

SUPPLEMENTAL STATEMENT
NATURAL GAS
ILL. C.C. NO. 28

Filed with the Illinois Commerce Commission on February 25, 2009

The Peoples Gas Light and Coke Company (“Peoples Gas”), for the reasons discussed briefly further below and shown in its submissions, proposes an increase in its rates for gas distribution service, and several new rate mechanisms. The total amount of the requested revenue increase (the revenue deficiency) is \$161,920,000.

Peoples Gas was last granted a rate increase in 2008, in Illinois Commerce Commission (“Commission”) Docket Nos. 07-0241/07-0242 (cons.). That rate case was based on a historical test year of September 30, 2006. In contrast, this rate filing is based on a forward looking test year ending December 31, 2010. The significant changes that have occurred over these four years are attributable to several factors. First, Mains and Services Expense and Other Distribution and Storage Expense, which are non-capitalized costs incurred to operate and maintain Peoples Gas’ underground distribution system, have increased. This increase is generally attributable to increases in street restoration costs due to mandates from the City of Chicago, increased costs resulting from a pipeline safety audit mandated by the Commission, and increased transportation costs. Second, System Capital Investment, which is the return on and return of capital invested since the prior rate case, has increased due to Peoples Gas’ ongoing significant investment in its distribution system. This includes the costs to retire and replace cast and ductile iron main under the current replacement plan as well as the additional similar costs resulting from our acceleration of the cast and ductile iron main replacement.

Third, Cost of Capital, which represents the increased costs of long-term debt and common equity for Peoples Gas since the last rate case, has increased. The overall cost of capital is the required return on the investment of Peoples Gas (net of depreciation) in its assets, primarily distribution pipe and storage facilities. In order to attract capital for new investments, existing investors must receive an adequate return on their investment. The events that have shaken the financial markets since the last rate case have, among other things, increased the cost of capital for businesses throughout the world and Peoples Gas is no exception. Fourth, costs related to Administrative and General and Customer Accounts, including billing, collection, call center, as well as support functions such as human resources, finance and accounting, information systems, have increased. The primary drivers in the increases to these costs are inflation and increased administrative requirements. Finally, Pensions and Benefits have increased due to inflation and increased service costs.

Without this rate filing, Peoples Gas will not be able to recover its cost of service, which would result in earning a return on equity of 0.3% in 2010, less than what the Commission just

approved last year in Peoples Gas' last rate case. Peoples Gas is requesting a rate of return on its rate base of 9.34%. Further, Peoples Gas is also proposing two new Riders, Rider ICR, Infrastructure Cost Recovery, and Rider UEA, Uncollectible Expense Adjustment. If approved, the Riders will enable Peoples Gas to better recover the costs of accelerating infrastructure improvements and gas costs related uncollectible accounts expenses.

**SUMMARY OF PREPARED DIRECT TESTIMONY
IN SUPPORT OF PEOPLES GAS' FILING**

Peoples Gas' filed tariffs are supported by the testimony of witnesses from within Peoples Gas as well as independent experts. The testimony submitted with the filing are as follows:

- James F. Schott, Vice President – Regulatory Affairs, Integrys Energy Group, Inc. and Peoples Gas (Peoples Gas Ex. JFS-1.0), provides an overview of the reasons Peoples Gas finds it necessary to request a rate increase at this time. He also summarizes the reasons for rate design and tariff changes in this filing, including rider proposals. Finally, Mr. Schott identifies each of the other witnesses providing direct testimony in support of Peoples Gas' tariffs.
- Christine M. Gregor, Director, Operations Accounting, Peoples Gas (Peoples Gas Ex. CMG-1.0), presents the operating income statement for the forecasted calendar test year 2010, including projected costs. She discusses variances in operating expenses from the test year to 2007. Ms. Gregor also discusses the methodology used in the preparation of the operating income statement for the test year, certain ratemaking adjustments, and certain compliance matters.
- Sharon Moy, Rate Case Consultant, Integrys Business Support (Peoples Gas Ex. SM-1.0), addresses the test year revenue requirement, operating income and expenses, the adjustments to operating income and expenses, and the Gross Revenue Conversion Factor.
- David W. Clabots, Manager, Sales and Revenue Forecasting, Integrys Business Support (Peoples Gas Ex. DWC-1.0), explains how the customer demand forecast was derived for the 2010 test year. He also compares demand between Peoples Gas' forecasted 2010 test year and Peoples Gas' last historical year (2008) (using six months of actual results).
- Michael A Small, Assistant Controller of Financial and Accounting Services, Integrys Business Support (Peoples Gas Ex. MAS-1.0), addresses the effects of various affiliated interest agreements on Peoples Gas' revenue requirement.
- Paul R. Moul, Managing Consultant, P. Moul & Associates (Peoples Gas Ex. PRM-1.0), addresses the required rate of return on common equity for Peoples Gas.
- Bradley A. Johnson, Treasurer, Peoples Gas (Peoples Gas Ex. BAJ-1.0), addresses the capital structure and cost of capital (its overall required rate of return on its investments) for Peoples Gas.
- Valerie H. Grace, Manager, Gas Regulatory Services, Integrys Business Support (Peoples Gas Ex. VG-1.0), addresses and supports the proposed rate design for Peoples Gas and

the two new riders Peoples Gas is proposing, Rider ICR and Rider UEA. She also addresses and supports changes to the Schedule of Rates for Gas Service for Peoples Gas.

- Brian M. Marozas, Manager, Planning, Modeling and Contract Administration, Integrys Business Support (Peoples Gas Ex. BMM-1.0), explains how he developed the forecast of normal heating degree days for Peoples Gas using an historical 12 year average.
- Thomas L. Purrachio, Manager Gas Storage, Integrys Business Support (Peoples Gas Ex. TLP-1.0), supports the investment of Peoples Gas in the Manlove storage system since the last rate case.
- John Hengtgen, Rate Case Consultant, Integrys Business Support (Peoples Gas Ex. JH-1.0), describes the rate base, adjustments to rate base, and the cash working capital components of the request of Peoples Gas for a general increase in rates.
- John J. Spanos, Vice President, Valuation and Rate Division, Gannett Fleming, Inc. (Peoples Gas Ex. JJS-1.0), presents Peoples Gas' new depreciation study.
- Joylyn C. Hoffman Malueg, Rate Case Consultant, Integrys Business Support (Peoples Gas Ex. JCHM-1.0), describes Peoples Gas' embedded cost of service study for the 2010 future test year used by Ms. Grace in her testimony to support the proposed changes in the Peoples Gas rate schedules.
- Edward Doerk, Vice President Gas Operations, Peoples Gas (Peoples Gas Ex. ED-1.0), addresses certain major additions to rate base since the last test year. Mr. Doerk also describes Peoples Gas' forecasted capital investments.
- Salvatore D. Marano, P.E., Managing Director, Jacobs Consultancy Inc. (Peoples Gas Ex. SDM-1.0), provides evidence and analysis in support of the accelerated infrastructure replacement program for Peoples Gas.

SCHEDULE OF RATES FOR GAS SERVICE

Peoples Gas has filed proposed changes to its Schedule of Rates for Gas Service, ILL. C.C. No. 28, effecting a general increase in rates and revising other terms and conditions. A complete list of the tariff sheets that have been revised is included in the letter of transmittal submitted with the filing of the tariffs in accordance with 83 Ill. Adm. Code Part 255.

CHANGES TO SERVICE CLASSIFICATIONS AND MISCELLANEOUS CHARGES

The objectives of Peoples Gas' proposed changes to its Service Classifications and miscellaneous charges are (1) recover Peoples Gas' revenue requirement, (2) better align revenues with underlying costs, (3) send the proper price signals, (4) provide more equity between and within rate classes, (5) maintain rate design continuity, (6) reflect gradualism and (7) retain customers on Peoples Gas' system. The principal changes proposed by Peoples Gas include the following:

- S.C. No. 1, Small Residential Service, will be revised to set different customer charges for sales and transportation customers rather than different distribution

charges for such customers as rates are presently set. The monthly customer charge will increase for both sales and transportation customers.

- S.C. No. 2, General Service, will be revised to expand the number of meter classes from two to three. Further, the monthly customer charges for S.C. No. 2 will increase. Finally, an eligibility requirement will be imposed on these customers.
- S.C. No. 4, Large Volume Demand Service, will be revised to increase all charges. Further, the demand charge, which under present rates is a declining block rate structure, will be set at a flat charge on a per demand therm basis. Finally, these customers will no longer be required to sign a contract.
- S.C. No. 6, Standby Service, will be eliminated and all customers served under this classification will be transferred to S.C. No. 2. As a result, any references to S.C. No. 6 will be removed.
- S.C. No. 8, Compressed Natural Gas Service, will be set at cost. The monthly customer charge will be decreased and the distribution charge will be increased.
- Service reconnection and service activation charges will be increased.
- For the Second Pulse Capability, a February 14, 2008 grandfathering date will be added so that the language remains accurate after the effective date of the tariff sheet charges.
- Language for Correction for Pressure, Temperature and/or Supercompressibility is revised so that it is consistent with Peoples Gas' practices concerning the pressure at which customers are served.
- A definition of "person" will be added related to the changes proposed to Riders 4 and 5.
- The Facilities Charge will be eliminated.

A detailed description of the proposed changes to Peoples Gas' Service Classifications, Terms and Conditions of Service, and miscellaneous charges is provided in the prepared direct testimony and accompanying exhibits of Peoples Gas witness Ms. Grace, Manager, Gas Regulatory Services (Peoples Gas Ex. VG-1.0). A comparison of Peoples Gas' present and proposed rates can be found on Peoples Gas Exhibit VG-1.4 accompanying Ms. Grace's testimony.

CHANGES TO RIDERS AND PROPOSED NEW RIDERS

Peoples Gas is proposing the following changes to its existing Riders:

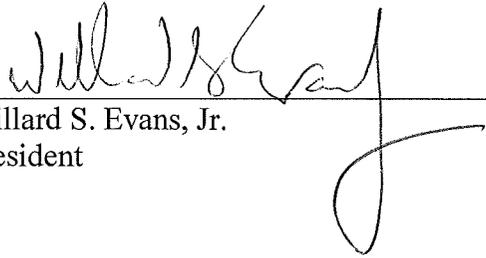
- Rider 2 (Gas Charge) will be revised to eliminate references to S.C. No. 6, the transitional transportation tariffs, and Rider TB. Further, the date reference for the Hub Credit Gas Charge will also be removed because it is no longer necessary.
- Rider 4 (Extension of Mains) and Rider 5 (Service Pipe) will be revised to address situations where a requestor for a main or service is a person or a group of persons, who are developing the property for eventual gas service.

In addition, Peoples Gas is proposing two new Riders, Riders UEA (Uncollectible Expense Adjustment) and Rider ICR (Infrastructure Cost Recovery):

- Rider UEA is designed to recover gas costs related Account No. 904 Uncollectible Accounts expenses through a factor that will be applied to customer bills rather than through base rates.
- Rider ICR will provide for the recovery of the capital related costs of accelerating the replacement of Peoples Gas' cast iron and ductile iron mains.
- Rider FST-T (Full Standby Transportation Transition Service) will be eliminated and any reference to this rider will be eliminated.
- Rider SST-T (Selected Standby Transportation Transition Service) will be eliminated and any reference to this rider will be eliminated.
- Rider LST-T (Large Volume Selected Standby Transportation Transition Service) will be eliminated and any reference to this rider will be eliminated.
- Rider TB-T (Transportation Balancing Transition Service) will be eliminated and any reference to this rider will be eliminated.
- Rider P-T (Pooling Transition Service) will be eliminated and any reference to this rider will be eliminated.
- Rider TB (Transportation Balancing Service) will be eliminated and any reference to this rider will be eliminated..
- Riders FST (Full Standby Transportation) will be revised to reduce the Administrative Charge. It also will be revised to remove the effective date. Rider FST will be revised to reference Rider SST instead of Rider TB for a definition of average monthly index price ("AMIP"). Revisions will be made for clarifications related to the Hub Credit Gas Charge and to show that certain therm calculations are rounded to the nearest 10 (*i.e.*, to the nearest dekatherm).
- Rider SST (Selected Standby Transportation) will be revised to reduce the Administrative Charge. It also will be revised to remove the effective date. A revision will be made to define AMIP, consistent with the existing Rider TB. Revisions will be made for clarifications related to the Hub Credit Gas Charge. Revisions will be made to show that certain therm calculations are rounded to the nearest 10 (*i.e.*, to the nearest dekatherm).
- Rider P (Pooling) will be revised to reduce the Pooling Charge. It also will be revised to remove the effective date. Rider P will be revised to reference Rider SST instead of Rider TB for a definition of AMIP.
- Rider AGG (Aggregation Service) will be revised to increase the Aggregation Charge credit. It also will be revised to show that certain therm calculations are rounded to the nearest 10 (*i.e.*, to the nearest dekatherm).

Detailed descriptions of all of the above-referenced changes and additions to riders are provided in the prepared direct testimony and accompanying exhibits of Ms. Grace.

THE PEOPLES GAS LIGHT AND COKE COMPANY

A handwritten signature in cursive script, appearing to read "Willard S. Evans, Jr.", is written over a horizontal line. The signature is fluid and extends below the line with a large, sweeping flourish.

Willard S. Evans, Jr.
President