Docket Nos. 09-0166/09-0167
(Consolidated)
ICC Staff Exhibit 8.0

DIRECT TESTIMONY

of

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Finance Department
Financial Analysis Division
Illinois Commerce Commission

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

Proposed general increase in rates for gas service

Docket Nos. 09-0166 and 09-0167
(Consolidated)

June 10, 2009

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WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. My name is Sheena Kight-Garlisch. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. What is your current position with the Illinois Commerce Commission ("Commission")?

A. I am currently employed as a Senior Financial Analyst in the Finance Department of the Financial Analysis Division.

Q. Please describe your qualifications and background.

A. In May of 1998, I received a Bachelor of Business degree in Finance and Marketing from Western Illinois University in Macomb, Illinois. I earned a Master of Business Administration degree, with a concentration in Finance, also at Western Illinois University in May of 2001. I have been employed by the Commission since January of 2001. I was promoted to Senior Financial Analyst on October 1, 2004.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to present the overall cost of capital and to recommend a fair rate of return on rate base for North Shore Gas Company ("North Shore") and The Peoples Gas Light and Coke Company ("Peoples Gas") (individually, the "Company" and collectively, the "Companies"). The overall cost of capital that I recommend for each Company incorporates the rate of return on common equity recommended in the direct testimony of Staff witness Michael McNally (ICC Staff Exhibit 7.0).

Q. Please explain the P and N suffixes that appear in your schedule numbers.

A. These suffixes indicate the Company to which a particular schedule applies. The P suffix identifies a schedule that applies to Peoples Gas, and the N suffix identifies a schedule that applies to North Shore.

COST OF CAPITAL

Q. Please summarize your findings.

A. I recommend an overall cost of capital for North Shore of 7.49% and an overall cost of capital for Peoples Gas of 7.60%. The overall costs of capital for the Companies are shown on Schedule 8.1.

Q. Why must one determine an overall cost of capital for a public utility?

A. Under the traditional regulatory model, ratepayer and shareholder interests are balanced when the Commission authorizes a rate of return on rate base equal to the public utility's overall cost of capital, as long as that overall cost of capital is not unnecessarily expensive. If the authorized rate of return exceeds the cost of capital, then ratepayers bear the burden of excessive prices. Conversely, if the authorized rate of return is lower than the overall cost of capital, the financial strength of the utility could deteriorate, making it difficult for the utility to raise capital at a reasonable cost. Ultimately, the utility's inability to raise sufficient capital would impair service quality. Therefore, ratepayer interests are best served when the authorized rate of return on rate base equals the utility's overall cost of capital.

In authorizing a rate of return on rate base equal to the overall cost of capital, all costs of service are assumed reasonable and accurately measured, including the costs and balances of the components of the capital structure. If unreasonable costs continue to be incurred, or if any reasonable cost of service component is measured inaccurately, then the allowed rate of return on rate base will not balance ratepayer and investor interests.

Q. Please define the overall cost of capital for a public utility.

A. The overall cost of capital for a public utility equals the sum of the costs of the components of the capital structure (i.e., debt, preferred stock and common equity) after weighting each by its proportion to total capital.

CAPITAL STRUCTURE

Q. What capital structure did the Companies propose for setting rates?

A. North Shore and Peoples Gas each propose imputed capital structures comprised of 44% long-term debt and 56% common equity.[1]

Q. What capital structure do you propose for setting rates for North Shore?

A. I propose using an average 2010 capital structure that contains 5.86% short-term debt, 40.60% long-term debt, and 53.54% common equity, as shown on Schedule 8.1.

[1] North Shore Schedule D-1; Peoples Gas Schedule D-1.

Q. What capital structure do you propose for setting rates for Peoples Gas?

A. I propose accepting the Company's proposed hypothetical common equity ratio of 56%.[2] However, short-term debt should be included in the capital structure. Therefore, I propose reducing the Company's proposed hypothetical long-term debt ratio of 44% by the Company's average 2010 short-term debt ratio of 3.39%. Thus, I recommend a capital structure that contains 3.39% short-term debt, 40.61% long-term debt, and 56.00% common equity, as shown on Schedule 8.1.

Q. Why should short-term debt be included in the capital structure for the Companies?

A. The Companies have consistently relied on short-term debt as a source of funds and they forecast a continued need to do so.[3] As the Commission noted in a previous Order, "[d]ue to the fungible nature of capital, it is generally assumed that all assets, including assets in rate base, are financed in proportion to total capital,"[4] unless shown otherwise. The Companies have not demonstrated that short-term debt does not support rate base. In fact, the Companies stated that "sources of funds in aggregate are used to finance the Companies uses of funds. Sources of funds are not specifically applied to an individual use of funds."[5] Thus, the Companies, by their own admission, cannot support their position that

[2] With short-term debt included in its capital structure, Peoples Gas' forecasted 2010 common equity ratio would equal 57.04% of total capital.
[3] North Shore Schedule D-2; Peoples Gas Schedule D-2.
[4] ICC Docket Nos. 02-0798/03-0008/03-0009 Consol., (Order, October 22, 2003), p. 67.
[5] North Shore response to Staff data request FIN 5.03.

short-term debt does not support rate base; unless the Companies can do so, short-term debt should be included in the capital structures.

The data unambiguously demonstrate that the long-term components of the Company's capital structure cannot be the sole source of funding for its rate base. First, the Company's proposed rate base exceeds the long-term capital (i.e., long-term debt, preferred stock and common equity) in its proposed capital structure by over $10.8 million for North Shore and $50 million for Peoples Gas. Second, the strong correlation between short-term funding and net working capital indicates that the Companies rely on short-term borrowing to meet the funding needs arising from their working capital requirements. (See Attachment A, Companies' Responses to Staff DR FIN 1.03) Since the Companies are including working capital in rate base, this correlation indicates that short-term debt is indeed funding rate base. Excluding short-term debt from the capital structure, as the Companies propose, implies (1) that capital can be matched to specific uses or conversely, excluded from specific uses; and (2) a dollar of capital can purchase more than a dollar of investment. Both implications are false. Therefore, the Companies cannot fund their rate bases solely with the long-term capital in their recommended capital structures; the Companies must be financing rate base partly with short-term debt.

Q. How did you measure the balance of short-term debt for the Companies?

A. Since short-term debt balances tend to fluctuate substantially during a year, any single balance might not be representative of the typical amount employed throughout the year. Therefore, I averaged the end of month balances from December 2009 through December 2010 inclusive. To calculate the balance of short-term debt, I first calculated the monthly ending net balance of short-term debt outstanding from December 2009 through December 2010. The net balance of short-term debt equals the monthly ending gross balance of short-term debt outstanding minus the lesser of a) the corresponding monthly ending balance of construction-work-in-progress (“CWIP”) accruing an allowance for funds used during construction (“AFUDC”), or b) the monthly ending balance of CWIP accruing AFUDC times the ratio of short-term debt to total CWIP for the corresponding month. That adjustment recognizes that the Commission’s formula for calculating AFUDC assumes short-term debt is the first source of funds financing CWIP[6] and addresses the double-counting concern the Commission raised in a previous Order.[7] Next, I calculated twelve monthly averages from the thirteen monthly ending net balances of short-term debt. Finally, I averaged the twelve monthly average net balances of short-term debt for January 2010 through December 2010. Schedules 8.2N and 8.2P present the calculation of the average adjusted balance of short-term debt.

[6] *Uniform System of Accounts for Gas Utilities Operating in Illinois*, Gas Plant Instruction 3(A)(17). Long-term debt, preferred stock, and common equity are assumed to finance CWIP balances in excess of the short-term balance according to their relative proportions to long-term capital.

[7] Order, Docket No. 95-0076, December 20, 1995, p. 51.

Q. How did you derive North Shore's dollar amounts presented on Schedule 8.3N, page 1?

A. The dollar amounts presented on Schedule 8.3N, page 1, represent the simple average of North Shore's end-of-year 2009 and 2010 long-term debt schedules for all entries, presented on Schedule 8.3N, page2.

Q. How did you derive Peoples Gas' dollar amounts presented on Schedule 8.3P, page 1?

A. The dollar amounts presented on the Schedule 8.3P, page 1, represent the simple average of Peoples Gas' end-of-year 2009 and 2010 long-term debt schedules for all entries except the Series MM and New Issue 2010 bonds, as shown on Schedule 8.3P, pages 2-3. The balances of the face amount outstanding and unamortized discount and debt expense for the Series MM bonds were weighted 2/12th to reflect the two months of 2010 that they will be outstanding. For the New Issue 2010 bonds, the balances of the face amount outstanding and unamortized discount and debt expense were weighted 10/12th to reflect the 10 months of 2010 that they will be outstanding.

Q. How did you estimate the balance of common equity for each Company?

A. The balances of common equity for North Shore and Peoples Gas reflect the average of the twelve monthly average balances for January through December 2010. Those balances are presented on Schedules 8.4N and 8.4P.

Q. Why did you use average 2010 balances instead of year-end 2010 balances for long-term debt and common equity?

A. The Companies' proposed December 31, 2010 measurement date for the capital structure component balances is more than eighteen months beyond the February 25, 2009 date they filed new tariffs.[8] Consequently, their proposed capital structure measurement date does not comply with Illinois Administrative Code Section 285.4000, which states:

> Forecasted capital structures. Average balances in a forecasted capital structure shall reflect any consecutive 12 month period beginning no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed. A forecasted capital structure comprising balances of long-term debt, preferred stock, and common equity from a single date shall reflect any date beginning no earlier than the end of the last calendar or fiscal year for which actual data are available at the time of filing new tariffs and ending no later than 18 months after the date new tariffs are filed.
>
> 83 Ill. Adm. Code 285.4000 (Emphasis added)

Therefore, to comply with Ill. Adm. Code Section 285.4000, I used the average 2010 balances for long-term debt and the other capital components. My proposal to use average balances for the consecutive 12 month period ending December 31, 2010, is consistent with provision of Section 285.4000 that allows the use of average balances in a forecasted capital structure for "any consecutive 12 month period … ending no later than 24 months after the date new tariffs are

[8] North Shore Schedule D-1; Peoples Gas Schedule D-1.

filed." *Id*. Further, shifting the measurement date for the balances of long-term debt and common equity from December 31, 2010 to a 2010 average permits the time alignment of long term debt and common equity balances with short-term debt.

Q. How does capital structure affect the overall cost of capital?

A. Capital structure affects the value of a firm and, therefore, its cost of capital, to the extent it affects the expected level of cash flows that accrue to parties other than debt and stock holders. Employing debt as a source of capital reduces a company's income taxes,[9] thereby reducing the cost of capital; however, as reliance on debt as a source of capital increases, so does the probability of default. As the probability of default rises, expected payments to attorneys, trustees, and other outside parties increase. Further, the expected cash flows decline as the company foregoes investment that would have been available to it had its financial condition been stronger, including the expected value of the income tax shield from debt financing. Beyond a certain point, a growing dependence on debt as a source of funds increases the overall cost of capital. Therefore, the Commission should not determine the overall rate of return from a utility's actual capital structure if the Commission concludes that capital structure adversely affects the overall cost of capital.

[9] The tax advantage debt has over equity at the corporate level is partially offset at the individual investor level. Debt investors receive returns largely in the form of current income (i.e., interest). In contrast, equity investors receive returns in the form of both current income (i.e., dividends) and capital appreciation (i.e., capital gains). Taxes on common dividends and capital gains are lower than taxes on interest income because common dividends and capital gains tax rates are lower, and taxes on capital gains are deferred until realized.

An optimal capital structure would minimize the cost of capital and maintain a utility's financial integrity. Unfortunately, determining whether a capital structure is optimal remains problematic because (1) the cost of capital is a continuous function of the capital structure, rendering its precise measurement along each segment of the range of possible capital structures problematic; (2) the optimal capital structure is a function of operating risk, which is dynamic; and (3) the relative costs of the different types of capital vary with dynamic market conditions. Consequently, one should determine whether the capital structure is consistent with the financial strength necessary to access the capital markets under most economic conditions, and if so, whether the cost of that financial strength is reasonable.

Q. How did you evaluate your proposed capital structures for North Shore and Peoples Gas?

A. I compared the proposed common equity ratio for each Company to the common equity ratio for the gas distribution industry. In the fourth quarter of 2008, the mean common equity ratio for the gas distribution industry was 50.90% with a standard deviation of 10.3%.[10] North Shore's 53.54% forecasted common equity to total capital ratio and Peoples Gas' 56.00% imputed common equity to total capital ratio compare favorably with the other companies in the gas distribution industry.

[10] Standard & Poor's Compustat database.

Further, I considered Mr. McNally's analysis of the effect of Staff's proposed revenue requirement on the Moody's guideline ratios. Mr. McNally concludes that under Staff's proposed revenue requirement, the financial strength is commensurate with an A1 rating for North Shore and Aa2/Aa3 rating for Peoples Gas.[11] The above suggests that North Shore's forecasted and Peoples Gas' imputed capital structures are commensurate with a strong degree of financial strength.

Cost of Short-term Debt

Q. What is the cost of short-term debt for each Company?

A. The cost of short-term debt is 0.33% for North Shore and 0.92% for Peoples Gas. North Shore's short-term debt is in the form of Inter-Utility loans from Peoples Gas and Peoples Energy Corporation ("PEC"), which rate is based on comparable commercial paper rates.[12] Peoples Gas' short-term debt consists of commercial paper and Inter-Utility loans from North Shore and PEC, the rate on both is the commercial paper rate at the time of borrowing. To estimate North Shore's and Peoples Gas' cost of short-term debt, first I converted the May 14, 2009, 0.27% discount rate on 30-day, commercial paper into an annual yield of 0.274% using the following formula:[13]

[11] Staff Ex. 7.0, 22-25.
[12] North Shore Schedule D-2; Peoples Gas Schedule D-2.
[13] "Commercial Paper," Money Rates, Wall Street Journal, www.wsj.com, May 14, 2009.

$$\text{Annual yield} = \left(\frac{\text{discount rate} \times \left(\frac{\text{days to maturity}}{360} \right)}{1 - \text{discount rate} \times \left(\frac{\text{days to maturity}}{360} \right)} \right) \times \left(\frac{365}{\text{days to maturity}} \right)$$

Then, I added the annual percentage cost of bank commitment fees to the annual commercial paper yield. For North Shore, I determined that approximately \$6,000 in fees should be included in the cost of short-term debt. I divided that amount by the average balance of short-term debt outstanding, \$10,452,167, to derive the 6 basis point increase to my estimate of North Shore's cost of short-term debt of 0.33% (0.27% + 0.06% = 0.33%). For Peoples Gas, I determined that approximately \$296,000 in fees should be included in the cost of short-term debt. I divided that amount by the average balance of short-term debt outstanding, \$45,660,875, to derive the 65 basis point increase to my estimate of Peoples Gas' cost of short-term debt of 0.92% (0.27% + 0.65% = 0.92%).

Cost of Long-term Debt

Q. What is North Shore's embedded cost of long-term debt?

A. As shown on Schedule 8.3N, North Shore's embedded cost of long-term debt for average 2010 equals 5.49%.

Q. What is Peoples Gas' embedded cost of long-term debt?

A. As shown on Schedule 8.3P, Peoples Gas' embedded cost of long-term debt for average 2010 equals 5.27%.

Q. Do the embedded costs of long-term debt presented by North Shore and Peoples Gas reflect the stand-alone financial strength of the utility Companies?

A. No, the costs of long-term debt presented by North Shore and Peoples Gas reflect the Standard & Poor's ("S&P") and Moody's credit ratings for the Companies, which were affected by non-utility affiliations. S&P downgraded the credit ratings of the Companies to A- from AA- on September 26, 2002.[14] Moody's downgraded the credit ratings of the Companies to Aa3 from Aa2 on September 23, 2002.[15] Staff witness Michael McNally testified that affiliation with unregulated or non-utility companies adversely affected North Shore's and Peoples Gas' credit ratings. (ICC Staff Exhibit 7.0, pp. 27-28) My understanding is that, in determining a reasonable rate of return for establishing rates, Section 9-230 of the Public Utilities Act prohibits the inclusion of any incremental risk or increased cost of capital, which is the direct or indirect result of the public utility's affiliation with unregulated or non-utility companies. Since two of the outstanding debt series of North Shore and all but one of the outstanding debt series of Peoples Gas were issued after the downgrades occurred and those downgrades were due to the utilities' affiliation with unregulated companies, the costs

[14] Standard & Poor's Ratings Direct - Research, North Shore Gas' Ratings Lowered; Outlook Stable, September 26, 2002; Peoples Gas Light & Coke's Ratings Cut; Outlook Stable, September 26, 2002.

[15] Moody's Investors Service, Rating Action: Peoples Gas Light and Coke Company – Moody's Downgrades With Negative Outlooks The Debt of Peoples Energy Corp., Peoples Gas Light and Coke Company, and North Shore Gas Company, September 23, 2002; Moody's Investors Service, Rating Action: North Shore Gas Company – Moody's Downgrades With Negative Outlooks The Debt of Peoples Energy Corp., Peoples Gas Light and Coke Company, and North Shore Gas Company, September 23, 2002.

associated with such issues need to be adjusted to eliminate the increased cost associated with the lower rating.

Q. How did you estimate the effects of S&P's and Moody's downgrades on each Company's cost of debt?

A. For debt issued after April 25, 2006, I averaged the difference in the Aa3/AA- and A3/A- Reuters Corporate Spreads for Utilities ("Reuters Spreads") with the difference in the Aa2/AA and Aa3/AA- Reuters Spreads for the appropriate term to maturity. Because Staff does not have Reuters Corporate Bond Spreads for Utilities ("Reuters Spreads") before April 25, 2006, for debt issued before that date (i.e., North Shore Series N-2 and Peoples Gas Series NN), the adjustment was calculated in three steps.[16] First, the yield spread between utility bonds rated Aa and A by Moody's was determined. Second, this spread was adjusted for term to maturity, since credit spread is usually a direct function of term to maturity (i.e., as term to maturity increases, credit spread tends to increase as well). The utility bond yield averages relied upon to determine the spread comprise only bonds with a term to maturity of at least 20 years.[17] Therefore, I divided the spread calculated in the first step by two for the 10-year North Shore Series N-2 and Peoples Gas Series NN issuances. Third, I reduced the interest rate on the N-2 and NN bonds by the adjusted spread calculated in step two.

The utility bond yield spreads that I calculated in the first step to estimate the effect of the credit ratings downgrade equal the difference between the average

[16] The first day for which Staff has Reuters Corporate Spreads for Utilities.
[17] Mergent Bond Record, April 2009, p. 145.

yield on bonds in the Moody's Aa range, which comprises Moody's Aa1, Aa2 and Aa3 ratings and the average yield on bonds in the Moody's A range, which comprises Moody's A1, A2 and A3 ratings. Moody's Aa range is equivalent to S&P's AA range, which comprises S&P's AA+, AA and AA- credit ratings, while Moody's A range is equivalent to S&P's A range, which comprises S&P's A+, A and A- credit ratings. Table 1 shows the Moody's credit ratings and the S&P equivalents.

Table 1

S&P/ Moody's Range	Credit Ratings	
	S&P	Moody's
AA/Aa	AA+	Aa1
	AA	Aa2
	AA-	Aa3
A/A	A+	A1
	A	A2
	A-	A3

As can be seen in Table 1, the downgrade by S&P in September 2002 was three notches, from AA- to A-, while the downgrade from Moody's was one notch, from Aa2 to Aa3. Hence, on average, the credit rating was downgraded two notches in 2002. The spread between yields on bonds in the Aa and A ranges is equivalent to a three notch difference since it most closely reflects the midpoint of the ranges, or the spread between Aa2 and A2. Therefore, I took two-thirds of the difference between Aa and A to reflect the average downgrade of two notches in September 2002.

Q. What adjustments did you make to the embedded cost of long term debt presented by North Shore in its Schedule D-3 to reflect the stronger level of financial strength of the utility on a stand alone basis?

A. North Shore issued the Series N-2 bonds on April 29, 2003 and Series O on November 3, 2008, after the utility was downgraded by S&P and Moody's due to its non-utility affiliations. Therefore, I adjusted the interest rates to reflect the lower rate that would have been obtained for the Series N-2 and Series O bonds had the downgrade not occurred. In April 2003, long-term utility bond yields with terms to maturity of 20 years or more averaged 6.47% for Aa rated bonds and 6.64% for A rated bonds, resulting in a 0.17% spread.[18] Next, I halved the 0.17% credit spread on long-term bond yields to 0.085% to adjust the 20-year credit spread to a ten-year credit spread for the ten-year Series N-2 bonds.[19] Finally, I then multiplied the 0.085% spread by 2/3, which resulted in 0.057%, to adjust for the two notch downgrade. As shown on Schedule 8.3N, this adjustment lowered the interest rate on the Series N-2 bonds to 4.57% from 4.625%.[20]

For the five-year Series O bonds, I averaged the 25 basis point spread between Aa2/AA and Aa3/AA- 5-year utility bond yields and the 25 basis point spread between Aa3/AA- and A3/A- 5-year utility bond yields.[21] As shown on Schedule

[18] Mergent Bond Record, May 2003, Corporate Bond Yield Averages. This report provided the best available proxy for the adjustment.

[19] The Mergent Bond Record contains only bonds that have a term to maturity of at least 20 years.

[20] Although the adjustment to the cost of the Series N-2 bonds is small, I understand that the Commission is obligated to remove the entire increase to a utility's cost of capital resulting from its affiliation with unregulated and non-utility companies, regardless of the magnitude of that increase.

[21] Reuters Corporate Spreads for Utilities, October 29, 2008.

8.3N, this adjustment lowered the interest rate on the Series O bonds 25 basis points to 6.75% from 7.0%.[22]

Q. What adjustments did you make to the embedded cost of long term debt presented by Peoples Gas in its Schedule D-3 to reflect the stronger level of financial strength of the utility on a stand alone basis?

A. Peoples Gas issued the Series MM bonds on February 27, 2003, the Series NN bonds on April 29, 2003, and the Series SS and TT bonds on November 3, 2008.[23] Peoples Gas also intends to issue two new series of bonds on October 1, 2009 ("New Issue 2009") and March 10, 2010 ("New Issue 2010). Since all of these bonds were issued or will be issued after the downgrades due to non-utility affiliations, the interest rates must be adjusted to reflect the lower risk of the utility on a stand-alone basis. Since the Series NN was issued on the same date with the same term to maturity as the Series N-2 of North Shore, I applied the same 0.057% adjustment to the interest rate on the Series NN bonds. Also, Series SS bonds were issued on the same day with the same term to maturity as the Series O bonds for North Shore. Therefore, I applied the same 0.25% adjustment to the interest rate on the Series SS bonds. As shown on Schedule 8.3P, the adjustments lowered the interest rate on the Series NN bonds to 4.57% from 4.625% and the Series SS bonds to 6.75% from 7%.

[22] The Company had forecasted an interest rate of 7.65% for the 2008 issuance (Series O). However, the actual interest rate for the Series O bonds is 7%

[23] The Company had forecasted an interest rate of 7.15% for its 2008 issuance. However, the Company had two new issuances in 2008, the Series SS and Series TT bonds. The actual interest rates for the bonds are 7% and 8% for Series SS and Series TT, respectively.

For the Series MM bonds, I used the long-term utility bond yield averages for February 2003 when Aa rated utility bond yields were 6.66% and A rated utility bond yields were 6.93%, resulting in a 0.27% spread.[24] Next, I divided the 0.27% credit spread on long-term bond yields by 3 to adjust the 20-year credit spread to a 7-year credit spread for the seven-year Series MM bonds.[25] Finally, I then multiplied the 0.09% spread by 2/3, which resulted in 0.06%, to adjust for the two notch downgrade. As shown on Schedule 8.3P, this adjustment lowered the interest rate on the Series MM bonds to 3.94% from 4.00%.

For the Series TT bonds issued, I averaged the 10 basis point spread between Aa2/AA and Aa3/AA- 10-year utility bond yields and the 50 basis point spread between Aa3/AA- and A3/A- 10-year utility bond yields.[26] As shown on Schedule 8.3P, this adjustment lowered the interest rate on the Series TT bonds 30 basis points to 7.70% from 8.0%.[27]

For the New Issue 2009 and 2010 bonds, I used the average Reuters Corporate Spreads for Utilities on May 13, 2009[28] when the spread between 10-year Aa2/AA and Aa3/AA- rated utility bond yields was 0.10% and the spread between 10-year Aa3/AA- and A3/A- rated utility bond yields was 0.55%[29] As shown on Schedule 8.3P, the adjustment lowered the interest rate 0.325% on the New

[24] Mergent Bond Record, May 2003, Corporate Bond Yield Averages.
[25] The Mergent Bond Record contains only bonds that have a term to maturity of at least 20 years.
[26] Reuters Corporate Spreads for Utilities, October 29, 2008.
[27] The Company had forecasted an interest rate of 7.15% for the 2008 issuance (Series TT). However, the actual interest rate for the Series TT bonds is 8%
[28] To reflect the yield spreads on the stock price measurement date (May 14, 2009) used by Staff witness Michael McNally in his cost of equity analysis.
[29] Reuters Corporate Spreads for Utilities, May 13, 2009.

Issue 2009 bonds to 7.43% from 7.75% and New Issue 2010 bonds to 7.58% from 7.9%.

Q. Did you adjust any other bonds for Peoples Gas to reflect the lower risk of the utility on a stand alone basis?

A. Yes. The Series KK, LL, OO, QQ and RR bonds of Peoples Gas were issued as insured tax-exempt bonds to the Illinois Development Finance Authority ("IDFA"). The repayment of the principal and interest on the bonds issued to the IDFA is secured by an insurance policy, purchased by Peoples Gas. As a consequence of that insurance, the IDFA bonds were rated AAA at the time of issuance. All five bond series were issued after the ratings downgrades and therefore reflect the increased risk of the unregulated affiliates. Had Peoples Gas' credit ratings not been downgraded, the insurance premium would have been lower since Peoples Gas would have posed less credit risk to the insurers of the bonds. Therefore, I reduced the recoverable insurance fees for each of the issues and the associated annual amortization of those fees to reflect the lower credit risk had Peoples Gas' rating remained Aa2/AA-.

Q. Please explain how you reflected your proposal to reduce the recoverable portion of the insurance fees in the costs of the Series KK, LL, OO, QQ and RR bonds of Peoples Gas.

A. I began with the total amount of the insurance fee paid by Peoples Gas on each tax-exempt series and subtracted amortization through December 31, 2010.[30] I then reduced the December 31, 2010 unamortized debt expense balance by half,[31] which thereby reduced the amortization of debt expense by the amount attributed to that portion of the insurance fee. This adjustment reduced the embedded cost of debt for Peoples Gas as demonstrated on Schedule 8.3P.

Q. What other changes did you make to the embedded cost of long term debt presented by Peoples Gas in its Schedule D-3?

A. First, I adjusted the interest rates on Series OO bonds to reflect the most recently available auction rate of 0.998%, which was set at the April 29, 2009 auction.[32,33] Accurately predicting the direction, magnitude and timing of interest rate changes is extremely difficult. Consequently, current rates are the best predictor of future rates. Next, I reduced the ICC Issuance Fees for Long-Term debt from $150,000 to $50,000. According to the Company's recent Part 240 reports in Docket No.

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[30] Reports filed pursuant to 83 Ill. Adm. Code 240, Docket No. 03-0066, Final Report for Series LL, November 30, 2005; Docket No, 01-0655, Twenty-Ninth Report for Series KK, February 27, 2009; Docket No. 03-0548, Final Report for Series OO, PP and QQ, November 30, 2005; Docket No. 04-0711, Final Report for Series RR, May 30, 2006.

[31] Reducing the insurance fee by half approximates the insurance premiums that would have been paid had People Gas' rating at the time of issuance been Aa2/AA- instead of Aa3/A-. This adjustment reflects my judgment, since I can not be certain of the amount of the insurance premium had the downgrade not occurred. In rebuttal testimony, the Companies may be able to provide better estimates of what the insurance premium would have been had the downgrade not occurred.

[32] Peoples Gas Response to Staff Data Request FIN-1.05.

[33] The interest rates on the Series OO bonds is adjustable based on an auction rate.

01-0655, the Company only had $50,000 of pre-paid issuance fees as of December 31, 2008.[34] Finally, I removed the Series PP bonds from the debt schedule. According to Peoples Gas, in April of 2008 it "purchased and is holding the related IDFA Bonds. The transaction was accounted for as a retirement on the Company's books."[35] The Company is not certain of when, let alone if, the bonds will be reissued. Therefore, I removed the Series PP bonds from the long-term debt schedule.[36]

RATE OF RETURN ON RATE BASE

Q. What is your recommended rate of return on rate base for North Shore?

A. I recommend a 7.49% rate of return on North Shore's rate base. This rate of return incorporates the 9.79% rate of return Staff witness Michael McNally recommends for North Shore's common equity. The rate of return I recommend on North Shore's rate base is shown on Schedule 8.1.

Q. What is your recommended rate of return on rate base for Peoples Gas?

A. I recommend a 7.60% rate of return on Peoples Gas' rate base. This rate of return incorporates the 9.69% rate of return Staff witness Michael McNally recommends for Peoples Gas' common equity. The rate of return I recommend on Peoples Gas' rate base is shown on Schedule 8.1.

[34] Docket No. 01-0655, Twenty-ninth report, February 27, 2009.
[35] Peoples Gas Response to Staff Data Request FIN-4.03.
[36] Peoples Gas Supplemental Response to Staff Data Request FIN-4.06.

Rider ICR

Q. Please describe Rider ICR.

A. Peoples Gas is proposing an Infrastructure Cost Recovery Rider ("Rider ICR") to finance its proposed accelerated replacement program for cast iron and ductile iron gas mains. The Company claims that it needs a method to finance the expenditures for replacement of the mains "at a reasonable cost with prompt and fair rate recovery", such as with Rider ICR.[37]

Q. Is Rider ICR the only method for "prompt and fair rate recovery" to finance the accelerated main replacement program?

A. No. The Company identified two other methods that allow "prompt and fair rate recovery." The Company can rely on traditional rate case fillings with a future test year or a deferral mechanism.[38] The Company rejected both alternatives, in favor of Rider ICR.[39] However, the Company has provided no analysis to support its <u>need</u> for a Rider ICR to raise sufficient capital to provide adequate, efficient, reliable and safe utility service at a reasonable cost.[40] The Company's responses to related data requests are presented in Attachment A.

Q. Does this conclude your direct testimony?

A. Yes, it does.

[37] Peoples Gas Ex. JFS-1.0, p.3, lines 51-52.
[38] Peoples Gas response to Staff data request FIN 3.02.
[39] Peoples Gas response to AG data request AG 1.25.
[40] Peoples Gas responses to Staff data requests FIN 1.16, 1.17 and 1.18; and Peoples Gas responses to AG data requests AG 1.05, 1.25 and 2.04.

Weighted Average Cost of Capital

North Shore Gas Company

	Balance	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	$72,476,045	40.60%	5.49%	2.23%
Short-term Debt	$10,452,167	5.86%	0.33%	0.02%
Common Equity	$95,578,042	53.54%	9.79%	5.24%
Total Capital	$178,506,253	100.00%		
Weighted Average Cost of Capital				**7.49%**

The Peoples Gas Light and Coke Company

	Percent of Total Capital	Cost	Weighted Cost
Long-term Debt	40.61%	5.27%	2.14%
Short-term Debt	3.39%	0.92%	0.03%
Common Equity	56.00%	9.69%	5.43%
Total Capital	100.00%		
Weighted Average Cost of Capital			**7.60%**

Docket Nos. 09-0166/09-0167
(Consolidated)
ICC Staff Exhibit 8.0
Schedule 8.2N

North Shore Gas Company

Balance of Short-term Debt
December 31, 2010

Date (A)	Gross Short-term Debt Outstanding (B)	CWIP (C)	CWIP Accruing AFUDC (D)	(B) - (D)	(B) - ((B)/(C)*(D))	Net Short-term Debt Outstanding (E)	Monthly Average (F)
Dec-09	$37,220,000	$ 195,000	$ -	$37,220,000	$37,220,000	$37,220,000	
Jan-10	$26,278,000	$ 205,000	$ -	$26,278,000	$26,278,000	$26,278,000	$ 31,749,000
Feb-10	$7,455,000	$ 214,000	$ -	$7,455,000	$7,455,000	$7,455,000	$ 16,866,500
Mar-10	$5,771,000	$ 214,000	$ -	$5,771,000	$5,771,000	$5,771,000	$ 6,613,000
Apr-10	$105,000	$ 214,000	$ -	$105,000	$105,000	$105,000	$ 2,938,000
May-10	$0	$ 305,000	$ -	$0	$0	$0	$ 52,500
Jun-10	$0	$ 354,000	$ -	$0	$0	$0	$ -
Jul-10	$10,000	$ 354,000	$ -	$10,000	$10,000	$10,000	$ 5,000
Aug-10	$1,805,000	$ 354,000	$ -	$1,805,000	$1,805,000	$1,805,000	$ 907,500
Sep-10	$1,305,000	$ 430,000	$ -	$1,305,000	$1,305,000	$1,305,000	$ 1,555,000
Oct-10	$12,491,000	$ 345,000	$ -	$12,491,000	$12,491,000	$12,491,000	$ 6,898,000
Nov-10	$30,918,000	$ 194,000	$ -	$30,918,000	$30,918,000	$30,918,000	$ 21,704,500
Dec-10	$41,356,000	$ 194,000	$ -	$41,356,000	$41,356,000	$41,356,000	$ 36,137,000
Average							**$ 10,452,167**

Notes: Column (E) = the greater of [Column (B) - Column (C)] or [Column (B) - Column (B) / Column (C) * Column (D)]

Docket Nos. 09-0166/09-0167
(Consolidated)
ICC Staff Exhibit 8.0
Schedule 8.2P

The Peoples Gas Light and Coke Company

Balance of Short-term Debt
December 31, 2010

Date (A)	Gross Short-term Debt Outstanding (B)	CWIP (C)	CWIP Accruing AFUDC (D)	(B) - (D)	(B) - ((B)/(C)*(D))	Net Short-term Debt Outstanding (E)	Monthly Average (F)
Dec-09	$138,060,000	$11,404,000	$ -	$138,060,000	$138,060,000	$138,060,000	
Jan-10	$154,686,000	$11,469,000	$ -	$154,686,000	$154,686,000	$154,686,000	$146,373,000
Feb-10	$18,684,000	$11,568,000	$ -	$18,684,000	$18,684,000	$18,684,000	$ 86,685,000
Mar-10	$0	$12,248,000	$ -	$0	$0	$0	$ 9,342,000
Apr-10	$0	$14,400,000	$ -	$0	$0	$0	$ -
May-10	$0	$16,813,000	$ -	$0	$0	$0	$ -
Jun-10	$0	$21,844,000	$ -	$0	$0	$0	$ -
Jul-10	$0	$25,719,000	$ -	$0	$0	$0	$ -
Aug-10	$0	$25,767,000	$ -	$0	$0	$0	$ -
Sep-10	$14,795,000	$24,194,000	$ -	$14,795,000	$14,795,000	$14,795,000	$ 7,397,500
Oct-10	$42,315,000	$10,254,000	$ -	$42,315,000	$42,315,000	$42,315,000	$ 28,555,000
Nov-10	$161,090,000	$ 7,832,000	$ -	$161,090,000	$161,090,000	$161,090,000	$101,702,500
Dec-10	$174,661,000	$ 6,190,000	$ -	$174,661,000	$174,661,000	$174,661,000	$167,875,500
Average							**$ 45,660,875**

Notes: Column (E) = the greater of [Column (B) - Column (C)] or [Column (B) - Column (B) / Column (C) * Column (D)]

North Shore Gas Company

Embedded Cost of Long-Term Debt
Average 2010

Line No.	Debt Issue Type, Coupon Rate			Date Issued	Maturity Date	Date Reacquired	Principal Amount	Face Amount Outstanding	Unamortized Discount or (Premium)	Unamortized Debt Expense (Gain)	Carrying Value	Annual Coupon Interest	Annualized Amort. of Discount or (Premium)	Annualized Amort. of Debt Expense	Annualized Interest Expense
	[A]			[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]=[F-G-H]	[J]=[A*F]	[K]	[L]	[M]=[J+K+L]
1	First Mortgage Bonds:														
2	Series M	5.00%	(1)	12/18/98	12/01/28		$30,035,000	$ 28,805,000	$ -	$868,822	$ 27,936,178	$1,440,250	$ -	$ 47,138	$ 1,487,388
3	Series N-2	4.57%		04/29/03	05/01/13		40,000,000	40,000,000	9,072	$227,064	$ 39,763,864	$1,828,000	3,201	$ 80,114	$ 1,911,315
4	Series O	6.75%		11/03/08	12/01/28		6,500,000	6,500,000	-	$104,119	6,395,881	438,750	-	31,189	$ 469,939
5	Sub-Total						76,535,000	75,305,000	9,072	1,200,005	74,095,923	3,707,000	3,201	158,441	3,868,642
6	Less: Amortization of Losses on Reacquired Bonds														
7	Series J	8.00%		11/01/90	11/01/20	12/05/02	-	-	-	558,072	$ (558,072)	-	-	53,952	$ 53,952
8	Series K	6.38%	(1)	10/01/92	10/01/28	01/19/99	-	-	-	1,049,784	$ (1,049,784)	-	-	57,477	$ 57,477
9	Series M	5.00%	(1)	12/18/98	12/01/28	Various	-	-	-	12,022	(12,022)	-	-	652	$ 652
10	Sub-Total						-	-	-	1,620,601	(1,619,878)	-	-	115,068	112,081
	Total						$76,535,000	$ 75,305,000	$ 9,072	$ 2,820,605	$ 72,476,045	$3,707,000	$ 3,201	$ 273,509	$ 3,980,723
11	Embedded Cost of Long-Term Debt														5.49%

Note: (1) Tax-exempt bonds.

North Shore Gas Company

Embedded Cost of Long-Term Debt
December 31, 2009

Line No.	Debt Issue Type, Coupon Rate			Date Issued	Maturity Date	Date Reacquired	Principal Amount	Face Amount Outstanding	Unamortized Discount or (Premium)	Unamortized Debt Expense (Gain)	Carrying Value	Annual Coupon Interest	Annualized Amort. of Discount or (Premium)	Annualized Amort. of Debt Expense	Annualized Interest Expense
	[A]			[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]=[F-G-H]	[J]=[A*F]	[K]	[L]	[M]=[J+K+L]
1	First Mortgage Bonds:														
2	Series M	5.00%	(1)	12/18/98	12/01/28		$ 30,035,000	$ 28,805,000	$ -	$892,391	$ 27,912,609	$ 1,440,250	$ -	$ 47,138	$ 1,487,388
3	Series N-2	4.57%		04/29/03	05/01/13		40,000,000	40,000,000	10,673	$267,121	$ 39,722,206	$ 1,828,000	3,201	$ 80,114	$ 1,911,315
4	Series O	6.75%		11/03/08	12/01/28		6,500,000	6,500,000	-	$119,713	6,380,287	438,750	-	31,189	$ 469,939
5	Sub-Total						76,535,000	75,305,000	10,673	1,279,225	74,015,102	3,707,000	3,201	158,441	3,868,642
6	Less: Amortization of Losses on Reacquired Bonds														
7	Series J	8.00%		11/01/90	11/01/20	12/05/02	-	-	-	585,048	$ (585,048)	-	-	53,952	$ 53,952
8	Series K	6.38%	(1)	10/01/92	10/01/28	01/19/99	-	-	-	1,078,523	$ (1,078,523)	-	-	57,477	$ 57,477
9	Series M	5.00%	(1)	12/18/98	12/01/28	Various	-	-	-	12,348	(12,348)	-	-	652	$ 652
10	Sub-Total						-	-	-	1,620,601	(1,675,919)	-	-	115,068	112,081
	Total						$ 76,535,000	$ 75,305,000	$ 10,673	$ 2,899,826	$ 72,339,183	$ 3,707,000	$ 3,201	$ 273,509	$ 3,980,723
11	Embedded Cost of Long-Term Debt														5.50%

Embedded Cost of Long-Term Debt
December 31, 2010

Line No.	Debt Issue Type, Coupon Rate			Date Issued	Maturity Date	Date Reacquired	Principal Amount	Face Amount Outstanding	Unamortized Discount or (Premium)	Unamortized Debt Expense (Gain)	Carrying Value	Annual Coupon Interest	Annualized Amort. of Discount or (Premium)	Annualized Amort. of Debt Expense	Annualized Interest Expense
	[A]			[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]=[F-G-H]	[J]=[A*F]	[K]	[L]	[M]=[J+K+L]
1	First Mortgage Bonds:														
2	Series M	5.00%	(1)	12/18/98	12/01/28		$ 30,035,000	$ 28,805,000	$ -	$845,253	$ 27,959,747	$ 1,440,250	$ -	$ 47,138	$ 1,487,388
3	Series N-2	4.57%		04/29/03	05/01/13		40,000,000	40,000,000	7,472	$187,006	$ 39,805,522	$ 1,828,000	3,201	$ 80,114	$ 1,911,315
4	Series O	6.75%		11/03/08	12/01/28		6,500,000	6,500,000	-	$88,525	6,411,475	438,750	-	31,189	$ 469,939
5	Sub-Total						76,535,000	75,305,000	7,472	1,120,784	74,176,744	3,707,000	3,201	158,441	3,868,642
6	Less: Amortization of Losses on Reacquired Bonds														
7	Series J	8.00%		11/01/90	11/01/20	12/05/02	-	-	-	531,096	$ (531,096)	-	-	53,952	$ 53,952
8	Series K	6.38%	(1)	10/01/92	10/01/28	01/19/99	-	-	-	1,021,046	$ (1,021,046)	-	-	57,477	$ 57,477
9	Series M	5.00%	(1)	12/18/98	12/01/28	Various	-	-	-	11,696	(11,696)	-	-	652	$ 652
10	Sub-Total						-	-	-	1,620,601	(1,563,837)	-	-	115,068	112,081
	Total						$ 76,535,000	$ 75,305,000	$ 7,472	$ 2,741,385	$ 72,612,907	$ 3,707,000	$ 3,201	$ 273,509	$ 3,980,723
11	Embedded Cost of Long-Term Debt														5.48%

Note: (1) Tax-exempt bonds.

The Peoples Gas Light and Coke Company

Embedded Cost of Long-Term Debt
Average 2010

	Debt Issue Type, Coupon Rate (A)		Date Issued (B)	Maturity Date (C)	Original Principal Amount (D)	Face Amount Outstanding (F)	Debt Discount or (Premium) (H)	Unamortized Debt Expense (Gain) (I)	Carrying Value (J)	Coupon Interest Expense (K)	Amortization of Debt Discount or (Premium) (L)	Amortization of Debt Expense (M)	Total Expense (N)
1	First and Refunding Mortgage Bonds:												
2	Series HH	4.75%	3/1/00	3/1/2030	50,000,000	50,000,000		1,407,999	48,592,001	2,375,000	-	71,552	2,446,552
3	Series KK	5.00%	2/6/03	2/1/2033	50,000,000	50,000,000	500,425	987,941	48,511,634	2,500,000	22,139	43,706	2,565,845
4	Series LL	3.75%	2/20/03	2/1/2033	50,000,000	50,000,000		788,893	49,211,107	1,875,000	-	34,900	1,909,900
5	Series MM	3.94%	2/27/03	3/1/2010	50,000,000	10,416,667	670	1,167	10,414,830	410,417	8,037	14,005	432,459
6	Series NN	4.57%	4/29/03	5/1/2013	75,000,000	75,000,000	17,011	429,184	74,553,805	3,426,250	6,002	151,428	3,583,680
7	Series OO	1.00%	10/9/03	10/1/2037	51,000,000	51,000,000		623,831	50,376,169	508,980	-	22,876	531,856
8	Series QQ	4.88%	11/25/03	11/1/2038	75,000,000	75,000,000		1,120,037	73,879,963	3,656,250	-	39,501	3,695,751
9	Series RR	4.30%	6/1/05	6/1/2035	50,000,000	50,000,000		712,153	49,287,847	2,150,000	-	28,563	2,178,563
10	Seiers SS	6.75%	11/3/08	11/1/2013	45,000,000	45,000,000		378,889	44,621,111	3,037,500		113,496	3,150,996
11	Series TT	7.70%	11/3/08	11/1/2018	5,000,000	5,000,000		52,492	4,947,508	385,000	-	6,293	391,293
12	New Issue	7.43%	10/1/09	10/1/2019	50,000,000	50,000,000		416,501	49,583,499	3,712,500	-	44,997	3,757,497
13	New Issue	7.58%	3/1/10	3/1/2020	50,000,000	39,583,333		341,029	39,242,305	2,998,438		45,025	3,043,463
14	ICC Issuance Fees for Long-Term debt							50,000	(50,000)	-	-		-
15	Sub-Total				601,000,000	551,000,000	518,106	7,310,115	543,171,779	27,035,334	36,178	616,343	27,687,854
16	Reaquired Debt												
17	Series LL	3.75%	2/20/03	2/1/33				1,712,669	(1,712,669)			75,768	75,768
18	Series HH	4.75%	7/1/04	3/1/30				377,327	(377,327)			19,175	19,175
19	Series KK	5.00%	2/6/03	2/1/33				1,309,402	(1,309,402)			57,928	57,928
20	Series QQ	4.88%	11/25/03	11/1/38				1,977,004	(1,977,004)			69,724	69,724
21	Series PP	4.85%	10/9/03	10/1/37				850,708	(850,708)			31,196	31,196
22	Series OO	2.52%	10/9/03	10/1/37				1,374,711	(1,374,711)			50,411	50,411
23	Series RR	4.30%	6/1/05	6/1/35				2,526,819	(2,526,819)			101,345	101,345
24	Sub-Total							10,128,640	(10,128,640)			405,547	405,547
25	Total				$ 601,000,000	$ 551,000,000	$ 518,106	$ 17,438,755	$ 533,043,139	$ 27,035,334	$ 36,178	$ 1,021,889	$ 28,093,401

26 Embedded Cost of Long-Term Debt 5.27%

The Peoples Gas Light and Coke Company

Embedded Cost of Long-Term Debt
December 31, 2009

Line	Debt Issue Type, Coupon Rate (A)		Date Issued (B)	Maturity Date (C)	Original Principal Amount (D)	Face Amount Outstanding (F)	Debt Discount or (Premium) (H)	Unamortized Debt Expense (Gain) (I)	Carrying Value (J)	Coupon Interest Expense (K)	Amortization of Debt Discount or (Premium) (L)	Amortization of Debt Expense (M)	Total Expense (N)
1	First and Refunding Mortgage Bonds:												
2	Series HH	4.75%	3/1/00	3/1/2030	50,000,000	50,000,000		1,443,774	48,556,226	2,375,000	-	71,552	2,446,552
3	Series KK	5.00%	2/6/03	2/1/2033	50,000,000	50,000,000	530,665	1,009,794	48,459,542	2,500,000	22,968	43,706	2,566,675
4	Series LL	3.75%	2/20/03	2/1/2033	50,000,000	50,000,000		806,343	49,193,657	1,875,000	-	34,900	1,909,900
5	Series MM	3.94%	2/27/03	3/1/2010	50,000,000	50,000,000	8,037	14,005	49,977,958	1,970,000	48,890	85,198	2,104,088
6	Series NN	4.57%	4/29/03	5/1/2013	75,000,000	75,000,000	20,012	504,898	74,475,090	3,427,500	6,002	151,428	3,584,930
7	Series OO	1.00%	10/9/03	10/1/2037	51,000,000	51,000,000		635,269	50,364,731	508,980	-	22,876	531,856
8	Series QQ	4.88%	11/25/03	11/1/2038	75,000,000	75,000,000		1,139,787	73,860,213	3,656,250	-	39,501	3,695,751
9	Series RR	4.30%	6/1/05	6/1/2035	50,000,000	50,000,000		726,434	49,273,566	2,150,000	-	28,563	2,178,563
10	Seiers SS	6.75%	11/3/08	11/1/2013	45,000,000	45,000,000		435,637	44,564,363	3,037,500	-	113,496	3,150,996
11	Series TT	7.70%	11/3/08	11/1/2018	5,000,000	5,000,000		55,639	4,944,361	385,000	-	6,293	391,293
12	New Issue	7.43%	10/1/09	10/1/2019	50,000,000	50,000,000		439,000	49,561,000	3,715,000	-	44,997	3,759,997
13									-			-	
14	ICC Issuance Fees for Long-Term debt							50,000	(50,000)	-	-		-
15	al Mortgage Bonds				551,000,000	551,000,000	558,713	7,260,581	543,180,706	25,600,230	77,861	642,510	26,320,601
16	Reaquired Debt												
17	Series LL	3.75%	2/20/03	2/1/33				1,750,553	(1,750,553)			75,768	75,768
18	Series HH	4.75%	7/1/04	3/1/30				386,915	(386,915)			19,175	19,175
19	Series KK	5.00%	2/6/03	2/1/33				1,338,365	(1,338,365)			57,928	57,928
20	Series QQ	4.88%	11/25/03	11/1/38				2,011,866	(2,011,866)			69,724	69,724
21	Series PP	4.85%	10/9/03	10/1/37				866,306	(866,306)			31,196	31,196
22	Series OO	2.52%	10/9/03	10/1/37				1,399,917	(1,399,917)			50,411	50,411
23	Series RR	4.30%	6/1/05	6/1/35				2,577,491	(2,577,491)			101,345	101,345
24	Sub-Total							10,331,413	(10,331,413)			405,547	405,547
25	Total				$ 551,000,000	$ 551,000,000	$ 558,713	$ 17,591,994	$ 532,849,292	$ 25,600,230	$ 77,861	$ 1,048,057	$ 26,726,147

26 Embedded Cost of Long-Term Debt 5.02%

The Peoples Gas Light and Coke Company

Embedded Cost of Long-Term Debt
December 31, 2010

	Debt Issue Type, Coupon Rate (A)		Date Issued (B)	Maturity Date (C)	Original Principal Amount (D)	Face Amount Outstanding (F)	Debt Discount or (Premium) (H)	Unamortized Debt Expense (Gain) (I)	Carrying Value (J)	Coupon Interest Expense (K)	Amortization of Debt Discount or (Premium) (L)	Amortization of Debt Expense (M)	Total Expense (N)
1	First and Refunding Mortgage Bonds:												
2	Series HH	4.75%	3/1/00	3/1/2030	50,000,000	50,000,000		1,372,223	48,627,777	2,375,000	-	71,552	2,446,552
3	Series KK	5.00%	2/6/03	2/1/2033	50,000,000	50,000,000	507,696	966,088	48,526,216	2,500,000	22,968	43,706	2,566,675
4	Series LL	3.75%	2/20/03	2/1/2033	50,000,000	50,000,000		771,443	49,228,557	1,875,000	-	34,900	1,909,900
5									-	-	-	-	-
6	Series NN	4.57%	4/29/03	5/1/2013	75,000,000	75,000,000	14,010	353,470	74,632,520	3,426,250	6,002	151,428	3,583,680
7	Series OO	1.00%	10/9/03	10/1/2037	51,000,000	51,000,000		612,392	50,387,608	508,980	-	22,876	531,856
8	Series QQ	4.88%	11/25/03	11/1/2038	75,000,000	75,000,000		1,100,286	73,899,714	3,656,250	-	39,501	3,695,751
9	Series RR	4.30%	6/1/05	6/1/2035	50,000,000	50,000,000		697,872	49,302,128	2,150,000	-	28,563	2,178,563
10	Seiers SS	6.75%	11/3/08	11/1/2013	45,000,000	45,000,000		322,141	44,677,859	3,037,500	-	113,496	3,150,996
11	Series TT	7.70%	11/3/08	11/1/2018	5,000,000	5,000,000		49,346	4,950,654	385,000	-	6,293	391,293
12	New Issue	7.43%	10/1/09	10/1/2019	50,000,000	50,000,000		394,003	49,605,997	3,712,500	-	44,997	3,757,497
13	New Issue	7.58%	3/1/10	3/1/2020	50,000,000	50,000,000		413,000	49,587,000	3,787,500	-	45,025	3,832,525
14	ICC Issuance Fees for Long-Term debt							50,000	(50,000)	-	-		-
15	Sub-Total				551,000,000	551,000,000	521,706	7,102,264	543,376,030	27,413,980	28,970	602,338	28,045,288
16	Reaquired Debt												
17	Series LL	3.75%	2/20/03	2/1/33				1,674,785	(1,674,785)			75,768	75,768
18	Series HH	4.75%	7/1/04	3/1/30				367,740	(367,740)			19,175	19,175
19	Series KK	5.00%	2/6/03	2/1/33				1,280,438	(1,280,438)			57,928	57,928
20	Series QQ	4.88%	11/25/03	11/1/38				1,942,142	(1,942,142)			69,724	69,724
21	Series PP	4.85%	10/9/03	10/1/37				835,110	(835,110)			31,196	31,196
22	Series OO	2.52%	10/9/03	10/1/37				1,349,505	(1,349,505)			50,411	50,411
23	Series RR	4.30%	6/1/05	6/1/35				2,476,146	(2,476,146)			101,345	101,345
24	Sub-Total							9,925,867	(9,925,867)			405,547	405,547
25	Total				$ 551,000,000	$ 551,000,000	$ 521,706	$ 17,028,130	$ 533,450,163	$ 27,413,980	$ 28,970	$ 1,007,884	$ 28,450,835

26	Embedded Cost of Long-Term Debt	5.33%

Docket Nos. 09-0166/09-0167
(Consolidated)
ICC Staff Exhibit 8.0
Schedule 8.4N

North Shore Gas Company

Balance of Common Equity
Average 2010

	Month Ending Balance	Average Monthly Balance
12/31/2009	$ 95,974,000	
1/31/2010	$ 94,924,000	$ 95,449,000
2/28/2010	$ 95,579,000	$ 95,251,500
3/31/2010	$ 94,447,000	$ 95,013,000
4/30/2010	$ 94,682,000	$ 94,564,500
5/31/2010	$ 94,707,000	$ 94,694,500
6/30/2010	$ 96,395,000	$ 95,551,000
7/31/2010	$ 96,059,000	$ 96,227,000
8/31/2010	$ 95,559,000	$ 95,809,000
9/30/2010	$ 96,253,000	$ 95,906,000
10/31/2010	$ 96,200,000	$ 96,226,500
11/30/2010	$ 96,517,000	$ 96,358,500
12/31/2010	$ 95,255,000	$ 95,886,000
Average 2010 Balance of Common Equity		$ 95,578,042

Docket Nos. 09-0166/09-0167
(Consolidated)
ICC Staff Exhibit 8.0
Schedule 8.4P

The Peoples Gas Light and Coke Company

Balance of Common Equity
Average 2010

	Month Ending Balance	Average Monthly Balance
12/31/2009	$ 762,147,000	
1/31/2010	$ 768,806,000	$ 765,476,500
2/28/2010	$ 774,016,000	$ 771,411,000
3/31/2010	$ 777,280,000	$ 775,648,000
4/30/2010	$ 778,016,000	$ 777,648,000
5/31/2010	$ 775,865,000	$ 776,940,500
6/30/2010	$ 772,074,000	$ 773,969,500
7/31/2010	$ 767,992,000	$ 770,033,000
8/31/2010	$ 763,945,000	$ 765,968,500
9/30/2010	$ 759,892,000	$ 761,918,500
10/31/2010	$ 759,241,000	$ 759,566,500
11/30/2010	$ 760,379,000	$ 759,810,000
12/31/2010	$ 764,564,000	$ 762,471,500
Average 2010 Balance of Common Equity		$ 768,405,125

ICC Docket No. 09-0166/0167
North Shore Gas Company
Response to Staff Data Request FIN 1.03
Dated: April 6, 2009

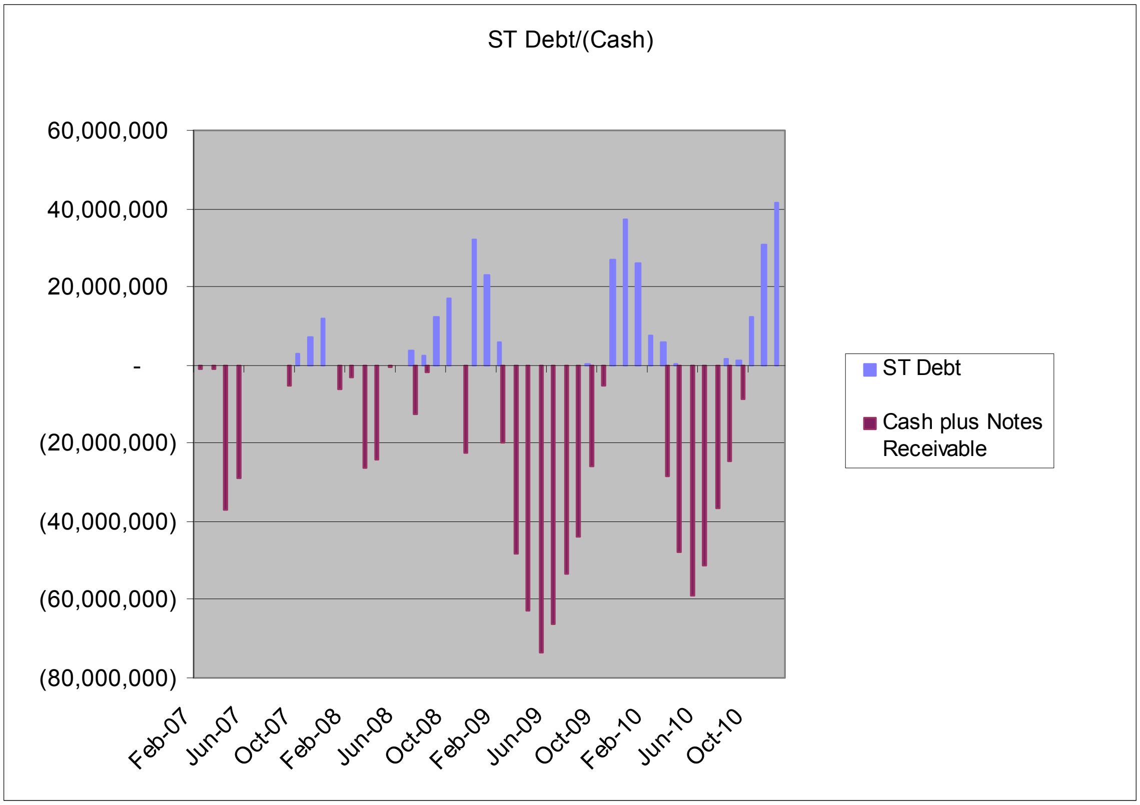
REQUEST NO. FIN 1.03:

Please provide documentation to support the Companies' claims that short-term debt is only used to finance seasonal cash needs and is not a permanent source of financing rate base investments. (Peoples Gas Ex. BAJ-1.0, p. 8, lines 156-158; North Shore Ex. BAJ-1.0, p. 7, lines 137-139). Include in the response a list of assets the Companies believe short-term debt finances and the month-end balances of those assets for the months January 2008 through December 2010.

RESPONSE:

Schedule D-2, combined with the information shown in the graph below, shows that North Shore Gas Company did not have any short term borrowings (net of cash) for 8 months during 2008. For the forecasted year 2009 and the 2010 rate case year, North Shore Gas is projecting to have no short-term debt (net of cash) outstanding for 9 months and 8 months respectively. This fluctuation in short-term debt supports the fact short-term debt is only used for seasonal cash needs. These seasonal cash needs are driven mostly by timing of receipts and expenditures. During the warmer months of the year, the Company uses cash to fund injections of gas into storage for use during the winter months. As cash is depleted, short term debt is used to fund working capital until customer receipts from gas sales can be used to fund working capital. As the heating season winds down, cash balances increase. At this point the cycle starts over again. The graph below shows how short-term debt is only forecasted to be needed during the winter months for 2009 through 2010. For short-term debt to be the funding source for permanent investments, then the debt would need to remain outstanding for the entire investment period.

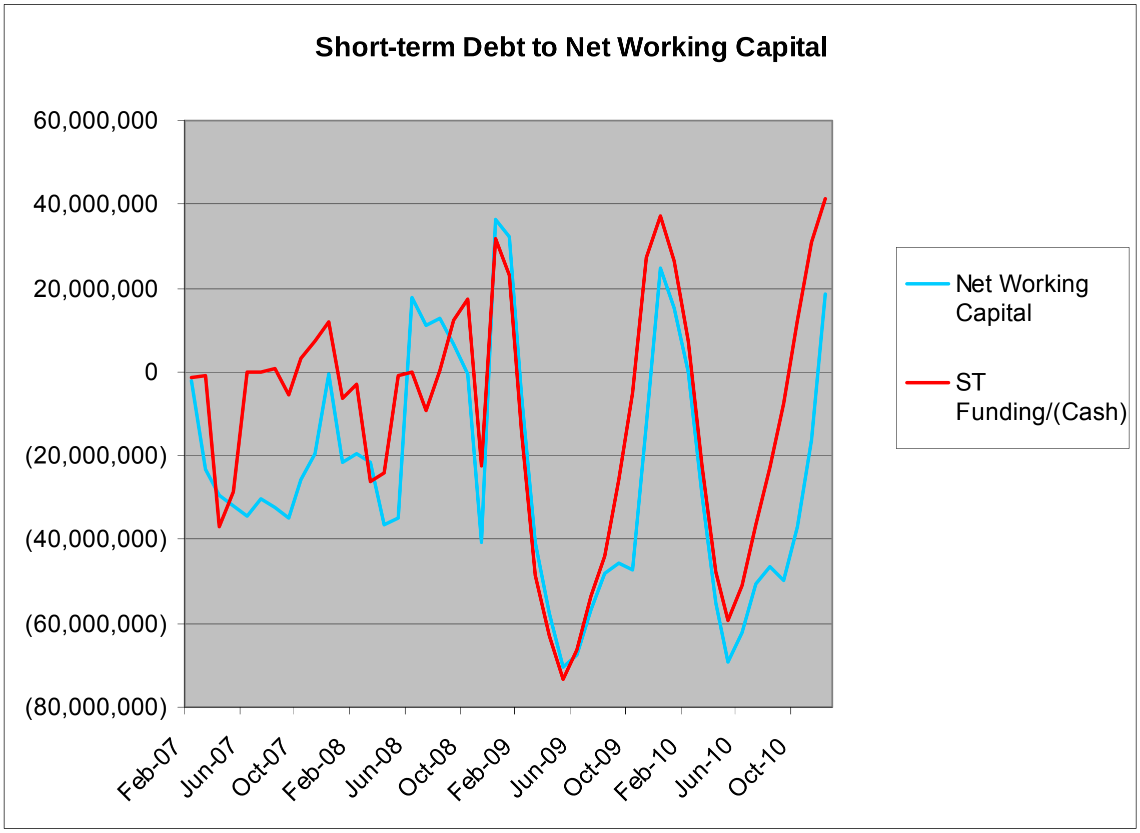
ICC Docket No. 09-0166/0167
North Shore Gas Company
Response to Staff Data Request FIN 1.03
Dated: April 6, 2009



In addition, NS FIN 1.03 Attach 02 shows the capital structure as filed to the rate base as filed. The difference between rate base of $179,246,000 and capital structure of $168,374,000 is forecasted to be $10,872,000 on average in 2010. The slight difference between permanent capital and net rate base assets shows that there is a need for short term financing but further proves that the Company does not use short term financing as a permanent source of financing rate base investments.

The company believes Net Working Capital, defined as Current Assets (with the exception of Gas in Storage and Cash) net of Current Liabilities (with the exception of debt related items -ST Debt, Commercial Paper, LT Debt Due within One Year, Accrued Interest - Customer Deposits and Customer Credit Balances), are financed with short-term borrowings and cash on hand[1]. The attached graph shows these balances for January 2008 thru December 2010 and indicates there is a strong correlation between Net Working Capital and short-term funding. See NS FIN 1.03 Attach 01 for list of accounts financed with short-term debt and month-end balances.

ICC Docket No. 09-0166/0167
North Shore Gas Company
Response to Staff Data Request FIN 1.03
Dated: April 6, 2009



Gas in Storage, Accrued Interest – Customer Deposits and Customer Credit Balances are excluded from the above as these are normally rate base adjustments.

NS FIN 1.03 Attach 01

NS Docket 09-0166
Month-end Balances of Net Assets Financed with Short Term Debt
$ in Thousands

	A	B	C	D A-(B+C)	E	F	G	H	I	J E-(F+G+H+I)	D-J	
		Less						Less				
	Current Assets	Gas in Storage	Cash	Adjusted Current Assets	Current Liabilities	Notes Pay Assoc Companies	Notes Payable	LT Debt Due w/in One Yr	Accrued Interest - Customer Deposits	Adjusted Current Liabilites	Net Working Capital	ST Funding/(Cash)
Jan-08	72,619	5,091	6,336	61,192	82,744	-	-	-	59	82,685	(21,492)	(6,336)
Feb-08	89,471	2,059	3,158	84,254	103,860	-	-	-	50	103,810	(19,556)	(3,158)
Mar-08	118,125	1,090	26,298	90,736	112,312	-	-	-	68	112,245	(21,508)	(26,298)
Apr-08	98,371	2,343	24,275	71,754	108,124	-	-	-	64	108,060	(36,307)	(24,275)
May-08	68,415	3,808	723	63,884	98,752	-	-	-	62	98,690	(34,806)	(723)
Jun-08	95,951	5,169	-	90,782	73,096	-	-	-	59	73,037	17,745	-
Jul-08	88,325	6,814	12,578	68,933	61,223	-	3,549	-	59	57,615	11,318	(9,030)
Aug-08	77,225	12,189	2,037	63,000	52,775	-	2,578	-	59	50,138	12,861	541
Sep-08	82,457	24,549	-	57,908	63,872	8,781	3,683	-	59	51,348	6,560	12,465
Oct-08	89,616	33,627	-	55,989	73,619	15,846	1,317	-	59	56,398	(409)	17,162
Nov-08	78,237	32,608	22,460	23,170	63,681	-	-	-	59	63,621	(40,452)	(22,460)
Dec-08	93,942	7,971	-	85,972	81,348	26,357	5,544	-	59	49,388	36,584	31,901
Jan-09	117,079	4,213	-	112,866	103,841	18,512	4,574	-	59	80,696	32,170	23,086
Feb-09	122,470	1,308	19,933	101,229	112,678	-	5,818	-	59	106,801	(5,572)	(14,115)
Mar-09	141,063	374	48,415	92,274	132,802	-	-	-	59	132,743	(40,469)	(48,415)
Apr-09	123,667	927	63,014	59,726	117,244	-	-	-	59	117,185	(57,459)	(63,014)
May-09	109,414	2,237	73,425	33,752	104,161	-	-	-	59	104,102	(70,349)	(73,425)
Jun-09	89,665	3,876	66,412	19,377	86,838	-	-	-	59	86,779	(67,402)	(66,412)
Jul-09	71,688	5,623	53,436	12,629	69,530	-	-	-	59	69,471	(56,842)	(53,436)
Aug-09	60,383	7,412	44,101	8,871	56,890	-	-	-	59	56,831	(47,960)	(44,101)
Sep-09	56,471	19,035	25,880	11,556	57,593	-	242	-	59	57,292	(45,736)	(25,638)
Oct-09	70,600	40,436	5,208	24,956	72,479	-	-	-	59	72,420	(47,464)	(5,208)
Nov-09	90,370	38,601	-	51,769	91,531	27,087	-	-	59	64,385	(12,616)	27,087
Dec-09	85,629	7,971	-	77,659	89,942	30,820	6,400	-	59	52,662	24,997	37,221
Jan-10	104,610	6,120	-	98,490	109,521	26,278	-	-	59	83,184	15,306	26,278
Feb-10	90,575	3,336	-	87,239	94,867	2,651	4,804	-	59	87,352	(114)	7,455
Mar-10	106,919	1,129	28,351	77,439	112,574	-	5,771	-	59	106,744	(29,305)	(22,580)
Apr-10	98,770	1,382	47,775	49,613	104,841	-	105	-	59	104,676	(55,064)	(47,670)
May-10	88,644	3,219	59,087	26,338	95,478	-	-	-	59	95,418	(69,080)	(59,087)
Jun-10	69,412	5,016	51,204	13,191	75,463	-	-	-	59	75,403	(62,213)	(51,204)
Jul-10	52,264	6,894	36,631	8,738	59,294	-	10	-	59	59,225	(50,486)	(36,620)
Aug-10	46,231	15,068	24,667	6,497	54,762	-	1,805	-	59	52,897	(46,401)	(22,862)
Sep-10	50,281	31,770	8,749	9,762	60,839	-	1,305	-	59	59,474	(49,712)	(7,444)
Oct-10	59,881	38,564	-	21,317	70,992	9,134	3,357	-	59	58,443	(37,126)	12,490
Nov-10	85,204	36,822	-	48,382	95,421	30,681	237	-	59	64,444	(16,062)	30,918
Dec-10	81,152	7,971	-	73,182	95,836	33,483	7,873	-	59	54,422	18,760	41,356

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Request FIN 1.03
Dated: April 6, 2009

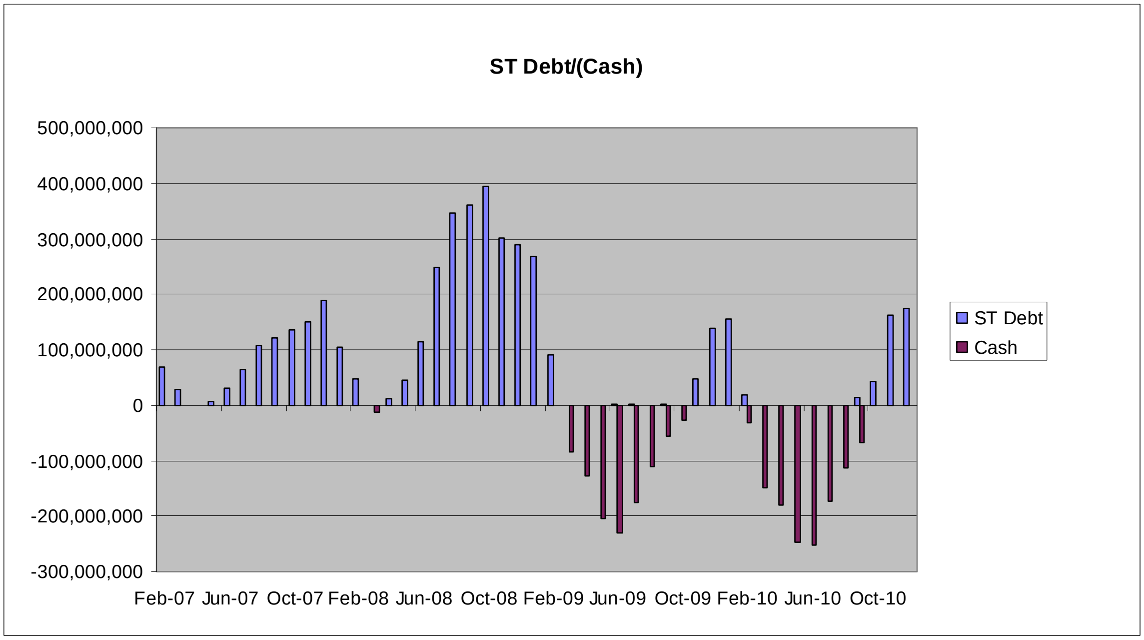
REQUEST NO. FIN 1.03:

Please provide documentation to support the Companies' claims that short-term debt is only used to finance seasonal cash needs and is not a permanent source of financing rate base investments. (Peoples Gas Ex. BAJ 1.0, p. 8, lines 156-158; North Shore Ex. BAJ 1.0, p. 7, lines 137-139). Include in the response a list of assets the Companies believe short-term debt finances and the month-end balances of those assets for the months January 2008 through December 2010.

RESPONSE:

Schedule D-2 combined with the information shown in the graph below, shows that Peoples Gas did have short term borrowings for all but 1 month during 2008. This was mainly due to abnormally high natural gas prices in the first half of the year and the fact that $51 million of auction rate securities was repurchased in April 2008 due to disruptions in the market for auction rate securities. The high natural gas prices resulted in the Company purchasing natural gas at a higher price than what it collected from customers for winter sales. This resulted in cash being used for these purchases at a higher rate than in a normal year. The debt repurchase also resulted in additional short-term debt needs while remarketing or refinancing opportunities were evaluated. For the forecasted year 2009 and the 2010 rate case year, Peoples Gas is projecting to have no short-term debt outstanding for 5 months and 6 months respectively. This fluctuation in short-term debt supports the fact that short-term debt is only used for seasonal cash needs. These seasonal cash needs are driven mostly by timing of receipts and expenditures. During the warmer months of the year, the Company uses cash to fund injections of gas into storage for use during the winter months. As cash is depleted, short term debt is used to fund working capital until customer receipts from gas sales can be used to fund working capital. As the heating season winds down, cash balances increase. At this point the cycle starts over again. The graph below shows how short-term debt is only forecasted to be needed during the winter months for 2009 through 2010. For short-term debt to be the funding source for permanent investments, then the debt would need to remain outstanding for the entire investment period.

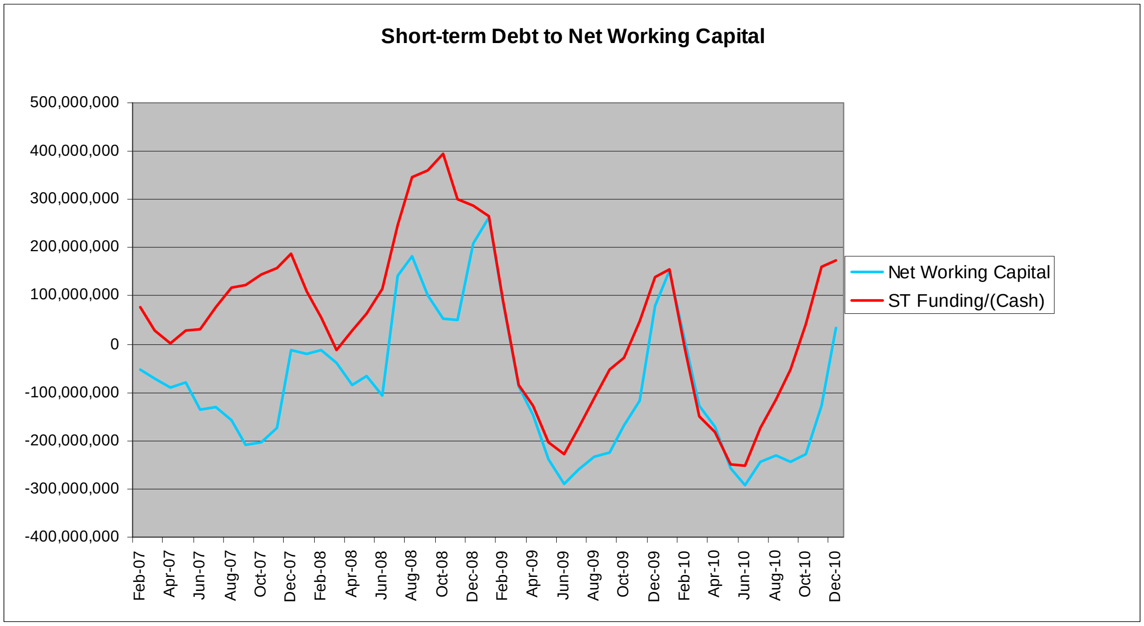
ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to Staff Data Request FIN 1.03
Dated: April 6, 2009



In addition, PGL FIN 1.03 Attach 02 shows the capital structure as filed to the rate base as filed. The difference between rate base of $1,396,058,000 and capital structure of $1,344,913,000 is forecasted to be $51,145,000 on average in 2010. The slight difference between permanent capital and net rate base assets shows that there is a need for short term financing but further proves that the Company does not use short term financing as a permanent source of financing rate base investments.

The company believes Net Working Capital, defined as Current Assets (with the exception of Gas in Storage and Cash) net of Current Liabilities (with the exception of debt related items -ST Debt, Commercial Paper, LT Debt Due within One Year, Accrued Interest - Customer Deposits and Customer Credit Balances), are financed with short-term borrowings and cash on hand[1]. The attached graph shows these balances for January 2008 thru December 2010 and indicates there is a strong correlation between Net Working Capital and short-term funding. See PGL FIN 1.03 Attach 01 for list of accounts financed with short-term debt and month-end balances.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to Staff Data Request FIN 1.03
Dated: April 6, 2009



Gas in Storage, Accrued Interest – Customer Deposits and Customer Credit Balances are excluded from the above as these are normally rate base adjustments.

PGL Docket 09-0167
Month-end Balances of Net Assets Financed with Short Term Debt
$ in Thousands

	A	B	C	D	E	F	G	H	I	J	D-J	
		Less		A-(B+C)				Less		E-(F+G+H+I)		
	Current Assets	Gas in Storage	Cash	Adjusted Current Assets	Current Liabilities	Notes Pay Assoc Companies	Commercial Paper	LT Debt Due w/in One Yr	Accrued Interest - Customer Deposits	Adjusted Current Liabilites	Net Working Capital	ST Funding/(Cash)
Jan-08	414,793	38,420	(3,330)	379,703	557,171	1,080	104,291	50,127	709	400,965	(21,261)	108,702
Feb-08	540,483	21,056	(8,641)	528,068	637,306	13,700	32,925	50,127	593	539,961	(11,893)	55,266
Mar-08	642,312	17,452	11,559	613,301	702,655	-	-	51,000	770	650,885	(37,585)	(11,559)
Apr-08	503,078	23,799	(15,805)	495,084	592,364	12,250	-	-	726	579,388	(84,304)	28,055
May-08	468,909	33,842	(17,589)	452,656	563,912	46,005	-	-	679	517,229	(64,572)	63,594
Jun-08	393,177	41,572	-	351,604	572,610	31,865	82,000	-	658	458,087	(106,482)	113,865
Jul-08	550,640	62,499	10	488,131	594,927	5,655	242,185	-	658	346,428	141,703	247,830
Aug-08	604,931	110,091	10	494,830	661,021	14,825	331,763	-	658	313,775	181,055	346,578
Sep-08	659,533	180,680	10	478,842	740,262	80,328	280,343	-	658	378,933	99,910	360,661
Oct-08	716,064	246,559	10	469,495	810,763	136,173	258,029	-	658	415,902	53,593	394,192
Nov-08	724,551	248,915	10	475,626	726,773	54,237	246,463	-	658	425,415	50,211	300,689
Dec-08	653,260	105,504	10	547,745	628,952	19,363	268,953	-	658	339,978	207,767	288,306
Jan-09	748,296	37,584	10	710,702	714,802	-	266,731	-	658	447,413	263,289	266,721
Feb-09	713,550	21,585	10	691,955	696,992	-	90,894	-	658	605,439	86,515	90,884
Mar-09	754,045	12,587	85,180	656,278	744,722	-	-	-	658	744,064	(87,785)	(85,180)
Apr-09	663,650	14,716	128,208	520,726	667,328	-	-	-	658	666,670	(145,944)	(128,208)
May-09	600,318	21,849	204,037	374,432	614,388	-	-	-	658	613,730	(239,298)	(204,037)
Jun-09	508,214	28,424	229,895	249,894	542,380	-	2,035	-	658	539,687	(289,793)	(227,860)
Jul-09	404,009	36,053	176,416	191,540	452,893	-	1,675	-	658	450,559	(259,020)	(174,741)
Aug-09	349,368	55,319	111,834	182,215	416,692	-	-	-	658	416,033	(233,818)	(111,834)
Sep-09	278,262	83,118	55,860	139,284	368,161	-	2,266	-	658	365,237	(225,953)	(53,594)
Oct-09	424,924	158,060	27,386	239,478	407,390	-	-	-	658	406,732	(167,253)	(27,386)
Nov-09	522,764	188,632	10	334,121	500,222	-	48,177	-	658	451,387	(117,265)	48,166
Dec-09	592,246	86,048	10	506,187	566,258	-	138,059	-	658	427,540	78,647	138,049
Jan-10	644,771	35,343	10	609,417	612,166	-	154,686	-	658	456,822	152,595	154,675
Feb-10	658,653	19,520	31,794	607,339	623,535	-	18,684	-	658	604,193	3,146	(13,111)
Mar-10	767,679	11,644	149,428	606,607	736,244	-	-	-	658	735,585	(128,978)	(149,428)
Apr-10	673,788	14,716	180,857	478,216	649,655	-	-	-	658	648,996	(170,781)	(180,857)
May-10	606,108	22,652	247,853	335,603	592,683	-	-	-	658	592,024	(256,421)	(247,853)
Jun-10	508,846	30,887	252,912	225,047	518,116	-	-	-	658	517,458	(292,411)	(252,912)
Jul-10	396,621	44,094	173,829	178,699	422,011	-	-	-	658	421,353	(242,654)	(173,829)
Aug-10	320,754	71,860	113,945	134,949	366,318	-	-	-	658	365,660	(230,711)	(113,945)
Sep-10	314,035	130,839	66,500	116,697	376,650	-	14,795	-	658	361,196	(244,500)	(51,705)
Oct-10	376,557	202,712	10	173,835	444,506	-	42,314	-	658	401,534	(227,698)	42,304
Nov-10	518,200	218,864	10	299,326	587,828	-	161,091	-	658	426,079	(126,752)	161,081
Dec-10	512,047	86,048	10	425,988	566,649	-	174,661	-	658	391,331	34,658	174,650

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to Staff Data Requests FIN 3.01-3.06
Dated: April 27, 2009

REQUEST NO. FIN 3.02:

Please identify all "prompt and fair rate recovery" methods that Peoples considered to finance the infrastructure expenditures and explain why those methods were rejected. (Peoples Gas Ex. JFS-1.0, p. 3, lines 51-52).

RESPONSE:

Two other methods for recovery of costs associated with the acceleration of the infrastructure replacement would be annual rate case filings using a forward looking test year and a deferral mechanism.

Annual rate case filings were rejected due to the administrative cost and effort involved in essentially being in a continual rate case process. In addition, regulatory lag further exacerbates the problems associated with annual rate case filings as an effective method of infrastructure cost recovery. Forward looking test years rely on a forecast of future capital expenditures. Given the 11 months a rate case requires, the forecast must be put together more than a year before the test period begins. Uncertainties regarding overall external economic conditions, construction plans, cost of materials, the financial situation, etc., can result in actual expenditures deviating from these forecasts, resulting in over or under recovery of these costs.

A deferral mechanism would be based on actual expenditures. Under this mechanism, costs that would be recovered currently under Rider ICR would be deferred until the next rate case and carrying cost would accrue at the company's pre tax cost of capital. (Anything less would not result in full recovery of costs and as such would not constitute "prompt and fair recovery"). Since costs would be incurred each year, the deferral would grow every year. There could be significant rate shock in the year the deferral is actually recovered in rates depending on the length of time between rate cases. Also, again based on the length of time between rate case, the deferral could place a strain on the balance sheet since the deferred costs would have to be financed.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Requests FIN 1.01-1.25
Dated: March 31, 2009

REQUEST NO. FIN 1.16:

Has Peoples Gas modeled the effect on its financial condition from investment in the 2030 Infrastructure Replacement Program discussed in Peoples Gas Ex. SDM-1.0 if proposed Rider ICR is authorized in this proceeding? If so, please provide that analysis and describe the major assumptions made, including rate relief during the period modeled and the savings the infrastructure investments generate, if any, that the company modeled.

RESPONSE:

No financial models have been created to estimate the effects on the company's financial position of investment in the 2030 Infrastructure Replacement Program.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Requests FIN 1.01-1.25
Dated: March 31, 2009

REQUEST NO. FIN 1.17:

Has Peoples Gas modeled the effect on its financial condition from investment in the 2030 Infrastructure Replacement Program discussed in Peoples Gas Ex. SDM-1.0 if Rider ICR is not authorized in this proceeding? If so, please provide that analysis and describe the major assumptions made, including rate relief during the period modeled and the savings the ICR generates, if any, that the Company modeled.

RESPONSE:

No financial models have been created to estimate the effects on the company's financial condition of investment in the 2030 Infrastructure Replacement Program.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
Staff Data Requests FIN 1.01-1.25
Dated: March 31, 2009

REQUEST NO. FIN 1.18:

Has Peoples Gas modeled its projected financial condition if the proposed Rider ICR is not authorized in this proceeding and no investment is made in the 2030 Infrastructure Replacement Program discussed in Peoples Gas Ex. SDM-1.0? If so, please provide that analysis and describe the major assumptions made, including rate relief during the period modeled.

RESPONSE:

No financial models have been created to estimate the effects of these variables.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to People of the State of Illinois Data Requests AG 1.00-1.48
Dated: April 17, 2009

REQUEST NO. AG 1.05:

Has either Company or any of its witnesses conducted any research or developed any financial projections to quantify the extent to which any or all of its proposed Riders UEA, ICR, FCA and GCA are needed from a financial perspective in order to mitigate future earnings attrition? If affirmative, please identify each projection or study that has been performed and provide a copy of all documents associated with this effort.

RESPONSE:

No research has been conducted nor any financial projections developed to quantify the extent to which any or all of its proposed Riders UEA and ICR are needed from a financial perspective in order to mitigate future earnings attrition.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
People of the State of Illinois Data Requests AG 1.00-1.48
Dated: April 17, 2009

REQUEST NO. AG 1.25:

Please provide copies of all analyses prepared by Peoples or any outside consultants that show that Peoples will be unable to earn its authorized return if it adopts an accelerated main replacement program under traditional regulation (without a rider). Please provide detailed calculations in electronic excel format supporting the response.

RESPONSE:

No such analysis exists at this time.

ICC Docket No. 09-0166/0167
The Peoples Gas Light and Coke Company's Response to
People of the State of Illinois Data Requests AG 2.00-2.53
Dated: April 21, 2009

REQUEST NO. AG 2.04:

Re: Peoples Gas Ex. JFS-1.0, 3:48-55. Please provide all analyses that Mr. Schott had in his possession while preparing his testimony that compare the cost to finance the infrastructure replacement program with and without Rider ICR.

RESPONSE:

There are no such analyses.