STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

NORTH SHORE GAS COMPANY	:	
	:	
Proposed General Increase In Rates For Gas Service.	:	
	:	No. 09-0166
	:	and
THE PEOPLES GAS LIGHT AND COKE COMPANY	:	No. 09-0167
	:	Consol.
	:	
Proposed General Increase In Rates For Gas Service.	:	
	:	

APPLICATION FOR REHEARING
OF NORTH SHORE GAS COMPANY AND THE
PEOPLES GAS LIGHT AND COKE COMPANY

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North Shore Gas Company ("North Shore") and The Peoples Gas Light and Coke Company ("Peoples Gas") (together, "the Utilities"), under 220 ILCS 5/10-113(a), 83 Ill. Adm. Code § 200.830, and other applicable law, submit this Application for Rehearing (the "Application") with respect to the Illinois Commerce Commission's (the "Commission" or "ICC") final Order dated January 21, 2010 (the "Order").

INTRODUCTION AND SUMMARY

The Order on a large majority of the contested issues in these cases reaches conclusions that are the only ones supported, or the ones most strongly supported, by the evidence in the record and that are consistent with governing law. Therefore, this Application is limited to a small number of issues.

Cost Recovery Issues. The Utilities set forth in Sections I and II of this Application three areas in which the Order's rulings do not afford the Utilities their legal right to rates that allow them the opportunity to recover fully their costs of service, including a reasonable return

on their investment in assets devoted to their provision of public utility services and recovery of their prudent and reasonable labor costs.[1]

First, the Application (in Section I) briefly discusses the Commission's acceptance of Staff's "financial risk adjustments" to the costs of common equity, expressed as a rate of return on common equity ("ROE"), that are supported by the objective financial models and other evidence accepted by the Commission for the Utilities (10.73%). Those unwarranted adjustments are arbitrary and punitive because they exaggerate the Utilities' stand-alone financial strength compared to that of the group of gas utilities used as a proxy for the Utilities in the financial models, and because the adjustments are duplicative of other adjustments to the ROEs to reflect reductions in the Utilities' financial risk that the Commission found would result from its approval of Riders VBA and UEA.

The financial risk adjustments to the Utilities' ROEs are based on the wholly unrealistic and erroneous assumption that the Utilities, by virtue of a Commission final Order, somehow are assured full recovery of their approved revenue requirements and, thus, that their actual costs of service will not be higher, essentially eliminating their risk of under-earning. The gap between that assumption and reality is a chasm, as is easily illustrated by reference to the Utilities' 2007 rate cases. Although the Order in their 2007 rate cases approved new rates that went into effect in February 2008, the Utilities did not recover their full costs of service in 2008, and in 2009 they were faced with increased costs leading to increasing cost recovery shortfalls, despite their having taken extraordinary cost control measures that are reflected in the approved revenue

[1] As to that legal right, see, for example, North Shore's and Peoples Gas' ("NS-PGL") Initial Brief at pages 14-15, 59.

requirements based on the 2010 test year that were determined by the Order in the current cases.

For example:

- The Utilities under-recovered their operating expenses after the 2007 cases. Their rates set in February 2008 were based on operating expenses before income taxes of $325,582,000 for Peoples Gas and $42,895,000 for North Shore.[2] Their final revised operating expenses before income taxes in 2010 were forecasted, however, to be $403,231,000 and $59,946,000, respectively.[3] The Order itself approved operating expenses before income taxes of $393,286,000 for Peoples Gas and $57,925,000 for North Shore, based on the 2010 test year.[4] Increases in operating expenses were the main drivers of the cost recovery shortfalls that led to these rate cases.[5]

- The Utilities' under-recovery of their costs of service is reflected in their actual earned rates of return after the 2007 cases. Their rates set in February 2008 significantly under-recovered their ROEs and their overall weighted average costs of capital (generally referred to as their overall rates of return or "RORs"). In February 2008, the Order established rates reflecting approved ROEs of 10.19% and 9.99% and RORs of 7.76% and 7.96% for Peoples Gas and North Shore, respectively.[6] In 2008, Peoples Gas and North Shore earned actual ROEs of only 5.64% and 6.66%, respectively.[7] In 2010, under existing rates, Peoples Gas was forecast to recover an overall ROR of just 4.00%, and North Shore was forecast to recover an overall ROR of just 3.04%.[8] Moreover, their costs of capital have increased. The Order itself finds that Peoples Gas' and North Shore's costs of equity (ROEs) are 10.23% and 10.33% and their overall weighted average costs

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[2] *In re North Shore Gas Co., et al*., ICC Docket Nos. 07-0241/07-0242 Cons. (Order Feb. 5, 2008) ("*Peoples 2007*") at Appendix ("App.") A, page 1, line 19, column (i), and App. B, page 1, line 19, column (i).

[3] NS-PGL Exhibit ("Ex.") SM-3.1P at Schedule ("Sched.") C-1, column [I] (sum of lines 15 through 18); NS-PGL Ex. SM-3.1N at Sched. C-1, column [I] (sum of lines 15 through 18).

[4] Order at App. A, page 1, line 19, column (i); Order at App. B, page 1, line 19, column (i).

[5] *See, e.g.*, NS-PGL Initial Brief at pages 2-6.

[6] *Peoples 2007* at page 100; *Peoples 2007* at App. A, page 1, line 26; *Peoples 2007* at App. B, page 1, line 26.

[7] Schott Direct ("Dir.")., PGL Ex. JFS-1.0 Rev. at page 12; Schott Dir., NS Ex. JFS-1.0 Rev. at page 11.

[8] NS-PGL Ex. SM-3.1P at note (c); NS-PGL Ex. SM-3.1N at note (c).

of capital (RORs) are 8.05% and 8.19%, respectively, based on the 2010 test year.[9]

Second and third, the Application (in Section II) briefly discusses two areas of disallowed labor costs: the Order's removal of the Peoples Gas pension asset from the utility's rate base and the Order's disallowance of the vast majority of the Utilities' incentive compensation costs, respectively. The exclusion of the Peoples Gas pension asset from rate base and the disallowance of nearly all of the Utilities' incentive compensation costs also deny the Utilities their legal right to rates allowing them the opportunity to recover fully their costs of service. No party contended, and given the evidentiary record the Commission did not and could not find, that the disallowed costs are anything but prudent and reasonable.

Rider ICR. One of the most significant subjects of this proceeding, because of its important benefits for customers and other stakeholders, such as the City of Chicago, gas workers, and emergency response personnel, was Peoples Gas' proposal of an infrastructure cost recovery rider, Rider ICR, that would diminish the financial disincentives to the utility of accelerating the replacement of its aging cast iron and ductile iron gas mains in the City of Chicago. Peoples Gas presents only a conditional request for rehearing as to one of the Order's rulings relating to Rider ICR, in the event that the Commission were to grant any other party's application for rehearing (or order reopening) as to Rider ICR, as discussed in Section III of this Application.

Technical Corrections. Finally, this Application (in Section IV) presents certain non-substantive technical corrections to the body of the Order. The corrections do not alter the

[9] Order at pages 129-130; Order at App. A, page 1, line 26; Order at App. B, page 1, line 26.

Order's rulings, the Findings and Ordering paragraphs of the Order (except for one correction of a date), or its Appendices, nor do they affect the compliance tariff filings.

ARGUMENT IN SUPPORT OF APPLICATION FOR REHEARING

I. RATE OF RETURN ON COMMON EQUITY

In the Order, the Commission acknowledged that it cannot determine a public utility's cost of common equity in a vacuum. The financial models it uses -- the Discounted Cash Flow model ("DCF") and Capital Asset Pricing Model ("CAPM") -- while conceptually sound and informative, are "theoretical and [each] has its own limitations. The models are also highly dependent on analyst judgment as to the inputs, and therefore are susceptible to manipulation." Order at 123. The Commission recognized that it must "also consult general financial market information to ensure that the model results presented us are generally consistent with real world conditions, and to guide our determination of reasonable rates of return on equity based on the models that we deem appropriate to our consideration." *Id.* This context allows the Commission to "apply its reasonable and informed judgment as it evaluates the results of the analyses provided." *Id.*

Applying its reasonable and informed judgment, the Commission decided, consistent with recommendations made by the Administrative Law Judges ("ALJs") in their December 11, 2009 bench memorandum, to base the Utilities' return on equity on: (1) an average of the unadjusted "constant growth" DCFs of the Utilities and Staff (11.22%) and (2) an average of two versions of Staff's CAPM based on spot and forecast Treasury bond rates for the "risk free" rate (10.23%). Order at pages 125, 127; *see also* ALJ Bench Memo. (Dec. 11, 2009) at pages 11, 12-13. In the Commission's view, this approach provided the best set of inputs and methodologies on which to base the Utilities' authorized returns on equity.

After reaching that result, however, the Commission proceeded to make various "adjustments" to the model-based result of 10.73%. While there may be times when adjustments to a model-based ROE are appropriate, the adjustments adopted in the Order are not supported by the evidentiary record and/or are against the manifest weight of the evidence. The Commission, on rehearing, should correct the Order by removing these adjustments. In particular:

The Commission should reject Staff's "financial risk adjustments". The financial risk adjustments to the model-based ROE of 10.73% that were proposed by Staff and approved by the Order rest on the unrealistic and empirically false assumption that the Utilities will with certainty recover their approved revenue requirements and, thus, their actual costs of service. As the ALJs recognized, these adjustments are based on hypothetical credit ratings that Staff develops for the Utilities based on the "theoretically unrealistic and historically unsupportable assumption that they will earn 100% of their revenue requirements." ALJ Bench Memo. (Dec. 11, 2009) at page 13. The reality is that utility earnings are inherently uncertain because their rates are based on estimated revenue requirements and their actual cost of service will inevitably vary from the estimates. Recent history teaches us, and investors, that the Utilities quite often do not earn their authorized returns. Moul Reb., NS-PGL Ex. PRM-2.0 Rev., at 32:626-631. (See, for example, the discussion relating to the Utilities' 2007 rate cases in the Introduction and Summary of this Application.)

The unrealistic hypothetical credit ratings are not the only problems with the financial risk adjustments. After creating those hypothetical ratings, Staff then compared "those fictional and idealized credit ratings to the average 'actual' credit ratings of the Gas Group" of gas utilities used as proxies to employ the cost of equity models. ALJ Bench Memo. (Dec. 11, 2009) at

page 13. As the Utilities' cost of equity expert observed: "It is inappropriate to compare the future opportunity provided to the Utilities in a rate case with the past achieved results for the Gas Group." Moul Reb., NS-PGL Ex. PRM-2.0 Rev. at 32:624-625 (emphasis in original). Such a comparison overstates the Utilities' financial performance and understates their financial risk relative to the Gas Group. *Id.* at 32:631-633.

In addition, the financial risk adjustments "double count" adjustments made to the Utilities' ROEs based on the approval of tracking riders. One cannot logically or correctly "adjust" for elimination of the same revenue-recovery risk twice – first as part of the "financial risk" adjustment that considers all risks to revenue recovery, and second based on rate riders that ensure recovery of only certain revenues. The ALJs, after considering the facts and arguments, in the end concluded that "a change is warranted" with respect to Staff's financial risk adjustments. ALJ Bench Memo. (Dec. 11, 2009) at page 14. The Commission did not make that change in the Order, but provided no reasoning for doing so, stating only that "Staff's arguments and Mr. McNally's testimony [are] persuasive on the matter." Order at page 128. The change should be made on rehearing. Eliminating the unfounded financial risk adjustments, and applying only the adjustments for the riders, would result in an authorized return on equity of each Utility of 10.53%, which is commensurate with the median returns recently authorized for other public utilities with which the Utilities compete for capital, the median returns presented to the Commission in this case, and the median returns based on all of the alternatives noted by the ALJs in their bench memorandum. NS-PGL Oral Arg. Exs. 1-3.

The Commission, alternatively, should reconsider the additional ROE adjustments made for the riders it approved. The financial risk adjustments, if they remain, would remove from the model-based costs of equity the effects of any risk of the Utilities not recovering their revenue

requirements and, thus, their costs of service. Yet, the Order also adopts Staff's additional downward adjustments for riders that, in the Order's view, reduces the Utilities' risk of not recovering certain portions of their revenue requirements. Order at 129. These rider adjustments are duplicative of Staff's overall financial risk adjustments. If all risk of under-recovering the revenue requirements has been adjusted for, there is no rationale for additional adjustments directed at the risk of only under-recovering certain revenues. Such duplicative adjustments wrongly reduce the Utilities' allowed costs of capital. In addition, the adjustment relating to the uncollectibles rider is inconsistent with the statutory scheme related to that rider. NS-PGL Reply Brief on Exceptions at pages 51-54. Eliminating these duplicative adjustments, rather than the financial risk adjustments, result in a 10.43% return for Peoples Gas (10.73% minus the 0.30% financial risk adjustment) and a 10.53% return for North Shore (10.73% minus the 0.20% financial risk adjustment). *See* Order at page 128.

The Utilities incorporate their prior arguments on the subject of the financial risk and rider adjustments, which establish in further detail that the financial risk adjustments are not warranted, are arbitrary and punitive, and duplicate the rider adjustments. NS-PGL Brief on Exceptions at pages 43-47 and Exception Nos. 15-16; NS-PGL Reply Brief on Exceptions at pages 51-54; NS-PGL Initial Brief at pages 100-105; NS-PGL Reply Brief at pages 67-68.

II. LABOR COST RECOVERY ISSUES

A. Incentive Compensation Costs

The Order adopts nearly all of Staff's proposed adjustments to the Utilities' incentive compensation costs. Order at pages 58-59; Order at App. A, pages 11-15; Order at App. B, pages 9-13. Those adjustments cumulatively wipe out nearly all of those costs, even costs associated with operational metrics that the Commission has approved in past cases, including

Peoples 2007. The Utilities recognize that Staff's recommendations were based on "standards" adopted by the Commission in a number of past rate cases, but the evidentiary record shows that the application of those standards here is unsound. The evidence is uncontradicted that the total compensation (including base pay plus incentive pay and other compensation and benefits) paid by the Utilities is prudent and reasonable. Disallowing prudent and reasonable compensation costs is not appropriate based on the evidence or the law. *See, e.g., Village of Milford v. Illinois Commerce Comm'n*, 20 Ill. 2d 556, 565 (1960) ("*Milford*") (affirming recovery of reasonable salaries). Moreover, the evidence shows that the metrics of the incentive compensation programs benefit customers as well as the Utilities. The Order in substance adopts Staff's view that only certain types of benefits "count", but that is arbitrary. The Commission's past standards for recovery of incentive compensation costs should not be applied when the evidence shows that they cannot be reconciled with the facts, including the only expert evidence on the subject of human resources management and the realities of the labor markets in which the Utilities operate. The Utilities incorporate their past briefing of this subject and the underlying evidentiary record referenced in that briefing. NS-PGL Brief on Exceptions at pages 11, 24-34 and Exception Nos. 3, 4, 8; NS-PGL Reply Brief on Exceptions at pages 13-15; NS-PGL Initial Brief at pages 12-13, 53-60; NS-PGL Reply Brief at pages 3, 28-35.

B. <u>Pension Asset/Liability, OPEB Liabilities</u>

The Order removes Peoples Gas' pension asset and North Shore's pension liability from rate base, while keeping their "OPEB" (other post-employment benefits) liabilities in rate base, as did the Commission's Order in *Peoples 2007*. Order at pages 35-37. The Order, as to the removal of the pension asset, is based on the theory that customers paid for the pension asset, and states in part: "Although the Utilities state that the pension asset was created with

shareholder funds, no evidentiary support was provided." *Id*. at page 36. That is incorrect both factually and legally. The Order's own recitation of Peoples Gas' evidence on this subject demonstrates that there is detailed evidence that the pension asset was paid for by its shareholders, not by customers. *See id*. at pages 25-27. Moreover, legally, utility customers pay for service, not for the property used to render it. *Board of Public Utility Commissioners, et al. v. New York Tel. Co.*, 271 U.S. 23 (1926). The Order relies on its incorrect finding that customers paid for the pension asset as its sole basis for distinguishing the Commission's decision to allow a utility a rate of return based on its cost of debt on its pension contribution in *In re Commonwealth Edison Co.*, ICC Docket No. 05-0597 (Order on Rehearing Dec. 20, 2006), *aff'd, Commonwealth Edison Co. v. Illinois Commerce Comm'n, et al.*, 2009 WL 3048420, ___ Ill. App. 3d ___ (2d Dist. 2009). *See* Order at page 36. Thus, the Order's conclusion (*id*.) that the Commission's affirmed decision in the 2005 ComEd rate case supports allowing Peoples Gas no return on its pension asset is incorrect. In addition, the Order pays no heed to Peoples Gas' point that the Commission, in the interests of employees and customers as well as utilities, as a matter of policy should encourage adequate pension plan funding, not send signals to do less. In its 2005 ComEd rate case Order on Rehearing, the Commission acknowledged that "the [pension] contribution assisted in providing adequate funding for the retirement obligations of ComEd's workforce and … ComEd's customers saved $30.2 million as a result of the contribution." *In re Commonwealth Edison Co.*, ICC Docket No. 05-0597 (Order on Rehearing Dec. 20, 2006), at page 28. Removal of the pension asset also is inconsistent with retaining the OPEB liabilities in rate base. *See, e.g.*, NS-PGL Initial Brief at pages 40-41, 44. Finally, the Order also disregards the impact of this disallowance on the utility's actual overall rate of return and ROE. Disallowance effectively reduces Peoples Gas' overall rate of return by roughly

67 basis points and its ROE by roughly 120 basis points.[10] The Utilities incorporate their past briefing of this subject and the underlying evidentiary record referenced in that briefing. NS-PGL Brief on Exceptions at pages 9-11, 18-23 and Exception Nos. 3, 4, 6; NS-PGL Reply Brief on Exceptions at pages 11-13; NS-PGL Initial Brief at pages 11-12, 40-45; NS-PGL Reply Brief at pages 17-23.

III. RIDER ICR (Conditional Request)

Peoples Gas presented strong evidence of the benefits of Rider ICR to customers and other stakeholders, including a faster pace of modernization of the gas infrastructure in Chicago, decreasing construction costs over time, creating operations and maintenance ("O&M") expense savings over time, and increasing the ability of the utility to seek financing of these projects at reasonable costs in the capital markets.[11] Peoples Gas proposed that the rider apply to accelerated main replacement costs incurred beginning in 2011, that the initial charges would be effective April 1, 2011, that the charges would provide only for partial cost recovery between rate cases[12], that O&M expense savings would be passed on to customers, and that the charges would be subject to a cap of 5% of base rate revenues.[13] Rider ICR was supported by intervenors, the City of Chicago and the Utility Workers Union of America, AFL-CIO, Local Union No. 18007, in their respective post-hearing briefs.

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[10] The above figures are derived from Peoples Gas' final revised Schedules C-1 (NS-PGL Ex. SM-3.1P) and B-1 (NS-PGL Ex. JH-3.1P) and the utility's final revised proposed overall ROR of 9.11% and ROE of 11.87% (NS-PGL Ex. BAJ-3.1P).

[11] The above points are set forth in much more detail in the evidentiary record. *E.g.*, Marano Dir., PGL Ex. SMD-1.0 Rev.; Schott Dir., PGL Ex. JFS-1.0 Rev. at pages 2-3.

[12] The long expected life of the replacement main meant that only a small fraction of the total replacement costs would be subject to recovery under the rider each year, and even then only between rate cases.

[13] The above points also are set forth in much more detail in the evidentiary record. *E.g.*, Grace Dir., PGL Ex. VG-1.0 at pages 35-36; PGL Ex. VG-1.1 at pages 87-93.

The Order found that approval of Rider ICR was amply warranted by the evidence and within the Commission's legal authority, although the Order directed certain changes in the rider. Order at pages 164-182. For example, with regard to the benefits of Rider ICR, the Order found:

> We find on the entirety of this record in this case, that Rider ICR reflects a "unique" system needing improvement (Marano testimony); a pressing public concern of "extraordinary" circumstance (City); a necessary safety initiative (Staff); a worker safety benefit (Union); and, a fluctuating cost matter (AG and Marano). The City of Chicago has it right. The Commission is in the position of removing disincentives to the acceleration of system modernization and it is the record that compels us to this end. All of what we have reviewed presents such an extraordinary and unique circumstance as upon which we might properly and should pragmatically exercise our legal authority to approve Rider ICR.

Order at page 178.

The Order approved a number of rider modifications proposed by Staff and agreed to by Peoples Gas, and further directed that Rider ICR be revised to provide for incremental cost recovery in the sense of cost recovery that began above a "baseline". Order at pages 179-180.[14] The Commission, in adopting the incremental cost approach, took into account concerns expressed by certain intervenors that customers not "finance" main replacement and about the "5% cap" feature of the rider creating the need for more frequent rate cases. *Id*. Pursuant to the Order, on February 16, 2010, Peoples Gas filed the compliance version of Rider ICR, which provides for a baseline of $51,850,000 based on the evidence in the record.[15] Ill. C. C. No. 28, Fifth Revised Sheet Nos. 130, 131, 132, 133, 134, 135, 136, 137, and 138.

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[14] Rider ICR as proposed already was incremental in three other respects as indicated above, *i.e.*, it was limited to accelerated main replacement costs beginning in 2011, it only provided for partial cost recovery between rate cases, and it was subject to a 5% of base rate revenues cap. Each of those provisions remains in the compliance version of Rider ICR referenced later in the above paragraph.

[15] The record evidence demonstrated that Peoples Gas' legacy 50 year main replacement plan is based on a forecasted replacement rate of 45 miles of cast iron/ductile iron per year. *See, e.g.*, Doerk Surrebuttal ("Sur."), NS-PGL Ex. ED-3.0 at pages 4-6; Marano Dir., PGL Ex. SDM-1.0 Rev. at page 49; PGL Ex. SDM-1.15; Doerk Transcript ("Tr.") at pages 590-594; Marano Tr. at pages 829-831, 860, 884-885. The record evidence also showed that the utility's original forecasted actual cost per mile of main replaced (used in its 2010 test year) based on its

The evidence of Rider ICR's benefits is overwhelming and the Commission's approval of the rider is well within its legal authority. Peoples Gas believes that the evidence shows that it would be preferable for Rider ICR not to be modified by the addition of the "baseline" provision, because the rider's diminishment of the financial disincentives for accelerated main replacement is lessened by the baseline provision. However, Peoples Gas also believes that the Commission acted within its authority in adding the baseline provision, and the utility is not seeking rehearing on that issue, except conditionally in the event that the Commission on rehearing (or re-opening) entertains this subject.[16]

IV. TECHNICAL CORRECTIONS

The Order contains the following typographical errors of the kind that the Commission might wish to correct, although they do not alter the Commission's rulings or the resulting compliance tariff filings.

- On page 7 of the Order, under Section III. A., the amount of North Shore's revenue increase should be changed from $12,974,000 to $13,867,000. This correction is needed to properly reflect the Commission's Order. *See* Order at Appendix B, p. 1.
- On page 7 of the Order, under Section III. B., the amount of Peoples Gas' revenue increase should be changed from $63,601,000 to $69,803,000. This correction is needed to properly reflect the Commission's Order. *See* Order at Appendix A, p. 1.

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legacy plan was $1,152,173.91. *See* Doerk Rebuttal ("Reb."), NS-PGL Ex. ED-2.0 at page 5, lines 98-103 (92 miles at $106 million = $1,152,173.91 per mile). Thus, the baseline per year for legacy costs from the utility's 50 year plan is $51,847,826 (45 miles x $1,152,173.91 per mile = $51,847,825.95), which has been rounded up to $51,850,000 in the compliance Rider ICR.

[16] In the event that any intervenor in their application for rehearing challenges the Order as to the baseline provision as such or as to the rider as a whole based at least in part on the baseline provision, and the Commission were to grant rehearing on that subject (or were to re-open the issue), then the utility does not waive its right to contend on rehearing (or re-opening) that the rider should be approved without the baseline provision. The Utilities also do not waive any rights as to issues and arguments on this subject that they may advance or present as responses on appeal.

- On page 37 of the Order, under Section IV. I., Approved Rate Base (in thousands), the amount of cash working capital for Peoples Gas should be changed from $34,002 to $34,298 and for North Shore should be changed from $819 to $847. This correction is needed to properly reflect the Commission's Order. *See* Order at 24; Appendix A, pp. 5 and 19, and Appendix B, pp. 4 and 17.

- On page 37 of the Order, under Section IV. I., Approved Rate Base (in thousands), the amount of total rate base for Peoples Gas should be changed from $1,201,130 to $1,201,426 and for North Shore should be changed from $183,075 to $183,103. This correction is needed to properly reflect the Commission's Order. *See* Order at Appendix A, p. 5, and Appendix B, p. 4.

- On page 126 of the Order, in the last sentence of the first full paragraph, the Utilities suggest that the word "unadjusted" be inserted between "Staff's" and "11.76%." Thus the last sentence would state: "This means that the Commission will average the Utilities' unadjusted 10.67% constant growth DCF estimate with Staff's unadjusted 11.76% constant growth DCF estimate." The Utilities suggest this correction as it properly describes 11.76% as the unadjusted result had Staff used a constant growth DCF estimate. *See* Moul Reb., NS-PGL Ex. PRM-2.0, 14:284-294, 22:433-447; Order at 125.

- On page 276 of the Order, under Section XIV, Finding Orders and Paragraphs, the second ordering paragraph contains the wrong date. The date of the proposed tariffs should be changed from March 9, 2007 to February 25, 2009. Thus, the second ordering paragraph should state: "IT IS FURTHER ORDERED that the proposed tariffs seeking a general rate increase, filed by The Peoples Gas Light and Coke Company and North Shore Gas Company on February 25, 2009 are permanently cancelled and annulled." *See* Order at page 1.

THEREFORE, North Shore Gas Company and The Peoples Gas Light and Coke Company respectfully submit this Application for Rehearing and request that the Commission enter appropriate relief.

Dated: February 19, 2010

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