which the OR is to be reflected in the SMP%.

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**RIDER SMP  
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(Continued from Sheet No. 629.7)

**ANNUAL RECONCILIATION (CONTINUED).**

The AR described in this Annual Reconciliation and used in the determination of the SMP%, as provided in the SMP% Determination section of this rider is determined in accordance with the following equation:

$$AR = (ANetSMPP \times PTR) + ANetDep + AAmort - SMPRev + AR_p + OR_p - EEA$$

Where:

- ANetSMPP = Actual Net SMP Plant Costs, in \$, equal to the average actual cost of investment in SMP Plant for the SMP Reconciliation Period less actual accumulated depreciation and accumulated deferred income taxes in SMP Plant for the SMP Reconciliation Period, determined as the average of the thirteen (13) end-of-month balances of SMP Plant, and accumulated depreciation and accumulated deferred income taxes for the period beginning December 31 of the year preceding the SMP Reconciliation Period and extending through the end of the SMP Reconciliation Period.
- ANetDep = Actual Net Depreciation, in \$, equal to the actual net depreciation expense related to the average investment in SMP Plant in service during the SMP Reconciliation Period, determined in accordance with the applicable equation in this Annual Reconciliation section.
- AAmort = Actual Annual Amortization, in \$, equal to the actual amortization expense related to the plant replaced by SMP Plant recorded during the SMP Reconciliation Period.
- SMPRev = SMP Revenue, in \$, equal to the revenues resulting from the application of the SMP Adjustment during the SMP Reconciliation Period.
- AR<sub>p</sub> = Previous Automatic Reconciliation, in \$, equal to the AR included in the determination of SMP%s for the SMP Reconciliation Period.
- OR<sub>p</sub> = Previous Ordered Reconciliation, in \$, equal to the OR included in the determination of SMP%s for the SMP Reconciliation Period.
- EEA = Excess Earnings Amount, in \$, equal to the amount of revenue resulting from the application of SMP Adjustments during the SMP Reconciliation Period that contributed to a Return on Rate Base exceeding the rate of return approved for the Company by the ICC in the most recent rate case. Such amount, if any, must not exceed the revenue resulting from the application of SMP Adjustments during the SMP Reconciliation Period. Such amount equals zero in the event that an SMP Adjustment was not applicable to retail customers during all or part of the SMP Reconciliation Period.

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**ANNUAL RECONCILIATION (CONTINUED).**

In order to determine AR, the ANetDep is computed in accordance with the following equation:

$$\text{ANetDep} = \sum_{\text{acct}} [(\text{ASMPP} \times \text{SMPPRate}) - (\text{ARetP} \times \text{Rate})]$$

- ASMPP = Actual SMP Plant, in \$, equal to the actual average investment in SMP Plant in service during the SMP Reconciliation Period in account, acct, determined as the average of the thirteen (13) end-of-month balances of the amount of SMP Plant in service for the period beginning December 31 of the year preceding the SMP Reconciliation Period and extending through the end of the SMP Reconciliation Period.
- SMPPRate = Annual depreciation rate associated with the Actual SMP Plant in account, acct.
- ARetP = Actual Retired Plant, in \$, equal to the amount of plant that has been replaced by Actual SMP Plant during the SMP Reconciliation Period in account, acct, determined as the average of the thirteen (13) end-of-month balances of the amount of retired plant for the period beginning December 31 of the year preceding the SMP Reconciliation Period and extending through the end of the SMP Reconciliation Period.
- Rate = Annual depreciation rate reflected in the most recent rate case for the Retired Plant in account, acct.

**MISCELLANEOUS GENERAL PROVISIONS.**

In any general rate proceeding commencing after the initial effective date of this rider, the Company must request inclusion in its rate base of SMP Plant, as appropriate. Such request must be made in accordance with all rules and procedures for inclusion of capital investments into rate base.

The Company's Schedule of Rates, of which this rider is a part, includes General Terms and Conditions and other tariffs. Service hereunder is subject to the General Terms and Conditions and such other tariffs, as applicable.