

Section 285.40210
Schedule D2
Exhibit 1

Utility: North Shore Gas Company

Petitioners' Position

Petitioners' Joint Petition, verified by Mr. Douglas M. Ruschau, Petitioners' Vice President and Treasurer, describes the current and proposed borrowing arrangements utilized by Petitioners.

The Petitioners seek authorization to permit (i) Peoples Gas to lend to North Shore and North Shore to borrow from Peoples Gas, from time to time, sums of money not exceeding \$50 million and (ii) North Shore to lend to Peoples Gas and Peoples Gas to borrow from North Shore, from time to time, sums of money not exceeding \$50 million.

In compliance with 83 Ill. Admin. Code Part 340, Petitioners propose that:

1. All such borrowings and loans between Peoples Gas and North Shore would be (i) for a term of one year or less and (ii) pre-payable without premium or penalty.
2. All such borrowings and loans between Peoples Gas and North Shore would be at a cost which is no greater than the cost which the borrowing Petitioner could obtain directly from banks or other financial institutions or through the sale of its own commercial paper.
- * 3. The interest rate on borrowings between Peoples Gas and North Shore will not exceed the lending Petitioner's actual cost, including issuance costs, for the funds obtained or used to provide the funds borrowed by the borrowing Petitioner.
4. The borrowing Petitioner will repay the amount of the loan together with all accrued interest, on demand of the lending Petitioner
5. The lending Petitioner will only lend to the borrowing Petitioner if the lending Petitioner cannot earn a higher rate of return on investments of similar risk in the open market, or the lending Petitioner will earn no less than the rate it would have earned on investments in existing short-term investment accounts which it maintained during the period in question.
6. The borrowing Petitioner shall accrue interest monthly on the unpaid principal amount of the loan from the date of such loan until the principal amount shall be paid in full.
7. If a borrowing Petitioner shall generally not pay its debts as its debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against the borrowing Petitioner seeking to adjudicate it as bankrupt or insolvent, then the unpaid principal amount of any loans to such Petitioner and all accrued interest shall become immediately due and payable to the lending Petitioner.
8. Neither Petitioner shall loan funds to the other Petitioner if such borrowing Petitioner ceases to be a public utility within the meaning of the Act.
9. All loans shall be made from cash and cash equivalents, proceeds from the issuance of commercial paper or borrowings on lines of credit from banks or other financial institutions.
10. Neither Petitioner will pool "surplus funds" for investment as described in

83 Ill. Admin Code Section 340.50 and, consequently there will be no allocation of interest income and earnings pursuant to 83 Ill. Admin Code Section 340.50.

Each Petitioner is a public utility within the meaning of the Act and, thus, meets the eligibility requirements of 83 Ill. Admin. Code Section 340.40(b)(6). Petitioners submitted a certificate of the chief accounting officer of Peoples Gas and North Shore certifying that each Petitioner is authorized to operate as public utility within the meaning of the Act.

Each borrowing and lending of money between Peoples Gas and North Shore will be subject to the form of Uncommitted Revolving Credit Facility and Master Promissory Note, substantially in the form of Exhibit A to this Order.

Petitioners contend that the proposed borrowing authorization combined with other borrowing sources, even at the maximum borrowing limits set forth above, will have no adverse financial impact on the utilities. Based on the actual debt and equity balances at the end of the last four fiscal quarters, a \$50 million increase in debt would increase Peoples Gas's and North Shore's maximum total debt-to-total capitalization ratio to only 51% and 54%, respectively.

The authorization to borrow and lend funds between Peoples Gas and North Shore will be in the public interest in that it will facilitate the operation of Peoples Gas and North Shore, and, therefore, the public will be inconvenienced thereby.

Staff's Position

As Indicated above, Janet Freetly filed an affidavit on behalf of Staff indicating that it approved the relief sought by the petitioners and that the proposed amendments comport with Part 340 of the Administrative Code.

Commission Analysis and Conclusion

Based upon our review of the record herein, the Commission concludes that the Joint Petition is reasonable and will serve the public interest. For these reasons, the Commission concludes that the intercompany borrowing arrangements between The Peoples Gas Light and Coke Company and North Shore Gas Company, in the form set forth in Petitioners' Joint Petition, should be, and hereby are approved.

Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) The Peoples Gas Light and Coke Company is a corporation organized and existing under and by virtue of the laws of the State of Illinois, and is engaged in the business of purchasing, storing, distributing, selling and

transporting gas within the City of Chicago and is a public utility within the meaning of the Public Utilities Act;

- (2) North Shore Gas Company is a corporation organized and existing under and by virtue of the laws of the State of Illinois, and is engaged in the business of purchasing, distributing, selling and transporting gas in Lake and Cook Counties, Illinois and is a public utility within the meaning of the Public Utilities Act;
- (3) the Commission has jurisdiction over Petitioners and the subject matter herein;
- (4) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by evidence of record and are hereby adopted as findings of facts;
- (5) Petitioners' proposed borrowing and lending of funds between Peoples Gas and North Shore as described in the prefatory portion of this Order is reasonable and will promote the public interest and should be approved.

IT IS THEREFORE ORDERED that the intercompany borrowing arrangements between The Peoples Gas Light and Coke Company and North Shore Gas Company in the form set forth in Petitioners' Joint Petition, should be, and hereby are approved.

IT IS FURTHER ORDERED that Petitioners are hereby ordered to file any reports required by 83 Ill. Admin. Code Section 340.60.

IT IS FURTHER ORDERED that Petitioners are hereby authorized to do any and all things not contrary to the Public Utilities Act or the rules and regulations of the Commission, which may be necessary, desirable, or convenient to carry out the provisions of this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Section 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 21st day of December, 2004.

(SIGNED) EDWARD C. HURLEY

Chairman

Exhibit A

[DATE]

[BORROWER'S ADDRESS]

Attention: _____

Re: Uncommitted Revolving Credit Facility

Dear _____:

_____ (the "Lender") is pleased to establish an uncommitted revolving credit facility (the "Facility") in favor of _____ (the "Borrower"), in the maximum aggregate amount of \$ _____ (the "Aggregate Commitment"). Loans under the Facility ("Loans") will be evidenced and governed by a master promissory note (the "Note") of the Borrower payable to the order of the Lender, substantially in the form attached hereto as Exhibit A. The Lender is authorized to record the date, amount, interest rate, and maturity date of each Loan made by the Lender, and the date and amount of each payment thereof made by the Borrower, on Schedule A attached thereto and made a part thereof or the Lender's books or records, as applicable. Lender's recordation of such information in its books or records shall control in all instances of conflict between Schedule A to the Note and the Lender's books or records. This Facility shall remain in full force and effect from the date first written above unless and until canceled by the Lender or the Borrower at any time upon reasonable prior written notice; provided, however, that any Loans of the Borrower pursuant to this Facility, which shall be outstanding as of the effective date of such termination, shall not be affected thereby. In the event of any conflict between the terms of the Note and the terms of this letter, the terms of this letter shall govern.

* 1. Interest Rate. The Loans will bear interest at the rate specified in the associated schedule or the Lender's books or records ("Interest Rate"). The Interest Rate shall meet the requirements of the Illinois Commerce Commission's rules codified at 83 Ill. Admin. Code Sections 340.30 and 340.40.

2 Borrowings. Subject in all respects to the terms and conditions of this Facility, the Lender may, in its sole discretion (as determined by the Lender's Treasurer) upon the request of the Borrower, make Loans to the Borrower, which the Borrower may request from time to time; provided, however that the aggregate principal amount of all Loans shall not at any time exceed the Aggregate Commitment.

The Borrower shall give the Lender an oral or written borrowing notice not later than 10:00 a.m. Chicago time on the borrowing date of each Loan. Each such borrowing notice shall specify the borrowing date, the maturity date (which shall in no event be later than the Termination Date) and the amount of the Loan.

The term "Business Day" means any day (i) on which the Lender's principal office is open for business and (ii) is not a Sunday or a legal holiday or a day on which banking institutions in Chicago, Illinois are required or authorized to be closed.

The term "Interest Period" means a period ending on the last day of each month during the term of the Loan and on the Termination Date; provided, however, that if an Interest Period ends on a day that is not a Business Day, then such Interest Period shall be deemed to end on the next following Business Day.

The source of Lender's available cash for each Loan is Lender's cash and cash equivalents or surplus funds from the issuance of commercial paper or borrowings on lines of credit from banks or other financial institutions.

3. **Failure to Borrow.** In the event the Borrower fails to borrow a Loan after it has provided the Lender with a notice of borrowing of such Loan, (whether such failure is due to the Borrower's inability to comply with the conditions precedent to lending set forth in Paragraph 7 hereof or for any other reason) the Borrower shall pay the Lender any funding losses required to be paid by the Lender to unaffiliated third parties.

4. **Disbursement.** Subject to the terms of this letter, the Lender shall promptly make available to the Borrower the proceeds of Loans in funds immediately available in Chicago, Illinois at the principal office of the Lender (or by wire transfer to such account as the Borrower may direct), except to the extent such Loan is a reborrowing, in whole or in part, of the principal amount of a maturing Loan, in which case the Lender shall effect the repayment of such maturing Loan, in whole or in part as appropriate, through the proceeds of the new Loan.

5. **Repayment/Prepayment.** Unless otherwise agreed by the Lender and Borrower, each Loan together with all accrued interest shall be paid in full by the Borrower (i) on the date set forth on Schedule A to the Note or the Lender's books or records, as applicable or (ii) on demand of the Lender (each a "Payment Date"). All payments of principal and interest due under the Note shall be made in immediately available funds to the Lender at the Lender's address appearing on the first page of this letter or at such other address or Lender account specified in writing by the Lender to the Borrower, no later than 5:00 p.m. Chicago time on the date when due. Loans may be prepaid by the Borrower at any time prior to such Loans' respective maturities without premium or penalty.

6. **Change in Law.** If any change in any law, rule, regulation or directive (including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System) imposes any condition on a third party or Lender the result of which is to increase the cost to the Lender, either directly or indirectly, of making, funding or maintaining any Loan hereunder or reduces any amount receivable by the Lender hereunder in connection with a Loan, the Borrower shall pay the Lender the amount of such increased expense incurred or the reduction in any amount received which the Lender objectively and in good faith determines is attributable to making, funding and

maintaining the Loans hereunder. In the event the Lender makes such a claim for compensation, the Lender shall provide to the Borrower a certificate setting forth in detail reasonably satisfactory to the Borrower the calculations of such increased expense or reduction in amount receivable, which shall be presumed correct absent manifest error.

7. **Conditions Precedent to Lending.** The Lender shall not be required to make any Loan unless on the borrowing date for such Loan: (a) no Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default, then exists or is continuing, (b) the representations and warranties contained in Paragraph 8 are true and correct and (c) this Facility and each Loan meet the requirements of all applicable laws rules, regulations or directives. Each borrowing notice shall constitute a certification of the Borrower that such conditions have been satisfied.

8. **Representations and Warranties.** The Borrower represents and warrants to the Lender, as of the date hereof and as of each borrowing date, that:

(a) the Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted;

(b) the execution and delivery by the Borrower of this letter, the Note and any other documents in connection with the Facility have been duly authorized by proper corporate proceedings and will, when executed and delivered, constitute valid and binding obligations of the Borrower;

(c) neither the execution and delivery by the Borrower of this letter, the Note or any other documents in connection with the Facility, the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower, or the charter or articles of incorporation or bylaws of the Borrower or the provisions of any indenture, instrument or agreement to which the Borrower is a party or is subject, or by which it or its property is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement;

(d) no Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default has occurred or is continuing; and

(e) except as disclosed to the Lender in writing, the Borrower is not aware of any event or circumstance that will or could be expected to have a material adverse effect on the condition (financial or otherwise), operations or prospects of the Borrower.

9. **Defaults.** The occurrence of any one or more of the following events shall constitute a Default of the Borrower:

(a) any representation or warranty made by or on behalf of the Borrower to the Lender under or in connection with the Facility or any Loan shall be materially false as of the date on which made;

(b) nonpayment of the principal amount of any Loan when due;

(c) nonpayment of interest upon any Loan or of any other amount required to be paid hereunder within five (5) days after the same becomes due;

(d) the Borrower shall (i) have an order for relief entered with respect to it under the Federal Bankruptcy Code, Title 11, United States Code, Sections 1 et. seq., (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property, (v) institute any proceeding seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action to authorize or effect any of the foregoing actions set forth in this subparagraph 9(d), or (vii) fail to contest in good faith any appointment or proceeding described in subparagraph 9(e);

(e) without the application, approval or consent of the Borrower, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any substantial part of its property, or a proceeding described in clause (v) of subparagraph 9(d) shall be instituted against the Borrower, and such appointment continues undischarged or such proceeding continues undismitted or unstayed for a period of sixty (60) consecutive days.

10. **Acceleration; Offset.** If any Default described in Paragraphs 9(d) or 9(e) occurs, the commitment of the Lender to make Loans hereunder shall automatically terminate and any Loans outstanding to the Borrower shall immediately become due and payable without any election or action on the part of the Lender. If any other Default occurs, the Lender may terminate or suspend the commitment of the Lender to make Loans hereunder, or declare the Loans outstanding to the Borrower to be due and payable, or both, whereupon such Loans shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

In addition to, and without limitation of, any rights of the Lender under applicable

[BORROWER]
[DATE]
Page

law, if any Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default with respect to the Borrower has occurred or is continuing, any indebtedness from the Lender to the Borrower may be offset and applied toward the payment of the Loan of the Borrower, whether or not such Loan or any part thereof shall then be due.

11. **Expenses of Collection.** The Borrower agrees to reimburse the Lender for any and all reasonable costs and out-of-pocket expenses (including reasonable attorneys' fees) paid or incurred by the Lender in connection with the collection and enforcement of the Facility. The Borrower's obligations under this Paragraph 11 shall survive termination of the Facility.

12. **Choice of Law.** This letter and the Note shall be governed by the internal laws of the State of Illinois, without regard to any law of conflicts that may direct the application of the laws of another jurisdiction.

13. **Assignment.** The benefits, duties and obligations of the Borrower under this letter and the Note may not be assigned by the Borrower.

14. **Money Pool Funds.** Neither the Borrower nor the Lender shall seek to pool any "surplus funds" for investment as described in 83 Ill. Admin Code Section 340.50 and, consequently there will be no allocation of interest income and earnings pursuant to 83 Ill. Admin Code Section 340.50.

Please indicate your agreement with these terms by executing this letter and the enclosed counterpart hereof and returning it to the undersigned.

Very truly yours,

[Lender]

By: _____

Accepted and Agreed:

By: _____

EXHIBIT A

MASTER NON-NEGOTIABLE PROMISSORY NOTE

Chicago, Illinois

\$ _____

_____ 20

Principal Note No. _____

FOR VALUE RECEIVED, the undersigned, [name of borrower], (the "Borrower"), promises to pay to the order of [name of Lender] (the "Lender") the lesser of the principal sum of _____ DOLLARS (\$_____) or the aggregate unpaid principal of all Loans made by the Lender to the Borrower under that certain uncommitted revolving credit facility letter agreement dated of even date herewith together with interest on the principal amount of each Loan from time to time outstanding hereunder at the rate specified in the associated schedule or the Lender's books or records. Principal and interest shall be due and payable in the manner and on the respective dates reflected in the associated schedule or the Lender's books or records, as applicable or on demand of the Lender. The Interest Rate shall meet the requirements of the Illinois Commerce Commission's rules codified at 83 Ill. Admin. Code Sections 340.30 and 340.40.

The Lender shall record on its books or records or on a schedule maintained for this Note, which is a part hereof, each loan made by the Lender to the Borrower all payments of principal and interest, and the principal balances from time to time outstanding. The record thereof, whether shown on such books or records or on a schedule to this Note, shall be *prima facie* evidence of the same; *provided, however*, that the failure of the Lender to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrower to repay all Loans made to it pursuant to this Note, together with accrued interest thereon, all such payments to be made in lawful money of the United States at the office of Lender in Chicago, Illinois. All interest shall be calculated on the basis of a year of 365 days.

The Borrower shall have the right at any time, without premium or penalty, to repay this Note in whole, or from time to time in part. Payment of the interest accrued hereunder shall be due and payable on the applicable Payment Date.

This Note is the master promissory note referenced in that certain uncommitted revolving credit facility letter agreement dated as of even date herewith and is subject to the terms and conditions contained therein.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed by
duly authorized officers as of the day and year and place first above written.

[name of borrower]

By: _____
By: _____

SCHEDULE A
TO MASTER NON-NEGOTIABLE PROMISSORY NOTE

<u>Date Made</u>	<u>Amount of Loan</u>	<u>Interest Rate</u>	<u>Interest Period</u>	<u>Date and Amount of Principal Paid</u>	<u>Maturity Date</u>
----------------------	---------------------------	--------------------------	----------------------------	--	--------------------------

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

The Peoples Gas Light and Coke Company :
and North Shore Gas Company's Joint :
Petition for Consent to and Approval of :
Amendments to Borrow Funds from :
Peoples Energy Corporation, an :
Affiliated Interest. :

04-0603

ORDER

By the Commission:

On October 4, 2004, The Peoples Gas Light and Coke Company ("Peoples Gas Light") and North Shore Gas Company ("North Shore") (together, the "Petitioners") filed a verified Joint Petition, pursuant to Section 7-102 of the Illinois Public Utilities Act (220 ILCS 5/7-102) and 83 Illinois Administrative Code Part 340, requesting the Illinois Commerce Commission ("Commission") to enter an order consenting to and approving amendments to the authorization to borrow funds from Peoples Energy Corporation ("Peoples Energy"), an affiliated interest.

Pursuant to Section 200.525 of the Commission's Rules of Practice, Petitioners requested leave to waive the hearing in this matter. On October 28, 2004, the People of the State of Illinois filed a petition for leave to intervene. On November 19, 2004, the Staff filed the affidavit of Ms. Janis Freetly, the Case Manager for this matter, stating that the Staff recommended approval of the relief requested by the Joint Petition, as amended on November 18, 2004. Because there are no outstanding issues in controversy, Petitioners submitted an agreed Proposed Form of Order for the Administrative Law Judge's consideration. The record herein contains a detailed description and review of Petitioners' practices and procedures related to intercompany borrowings and their need to amend the authorization to borrow funds from Peoples Energy. Based upon the completeness of this record, the Administrative Law Judge granted the request for waiver of hearing.

This authorization to Peoples Gas and North Shore to borrow funds from Peoples Energy is in all respects, consistent with the requirements of Part 340. To the extent not made explicit by this authorization, Peoples Gas and North Shore will comply with all requirements of Part 340, including the requirements relating to filings and procedures set forth in Section 340.60 of Part 340.

Petitioners' Position

Petitioners' Joint Petition, verified by Mr. Douglas M. Ruschau, Petitioners' Vice President and Treasurer, describes the current and proposed intercompany borrowing arrangement between Petitioners and Peoples Energy. Pursuant to an Order (the "2002 Order") dated December 17, 2002, entered by this Commission in Docket No. 02-0822, Peoples Gas Light and North Shore are authorized to borrow from Peoples Energy sums not exceeding \$150 million and \$50 million at any time outstanding, respectively.

Under the 2002 Order, Peoples Gas Light and North Shore pay interest on loans or advances from Peoples Energy at the lower of: (a) the rate quoted by a recognized dealer for 270-day commercial paper having the same commercial paper rating as the borrower, Peoples Gas Light or North Shore, or (b) the prime or other base commercial rate then in effect at LaSalle National Bank, at the time each such loan is made. The interest rates Peoples Energy charges Peoples Gas Light or North Shore do not exceed Peoples Energy's actual interest cost, including issuance costs, for the funds Peoples Energy obtains or uses to provide the funds Peoples Gas Light or North Shore borrow.

*

The Petitioners seek authorization to amend the interest rate which they pay to Peoples Energy such that:

- (a) Peoples Gas Light will pay an interest rate which will be equal to or less than the rate which Peoples Gas Light could borrow directly from banks or other financial institutions or through the sale of its own commercial paper;
- (b) North Shore will pay an interest rate which will be equal to or less than the rate which North Shore could borrow directly from banks or other financial institutions or through the sale of its own commercial paper; and
- (c) the interest rates Peoples Energy charges Peoples Gas Light or North Shore would not exceed Peoples Energy's actual interest cost, including issuance costs, for the funds Peoples Energy obtains or uses to provide the funds Peoples Gas Light or North Shore borrow.

Petitioners contend that this amendment to the interest rate payable on loans or advances from Peoples Energy will provide the utilities with greater flexibility in how the terms of such loans or advances are structured.

Peoples Gas Light and North Shore also desire to use the form of Uncommitted Revolving Credit Facility and to amend the form of promissory note that was approved by the Commission in the 2002 Order. Specifically, Peoples Gas Light and North Shore desire to use a form of Uncommitted Revolving Credit Facility and master promissory note ("Master Note"), substantially in the form of Exhibit A. The Master Note requires Peoples Energy to record on its books or records and on a schedule maintained for the Master Note each loan from Peoples Energy to Peoples Gas Light or North Shore, as

applicable. Petitioners assert that the Master Note would obviate the need for Peoples Energy and Peoples Gas Light or North Shore to execute a new promissory note for each loan and would thus be administratively less burdensome for Petitioners. Each borrowing would be subject to the Master Note.

Petitioners contend that all loans shall be made from cash and cash equivalents, proceeds from the issuance of commercial paper or borrowings on lines of credit from banks or other financial institutions and that neither Petitioner will pool "surplus funds" for investment as described in 83 Ill. Admin Code Section 340.50 and, consequently there will be no allocation of interest income and earnings pursuant to 83 Ill. Admin Code Section 340.50.

The amendment to the interest rate and the form of Master Note proposed in Petitioners' Joint Petition, the lending of such funds by Peoples Energy, and the borrowing thereof by Peoples Gas Light and North Shore from time to time, will be in the public interest in that it will facilitate the operation of Peoples Gas Light and North Shore, and, therefore, the public will be inconvenienced thereby.

Staff's Position

As Indicated above, Janet Freetly filed an affidavit on behalf of Staff indicating that it approved the relief sought by the petitioners and that the proposed amendments comport with Part 340 of the Administrative Code.

Commission Analysis and Conclusion

Based upon our review of the record herein, the Commission concludes that the Joint Petition is reasonable and will serve the public interest. For these reasons, the Commission concludes that the amendments to the intercompany borrowing arrangements, including the Master Note, among The Peoples Gas Light and Coke Company and North Shore Gas Company and Peoples Energy Corporation, in the form set forth in Petitioners' Joint Petition, should be, and hereby are approved.

Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) The Peoples Gas Light and Coke Company is a corporation organized and existing under and by virtue of the laws of the State of Illinois, and is engaged in the business of purchasing, storing, distributing, selling and transporting gas within the City of Chicago and is a public utility within the meaning of the Public Utilities Act;
- (2) North Shore Gas Company is a corporation organized and existing under and by virtue of the laws of the State of Illinois, and is engaged in the

business of purchasing, distributing, selling and transporting gas in Lake and Cook Counties, Illinois and is a public utility within the meaning of the Public Utilities Act;

- (3) Peoples Energy Corporation is a holding company with wholly-owned subsidiaries including Peoples Gas Light and North Shore; Peoples Gas Light and North Shore are affiliated interests with Peoples Energy within the meaning of the Public Utilities Act;
- (4) the Commission has jurisdiction over Petitioners and the subject matter herein;
- (5) the recitals of fact and conclusions reached in the prefatory portion of this Order are supported by evidence of record and are hereby adopted as findings of facts;
- (6) Petitioners' proposed amendment to the interest rate which they pay to Peoples Energy as described in the prefatory portion of this Order is reasonable and will promote the public interest and should be approved.
- (7) Petitioners' proposed use of Uncommitted Revolving Credit Facility and Master Note as described in the prefatory portion of this Order is reasonable and will promote the public interest and should be approved.

IT IS THEREFORE ORDERED that the intercompany borrowing arrangements among The Peoples Gas Light and Coke Company and North Shore Gas Company and Peoples Energy Corporation, in the form set forth in Petitioners' Joint Petition, should be, and hereby are approved.

IT IS FURTHER ORDERED that Petitioners are hereby ordered to file any reports required by 83 Ill. Admin. Code Section 340.60.

IT IS FURTHER ORDERED that Petitioners are hereby authorized to do any and all things not contrary to the Public Utilities Act or the rules and regulations of the Commission, which may be necessary, desirable, or convenient to carry out the provisions of this order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Section 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 21st day of December, 2004.

(SIGNED) EDWARD C. HURLEY

Chairman

Exhibit A

[DATE]

[BORROWER'S ADDRESS]

Attention: _____

Re: **Uncommitted Revolving Credit Facility**

Dear _____:

Peoples Energy Corporation (the "Lender") is pleased to establish an uncommitted revolving credit facility (the "Facility") in favor of _____ (the "Borrower"), in the maximum aggregate amount of \$_____ (the "Aggregate Commitment"). Loans under the Facility ("Loans") will be evidenced and governed by a master promissory note (the "Note") of the Borrower payable to the order of the Lender, substantially in the form attached hereto as Exhibit A. The Lender is authorized to record the date, amount, interest rate, and maturity date of each Loan made by the Lender, and the date and amount of each payment thereof made by the Borrower, on Schedule A attached thereto and made a part thereof or the Lender's books or records, as applicable. Lender's recordation of such information in its books or records shall control in all instances of conflict between Schedule A to the Note and the Lender's books or records. This Facility shall remain in full force and effect from the date first written above unless and until canceled by the Lender or the Borrower at any time upon reasonable prior written notice; provided, however, that any Loans of the Borrower pursuant to this Facility, which shall be outstanding as of the effective date of such termination, shall not be affected thereby. In the event of any conflict between the terms of the Note and the terms of this letter, the terms of this letter shall govern.

* 1. **Interest Rate.** The Loans will bear interest at the rate specified in the associated schedule or the Lender's books or records ("Interest Rate"). The Interest Rate shall meet the requirements of the Illinois Commerce Commission's rules codified at 83 Ill. Admin. Code Section 340.30.

2 **Borrowings.** Subject in all respects to the terms and conditions of this Facility, the Lender may, in its sole discretion (as determined by the Lender's Treasurer) upon the request of the Borrower, make Loans to the Borrower, which the Borrower may request from time to time; provided, however that the aggregate principal amount of all Loans shall not at any time exceed the Aggregate Commitment.

The Borrower shall give the Lender an oral or written notice not later than 10:00 a.m. Chicago time on the borrowing date of each Loan. Each such borrowing notice shall specify the borrowing date, the maturity date (which shall in no event be later than the Termination Date) and the amount of the Loan.

The term "Business Day" means any day (i) on which the Lender's principal office is open for business and (ii) is not a Sunday or a legal holiday or a day on which banking institutions in Chicago, Illinois are required or authorized to be closed.

The term "Interest Period" means a period ending on the last day of each month during the term of the Loan and on the Termination Date; provided, however, that if an Interest Period ends on a day that is not a Business Day, then such Interest Period shall be deemed to end on the next following Business Day.

3. **Failure to Borrow.** In the event the Borrower fails to borrow a Loan after it has provided the Lender with a notice of borrowing of such Loan, (whether such failure is due to the Borrower's inability to comply with the conditions precedent to lending set forth in Paragraph 7 hereof or for any other reason) the Borrower shall pay the Lender any funding losses required to be paid by the Lender to unaffiliated third parties.

4. **Disbursement.** Subject to the terms of this letter, the Lender shall promptly make available to the Borrower the proceeds of Loans in funds immediately available in Chicago, Illinois at the principal office of the Lender (or by wire transfer to such account as the Borrower may direct), except to the extent such Loan is a reborrowing, in whole or in part, of the principal amount of a maturing Loan, in which case the Lender shall effect the repayment of such maturing Loan, in whole or in part as appropriate, through the proceeds of the new Loan.

5. **Repayment/Prepayment.** Unless otherwise agreed by the Lender and Borrower, each Loan together with all accrued interest shall be paid in full by the Borrower (i) on the date set forth on Schedule A to the Note or the Lender's books or records, as applicable or (ii) on demand of the Lender (each a "Payment Date"). All payments of principal and interest due under the Note shall be made in immediately available funds to the Lender at the Lender's address appearing on the first page of this letter or at such other address or Lender account specified in writing by the Lender to the Borrower, no later than 5:00 p.m. Chicago time on the date when due. Loans may be prepaid by the Borrower at any time prior to such Loans' respective maturities without premium or penalty.

6. **Change in Law.** If any change in any law, rule, regulation or directive (including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System) imposes any condition on a third party or Lender the result of which is to increase the cost to the Lender, either directly or indirectly, of making, funding or maintaining any Loan hereunder or reduces any amount receivable by the Lender hereunder in connection with a Loan, the Borrower shall pay the Lender the amount of such increased expense incurred or the reduction in any amount received which the Lender objectively and in good faith determines is attributable to making, funding and maintaining the Loans hereunder. In the event the Lender makes such a claim for compensation, the Lender shall provide to the Borrower a certificate setting forth in detail reasonably satisfactory to the Borrower the calculations of such increased expense or reduction in amount receivable, which shall be presumed correct absent manifest error.

7. **Conditions Precedent to Lending.** The Lender shall not be required to make any Loan unless on the borrowing date for such Loan: (a) no Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default, then exists or is continuing, (b) the representations and warranties contained in Paragraph 8 are true and correct and (c) this Facility and each Loan meet the requirements of all applicable laws rules, regulations or directives. Each borrowing notice shall constitute a certification of the Borrower that such conditions have been satisfied.

8. **Representations and Warranties.** The Borrower represents and warrants to the Lender, as of the date hereof and as of each borrowing date, that:

(a) the Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite authority to conduct its business in each jurisdiction in which its business is conducted;

(b) the execution and delivery by the Borrower of this letter, the Note and any other documents in connection with the Facility have been duly authorized by proper corporate proceedings and will, when executed and delivered, constitute valid and binding obligations of the Borrower;

(c) neither the execution and delivery by the Borrower of this letter, the Note or any other documents in connection with the Facility, the consummation of the transactions therein contemplated, nor compliance with the provisions thereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower, or the charter or articles of incorporation or bylaws of the Borrower or the provisions of any indenture, instrument or agreement to which the Borrower is a party or is subject, or by which it or its property is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any lien pursuant to the terms of any such indenture, instrument or agreement;

(d) no Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default has occurred or is continuing; and

(e) except as disclosed to the Lender in writing, the Borrower is not aware of any event or circumstance that will or could be expected to have a material adverse effect on the condition (financial or otherwise), operations or prospects of the Borrower.

9. **Defaults.** The occurrence of any one or more of the following events shall constitute a Default of the Borrower:

(a) any representation or warranty made by or on behalf of the Borrower to the Lender under or in connection with the Facility or any Loan shall be materially false as of the date on which made;

(b) nonpayment of the principal amount of any Loan when due;

(c) nonpayment of interest upon any Loan or of any other amount required to be paid hereunder within five (5) days after the same becomes due;

(d) the Borrower shall (i) have an order for relief entered with respect to it under the Federal Bankruptcy Code, Title 11, United States Code, Sections 1 et. seq., (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, (iii) make an assignment for the benefit of creditors, (iv) apply for, seek, consent to, or acquiesce in the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property, (v) institute any proceeding seeking to adjudicate it bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (vi) take any corporate action to authorize or effect any of the foregoing actions set forth in this subparagraph 9(d), or (vii) fail to contest in good faith any appointment or proceeding described in subparagraph 9(e);

(e) without the application, approval or consent of the Borrower, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Borrower or any substantial part of its property, or a proceeding described in clause (v) of subparagraph 9(d) shall be instituted against the Borrower, and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of sixty (60) consecutive days.

10. **Acceleration; Offset.** If any Default described in Paragraphs 9(d) or 9(e) occurs, the commitment of the Lender to make Loans hereunder shall automatically terminate and any Loans outstanding to the Borrower shall immediately become due and payable without any election or action on the part of the Lender. If any other Default occurs, the Lender may terminate or suspend the commitment of the Lender to make Loans hereunder, or declare the Loans outstanding to the Borrower to be due and payable, or both, whereupon such Loans shall become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which the Borrower hereby expressly waives.

In addition to, and without limitation of, any rights of the Lender under applicable law, if any Default or event which, but for the giving of notice or lapse of time or both, would constitute a Default with respect to the Borrower has occurred or is continuing, any indebtedness from the Lender to the Borrower may be offset and applied toward the payment of the Loan of the Borrower, whether or not such Loan or any part thereof shall then be due.

11. **Expenses of Collection.** The Borrower agrees to reimburse the Lender for any and all reasonable costs and out-of-pocket expenses (including reasonable attorneys' fees) paid or incurred by the Lender in connection with the collection and enforcement of the Facility. The Borrower's obligations under this Paragraph 11 shall survive termination of the Facility.

12. **Choice of Law.** This letter and the Note shall be governed by the internal laws of the State of Illinois, without regard to any law of conflicts that may direct the application of the laws of another jurisdiction.

13. **Assignment.** The benefits, duties and obligations of the Borrower under this letter and the Note may not be assigned by the Borrower.

14. **Money Pool Funds.** Neither the Borrower nor the Lender shall seek to pool any "surplus funds" for investment as described in 83 Ill. Admin Code Section 340.50 and, consequently there will be no allocation of interest income and earnings pursuant to 83 Ill. Admin Code Section 340.50.

Please indicate your agreement with these terms by executing this letter and the enclosed counterpart hereof and returning it to the undersigned.

Very truly yours,

Peoples Energy Corporation

By: _____

Accepted and Agreed:

By: _____

EXHIBIT A

MASTER NON-NEGOTIABLE PROMISSORY NOTE

Chicago, Illinois

\$ _____

_____ 20

Principal Note No. _____

FOR VALUE RECEIVED, the undersigned, [name of borrower], (the "Borrower"), promises to pay to the order of Peoples Energy Corporation (the "Lender") the lesser of the principal sum of _____ DOLLARS (\$ _____) or the aggregate unpaid principal of all Loans made by the Lender to the Borrower under that certain uncommitted revolving credit facility letter agreement dated of even date herewith together with interest on the principal amount of each Loan from time to time outstanding hereunder at the rate specified in the associated schedule or the Lender's books or records. Principal and interest shall be due and payable in the manner and on the respective dates reflected in the associated schedule or the Lender's books or records, as applicable or on demand of the Lender. The Interest Rate shall meet the requirements of the Illinois Commerce Commission's rules codified at 83 Ill. Admin. Code Section 340.30.

The Lender shall record on its books or records or on a schedule maintained for this Note, which is a part hereof, each loan made by the Lender to the Borrower all payments of principal and interest, and the principal balances from time to time outstanding. The record thereof, whether shown on such books or records or on a schedule to this Note, shall be *prima facie* evidence of the same; *provided, however,* that the failure of the Lender to record any of the foregoing or any error in any such record shall not limit or otherwise affect the obligation of the Borrower to repay all Loans made to it pursuant to this Note, together with accrued interest thereon, all such payments to be made in lawful money of the United States at the office of Lender in Chicago, Illinois.

The Borrower shall have the right at any time, without premium or penalty, to repay this Note in whole, or from time to time in part. Payment of the interest accrued hereunder shall be due and payable on the applicable Payment Date.

This Note is the master promissory note referenced in that certain uncommitted revolving credit facility letter agreement dated as of even date herewith and is subject to the terms and conditions contained therein.

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed by duly authorized officers as of the day and year and place first above written.

[name of borrower]

By: _____

SCHEDULE A
TO MASTER NON-NEGOTIABLE PROMISSORY NOTE

<u>Date Made</u>	<u>Amount of Loan</u>	<u>Interest Rate</u>	<u>Interest Period</u>	<u>Date and Amount of Principal Paid</u>	<u>Maturity Date</u>
----------------------	---------------------------	--------------------------	----------------------------	--	--------------------------

Joint Committee on Administrative Rules
ADMINISTRATIVE CODE

TITLE 83: PUBLIC UTILITIES
CHAPTER I: ILLINOIS COMMERCE COMMISSION
SUBCHAPTER B: PROVISIONS APPLICABLE TO MORE THAN ONE KIND OF UTILITY
PART 340 MONEY POOL AGREEMENTS
SECTION 340.30 MINIMUM REQUIREMENTS FOR SHORT-TERM LOANS FROM AFFILIATES TO UTILITIES

Section 340.30 Minimum Requirements for Short-Term Loans from Affiliates to Utilities

Incumbent local exchange carriers shall not be subject to the requirements of this Section pursuant to Section 13-601 of the Act [220 ILCS 5/13-601]. Utilities may borrow funds on a day-to-day basis from affiliates subject to the following restrictions:

- a) The money pool agreement shall set forth a form of promissory note to be used for loans to the utility or shall itself set out the terms of the loans. All short-term loans may be prepaid by the utility without premium or penalty.
- b) No utility shall borrow through or from an affiliate if the utility determines that it can borrow at lower cost directly from banks or other financial institutions or through the sale of its own commercial paper.
- * c) Interest. The interest rate on borrowings made by the utility from the affiliate shall not exceed the affiliate's actual interest cost, including issuance costs, for the funds obtained or used to provide the funds borrowed by the utility.

Joint Committee on Administrative Rules
ADMINISTRATIVE CODE

TITLE 83: PUBLIC UTILITIES
CHAPTER I: ILLINOIS COMMERCE COMMISSION
SUBCHAPTER B: PROVISIONS APPLICABLE TO MORE THAN ONE KIND OF UTILITY
PART 340 MONEY POOL AGREEMENTS
SECTION 340.40 MINIMUM REQUIREMENTS FOR SHORT-TERM LOANS FROM UTILITIES TO AFFILIATES

Section 340.40 Minimum Requirements for Short-Term Loans from Utilities to Affiliates

- a) A utility may borrow from outside the money pool agreement in order to make loans to an affiliate that is a public utility under applicable State law. A utility may not borrow from outside the money pool agreement in order to make loans to non-utility affiliates, except for loans to service companies and subsidiaries of the utility.
- b) An affiliate shall be eligible for borrowing from the utility if the affiliate meets one of the following seven requirements:
 - 1) The affiliate maintains the following commercial paper ratings from at least two of the following three major credit rating agencies and a higher, equivalent, or no credit rating from the third credit rating agency: A-1 or above from Standard & Poor's or its successor; P-1 or above from Moody's Investors Service or its successor; and F-1 or above from Fitch Ratings or its successor;
 - 2) The aggregate amount of outstanding short-term indebtedness of the affiliate, including amounts to be borrowed from the utility, excluding amounts drawn on the committed credit facility, does not exceed the unused balance of funds available to the affiliate under high-grade committed credit facilities at any time plus the amount of funds the affiliate invests in the short-term securities described in Section 340.50(a)(1) and (2);
 - 3) The affiliate is a high-grade credit issuer;
 - 4) The aggregate amount of funds the affiliate borrows is guaranteed by an affiliate of the utility that meets the requirements set forth in subsection (b)(1);
 - 5) The aggregate amount of funds the affiliate borrows is guaranteed by an affiliate with a high-grade committed credit facility that meets the requirements set forth in subsection (b)(2);

- 6) The affiliate is a utility; or
- 7) The affiliate provides the utility cash management services through a Commission-approved agreement and the utility does not issue bonds, notes or other forms of indebtedness to persons or entities that are not affiliates of the utility; and
 - A) The utility is a small utility; or
 - B) The utility demonstrates that any benefits from relying on an affiliate to provide all the utility's capital exceed the risks associated with a decrease in the utility's financial independence provided that the affiliate is a medium-grade credit issuer.
- c) The affiliate receiving the loan shall repay the principal amount of the loan, together with all accrued interest, on demand of the utility.
- d) The utility may lend funds to an affiliate only if the utility cannot earn a higher rate of return on investments of similar risk in the open market, or the utility will earn no less than the rate the utility would have earned on investments in existing short-term investment accounts maintained by the utility during the period in question.
- e) Interest. Each affiliate receiving a loan shall accrue interest monthly on the unpaid principal amount of the loan from the date of such loan until the principal amount shall be paid in full.
- f) Event of default. If an affiliate shall generally not pay its debts as the debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against an affiliate seeking to adjudicate it as bankrupt or insolvent, then the unpaid principal amount of any loans to such affiliate and all accrued interest shall become immediately due and payable to the utility.
- g) A utility shall neither lend additional funds nor extend the term of existing loans to any affiliate that no longer meets any of the eligibility criteria of subsection (b). An affiliate that exceeds its borrowing limit shall have 90 days to repay sufficient principal and accrued interest to bring that affiliate back into compliance with subsection (b) or, alternatively, to repay all outstanding loans from the utility and accrued interest.
- h) When petitioning for approval of an affiliate to borrow from the utility under one of the eligibility requirements of subsection (b), a utility shall provide the following as part of its petition:
 - 1) A utility seeking to meet the eligibility requirements of subsection (b) (1) shall provide reports from the two or, if available, three credit

rating agencies presenting the commercial paper ratings for all affiliates that will borrow from the utility;

- 2) A utility seeking to meet the eligibility requirements of subsection (b) (2) shall provide:
 - A) Documentation from the financial institutions evidencing the line of credit available to the affiliate and the unused balance of funds available to each affiliate that will borrow from the utility; and
 - B) The credit ratings from the two or, if available, three credit rating agencies for all of the financial institutions that are extending credit lines to the affiliates;
- 3) A utility seeking to meet the eligibility requirements of subsection (b) (3) shall provide reports from the two or, if available, three credit rating agencies presenting the credit ratings for all affiliates that will borrow from the utility;
- 4) A utility seeking to meet the eligibility requirements of subsection (b) (4) shall provide:
 - A) A copy of the guarantee; and
 - B) Reports from the two or, if available, three credit rating agencies presenting commercial paper ratings for the affiliate of the utility that will guarantee repayment of funds borrowed from the utility;
- 5) A utility seeking to meet the eligibility requirements of subsection (b) (5) shall provide:
 - A) A copy of the guarantee;
 - B) Documentation from the financial institutions evidencing the line of credit available to the affiliate and the unused balance of funds available to the affiliate that will guarantee repayment of funds borrowed from the utility; and
 - C) The credit ratings from the two or, if available, three credit rating agencies for all of the financial institutions that are extending credit lines to the affiliate;
- 6) A utility seeking to meet the eligibility requirements of subsection (b) (6) shall provide certification from the chief accounting officer of the affiliate utility that the affiliate is authorized to operate as a utility;
- 7) A utility seeking to meet the eligibility requirements of subsection (b) (7) shall provide:

- A) The docket number of the Commission proceeding in which the cash management agreement was approved;
- B) A copy of the agreement; and
- C) Either:
 - i) Certification from the chief accounting officer of the utility that the utility is a small utility, including the total capitalization of the utility as reported in the last annual report filed with the Chief Clerk of the Commission; or
 - ii) Reports from the two or, if available, three credit rating agencies presenting the credit ratings for all affiliates that will borrow from the utility.

The information required by this subsection (h) does not bind the Commission to a decision based solely on the data provided pursuant to this subsection.