DIRECT TESTIMONY

of

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Accountant

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Proposed General Increase in Gas Rates

North Shore Gas Company

And

Peoples Gas Light and Coke Company

Proposed General Increase in Gas Rates

Docket Nos. 11-0280/11-0281

June 15, 2011

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Witness Identification

Q. Please state your name and business address.

A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am currently employed as an Accountant in the Accounting Department of the Financial Analysis Division of the Illinois Commerce Commission (“ICC” or “Commission”).

Q. Please describe your professional background and affiliations.

A. I have a Bachelor of Science degree in Accounting from Quincy College. I am a Certified Public Accountant, licensed to practice in the State of Illinois. My prior accounting experience includes fifteen years as the corporate controller of a large long-term care facility in Illinois, as well as a period of time employed as an outside auditor of governmental agencies. I joined the Staff of the Illinois Commerce Commission (“Staff”) in April 1999.

Q. Have you previously testified before any regulatory bodies?

A. Yes. I have testified on multiple occasions before the Commission.

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

A. I have reviewed and analyzed North Shore Gas Company's ("North Shore") and Peoples Gas Light and Coke Company's ("Peoples Gas") (individually, the "Company" and collectively "Companies") filings, and the underlying data.

The purpose of my testimony is to:

1. Propose adjustments to the Statement of Operating Income and Rate Base concerning Pension Asset, Incentive Compensation, Non-Union Wage Adjustments, Materials and Supplies Inventory, Gas in Storage, Interest on Customer Deposits and Budget Payment Plan Balances;
2. Present the schedules reflecting the adjustments to Solicitation Revenue and Repairs Revenue proposed by Staff witness Sackett;
3. Discuss the inflation rate used by the Companies to project costs for its future test year; and
4. Propose revisions to the language proposed for Rider VBA for each Company.

Schedule Identification

Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 3.0?

A. Yes. I am sponsoring the following schedules for the Company, which shows data as of, or for the test year ending December 31, 2012:

Schedules 3.1 N and P	Adjustment to Pension Asset
Schedules 3.2 N and P	Adjustment to Incentive Compensation
Schedules 3.3 N and P	Adjustment to Non-Union Wages

Schedules 3.4 N and P	Adjustment to Materials and Supplies Inventory
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Schedules 3.7 N and P	Adjustment to Interest on Customer Deposits
Schedules 3.8 N and P	Adjustment to Solicitation Revenues
Schedules 3.9 N and P	Adjustment to Repair Revenue

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

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

<u>Pension Asset</u>

Q. Please describe Schedules 3.1 N and P, Adjustment to Disallow Pension Asset.

A. Schedules 3.1 N and P present my adjustments to remove the Pension Asset and related Accumulated Deferred Income Taxes proposed for Rate Base recovery by the Companies.

Q. What is your basis for the disallowance of the Pension Asset in rate base?

A. The pension asset should not be included in rate base because it was not created with funds supplied by shareholders. Rather, the pension asset has been funded from normal operating revenues collected from utility ratepayers and represents funds supplied by ratepayers, as evidenced by the Companies' responses to Staff data requests ("DR") TEE 9.01 and TEE 9.02 (Attachments A and B). The only source of funds provided in those responses is "cash provided by operating activities" or cash provided by ratepayers. Since the pension asset was funded by normal operations, rather than provided by shareholders, shareholders should not earn a return on it.

Accordingly, my adjustment removes the impact of the pension asset from rate base, along with related accumulated deferred income taxes for North Shore and Peoples Gas (ICC Staff Exhibit 3.0, Schedule 3.1 N and P).

Q. Did the Commission address the Pension Asset issue in the prior Peoples Gas and North Shore consolidated gas rate cases?

A. Yes. In the Companies' 2009 rate case, Docket Nos. 09-0166/09-0167 (Cons.), the Commission found that, consistent with its decision in the 2007 rate case, the accrued OPEB liability should be deducted from rate base but that the pension balances should not be recognized in the determination of rate base (regardless of whether they are assets or liabilities).[1]

In Docket Nos. 07-0241/07-0242 (Cons.), the Commission supported Staff's position that excluded the pension asset from rate base and also concluded that contributions to the pension plan made by the Companies during the historical test year should not impact the treatment of the OPEB liability, nor should such

[1] Docket Nos. 09-0166/09-0167 (Cons.), Order, January 21, 2010, pp. 35-37.

contributions to the pension plan impact shareholders by being reflected in rate base.[2]

Q. Did the Companies address the prior Commission Orders in their testimony?

A. Yes, Company witness Phillips cited the prior Commission Orders and the Companies' reasons for including the pension asset/liability in the instant proceeding. In her direct testimony (PGL Ex. 11.0, p. 13, lines 274-285), Ms. Phillips stated:

> Peoples Gas acknowledges that the Commission ruled that its pension asset should not be included in rate base [in] its last two general rate cases (ICC Docket Nos. 07-0242 and the 2009 Rate Case), and that the Commission also did not permit Commonwealth Edison Company ("ComEd") to include its pension asset in rate base in ICC Docket Nos. 05-0597 and 07-0566 but did allow ComEd to recover a debt rate of return on its 2005 pension contribution (later affirmed by the Illinois Appellate Court). Peoples Gas believes that inclusion of its pension asset in rate base is warranted and therefore is proposing inclusion in this proceeding. Peoples Gas has a pending appeal on this issue in the appeals from the Orders in its last two general rate cases. In order to preserve its rights in light of these pending proceedings, Peoples Gas proposes that its pension asset be included in rate base.

Q. How do you respond to Ms. Phillips's statements?

A. Ms. Phillips's testimony does not provide any new rationale or facts to support the Companies' stated belief that inclusion of the pension asset in rate base is "warranted" after having been rejected in the last two rate cases. She simply states that inclusion of the pension asset in rate base is warranted.

[2] Docket Nos. 07-0241/07-0242 (Cons.), Order, February 5, 2008, p. 36

While the Companies note that ComEd was allowed to recover a return on its pension contribution in Docket No. 05-0597 ("2005 ComEd case"), the facts in that case are not analogous to the facts in this case.

Q. Please discuss the differences between the 2005 ComEd case and the current case.

A. In the 2005 ComEd case, a contribution was made to the Pension Trust by Exelon, ComEd's parent Company, in order to fully fund ComEd's pension at that point in time. ComEd argued that Exelon made the contribution because it had the funds available and ComEd, because of its financial rating, was not in a position to borrow the funds needed to fully fund the trust. In the decision that was made on Rehearing in the 2005 ComEd case (which was upheld on appeal), the Commission recognized that ComEd had incurred a cost and that customers have derived some benefit as a result of the pension contribution. The Commission cautioned though that in doing so, it was not sanctioning the prefunding of a utility pension plan as a mechanism to increase base rates.[3]

In the Peoples' Gas case, the Company did not make a contribution to its pension trust but continued to reflect a pension asset due to prior contributions and earnings on the trust account. The source of those funds has been found to be provided by ratepayers in the last 2 prior Peoples rate cases.

In the case of North Shore, the Company states that the contribution to the pension trust in 2010 was made from "internally-generated" funds. Upon further

[3] Docket No. 05-0597, Order on Rehearing, December 20, 2006, p. 28

explanation, those funds are characterized as "cash provided from operating activities"[4] or as explained earlier in my testimony, cash which came from ratepayers. There is no evidence in this case that the funds which created the pension asset were from any source other than ratepayers.

Q. Has the Commission addressed the issue of pension asset treatment in other ratemaking proceedings?

A. Yes a few, including Nicor Gas Docket Nos. 04-0779, 95-0219 and the recent ComEd rate case, Docket No. 10-0467. In Docket No. 04-0779 and Docket No. 95-0219, Nicor Gas sought to increase utility rate base for the amount of a prepaid pension asset. In both cases the Commission found that the pension asset was created by ratepayer-supplied funds, not by shareholder-supplied funds. The Commission concluded that ratepayers should not be denied the benefits associated with the previous overpayment for pension expense which they funded. Accordingly, the Commission concluded that the pension asset should be eliminated from rate base.

In Docket No. 10-0467, the recent ComEd rate case, the Commission, as it did in the 2005 ComEd rate case, did not allow a pension asset in rate base but did allow for the recovery of a pension prepayment in the revenue requirement but limited to the extent of ratepayer benefit.[5]

[4] Attachments A and B
[5] Docket No. 10-0467, Order, May 24, 2011, p. 51.

<u>Incentive Compensation</u>

Q. Please describe Schedules 3.2 N and P, Adjustment to Incentive Compensation.

A. Schedules 3.2 N and P reflect my proposed adjustments to reduce each Companies' operating expenses and rate base for incentive compensation expenses. The adjustment is comprised of the following four subparts, reflected on Schedules 3.2 N and P, pages 2 through 5, and summarized on page 1 of Schedules 3.2 N and P:

1) Disallowance of Executive Incentive plan costs related to shareholder-oriented goals, Company affiliate-performance goals, and goals tied to financial performance;
2) Disallowance of Non-Executive Incentive plan costs related to shareholder-oriented goals, Company affiliate-performance goals, and goals tied to financial performance;
3) Disallowance of Stock plan costs related to shareholder-oriented goals; and
4) Removal of capitalized incentive compensation costs previously disallowed by the Commission.

As I explain more fully below, the Companies have not demonstrated that these costs provide tangible net benefits to ratepayers in order to prove that the recovery of these incentive compensation costs is just and reasonable.

Q. Please summarize your disallowance of the Companies' Executive Incentive plan costs related to shareholder-oriented goals, Company affiliate goals, and goals tied to financial performance, as reflected on Schedules 3.2 N and P, page 2.

A. I have made the following disallowances to incentive compensation expense for the Executive Incentive plan:

- 70% because 70% of the payout is based upon the achievement of the annual Integrys Energy Group Consolidated Diluted Earnings Per Share - Adjusted[6];
- 27% (for both Peoples Gas and North Shore) of the remaining Executive Incentive plan expense as an estimate for the performance goals that are based upon achievements of Peoples Gas' and North Shore's affiliates; and
- 50% of the remaining Executive Incentive plan expense performance goals which are tied to Integrys Energy Group's net income.

The end result is a disallowance of approximately 96% and 97% respectively [$1,310,000 of $1,364,000 (Peoples Gas) and $202,000 of $210,000 (North Shore)] of the Executive Incentive plan costs the Companies propose to recover in the revenue requirement since those costs were not shown to benefit ratepayers.

Q. Please provide your rationale for disallowing 70% of the costs of the Executive Incentive plan that is based upon the achievement of stated financial measures

[6] Companies responses to Staff Data Request TEE 12.04 Attach 01 Public, (Attachment C)

of the above-stated entities.

A. The incentive compensation expense is based upon the achievement of financial goals such as Diluted Earnings per Share which primarily benefit shareholders and not ratepayers, and therefore should be excluded from rate recovery.

Q. Do the performance goals included in the Executive Incentive plan also include goals based upon results of Peoples Gas' and North Shore's affiliates?

A. Yes. The IBS incentive compensation costs, which are further allocated to the test year, measure achievement of performance goals based on Minnesota, Michigan, Upper Peninsula, and Wisconsin utilities performance results in addition to Peoples Gas' and North Shore's results[7]. Therefore, these groups could generate incentive compensation expense because performance goals are met in those states but not necessarily for achievements by Peoples Gas or North Shore.

Q. How did you calculate the 27% (Peoples Gas and North Shore) disallowances?

A. These amounts represent the ratio of the Companies' IBS incentive compensation expense for the Executive Incentive plan to the total Executive Incentive plan cost. (See Schedules 3.2 N and P, page 2, lines 10-12)

[7] Company response to Staff data request TEE 12.05 SUPP.

Q. Provide your rationale for disallowing 50% of the of the remaining Executive Incentive plan expense associated with performance goals that are tied to the Integrys Energy Group net income.

A. In 2011, the plan changed so that if the diluted EPS adjusted threshold is not reached, any earned non-financial measure payouts will be reduced by 50%. (Attachment C) This calls into question the accuracy of the test year forecast that the performance goals will be paid out at the 100% target level.

Q. Please provide the rationale for your recommended disallowance of the Companies' Non-Executive Incentive plan costs related to shareholder-oriented goals, performance goals unlikely to be achieved, Company affiliate goals, and performance goals tied to financial goals as reflected on Schedules 3.2 N and P, page 3.

A. The structure of the Non-Executive Incentive plan is similar to the Executive Incentive plan. The main differences are the weighting of the financial goals (called O & M Expense for the non-executive plan) versus performance of non-financial goals, and the estimated proportionate share of performance goals costs based upon the Companies' affiliates' goals. First, the weighting of the O & M Expense measure is 50/50 for the Non-Executive Incentive plan, rather than 70/30 for the Executive Incentive plan. (Companies' Exhibits PGL Ex. 9.1 and NS 9.1) Second, the estimated disallowance for Company affiliate goals based upon the ratio of the Companies' IBS incentive compensation expense for the Non-

Executive Incentive plan to the total Non-Executive Incentive plan cost are 44% and 46% for Peoples Gas and North Shore, respectively. (See Schedules 3.2 N and P, page 3)

Q. How did the Companies address the disallowance of financial goals related to the Non-Executive plan from the prior rate case?

A. In his direct testimony, Company witness Hoover described changes to the Non-Executive incentive compensation plan as follows:

> The Peoples Gas incentive plan as redesigned is based only on metrics focused on providing benefits to customers in the form of **reduced expenses**, creating greater efficiencies in operations, increasing customer satisfaction and improving reliability. In designing the Peoples Gas incentive plan, Peoples Gas removed those aspects of its former non-executive incentive plan that the Illinois Commerce Commission ("Commission") found not to be recoverable in Peoples Gas' last rate case. As designed, the Peoples Gas incentive plan can reasonably be expected to provide tangible net benefits to ratepayers so that the recovery of the costs for Peoples Gas' incentive plan would be just and reasonable. (PGL Ex. 9.0, pp. 1-2, lines 22 – 30 and similar language at NS Ex. 9.1, pp. 1-2, lines 22 - 30)

Q. How do you respond?

A. While the Companies claim they have removed the aspects of their former non-executive plan that the Commission found not to be recoverable, all that was really done is to change the description of the financial metric. The measure described as "Integrys Energy Group-Utility and IBS FERC-based non-fuel Operation and Maintenance (O&M) expense – Adjusted Before Annual

Incentives" does not in reality reflect reduced expenses, as Mr. Hoover's testimony implies. Rather, the measure simply compares the combined utility and IBS FERC-based O&M budget with the combined utility and IBS FERC-based O&M included in the audited financial statements for 2011. Since the budget which provides the basis for the test year does not identify overall cost savings, I do not accept that this metric provides the ratepayer benefit claimed by the Company.

In addition, since the metric is calculated on a combined utility basis, it includes amounts for the affiliates operating outside of Illinois. Thus, the Illinois ratepayers could potentially be subsidizing incentive compensation costs for non-Illinois ratepayers in the event that the Illinois utilities performed exceptionally well compared to budget. Or in the alternative, if the Illinois utilities exceeded budgeted O&M costs while overall the targets are met, the ratepayers could be funding incentive compensation without receiving any of the promised benefit.

Q. Has the Commission addressed cost recovery based on budgeted costs in recent proceedings?

A. Yes. In the recent order in ComEd Docket No. 10-0527, the Commission discussed its concern with using budgets as measures for performance.

> The Commission is similarly unenthusiastic about ComEd's proposal. ComEd has tremendous control over the budget and there is not sufficient transparency to determine if the proposed budgets are reasonable. Under the Rate ACEP tariff, ComEd is rewarded for inflated budgets. ComEd has presented no defined

> standard against which its performance can be measured. **A budget proposed by ComEd is simply not an appropriate standard to judge utility performance** and thus fails to conform to option (ii). (Docket No. 10-0527, Order, May 24, 2011, p. 19) (emphasis added)

> With respect to the incentive to inflate its budgets, ComEd states that it would be illogical for it to do so because it stands to gain so little because the dollar amounts being requested are so small. (ComEd Reply Brief at 1, 18, 20). Similarly, ComEd says it would not risk its regulatory reputation for so little. (ComEd Reply Brief at 2). The Commission does not find ComEd's arguments convincing. The potential gain may be small for these initial projects as noted by ComEd, but if Smart Grid costs are subject to Alt Reg recovery, much larger sums will be at issue. The Commission is persuaded by Staff witness Rearden's testimony that "ComEd has a strong incentive to overestimate the budget" and that "there appears to be nothing in Rate ACEP to prevent ComEd from strategically declaring a project complete to reap benefits from the incentive scheme." (Staff Ex. at 19, 22). The Commission is wary of approving an Alt Reg program that provides a utility the ability to manipulate data or information provided to the Commission. (Id., p. 20)

Q. What is the impact of your proposal to disallow costs related to the Non-Executive Incentive Plan?

A. My adjustment for the Non-Executive Incentive plan is based upon the same facts and arguments discussed above. The result disallows approximately 72% (Peoples Gas) and 89% (North Shore) of the operating expense and rate base [$3,162,000 of $3,389,000 (Peoples Gas expense); $707,000 of $982,000 (Peoples Gas rate base) and $733,000 of $1,026,000 (North Shore expense) and $125,000 of $171,000 (North Shore rate base)] Non-Executive Incentive plan costs the Companies propose to recover in the revenue requirement but have not shown to benefit ratepayers.

Q. Please provide the rationale for your recommended disallowance of the Companies' Omnibus Incentive Compensation plans related to shareholder-oriented goals, as reflected on Schedules 3.4 N and P, page 4.

A. I have disallowed the Companies' Omnibus Incentive Compensation plan costs related to shareholder-oriented goals because the goals are based on financial measures that primarily benefit shareholders and not ratepayers. In response to Staff DR TEE 12.02, the Company acknowledges that there have been no changes to these plans since the last rate case filed in 2009. Information provided in the 2009 case explained that the three stock plans are awarded based on the following financial outcomes:

1. The Integrys Restricted Stock Unit Award plan is valued solely using the stock price of Integrys Energy Group, Inc.
2. The Integrys Performance Stock Right Agreement plan is valued using a model comparing Integrys Energy Group, Inc.'s stock price, shareholder returns, total stock return volatility and dividend yield with a peer group.
3. The Integrys NonQualified Stock Option Agreement plan is valued using a model comparing Integrys Energy Group, Inc.'s stock return volatility and dividend yield.

(Docket 09-0166/-167, Staff Ex. 1.0, p. 15 - 16)

The result disallows 100% or $3,129,000 (Peoples Gas) and $544,000 (North

Shore) of the Omnibus Incentive Compensation plan costs that the Companies propose to recover in the revenue requirement but have not shown to benefit ratepayers.

Q. Please provide the rationale for your recommended disallowance of capitalized incentive compensation previously disallowed by the Commission, as reflected on Schedules 3.2 N and P, page 5.

A. In the Companies’ last two rate cases, Docket Nos. 09-0166/09-0167 (Cons.) and 07-0241/07-0242 Cons., the Commission disallowed a portion of the Companies’ capitalized incentive compensation. (09-0166/0167 Order Appendix A, p. 13/ Appendix B, p. 11 and 07-0241/0242 Order pp. 66-67) The Companies did not make any entries, though, to remove the disallowed amount from rate base. (Companies’ responses to Staff DR TEE 1.11) Therefore, the previously disallowed capitalized incentive compensation is included in the test year rate base and should be removed in accordance with the Commission’s prior order.

Q. Has the Commission previously disallowed costs of incentive compensation because the goals are based on financial measures that primarily benefit shareholders and not ratepayers?

A. Yes, in fact in the Companies’ most recent rate case, Docket Nos. 09-0166/09-0167 (Consol.)., the Commission concluded that incentive compensation costs are recoverable in rates only if the utility demonstrates tangible benefits to ratepayers:

> Incentive compensation related to financial goals, affiliate goals or shareholder goals should not be recoverable from ratepayers. The Commission has long held that costs related to incentive compensation are recoverable in rates only if the utility demonstrates tangible benefits to ratepayers. *See, e.g., Docket 03-*0403 at 15 ("[T]o recover incentive compensation, the plan must confer upon ratepayers specific dollar savings or other tangible benefits. Furthermore, the degree of benefit that accrues directly to ratepayers, rather than to other stakeholders, is a significant factor in determining whether incentive compensation should be recovered in rates."); *Docket 01-0696* at 10 (requiring evidence of "specific dollar savings or any other tangible benefit for the ratepayers"); *Docket 01-0432* at 42-43 ("the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations. … [I]f a utility is seeking to recover such projected expenses from ratepayers, the utility should demonstrate that its plan can reasonably be expected to provide net benefits to ratepayers."). The utility bears the burden to establish that such tangible benefits accrue to ratepayers, in order to prove that the recovery of incentive compensation costs is just and reasonable. See 220 ILCS 9-201(c).
>
> (ICC Docket Nos. 09-0166/09-0167 Cons., (Order, January 21, 2010) p. 58)

Specifically, the Commission denied cost recovery of the Short-Term Incentive Compensation, Affiliate Charges, and Restricted Stock & Performance Shares plans because the Companies failed to demonstrate direct ratepayer benefit. Similar findings were made in the Companies' 2007 rate case concerning incentive compensation costs. (ICC Docket Nos. 07-0241/07-0242 Cons., (Order, February 5, 2008) pp. 66-67)

Q. Has the Commission made any other rulings in any other proceedings regarding the rate recovery of incentive compensation costs if ratepayer benefit was established?

A. In the Northern Illinois Gas Company ("Nicor") rate case, Docket No. 04-0779, the Commission discussed several prior orders in its conclusion that incentive compensation costs are recoverable in rates only if the utility demonstrates tangible benefits to ratepayers:

> Costs related to incentive compensation are recoverable in rates only if the utility demonstrates tangible benefits to ratepayers. (*See,* e.g., 03-0403 at 15 ("[T]o recover incentive compensation, the plan must confer upon ratepayers specific dollar savings or other tangible benefits. Furthermore, the degree of benefit that accrues directly to ratepayers, rather than to other stakeholders, is a significant factor in determining whether incentive compensation should be recovered in rates."); 01-0696 at 10 (requiring evidence of "specific dollar savings or any other tangible benefit for the ratepayers"); 01-0432 (Mar. 28, 2002) at 42-43 ("the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations. … [I]f a utility is seeking to recover such projected expenses from ratepayers, the utility should demonstrate that its plan can reasonably be expected to provide net benefits to ratepayers.") The utility bears the burden to establish that such tangible benefits accrue to ratepayers, in order to prove that the recovery of incentive compensation costs is just and reasonable. (*See* 220 ILCS 9-201(c).) (ICC Docket No. 04-0779, (Order, September 20, 2005) p. 44)

In Illinois-American Water Company's ("IAWC") general rate case, the Commission Conclusion begins with a summary of the Commission's policy on incentive compensation:

> The Commission has consistently disallowed recovery of payouts that are tied to overall company financial goals. As is apparent from previous rate orders, the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations which provide net benefits to ratepayers. In this case, no such showing has been made by IAWC. (ICC Docket No. 07-0507 (Order, July 30, 2008) p. 25)

The Commission denied rate recovery of 100% of IAWC's annual incentive plan costs including performance goals since they were dependent on IAWC's corporate parent reaching its financial earnings goals. Id., pp. 25-26.

Q. Has the Commission remained consistent in its denial of incentive compensation expense for costs associated with achievement of financial goals?

A. Yes. In Docket No. 07-0566 concerning ComEd, the Commission disallowed 100% of ComEd’s Annual Incentive Plan (“AIP”) net income goals.

> Regarding ComEd’s AIP’s Net Income Metric, the Commission agrees with Staff’s proposed adjustment disallowing 100% of AIP costs related to the financial net income goal which primarily benefits shareholders. ComEd’s net income goals are financially based and primarily result in shareholder benefits. The Commission has repeatedly held that the cost of financial goals should not be paid by ratepayers. (ICC Docket No. 07-0566 (Order, September 10, 2008) p. 61)

In the more recent Nicor general rate case, Docket No. 08-0363, Nicor agreed to remove the costs of all its financially based plans except one, the Incentive Compensation Units (“ICU”) plan. The Commission concluded that it, too, was tied to financial goals and denied cost recovery of the ICU expense:

> Although the ICU Plan was created and administered in accordance with Commission policies, the Commission finds that the evidence does not demonstrate that the costs related to the Company's ICU Plan are just and reasonable. The plan is no longer in effect and payout under the Plan is tied to financial goals. Recent Commission orders have set forth the requirements that incentive compensation plans demonstrate tangible benefits to ratepayers, and that incentive compensation not be based on shareholder goals. (ICC Docket No. 08-0363 (Order, March 25, 2009) p. 28)

The Commission further elaborated on its policy to deny recovery of costs for goals based on achievement of financial metrics in its Ameren order, Docket Nos. 07-0585 et al. (Cons.):

> If during the period that the rates approved herein are in effect, however, the incentive compensation plans are revised such that financial goals of Ameren become the payment trigger for a greater portion of the plans, the Commission will not look favorably on incentive compensation expenses in AIU's next rate cases. The Commission is allowing AIU to recover 50% of its incentive compensation expenses with the understanding that at least 50% of the payments made thereunder will be based on performance or goals other than Ameren's financial goals. (ICC Docket Nos. 07-0585/07-0586/07-0587/07-0588/07-0589/07-0590 (Cons.), (Order, September 24, 2008) p. 108)

Older Commission orders reflect similar conclusions. In Docket No. 93-0183 concerning Illinois Power Company, the Commission concluded that, since financial goals benefit shareholders, ratepayers should not have to bear the costs of incentive compensation plans tied to financial goals:

> Two of the goals, earnings per share and reduced O & M expenses are goals that benefit shareholders. If the shareholders are the ones to benefit, they should be the ones who foot the bill. (ICC Docket No. 93-0183 (Order, April 6, 1994) p. 52)

And, in Docket No. 99-0534 concerning MidAmerican Energy Company, the Commission reached a similar conclusion regarding ratepayer benefit from incentive compensation based on financial goals:

> The Commission is not convinced that the ratepayers are protected in the event that the targeted return on capital investment is not achieved. Ratepayers would still fund the projected levels of incentive compensation even if that level is not achieved. (ICC Docket No. 99-0534 (Order, July 11, 2000) p. 9)

Q. Please discuss additional orders wherein the Commission required a demonstration of ratepayer benefits in order for incentive compensation expense to be included in the revenue requirement.

A. In Docket No. 01-0432, Illinois Power Residential DST (Order, March 28, 2002, p. 42), the Commission concluded that Illinois Power should not be allowed to recover from ratepayers the expenses associated with its incentive compensation plan because the Company did not demonstrate that the plan provides net benefits to ratepayers.

The Commission's policy to disallow incentive compensation plan costs when the plans do not provide a ratepayer benefit is further demonstrated in Docket No.00-0802 (AmerenCIPS/AmerenUE DST, Order, December 11, 2001 pp. 18-19):

> First, as Staff has argued, the Commission has generally disallowed such expenses except where the utility has demonstrated that its incentive compensation plan has reduced expenses and created greater efficiencies in operations. For example, in its Order in the CILCO proceeding in Dockets 99-0199/99-0131 (Cons.), the Commission disallowed such

> expenses, and in doing so stated on pages 37-38, "The Commission remains convinced that such expenses are not recoverable in the absence of any evidence that the . . . Plan benefits ratepayers." In the limited number of cases in which such expenses were allowed, those companies had historical patterns of paying incentive compensation and were able to demonstrate that the incentive compensation payments provided benefits to ratepayers. Generally speaking, the Commission believes that if a utility is seeking to recover such projected expenses from ratepayers, the utility should demonstrate that its plan can reasonably be expected to provide net benefits to ratepayers. In the instant case, while Ameren has provided test year amounts for the expenses purportedly associated with its incentive compensation plan, as discussed below, it has not demonstrated that its plan has provided or will provide net benefits to ratepayers. ….
>
> …Accordingly, while the Commission believes that incentive compensation plans have the potential to provide benefits in terms of improving performance and reducing costs, and that the recovery of expenses associated with incentive compensation plans may be appropriate in some circumstances, the Commission concludes, for the reasons set forth above, that Ameren should not be allowed to recover from ratepayers the expenses associated with its current incentive compensation plan as requested in this docket. (ICC Docket No. 00-0802 (Order, December 11, 2001) p. 19)

Also, in its Order dated November 21, 2006, in Docket Nos. 06-0070/06-0071/06-0072 (Consolidated), Ameren DST proceeding, the Commission stated as follows in denying the recovery of incentive compensation expenses:

> For the Commission to include **any** portion of incentive compensation costs in approved operating expenses, Ameren must demonstrate that the plan confers upon ratepayers specific dollar savings or other tangible benefits. As Staff notes, the Commission has generally disallowed recovery of incentive compensation costs except where the utility has demonstrated that its ICP has reduced expenses and created greater efficiencies in operations, as was done in Dockets No. 05-0597, 03-0403, 97-0351 and 95-0219. Consistent with those decisions,

> we are disallowing funding measures that primarily depend on meeting financial goals. In this case all three funding measures rely on earnings per share ("EPS") targets and therefore all operational goals are dependent upon meeting the EPS target first. (Docket Nos. 06-0070/0071/0072 (Consolidated), (Order, November 21, 2006 p. 72) (emphasis added)

Q. Are there any additional conclusions from prior Commission orders concerning incentive compensation expense?

A. Yes. The Commission has also expressed concern that incentive compensation expenses are discretionary in nature and may be discontinued or reversed by the Company at any time in the future. This concern is evident in its Orders in the following dockets:

> [T]he Commission is concerned that ratepayers are not protected if IP fails to achieve the financial goals and incentive compensation payments are not made. Under that scenario, ratepayers would still pay for the incentive compensation plan if IP's position were adopted. (ICC Docket Nos. 99-0120/99-0134 (Cons.), (Order, August 25, 1999) p. 44)

> [T]he Commission is not persuaded that ratepayers are protected in the event that the targeted return on capital investment is not achieved. Under CILCO's proposal, ratepayers would still fund the test year level of incentive payments even if that level is not achieved. While failure to achieve the efficiencies that would result in the projected level of incentive payments may penalize individual managers, ratepayers receive no benefit from this "penalty." Shareholders, on the other hand, would benefit. (ICC Docket Nos. 99-0119/99-0131 (Cons.) (Order, August 25, 1999) p. 38)

<u>Non-union Wages</u>

Q. Please describe Schedules 3.3 N and P, Adjustment to Non-union Wages.

A. Schedules 3.3 N and P present my adjustments to change the increase for non-union wages to a more reasonable amount.

My adjustment is calculated using the 3% granted in February 2011 for 2011 pay increases and the 2011-2015 Consumer Price Index ("CPI") inflation rate of 2.35% as forecasted by the *Survey of Professional Forecasters* ("*Survey*")[8] for the 2012 pay increases. I used these rates to escalate the Companies' 2010 actual non-union base wages to determine test year non-union base wages.

Q. What is the Companies' proposed test year percentage increase in non-union base wages?

A. Non-union base wages were forecast to increase 3.9% in each calendar year 2011 and 2012 over 2010 levels. (Schedule G-5, page 3 of 7) The Companies' rationale for the forecast was provided as follows:

> "Salary increase budget recommendations are supported by market data and are provided to Integrys Senior Leadership each year. Market data for 2011 suggested the low 3% range for salary increases to be given by utility companies.
>
> The Integrys 3.9% salary increase budget for 2011 covering non-union employees was meant to cover all salary increases for 2011, including merit, special adjustments, promotions, etc. In particular, 3.3% was meant to cover merit and the remaining balance of .6% was meant to cover all other increases. 3.9% was also assumed for the 2012 test year.

[8] Second Quarter 2011 report, as produced by the Research Department of the Federal Reserve Bank of Philadelphia, *Survey of Professional Forecasters*, http://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2011/survq211.cfm, May 13, 2011. The *Survey* aggregates the forecasts of approximately thirty forecasters. Percentage utilized reflects the report's Long-run projections for 2011 through 2015.

> Of the 3.9% budgeted for 2011, 3% was provided effective February, 2011 as an across-the-board increase for non-union employees, .3% was provided as a performance increase for high-performing non-union employees, and the remaining .6 % is budgeted and available for other increases in 2011. (Companies responses to Staff DR TEE 2.02)

Q. How does the test year increase of 3.9% compare to the historical trend of the Companies' non-union base wage increases?

A. The test year percentage appears overstated in comparison to the years 2008 through 2010 inclusive, wherein the percentage increase in non-union base wages was 3.8%, 3.72%, and 2.0%, respectively. (Companies' responses to Staff DR TEE 1.07)

Also of note is that the Companies initially projected 4.2% for 2009 and 2010 wage increases in its last rate case, the actual increases granted were substantially less than projected (4.2% projected compared to 3.72% and 2.0% granted).

Q. How did the Company explain its anticipated budget projections would be applied?

A. In response to Staff DR TEE 12.03 (Attachment D), the Companies stated:

> a.) The three components of the 2011 wage increases have been or will be awarded as follows:
>
> - 3% was provided to all non-union employees with satisfactory performance;
> - 0.3% was allocated by Business Unit/Utility to be used for performance increases, which have been provided to those non-

union employees whose performance was considered commendable or exemplary;

- 0.6% has been made available to the Business Units/Utilities to provide promotions or adjustments during the year, and it is expected that this entire amount will be used.

We anticipate that a similar process will be followed for 2012.

b.) The 3.9% of non-union salaries was the amount budgeted for 2011 and 2012 in anticipation of salary increases. It was not known at that time which salaries would be impacted by performance increases or promotions/adjustments. The budgeted amounts (.3% and .6%) were meant to be made available for whatever performance increases resulted from performance reviews and whatever promotions or adjustments were provided.

Q. What concern does this raise regarding the Companies' test year payroll projections?

A. While the 3.9% was applied to the entire payroll incurred in 2010 and projected for 2011 to arrive at the Companies' test year 2012 payroll, only "those non-union employees whose performance was considered commendable or exemplary" would, receive the .3% increase and only those employees who are promoted would receive the .6% increase. Thus, the Companies payroll costs are overstated.

<u>Materials and Supplies Inventory</u>

Q. Please describe Schedules 3.4 N and P, Adjustment to Materials and Supplies Inventory balance.

A. Schedules 3.4 N and P present the adjustments to reflect a more reasonable amount for the Accounts Payable for Materials and Supplies Inventory. Since the Companies' lead/lag study reflects 42.22 and 46.62 lead days for North Shore and Peoples', respectively[9], I have used those amounts to calculate a reasonable level of costs that would be included in Accounts Payable which has an impact on Materials and Supplies Inventory balance recoverable in rate base.

Q. Why do you disagree with the Companies' position on the Accounts Payable amount?

A. The Companies acknowledge that purchases of materials and supplies for inventory are made each month[10]. However, Schedule B-8.1 for each utility reflects amounts for accounts payable only in those months where the inventory balance increases; for months of declining balances, the Companies' Schedules B-8.1 fail to reflect an amount for accounts payable. This presentation is contrary to what actually occurs based on the results of the lead lag study for the payment of purchases and the responses to discovery.

<u>Gas in Storage</u>

Q. Please describe Schedules 3.5 N and P, Adjustment to Gas in Storage.

A. Schedules 3.5 N and P present the adjustments to reflect a more reasonable amount for the Accounts Payable for Gas in Storage Inventory. Since the

[9] Company response to TEE 6.04.
[10] Company response to Staff data request TEE 6.01.

Companies' lead/lag study reflects 40.53 and 40.62 lead days for North Shore and Peoples', respectively[11], I have used those amounts to calculate a reasonable level of costs that would be included in Accounts Payable.

Schedule B-1.1 for each utility reflects amounts for accounts payable only in those months where the inventory balance increases; for months of declining balances, the Companies' Schedules B-1.1 do not reflect an amount for accounts payable. This presentation is contrary to what actually occurs based on the results of the lead lag study for the payment of purchases and the responses to discovery.

Consistent with my proposal for accounts payable associated with Materials Supplies Inventory, I reflect the projected monthly purchases and the applicable lead days from the Companies' studies.

Q. What other revisions have you made in the calculation of the accounts payable amounts for gas in storage?

A. In response to Staff DR ENG 5.01 Attach 02, the Company provided updated gas prices for 2012. I have used those prices in my calculations of gas injections for 2012 on Schedules 3.5 N and P.

[11] Company response to TEE 6.04.

Interest on Budget Payment Plan Balances

Q. Please describe Schedules 3.6 N and P, Adjustment to Interest on Budget Payment Plan Balances.

A. Schedules 3.6 N and P present the adjustments to reflect the most current interest rate approved by the Commission for Budget Payment Plan Balances. My proposed adjustments utilize the interest rate to be paid on all customer deposits as ordered in Docket No. 10-0719 which is lower than the interest rate used by the Companies in the calculation of the interest expense accrual for the 2012 test year revenue requirement. Docket No. 10-0719 was a proceeding to determine the rate of interest to be paid on customer deposits, pursuant to 83 Ill. Adm. Code 287.70 and 83 Ill. Adm. Code 735.120 from January 1, 2011 through and including December 31, 2011.

Q. What interest rate did the Companies use to calculate the 2012 interest expense accrual?

A. In response to Staff DR TEE 6.06 the Companies provided the support for the calculation of the interest expense accrued in the 2012 test year revenue requirement. The calculation used an interest rate of 2% for 2012 which was based on the Federal Reserve Board November 2011 1-year Constant Maturity Securities interest rate. In contrast, the Commission ordered interest rate to be paid on all customer deposits during 2011 is 0.5%, per Docket No. 10-0719, which was based on the average one-year yield on U.S. Treasury securities for the last full week of November 2010.

Q. Why did you use the Commission ordered 2011 interest rate in your proposed adjustments to calculate the 2012 interest expense accrual?

A. I used the Commission ordered 2011 interest rate of 0.5% because this rate is consistent with the rate the Commission has most recently ordered to be used for customer deposits pursuant to 83 Ill. Adm. Code 287.70. The Commission accepted the use of the most recent ordered interest rate with a future test year for budget payment plan balances in the Companies' last two rate cases which also involved future test years.

Q. What is the effect of using the Commission ordered 2011 rate?

A. The use of the Commission ordered 2011 interest rate in effect reduces the 2012 interest expense accrual on budget payment plan balances by $0.244 million for Peoples Gas and $0.048 million for North Shore.

Interest on Customer Deposits

Q. Please describe Schedules 3.7 N and P, Adjustment to Interest on Customer Deposits.

A. Schedules 3.7 N and P present the adjustments to reflect the most current interest rate approved by the Commission for Customer Deposits. My proposed adjustments utilize the interest rate to be paid on all customer deposits as ordered in Docket No. 10-0719 which is lower than the interest rate used by the Companies in the calculation of the interest expense accrual for the 2012 test year revenue requirement.

Q. What interest rate did the Companies use to calculate the 2012 interest expense accrual?

A. In response to Staff DR TEE 6.06 the Companies provided the support for the calculation of the interest expense accrued in the 2012 test year revenue requirement. The calculation used an interest rate of 2% for 2012 which was based on the Federal Reserve Board November 2011 1-year Constant Maturity Securities interest rate. In contrast, the Commission ordered interest rate to be paid on all customer deposits during 2011 is 0.5%, per Docket No. 10-0719, which was based on the average one-year yield on U.S. Treasury securities for the last full week of November 2010.

Q. Why did you use the Commission ordered 2011 interest rate in your proposed adjustments to calculate the 2012 interest expense accrual?

A. I used the Commission ordered 2011 interest rate of 0.5% because this rate is consistent with the rate the Commission has most recently ordered to be used for customer deposits pursuant to 83 Ill. Adm. Code 287.70. The Commission accepted the use of the most recent ordered interest rate with a future test year for customer deposits in the Companies' last two rate cases which also involved future test years.

Q. What is the effect of using the Commission ordered 2011 rate?

A. The use of the Commission ordered 2011 interest rate in effect reduces the 2012 interest expense accrual on customer deposits by $0.432 million for Peoples Gas and $0.039 million for North Shore.

Solicitation Revenue

Q. Please describe Schedules 3.8 N and P, Adjustment to Solicitation Revenue.

A. Schedules 3.8 N and P present the adjustments to reflect solicitation revenue as proposed in the direct testimony of Staff witness David Sackett, Staff Ex. 9.0. I present the schedules to reflect the adjustments and Mr. Sackett presents the rationale for the adjustments.

Repairs Revenue

Q. Please describe Schedules 3.9 N and P, Adjustment to Repairs Revenue.

A. Schedules 3.9 N and P present the adjustments to increase repairs revenue as proposed in the direct testimony of Staff witness David Sackett, Staff Ex. 9.0. I present the schedules to reflect the adjustments and Mr. Sackett presents the rationale for the adjustments.

<u>Inflation Rate for Projected Future Test Year</u>

Q. What is the basis for the general inflation rates for non-labor items used by the Companies for projecting future test year costs?

A. The basis for the inflation rates of 2.2% for 2011 and 3.1% for 2012 per Company Schedules G-5 is the CPI-U index from Moody's – Economy.com.[12] However the supporting documentation for those rates provided as an attachment to Staff DR TEE 2.05 indicated that it was last updated May 13, 2010.

Q. Did you obtain documentation reflecting more current information comparable to that used by the Companies in their projected test year costs?

A. Yes. In response to Staff DR TEE 13.01, the Companies provided the same data as updated on May 14, 2011. That supporting documentation reflects CPI-U rates of 2.7% for 2011 and 1.9% for 2012. The Companies provided the impact of those updated inflation rates on its future test year revenue requirement as Staff DR TEE 15.01. However, that response indicated the inflation rates were only applied to less than 1% (0.9% for Peoples Gas and 0.62% for North Shore) of the test year Total Operation and Maintenance Expense.

Q. Why is this a concern?

[12] Companies' responses to TEE 2.05.

A. The Companies' Assumptions Used in the Forecast as provided on Schedule G-5 of the Part 285 filing states:

> The Company forecasted operating and maintenance costs through a detailed bottoms-up budgeting process. Unless specifically determined otherwise, this process assumed, as a default, a 2.2% and 3.1% annual rate of inflation for 2011 and 2012 respectively.

Even after I remove the costs "specifically determined otherwise", the remaining Operating and Maintenance Expenses are still significantly greater than the amounts provided in the Companies' responses to Staff DR TEE 15.01. Currently, I am unable to determine the exact impact of the updated inflation estimates on the revenue requirement; nonetheless, the information I've received thus far indicates a decrease to the non-labor costs is appropriate. I will address that decrease in rebuttal testimony once I have received and reviewed the Companies response to Staff DR TEE 16.01, which requests clarification of the concern discussed above.

<u>Rider VBA</u>

Q. What is the objective of your testimony as it relates to Rider VBA?

A. The objective of my testimony is to propose edits to the tariff language for Rider VBA presented for both Peoples' and North Shore in Schedules E-1, in the event that the Commission decides to make Rider VBA permanent. The Staff position on whether Rider VBA should be made permanent is addressed by Staff witness

Dr. David Brightwell. Again, my edits are independent of Dr. Brightwell's testimony.

Specifically, the edits I propose are as follows:

a) Replace the word "margin" throughout the tariff with the word "revenue" since it more accurately represents what is being compared under the Rider.
b) Propose modifications to the calculation of the Rider VBA adjustment.
c) Propose modifications to the annual internal audit requirements.
d) Add a section to the tariff that provides for a compliance filing to be made at such time as new values to be used in the calculations are determined in a rate case proceeding
e) Correct the definition of "Actual Margin" that was identified by the Companies in response to a Staff DR.

I have reflected each of these revisions in the tariff language for Rider VBA for each Company included with this testimony as Attachment G for North Shore and Attachment H for Peoples Gas.

<u>"Margin" versus "Revenue"</u>

Q. Please explain the rationale behind your proposal to replace the word "margin" throughout the tariff with the word "revenue".

A. Replacing the word “margin” with the word “revenue” in the tariff language provides clarity to what is actually being evaluated under the Rider. The word “margin” is by definition the additional amount over and above costs to earn a defined level of return. Under the Rider VBA mechanism, it is not that “additional amount” that is measured but rather the total actual defined revenues that are compared to the revenues provided for in the rate case order.

In testimony explaining the purpose of Rider VBA as it was introduced in Peoples Gas Docket No. 07-0242, Company witness Grace stated:

> The purpose of Rider VBA is to compute a monthly adjustment that will result in the Company recovering only the distribution **revenues** (margin)[13] approved by the Commission in its most recent rate case proceeding, based on normal weather and the approved level of customers. (Docket No. 07-0242, PGL Ex. VG-1.0 2REV, p. 46, lines 1021 – 1024) (emphasis and footnote added)

In addition the definitions of the Actual Margin and the Rate Case Margin currently in the Rider VBA tariff indicate that the dollar amounts are in reality “revenues” rather than “margins”:

> Actual Margin (AM) shall mean that dollar amount of monthly delivery charge **revenues**, excluding customer charge **revenues** and revenues arising from adjustments under this rider, which were billed for each applicable Service Classification for the specified period. (ILL. C.C. NO. 28, Second Revised Sheet No. 61)

Q. Do the Companies voice any opposition to this change?

[13] The need for a parenthetical reference here further highlights the lack of clarity involved with the Companies’ choice of terminology.

A. Yes. The Companies' response to Staff DR TEE 8.11 (Attachment E) indicated that "revenues" is too broad a term to use in the tariff language. This response does not hold up under further scrutiny however. The very definitions contained in the Rider (for Actual Margin and Rate Case Margin) limit the revenues that are used in the calculation, as illustrated in the quoted language above.

<u>Modifications to Rider VBA Calculation</u>

Q. Please explain your understanding of the Rider VBA adjustment calculation.

A. Rider VBA has two main formulas: one to determine the Effective Component which calculates the Rider VBA charge to be applied to the Effective Month; and another to determine the Reconciliation Adjustment for the annual true-up. The Effective Component formula calculates any over or under recovery of the fixed cost portion of the volumetric charges on a **per customer** basis as opposed to on a total revenue basis. Since any Commission approved revenue requirement is based upon a projected number of customers, if the Companies' actual number of customers exceed that projected level, the Companies could collect more fixed costs through the Rider VBA mechanism than approved in the revenue requirement. Specifically, the Companies would collect more fixed costs from the additional customers' volumetric charges and from their monthly customer charges. This would not be a concern if there were specific provisions in the proposed tariffs that would address this issue; however, I have found none.

Q. Please explain.

A. The Commission authorized Peoples/North Shore to recover only their fixed costs pursuant to their respective Riders VBA.[14] It was implied that these are costs that are necessary to operate the utility regardless of any changes to the operation, a "fixed" cost of doing business regardless of the amount of business conducted. However, converting the fixed costs to be recovered to a per customer basis implies that the costs are not truly fixed but that they will vary with the number of customers served. In fact, by the Companies' own admission, the classification of costs as "fixed" is "unrelated to changes in the number of customers".[15] Therefore, it is not appropriate to base the Rider VBA calculations on the number of customers, either those assumed in the rate case or actual customers.

For example, assuming a fixed cost of $10,000 with 1000 customers, it is determined that $10 per customer is needed to cover that fixed cost ($10,000/1,000). Assuming that during the period, $12,000 was collected from 1200 customers, the actual amount of revenues on a per customer basis would be $10 ($12,000/1,200). Thus, under the Companies' proposal, there would be an Effective Component of $0 calculated ($10 per customer authorized minus $10 per customer actually collected), that is, there would be no VBA credit due to the customers. However, the utility would have collected $2,000 over the amount originally set as "fixed", $10,000, in the approved revenue requirement.

[14] Order, ICC Dockets 07-0241/07-0242 (cons.), pp. 152-153
[15] Company response to Staff data request TEE 5.03.

Based on the above representations, absent any specific corrective provisions, the possibility exists for a “windfall” accruing to the Companies under Rider VBA if the actual number of customers exceeds the projected number of customers. Or in the alternative, if the number of customers decreases, the Companies would not recover their fixed costs. Thus, additional safeguards need to be incorporated into Rider VBA to address this concern.

Q. What do you propose to address this concern?

A. I propose to modify the Rider VBA tariff pages to remove the references to Rate Case Customers and Actual Customers. In addition I propose to modify all formulas such that none are calculated on a per customer basis but rather based on the total fixed cost component of the approved revenue requirement.

Using the example above, the fixed costs approved in the revenue requirement of $10,000 would be compared to the actual revenues of $12,000, resulting in a $2,000 over collection to be refunded in the VBA rate. As discussed above, under the current VBA formula there would be no over or under recovery.

The Attachments G and H reflect the revisions to remove the references to Rate Case Customers and Actual Customers from the tariff language as well as from the formulas used in computing Rider VBA adjustments.

Therefore I recommend that if the Commission determines that Rider VBA should be made permanent, it should also modify the Effective Component formula as shown below:

(1) **Effective Component** - The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

[(RC~~M~~R ~~/ RCC)~~ – ~~(~~AM~~M~~R ~~/ AC)~~] x PFC ~~x RCC~~ / T x 100

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenues for the Reconciliation Month.

~~RCC represents the number of Rate Case Customers for the Reconciliation Month~~.

A~~M~~R represents the Actual ~~Margin~~ Revenues for the Reconciliation Month.

~~AC represents the number of Actual Customers for the Reconciliation Month.~~

T represents the forecast Factor T for the Effective Month.

PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The Reconciliation Adjustment should be revised as follows:

Section B - Determination of Adjustment – continued

***** (2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

RA_1 = an amount due the Company ($+RA_1$) or an amount due the customer ($-RA_1$) arising from the reconciliation of Rate Case ~~Margin~~ R~~r~~evenues and Actual ~~Margin~~ R~~r~~evenues plus revenues arising from application of the Effective Component in subsection B (1) above.

RA_1 shall be represented by the following formula:

$$(RC\cancel{M}R - \cancel{(}A\cancel{M}R\ \cancel{/\ AC \times RCC)}) \times PFC - VBAR$$

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.

A~~M~~R represents the Actual ~~Margin~~ Revenue for the Fiscal Year.

~~AC represents the average monthly number of Actual Customers for the Fiscal Year.~~

~~RCC represents the average monthly number of Rate Case Customers for the Fiscal Year.~~

The Determination of Adjustment in 2013 and Thereafter should be revised as follows:

*** Section C – Determination of Adjustment in 2013 and Thereafter**

There shall be separate per therm adjustments determined annually for each applicable Service Classification, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{[(RC\cancel{M}R\ \cancel{/\ RCC)} - (A\cancel{M}R\ \cancel{/\ AC)}] \times PFC\ \cancel{\times RCC}}{T} + \frac{(RA + O) \times (1 + i)}{T}\right] \times 100$$

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.

~~RCC represents average monthly number of Rate Case Customers for the Fiscal Year.~~

A~~M~~R represents the Actual ~~Margin~~ Revenue for the Fiscal Year.

~~AC represents the average monthly number of Actual Customers for the Fiscal Year.~~

In addition, the definitions for Actual Customers and Rate Case Customers in Section A should be deleted as follows:

~~**Actual Customers** (AC) shall mean the number of customers in each applicable Service Classification for the applicable period.~~

~~**Rate Case Customers** (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification.~~

<u>Modifications to Annual Internal Audit</u>

Q. Please explain your recommendation regarding the annual internal audit feature of Rider VBA.

A. As an enhancement to the tariff language for Rider VBA, I propose that the annual internal audit feature of Rider VBA be modified so that it can be a more effective tool to the Staff and the Commission in monitoring Rider VBA. It is important that the annual internal audit include certain specified tests of the rate mechanism. Presently there are no requirements in Rider VBA of what actually will be tested in the annual internal audit. Therefore, I recommend the following language changes to the proposed Rider VBA:

Section F - AUDIT

~~The Company shall submit annually to the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than August 1, an internal audit report that determines whether or not the adjustments and information provided in Section C have been calculated in accordance with this rider.~~

<u>The Company shall annually conduct an internal audit of its costs and recoveries of such costs pursuant to the Rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any previously established levels collected</u>

> through base rate charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA is being properly billed to Customers; 4) Rider VBA revenues are recorded in appropriate accounts; and 5) any reimbursements of costs are identified and recorded properly for calculating rates and reconciliation. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the ICC's Manager of the Accounting Department by August 1 each year. Such report shall be verified by an officer of the Company.

Rate Case Compliance Filing

Q. Please explain the rationale behind your proposal to add a section to the tariff that provides for a compliance filing to be made at such time as new values to be used in the calculations are determined in a rate case proceeding.

A. In order for there to be no confusion or disagreement as to the amounts to be used in the calculations for Rate Case Margin (RCM) and Percentage of Fixed Costs (PFC), the tariff language should be revised to provide for a compliance filing at the conclusion of a rate case setting forth those amounts approved in the Final Order in any subsequent rate case. I propose the following section be added to the tariff language:

> Section G – Compliance Filing
> The Company shall submit as a public document in their rate case compliance filing, the Rider VBA Rate Case Revenue (RCR), and Percentage of Fixed Costs (PFC) resulting from the approved revenue requirement from any future rate case.

Company-identified Correction

Q. Please explain the rationale behind your proposal to correct certain definitions that were identified by the Companies.

A. In response to Staff DR TEE 8.08 (Attachment F), the Companies identified an "inadvertent" change that was made to the definition of Actual Margin in the filed tariffs. I have reflected the correction identified by the Companies on Sheet No. 60 for North Shore and Sheet No. 61 for Peoples replacing the word "and" with the word "excluding" in the definition for Actual Margin.

Conclusion

Q. Does this question end your prepared direct testimony?

A. Yes.

ICC Docket No. 11-0281
The Peoples Gas Light and Coke Company's Response to Staff Data Requests TEE 9.01-9.08
Dated: March 24, 2011

REQUEST NO. TEE 9.01:

Referring to PGL Ex. 11.0, p. 9, lines 193 – 196, please explain specifically how the discussed contributions were from "internally generated sources," including what the sources were.

RESPONSE:

Contributions discussed on PGL Ex. 11.0, lines 193-196 were made from internally-generated sources. Internally generated sources are all of the items that flow through net income adjusted for non-cash items like depreciation expense (see attached cash flow statement for additional examples, labeled PGL TEE 9.01 Attach 01) and changes in working capital. Internally generated sources, or net cash from operations, are used to fund investing activities, financing activities and continuing operations. Pension and other post retirement contributions are one of the continuing operations uses of these funds.

THE PEOPLES GAS LIGHT AND COKE COMPANY

E. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (Millions)	2010	2009	2008
Operating Activities			
Net income	**$42.2**	$28.0	$37.6
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization expense	**79.7**	64.6	67.4
Bad debt expense	**37.8**	30.5	45.9
Deferred income taxes and investment tax credits	**17.4**	20.2	18.5
Pension and other postretirement expense	**17.8**	30.1	18.7
Pension and other postretirement contributions	**(18.8)**	(17.9)	(8.2)
Other	**14.6**	19.2	7.3
Changes in working capital			
Collateral on deposit	**-**	25.3	(24.9)
Accounts receivable and accrued unbilled revenues	**(23.5)**	117.5	(123.5)
Natural gas in storage	**18.7**	12.1	(26.2)
Other current assets	**3.9**	(8.3)	(21.8)
Accounts payable	**(2.3)**	(57.6)	(8.1)
Accrued taxes	**2.9**	(3.0)	41.6
Customer credit balances	**(2.7)**	2.7	(14.2)
Other current liabilities	**(8.9)**	10.7	(9.3)
Net cash provided by operating activities	**$178.8**	$274.1	0.8
Investing Activities			
Capital expenditures	**(76.2)**	(76.8)	(113.3)
Assets transferred to IBS	**-**	-	10.5
Proceeds from the sale or disposal of assets	**0.5**	0.7	0.5
Note receivable from related party	**7.6**	(7.6)	11.9
Other	**0.4**	-	-
Net cash used for investing activities	**$(67.7)**	$(83.7)	(90.4)
Financing Activities			
Commercial paper, net	**-**	(250.0)	62.8
Related party short-term debt, net	**(16.2)**	(12.3)	28.3
Issuance of long-term debt	**-**	75.0	50.0
Repayment of long-term debt	**(50.0)**	-	(51.0)
Dividends to parent	**(44.4)**	-	-
Other	**(3.4)**	(0.2)	-
Net cash (used for) provided by financing activities	**(114.0)**	(187.5)	90.1
Net change in cash and cash equivalents	**(2.9)**	2.9	0.5
Cash and cash equivalents at beginning of year	**3.4**	0.5	-
Cash and cash equivalents at end of year	**$0.5**	$3.4	$0.5

The accompanying notes to the consolidated financial statements are an integral part of these statements.

ICC Docket No. 11-0280
North Shore Gas Company's Response to
Staff Data Requests TEE 9.01-9.08
Dated: March 24, 2011

REQUEST NO. TEE 9.02:

Referring to NS Ex. 11.0, p. 7, lines 142 – 145, please explain specifically how the discussed contributions were from "internally generated sources" including what the sources were.

RESPONSE:

Contributions discussed on NS Ex. 11.0, lines 142-145 were made from internally-generated sources. Internally generated sources are all of the items that flow through net income adjusted for non-cash items like depreciation expense (see attached cash flow statement for additional examples) and changes in working capital. Internally generated sources, or net cash from operations, are used to fund investing activities, financing activities and continuing operations. Pension and other post retirement contributions are one of the continuing operations uses of these funds.

NORTH SHORE GAS COMPANY

E. STATEMENTS OF CASH FLOWS

Year Ended December 31 (Millions)	2010	2009	2008
Operating Activities			
Net income	**$7.9**	$4.3	$7.0
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization expense	**9.0**	6.2	6.6
Bad debt expense	**2.1**	1.5	2.3
Deferred income taxes and investment tax credits	**9.2**	6.1	4.3
Pension and other postretirement expense	**3.7**	4.4	4.1
Pension and other postretirement contributions	**(13.4)**	(6.2)	(1.3)
Other	**3.3**	0.1	0.2
Changes in working capital			
Collateral on deposit	**-**	0.8	(0.6)
Accounts receivable and accrued unbilled revenues	**(2.3)**	24.3	(12.2)
Natural gas in storage	**1.1**	(0.9)	0.1
Other current assets	**1.4**	(7.4)	(0.1)
Accounts payable	**(2.6)**	(5.2)	(0.1)
Accrued taxes	**0.1**	(2.2)	3.6
Other current liabilities	**(3.3)**	2.0	(1.7)
Net cash provided by operating activities	**16.2**	27.8	12.2
Investing Activities			
Capital expenditures	**(12.1)**	(14.1)	(10.0)
Proceeds from sale or disposal of assets	**0.3**	0.2	-
Other	**-**	(0.1)	0.2
Net cash used for investing activities	**(11.8)**	(14.0)	(9.8)
Financing Activities			
Related party short-term debt, net	**3.0**	(1.5)	(2.9)
Issuance of long-term debt	**-**	-	6.5
Repayment of long-term debt	**(0.1)**	(0.3)	(0.2)
Dividends to parent	**(7.9)**	(11.5)	(5.7)
Net cash used for financing activities	**(5.0)**	(13.3)	(2.3)
Net change in cash and cash equivalemnts	**(0.6)**	0.5	0.1
Cash and cash equivalents at beginning of year	**0.6**	0.1	-
Cash and cash equivalents at end of year	**$ -**	$0.6	$0.1

The accompanying notes to the financial statements are an integral part of these statements.

Docket No. 11-0280/0281
(Consolidated)
ICC Staff Exhibit 3.0
Attachment C (N and P) Public

Proposed 2011 Executive Compensation
Proposed 2011 Annual Incentive Measures and Weightings

No Financial Measures Payouts for any Participants unless Diluted EPS Adjusted Threshold is Exceeded. If Diluted EPS Adjusted Threshold is NOT Reached, any Earned Non-Financial Measures Payouts will be Reduced by Fifty (50) Percent.

	EPS % Weighting	[redacted]
Participant	***EPS***	
Executive 1	70%	
Executive 2	70%	
Executive 3	70%	
Executive 4	70%	
Executive 5	70%	
Executive 6	70%	
Executive 7	70%	
Executive 8	70%	
Executive 9	70%	
Executive 10	70%	
Executive 11	70%	

Docket No. 11-0280/0281
(Consolidated)
ICC Staff Exhibit 3.0
Attachment C (N and P) Public

Proposed 2011 Executive Compensation
Proposed 2011 Annual Incentive Measures and Weightings-All Other Executives

No Financial Measures Payouts for any Participants unless Integrys Energy Group, Inc. Diluted EPS Adjusted Threshold is exceeded. If Diluted EPS Adjusted Threshold is NOT Reached, any Earned Non-Financial Measures Payouts will be Reduced by Fifty (50) Percent.

	EPS % Weighting	[redacted]
Participant	*EPS*	
Executive 12	70%	
Executive 13	70%	
Executive 14	70%	
Executive 15	70%	
Executive 16	70%	
Executive 17	70%	
Executive 18	70%	
Executive 19	70%	
Executive 20	70%	
Executive 21	70%	
Executive 22	70%	
Executive 23	70%	
Executive 24	70%	

REQUEST NO. TEE 12.03:

Referring to the responses to TEE 2.02 and 11.01, is the 3.9% for 2011 wage increases granted to every employee? If not,

a) Provide a discussion of how the three components (3% across the board, 0.3% for high performers, and 0.6% for promotional increases) have been or will be granted.
b) Explain why the 3.9% was applied to the total projected 2010 salary amounts, rather than only on the salary amounts actually impacted.

RESPONSE:

a.) The three components of the 2011 wage increases have been or will be awarded as follows:

- 3% was provided to all non-union employees with satisfactory performance;
- 0.3% was allocated by Business Unit/Utility to be used for performance increases, which have been provided to those non-union employees whose performance was considered commendable or exemplary;
- 0.6% has been made available to the Business Units/Utilities to provide promotions or adjustments during the year, and it is expected that this entire amount will be used.

We anticipate that a similar process will be followed for 2012.

b.) The 3.9% of non-union salaries was the amount budgeted for 2011 and 2012 in anticipation of salary increases. It was not known at that time which salaries would be impacted by performance increases or promotions/adjustments. The budgeted amounts (.3% and .6%) were meant to be made available for whatever performance increases resulted from performance reviews and whatever promotions or adjustments were provided.

ICC Docket No. 11-0281
The Peoples Gas Light and Coke Company's Response to Staff Data Requests TEE 12.01-12.05
Dated: April 29, 2011

REQUEST NO. TEE 12.03:

Referring to the responses to TEE 2.02 and 11.01, is the 3.9% for 2011 wage increases granted to every employee? If not,

a) Provide a discussion of how the three components (3% across the board, 0.3% for high performers, and 0.6% for promotional increases) have been or will be granted.
b) Explain why the 3.9% was applied to the total projected 2010 salary amounts, rather than only on the salary amounts actually impacted.

RESPONSE:

a.) The three components of the 2011 wage increases have been or will be awarded as follows:

- 3% was provided to all non-union employees with satisfactory performance;
- 0.3% was allocated by Business Unit/Utility to be used for performance increases, which have been provided to those non-union employees whose performance was considered commendable or exemplary;
- 0.6% has been made available to the Business Units/Utilities to provide promotions or adjustments during the year, and it is expected that this entire amount will be used.

We anticipate that a similar process will be followed for 2012.

b.) The 3.9% of non-union salaries was the amount budgeted for 2011 and 2012 in anticipation of salary increases. It was not known at that time which salaries would be impacted by performance increases or promotions/adjustments. The budgeted amounts (.3% and .6%) were meant to be made available for whatever performance increases resulted from performance reviews and whatever promotions or adjustments were provided.

ICC Docket No. 11-0280
North Shore Gas Company's Response to
Staff Data Requests TEE 8.01-8.11
Dated: March 22, 2011

REQUEST NO. TEE 8.11:

Regarding the tariff language for Rider VBA, would the Company agree that the term "margin" could be replaced by the word "revenues" to more clearly reflect the operation of the Rider? Please explain why or why not?

RESPONSE:

The Company does not agree that the term "margin" could be replaced by the word "revenues". "Margin" reflects a utility's cost of service, exclusive of flow-through items such as purchased gas expenses and taxes. On the other hand "revenues" is a broad term which describes funds that flow into a business. Accordingly, "revenues" would not be an accurate substitute for the term "margin"

ICC Docket No. 11-0281
The Peoples Gas Light and Coke Company's Response to Staff Data Requests TEE 8.01-8.11
Dated: March 22, 2011

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The Company does not agree that the term "margin" could be replaced by the word "revenues". "Margin" reflects a utility's cost of service, exclusive of flow-through items such as purchased gas expenses and taxes. On the other hand "revenues" is a broad term which describes funds that flow into a business. Accordingly, "revenues" would not be an accurate substitute for the term "margin"

ICC Docket No. 11-0280
North Shore Gas Company's Response to
Staff Data Requests TEE 8.01-8.11
Dated: March 22, 2011

REQUEST NO. TEE 8.08:

Regarding tariff language revisions for Rider VBA, please explain the significance of changing "delivery" charge to "distribution" charge.

RESPONSE:

The change is to simplify the definition. However, certain language was inadvertently changed and North Shore Gas will propose to revise the definition at a subsequent stage of the proceeding. The resulting Actual Margin amount is purely the "distribution charge revenues" under both the current and proposed Rider VBA tariff. The definition of Actual Margin in the current Rider VBA tariff uses the terminology "delivery charge, excluding customer charge revenues and revenues arising from adjustments under this rider…". The current SC 1 and SC 2 tariffs, to which Rider VBA is applicable, define charges for delivery service as the sum of the customer charge and the distribution charge in the Rates section of their respective tariffs. North Shore Gas is proposing a new rider, Rider SSC, to recover storage related charges which are currently included in rates through the customer and distribution charges. The customer charge, distribution charge and storage charge will comprise the delivery charges if Rider SSC is approved as is defined in the proposed SC 1 and SC 2 tariffs. Therefore, the Rider VBA tariff was revised to include "distribution" charge in place of "delivery" charge rather than to add additional language to also exclude the proposed Storage Charge in addition to the customer charge, i.e. "delivery charge, excluding customer charge revenues, storage charges and revenues arising from adjustments under this rider" in the definition of Actual Margin applicable under Rider VBA.

When making the revision described above, the word "excluding" rather than the word "and" was inadvertently deleted. Accordingly, the language "and revenues arising from adjustments under this rider" in the definition of Actual Margin should say "excluding revenues arising from adjustments under this rider" in the proposed Rider VBA tariff.

ICC Docket No. 11-0281
The Peoples Gas Light and Coke Company's Response to Staff Data Requests TEE 8.01-8.11
Dated: March 22, 2011

REQUEST NO. TEE 8.08:

Regarding tariff language revisions for Rider VBA, please explain the significance of changing "delivery" charge to "distribution" charge.

RESPONSE:

The change is to simplify the definition. However, certain language was inadvertently changed and Peoples Gas will propose to revise the definition at a subsequent stage of the proceeding. The resulting Actual Margin amount is purely the "distribution charge revenues" under both the current and proposed Rider VBA tariff. The definition of Actual Margin in the current Rider VBA tariff uses the terminology "delivery charge, excluding customer charge revenues and revenues arising from adjustments under this rider…". The current SC 1 and SC 2 tariffs, to which Rider VBA is applicable, define charges for delivery service as the sum of the customer charge and the distribution charge in the Rates section of their respective tariffs. Peoples Gas is proposing a new rider, Rider SSC, to recover storage related charges which are currently included in rates through the customer and distribution charges. The customer charge, distribution charge and storage charge will comprise the delivery charges if Rider SSC is approved as is defined in the proposed SC 1 and SC 2 tariffs. Therefore, the Rider VBA tariff was revised to include "distribution" charge in place of "delivery" charge rather than to add additional language to also exclude the proposed Storage Charge in addition to the customer charge, i.e. "delivery charge, excluding customer charge revenues, storage charges and revenues arising from adjustments under this rider" in the definition of Actual Margin applicable under Rider VBA.

When making the revision described above, the word "excluding" rather than the word "and" was inadvertently deleted. Accordingly, the language "and revenues arising from adjustments under this rider" in the definition of Actual Margin should say "excluding revenues arising from adjustments under this rider" in the proposed Rider VBA tariff.

ILL. C. C. NO. 17
Third Revised Sheet No. 60
(Canceling Second Revised Sheet No. 60)

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution ~~margin~~ revenue approved by the Commission in the Company's most recent rate proceeding. A separate adjustment shall be calculated for each applicable Service Classification.

* Each month through January, 2012, the Company shall determine monthly adjustments under this rider. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The final monthly Effective Component shall be filed no later than January 31, 2012 and shall be in effect from February 1 through February 29, 2012. The Reconciliation Adjustment and each of its two components, RA_1 and RA_2, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31, 2012 and amortized for the nine-month period commencing the following April 1.

* Beginning in March, 2013, the Company shall determine annual adjustments under this rider. The adjustments, as outlined in Section C, shall be filed with the Commission, no later than March 20th of each year, and shall be in effect for the nine-month period commencing the following April 1.

* **Section A - Definitions**

As used in this rider, the terms below are defined to mean:

Actual ~~Margin~~ Revenue (A~~M~~R) shall mean that dollar amount of distribution charge revenues, ~~and~~ excluding revenues arising from adjustments under this rider, which were billed for each applicable Service Classification for the applicable period.

~~**Actual Customers** (AC) shall mean the number of customers in each applicable Service Classification for the applicable period.~~

Effective Month shall mean the month for which the Effective Component in Section B (1) is calculated, and shall be the month after the Filing Month.

Effective Period shall mean the period for which the adjustments in Section C are to be billed to customers, and shall be the nine-month period after the Filing Month.

Factor T (T) shall mean the number of therms of gas delivered to customers by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the applicable period.

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* **Section A - Definitions** - continued

Percentage of Fixed Costs (PFC) shall mean the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

~~**Rate Case Customers** (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification.~~

Rate Case ~~Margin~~ Revenue (RC~~M~~R) shall mean that dollar amount of distribution charge revenues approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification. In a month in which new distribution rates come into effect, the RC~~M~~R shall be prorated based upon the number of number of days in the month under the old rates and the number of days in the month under the new rates.

Reconciliation Month shall mean the second month prior to the Effective Month.

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

* **Section B - Determination of Adjustment through February 2012**

There shall be a separate per therm adjustment amount determined under this rider for each applicable Service Classification and such amount shall be the sum of the amounts determined pursuant to subsections (1) and (2).

(1) **Effective Component** – The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

[(RC~~M~~R ~~/ RCC)~~ – ~~(AM~~R ~~/ AC)~~] x PFC ~~x RCC~~ / T x 100

Where:

RC~~M~~R	represents the Rate Case ~~Margin~~ Revenue for the Reconciliation Month.
~~RCC~~	~~represents the number of Rate Case Customers for the Reconciliation Month.~~
A~~M~~R	represents the Actual ~~Margin~~ Revenue for the Reconciliation Month.
~~AC~~	~~represents the number of Actual Customers for the Reconciliation Month.~~
T	represents the forecast Factor T for the Effective Month.
PFC	represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The final monthly Effective Component shall be determined and billed for the Effective Month of February, 2012.

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* **Section B - Determination of Adjustment** – continued

(2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

RA_1 = an amount due the Company ($+RA_1$) or an amount due the customer ($-RA_1$) arising from the reconciliation of Rate Case ~~Margin~~ R~~r~~evenues and Actual ~~Margin~~ R~~r~~evenues plus revenues arising from application of the Effective Component in (1) above.

RA_1 shall be represented by the following formula:

(RC~~M~~R – ~~(~~A~~M~~R ~~/ AC x RCC)~~) x PFC – VBAR

Where:

RC~~M~~R	represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.
A~~M~~R	represents the Actual ~~Margin~~ Revenue for the Fiscal Year.
~~AC~~	~~represents the average monthly number of Actual Customers for the Fiscal Year.~~
~~RCC~~	~~represents the average monthly number of Rate Case Customers for the Fiscal Year.~~
VBAR	represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.
O	represents the Ordered adjustment, in dollars ($), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
PFC	represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Where:

** RA_2 =an amount due the Company ($+RA_2$) or an amount due the customer ($-RA_2$) as a consequence of any prior RA_1 adjustment.

RA_2 shall be represented by the following formula:

RA – RAR

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

Section B - Determination of Adjustment – continued

Where:

RA represents RA_1 and O for the Previous Reconciliation Period.
RAR represents actual revenues arising from the application of RA for each month during the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Reconciliation Period.
T represents the forecast Factor T for the Upcoming Reconciliation Period.

The Effective Component and the Reconciliation Adjustment shall each be separately determined. If an adjustment computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

If the Company determines that RA will more nearly be refunded or recovered at the end of any month up to 11 months, the amortization period may be shortened or lengthened accordingly upon the Company giving 15 days' notice to the Commission of the change in the amortization period.

* **Section C – Determination of Adjustment in 2013 and Thereafter**

There shall be separate per therm adjustments determined annually for each applicable Service Classification, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{[(RC\cancel{M}R \cancel{/ RCC)} - \cancel{(}AM R \cancel{/ AC)}] \times PFC \cancel{\times RCC}}{T} + \frac{(RA + O) \times (1 + i)}{T} \right] \times 100$$

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.
~~RCC represents average monthly number of Rate Case Customers for the Fiscal Year.~~
A~~M~~R represents the Actual ~~Margin~~ Revenue for the Fiscal Year.
~~AC represents the average monthly number of Actual Customers for the Fiscal Year.~~
T represents the Factor T for the Effective Period.
O represents the Ordered adjustment, in dollars ($), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* and ** **Section C – Determination of Adjustment in 2013 and Thereafter** - continued

RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this rider that were under-billed or over-billed to each Service Classification in the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Effective Period.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

* and ** **Section D - Reports and Reconciliations**

(1) **Through January 2012 -** On or before January 31, 2012, the Company shall file with the Commission an information sheet that specifies the adjustments to be effective under this rider for the Effective Month of February, 2012. The Company shall file any corrections from a timely filed information sheet on or before January 31, 2012. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The Company shall file with the Commission annually, no later than March 31, 2012, a statement of the Reconciliation Adjustment components RA_1 and RA_2 to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

(2) **In 2013 and thereafter** - The Company shall file with the Commission on or before March 20 of each year, an information sheet that specifies the annual adjustments to be effective under this rider. The Company shall file any corrections from a timely filed information sheet on or before March 31. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)]. The Company shall include with its filing a report which shows a determination of the RA to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

ILL. C. C. NO. 17
Original Sheet No. 64.1

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

***** and ****** **Section E - Terms and Conditions**

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider.

***** and ****** **Section F – Audit**

~~The Company shall submit annually to the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than August 1, an internal audit report that determines whether or not the adjustments and information provided in Section C have been calculated in accordance with this rider.~~

<u>The Company shall annually conduct an internal audit of its costs and recoveries of such costs pursuant to the Rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any previously established levels collected through base rate charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA is being properly billed to Customers; 4) Rider VBA revenues are recorded in appropriate accounts; and 5) any reimbursements of costs are identified and recorded properly for calculating rates and reconciliation. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the ICC's Manager of the Accounting Department by August 1 each year. Such report shall be verified by an officer of the Company.</u>

<u>**Section G – Compliance Filing**</u>

<u>The Company shall submit as a public document in their rate case compliance filing, the Rider VBA Rate Case Revenue (RCR), and Percentage of Fixed Costs (PFC) resulting from the approved revenue requirement from any future rate case.</u>

Date Issued: FEBRUARY 15, 2011 **Date Effective:** APRIL 1, 2011

Asterisk (*) indicates change.
Asterisk (**) indicates moved from a prior page.

Issued by James F. Schott, Vice President
130 East Randolph Drive, Chicago, Illinois 60601

Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

* The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution ~~margin~~ revenue approved by the Commission in the Company's most recent rate proceeding. A separate adjustment shall be calculated for each applicable Service Classification.

* Each month through January, 2012, the Company shall determine monthly adjustments under this rider. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The final monthly Effective Component shall be filed no later than January 31, 2012 and shall be in effect from February 1 through February 29, 2012. The Reconciliation Adjustment and each of its two components, RA_1 and RA_2, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31, 2012 and amortized for the nine-month period commencing the following April 1.

* Beginning in March, 2013, the Company shall determine annual adjustments under this rider. The adjustments, as outlined in Section C, shall be filed with the Commission, no later than March 20th of each year, and shall be in effect for the nine-month period commencing the following April 1.

* **Section A - Definitions**

As used in this rider, the terms below are defined to mean:

Actual ~~Margin~~ Revenue (A~~M~~R) shall mean that dollar amount of distribution charge revenues, ~~and~~ excluding revenues arising from adjustments under this rider, which were billed for each applicable Service Classification for the applicable period.

~~**Actual Customers** (AC) shall mean the number of customers in each applicable Service Classification for the applicable period.~~

Effective Month shall mean the month for which the Effective Component in Section B (1) is calculated, and shall be the month after the Filing Month.

Effective Period shall mean the period for which the adjustments in Section C are to be billed to customers, and shall be the nine-month period after the Filing Month.

Factor T (T) shall mean the number of therms of gas delivered to customers by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the applicable period.

Filing Month shall mean the month in which an adjustment is determined by the Company and submitted to the Commission.

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* **Section A - Definitions** - continued

Percentage of Fixed Costs (PFC) shall mean the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

~~**Rate Case Customers** (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification.~~

Rate Case ~~Margin~~ Revenue (RC~~M~~R) shall mean that dollar amount of distribution charge revenues approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification. In a month in which new distribution rates come into effect, the RC~~M~~R shall be prorated based upon the number of number of days in the month under the old rates and the number of days in the month under the new rates.

Reconciliation Month shall mean the second month prior to the Effective Month.

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

* **Section B - Determination of Adjustment through February 2012**

There shall be a separate per therm adjustment amount determined under this rider for each applicable Service Classification and such amount shall be the sum of the amounts determined pursuant to subsections (1) and (2).

(1) **Effective Component** – The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

[(RC~~M~~R ~~/ RCC)~~ – ~~(~~AM~~R~~ ~~/ AC)~~] x PFC ~~x RCC~~ / T x 100

Where:

RC~~M~~R	represents the Rate Case ~~Margin~~ Revenue for the Reconciliation Month.
~~RCC~~	~~represents the number of Rate Case Customers for the Reconciliation Month.~~
A~~M~~R	represents the Actual ~~Margin~~ Revenue for the Reconciliation Month.
~~AC~~	~~represents the number of Actual Customers for the Reconciliation Month.~~
T	represents the forecast Factor T for the Effective Month.
PFC	represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The final monthly Effective Component shall be determined and billed for the Effective Month of February, 2012.

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

Section B - Determination of Adjustment – continued

* (2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

RA_1 = an amount due the Company ($+RA_1$) or an amount due the customer ($-RA_1$) arising from the reconciliation of Rate Case ~~Margin~~ R~~r~~evenues and Actual ~~Margin~~ R~~r~~evenues plus revenues arising from application of the Effective Component in subsection B (1) above.

RA_1 shall be represented by the following formula:

(RC~~M~~R – ~~(~~A~~M~~R ~~/ AC x RCC)~~) x PFC – VBAR

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.
A~~M~~R represents the Actual ~~Margin~~ Revenue for the Fiscal Year.
~~AC represents the average monthly number of Actual Customers for the Fiscal Year.~~
~~RCC represents the average monthly number of Rate Case Customers for the Fiscal Year.~~
VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.
O represents the Ordered adjustment, in dollars ($), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

RA_2 = an amount due the Company ($+RA_2$) or an amount due the customer ($-RA_2$) as a consequence of any prior RA_1 adjustment.

RA_2 shall be represented by the following formula:

RA – RAR

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* **Section B - Determination of Adjustment** – continued

Where:

RA represents RA_1 and O for the Previous Amortization Period.

RAR represents actual revenues arising from the application of RA for each month during the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Upcoming Amortization Period.

T represents the forecast Factor T for the Upcoming Amortization Period.

The Effective Component and the Reconciliation Adjustment shall each be separately determined. If an adjustment computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

If the Company determines that RA will more nearly be refunded or recovered at the end of any month up to 11 months, the amortization period may be shortened or lengthened accordingly upon the Company giving 15 days' notice to the Commission of the change in the amortization period.

* **Section C – Determination of Adjustment in 2013 and Thereafter**

There shall be separate per therm adjustments determined annually for each applicable Service Classification, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{[(RC\cancel{M}\underline{R}\ \cancel{/ RCC}) - (A\cancel{M}\underline{R}\ \cancel{/ AC})] \times PFC\ \cancel{\times RCC}}{T} + \frac{(RA + O) \times (1 + i)}{T} \right] \times 100$$

Where:

RC~~M~~R represents the Rate Case ~~Margin~~ Revenue for the Fiscal Year.

~~RCC represents average monthly number of Rate Case Customers for the Fiscal Year.~~

A~~M~~R represents the Actual ~~Margin~~ Revenue for the Fiscal Year.

~~AC represents the average monthly number of Actual Customers for the Fiscal Year.~~

T represents the Factor T for the Effective Period.

O represents the Ordered adjustment, in dollars ($), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.

PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

*

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

* and ** **Section C – Determination of Adjustment in 2013 and Thereafter** - continued

RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this rider that were under-billed or over-billed to each Service Classification in the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Effective Period.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments computes to 0.01¢ per therm or more, any fraction of 0.01¢ in the computed per therm adjustment amount shall be dropped if less than 0.005¢ or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

* and ** **Section D - Reports and Reconciliations**

(1) **Through January 2012 -** On or before January 31, 2012, the Company shall file with the Commission an information sheet that specifies the adjustments to be effective under this rider for the Effective Month of February, 2012. The Company shall file any corrections from a timely filed information sheet on or before January 31, 2012. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The Company shall file with the Commission annually, no later than March 31, 2012, a statement of the Reconciliation Adjustment components RA_1 and RA_2 to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

(2) **In 2013 and thereafter** - The Company shall file with the Commission on or before March 20 of each year, an information sheet that specifies the annual adjustments to be effective under this rider. The Company shall file any corrections from a timely filed information sheet on or before March 31. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)]. The Company shall include with its filing a report which shows a determination of the RA to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider VBA
Volume Balancing Adjustment
Applicable to Service Classification Nos. 1 and 2

***** and ****** **Section E - Terms and Conditions**

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider.

***** and ****** **Section F – Audit**

~~The Company shall submit annually to the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than August 1, an internal audit report that determines whether or not the adjustments and information provided in Section C have been calculated in accordance with this rider.~~

The Company shall annually conduct an internal audit of its costs and recoveries of such costs pursuant to the Rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any previously established levels collected through base rate charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA is being properly billed to Customers; 4) Rider VBA revenues are recorded in appropriate accounts; and 5) any reimbursements of costs are identified and recorded properly for calculating rates and reconciliation. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the ICC's Manager of the Accounting Department by August 1 each year. Such report shall be verified by an officer of the Company.

Section G – Compliance Filing

The Company shall submit as a public document in their rate case compliance filing, the Rider VBA Rate Case Revenue (RCR), and Percentage of Fixed Costs (PFC) resulting from the approved revenue requirement from any future rate case.

Asterisk (*) indicates change.
Asterisk (**) indicates moved from a prior page.

Issued by James F. Schott, Vice President
130 East Randolph Drive, Chicago, Illinois 60601

North Shore Gas Company
Adjustment to Pension Asset
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Pension Asset per Staff	$ -	
2	Pension Asset per Company	3,208	Company Schedule B-1.2
3	Staff Proposed Adjustment to Pension Asset	$ (3,208)	Line 1 minus line 2
4	Accumulated Deferred Income Taxes Per Staff	$ -	
5	Accumulated Deferred Income Taxes Per Company	591	Company response to TEE 4.08 Attach 01
6	Staff Proposed Adjustment to Accumulated Deferred Income Tax	$ (591)	Line 4 minus line 5

North Shore Gas Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)		Amount (C)	Source (D)
2	Total Other Production per Staff		$ (9)	Sch. 3.2 N, p. 3 , line 2, cols. (c) & (e)
3	Total Other Production per Company		-	
4	Total Staff Proposed Adjustment to Storage Expense		$ (9)	
5	Total Customer Accounts per Staff		$ (110)	Sch. 3.2 N, p. 3 , line 4, cols. (c) & (e)
6	Total Customer Accounts per Company		-	
7	Total Staff Proposed Adjustment to Customer Accounts Exp.		$ (110)	
8	Total Distribution per Staff		$ (119)	Sch. 3.2 N, p. 3 , line 3, cols. (c) & (e)
9	Total Distribution per Company		-	
10	Total Staff Proposed Adjustment to Distribution Expense		$ (119)	
11	Total Customer Services and Informational Services per Staff		$ (18)	Sch. 3.2 N, p. 3 , line 5, cols. (c) & (e)
12	Total Customer Services and Informational Services per Company		-	
13	Total Staff Proposed Adjustment to Cust./Info. Services Exp.		$ (18)	
14	Total Admin. & General per Staff		$ (1,097)	Sch. 3.2 N, p. 2 , lines 4, 7 and 8 + Sch. 3.2 N, p. 3 , line 6, cols. (c) & (e) + Sch. 3.2 N, p. 4 , line 4
15	Total Admin. & General per Company		-	
16	Total Staff Proposed Adjustment to Admin. & General Expense		$ (1,097)	
17	Total Capitalized amount per Staff		$ (247)	Sch. 3.2 N, p. 3 , line 7, cols. (c) & (e) + Sch. 3.2 N, p. 5 , line 4
18	Total Capitalized amount per Company		-	
19	Total Staff Proposed Adjustment to Rate Base		$ (247)	
20	Total Payroll Taxes Per Staff		$ (122)	(Sum of Lines 4, 7, 10, 13, 16, 19 and 22) x 7.65%
21	Total Payroll Taxes Per Company		-	
22	Total Staff Proposed Adjustment to Taxes Other Than Income		$ (122)	
23	Depreciation Exp from Non-Executive Plan Gross Plant	(3)		Sch. 3.2 P, p. 3 , line 8, cols. (c) & (e) x Composite rate of 2.58%
24	Depreciation exp on costs disallowed in Docket 07-0241/0242	(1)		Company response to Staff data request TEE 1.11 Attach 01
25	Depreciation exp on costs disallowed in Docket 09-0166/0167	(2)		Company response to Staff data request TEE 1.11 Attach 01
26	Depreciation Expense Adjustment per Staff		$ (6)	
27	Depreciation Expense per Company		-	
28	Staff Proposed Adjustment to Depreciation Expense		$ (6)	
29	Accumulated Depreciation per Staff		$ 24	Sch. 3.2 N, p. 1 , line 23 x -1 + Sch. 3.2 N, p. 5 , line 8
30	Accumulated Depreciation per Company		-	
31	Staff Proposed Adjustment to Accumulated Depreciation		$ 24	
32	Accumulated Deferred Income Taxes per Staff		$ 8	Sch. 3.2 N, p. 5, line 12
33	Accumulated Deferred Income Taxes per Company		-	
34	Staff Proposed Adjustment to Accum. Def. Income Taxes		$ 8	

North Shore Gas Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Executive Plan		
2	Administrative and General Total Cost	$ 210	Company Response to TEE 12.05(NS 4678)
3	Financial Weighting	70%	Company Response to TEE 12.04
4	Executive Plan Financial Goals Cost	$ (147)	Line 2 x line 3 x -1
5	Non-Financial Weighting	30%	1 minus line 3
6	Executive Plan Non-Financial Goals Cost	$ 63	Line 5 x line 2
7	Performance Goals Based on Non-PGL Achievements	$ (46)	Lline 7 x line 15
8	Performance Goals Based on IEG Net Income	$ (9)	(Line 6 + line 7 + line 8) x -50%; Company Response to DLH-21.01
9	Allocation for line 8 calculated based upon the percentage of IBS Gas Services and IBS Corp. Services & SSO to total North Shore:		
10	IBS Corp. Services	$ 153	Company Response to TEE 12.05 (NS 4685)
11	Total Exec NS Charges	$ 210	Col. (b) line 2
12	Calculated Allocation percent	73%	Line 14 / line 15

North Shore Gas Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Total Amount	Financial Goals	Subtotal	Performance Goals Based on Non-NS Achievements
	(a)	(b)	(c)	(d)	(e)
			(b) x -50%	(b) + (c)	(d) x -46%
1	Non-Executive Plan				
2	Other Production	$ 12	$ (6)	$ 6	$ (3)
3	Distribution	163	(82)	81	(37)
4	Customer Accounts	150	(75)	75	(35)
5	Cust. Serv. & Info. Serv.	24	(12)	12	(6)
6	Admin. and General	482	(241)	241	(111)
7	Gross Plant	171	(86)	85	(39)

Sources by Column:
(b) Company Response to TEE 12.05 Attach 01 (NS 4679 and 4680)
(c) Weighted at 50% per Response to NS Ex. 9.1
(e) Allocation calculated based upon the percentage of IEG to total North Shore:

Integrys Energy Group	$ 460	Company Response to TEE 12.05 (NS 4683)
Total Non-Exec NS Charges	$ 1,002	Col. (b) sum of line 2 through 8
Calculated Allocation percent	46%	

North Shore Gas Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Omnibus Incentive Compensation Plans		
2	Omnibus Incentivet Award per Staff	$ -	
3	Omnibus Incentive Award per Company	544	Company response to TEE 12.05 (NS 4678)
4	Staff Proposed Adjustment to Admin. & General Exp.	$ (544)	Line 2 - line 3

North Shore Gas Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Capitalized costs disallowed in Docket 07-0241/0242	$ (27)	Company response to Staff data request TEE 1.11 Attach 01
2	Capitalized costs disallowed in Docket 09-0166/0167	$ (95)	Company response to Staff data request TEE 1.11 Attach 01
3	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
4	Staff proposed adjustment to plant	$ (122)	Line 1 plus line 2 minus line 3
5	Accumulated depreciation on capitalized costs in Docket 07-0241/0242	$ 6	Company response to Staff data request TEE 1.11 Attach 01
6	Accumulated depreciation on capitalized costs in Docket 09-0166/0167	$ 15	Company response to Staff data request TEE 1.11 Attach 01
7	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
8	Staff proposed adjustment to plant	$ 21	Line 5 plus line 6 minus line 7
9	Deferred Taxes associated with capitalized costs in Docket 07-0241/0242	$ 4	Company response to Staff data request TEE 1.11 Attach 01
10	Deferred Taxes associated with capitalized costs in Docket 09-0166/0167	$ 4	Company response to Staff data request TEE 1.11 Attach 01
11	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
12	Staff proposed adjustment to plant	$ 8	Line 9 plus line 10 minus line 11

North Shore Gas Company
Adjustment to Non-Union Wages
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Test Year Amount per Staff	Test Year Amount per Company	Staff Proposed Adjustment
	(a)	(b)	(c)	(d)
1	Storage	$ 52	$ -	$ 52
2	Transmission	-	-	-
3	Distribution	2,501	2,146	355
4	Customer Accounts	1,915	1,844	71
5	Customer Services & Informational Services	329	288	41
6	Administrative & General	4,283	4,808	(525)
7	Construction	1,426	1,610	(184)
8	Total	$ 10,506	$ 10,696	$ (190)
9	Payroll Taxes at line 8 x 7.65%			(15)
10	Depreciation Expense at line 7 x Composite rate of 2.5% per TEE 10.06			(5)
11	Accumulated Depreciation at line 7 x -1 x Composite rate of 2.5% per TEE 10.06			5
12	Accumulated Deferred Income Tax per TEE 10.06			5

Sources by Column:
(b) Source: Sch. 1.8 N, p. 2, col (d)
(c) Source: Company Response to TEE 7.01, Attach 1, col [B]

Total Other Payroll from TEE 7.01 Allocated Based on Test Year Split in TEE 10.05:	
Total Other included in Schedule B-1 per TEE 10.05	$ 1,617
Total Other included in ScheduleC-1, Distribution, per TEE 10.05	1,034
Total Other Payroll per TEE 7.01	$ 2,651
Test Year Non-Union Base Total Other Payroll of $2,261 Allocated to Constuction at 80%	1,379
Test Year Non-Union Base Total Other Payroll of $2,261 Allocated to Distribution at 20%	882

(d) Source: Col. (b) - Col. (c)

North Shore Gas Company
Adjustment to Non-Union Wages
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Actual 2010 Amount	Calculated 2011 Per Staff	Calculated 2012 Per Staff
	(a)	(b)	(c)	(d)
1	Storage	$ 49	$ 50	$ 52
2	Transmission	-	0	0
3	Distribution	2,372	2,443	2,501
4	Customer Accounts	1,817	1,872	1,915
5	Customer Services & Informational Services	312	321	329
6	Administrative & General	4,063	4,185	4,283
7	Construction	1,353	1,394	1,426
8	Total	$ 9,966	$ 10,265	$ 10,506

Sources by Column:

(b) Source:Company Response to TEE 7.01, Attach 1, col [D]
Total Other Payroll from TEE 7.01 Allocated Based on Test Year Split in TEE 10.05:
Test Year Non-Union Base Total Other Payroll of $1,501 Allocated to Constuction at 80%
Test Year Non-Union Base Total Other Payroll of $1,501 Allocated to Distribution at 20%

(c) Source: Col. (b) x 1.03
(d) Source: Col. (c) x 1.022

North Shore Gas Company
Adjustment to Materials and Supplies Inventory
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	2009 Amount (C)	2010 Amount (D)	Source (E)
	Additions to Materials & Supplies Inventory			
1	January	$ 242	$ 270	Company response to TEE 6.02 Attach 01
2	February	197	218	Company response to TEE 6.02 Attach 01
3	March	184	241	Company response to TEE 6.02 Attach 01
4	April	240	236	Company response to TEE 6.02 Attach 01
5	May	245	96	Company response to TEE 6.02 Attach 01
6	June	302	105	Company response to TEE 6.02 Attach 01
7	July	263	227	Company response to TEE 6.02 Attach 01
8	August	317	163	Company response to TEE 6.02 Attach 01
9	September	213	133	Company response to TEE 6.02 Attach 01
10	October	273	157	Company response to TEE 6.02 Attach 01
11	November	369	151	Company response to TEE 6.02 Attach 01
12	December	276	183	Company response to TEE 6.02 Attach 01
13	Lead Days associated with Materials and Supplies		42.44	Company response to TEE 6.04
14	Days in the Year		365	
15	Percentage Materials and Supplies in Accounts Payable		11.63%	Line 13 divided by line 14
16	Test Year Materials and Supplies Purchases		$ 2,651	Company Schedule B-8.1
17	Materials & Supplies Accounts Payable per Staff		$ (308)	Line 15 times line 16
18	Materials & Supplies Accounts Payable per Company		(2)	Company Schedule B-8.1
19	Proposed adjustment to Materials & Supplies per Staff		$ (306)	Line 17 minus line 18

North Shore Gas Company
Adjustment to Gas in Storage Inventory
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Amount	Source
(A)	(B)	(C)	(D)	(E)
1	Lead Days associated with Materials and Supplies		40.53	Company Schedule B-8
2	Days in the Year		365	
3	Percentage Materials and Supplies in Accounts Payable		11.10%	Line 1 times line 2
4	Test Year Gas Injections	9,964		Company Schedule F-8
5	Price	$5.30		Company response to PGL ENG 5.01 Attach 02
6	Test Year Gas Injections Value		$ 52,809	Line 4 times line 5
7	Gas in Storage Accounts Payable per Staff		$ (5,864)	Line 3 times line 6
8	Gas in Storage Accounts Payable per Company		(1,912)	Company Schedule B-1.1
9	Proposed adjustment to Gas in Storage per Staff		$ (3,952)	Line 7 minus line 8

North Shore Gas Company
Adjustment to Interest on Budget Payment Plan Balances
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Interest on Budget Payment Plan Balances per Staff	$ 16	Staff Ex. 3.0, Sch. 3.4 N, Page 2 of 2, Column F, Line 13
2	Interest on Budget Payment Plan Balances per Compa	64	NS Schedule C-2.10, Line 8
3	Difference -- Staff Adjustment	$ (48)	Line 1 less Line 2

The Peoples Gas Light and Coke Company
Adjustment to Interest on Budget Payment Plan Balances
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Month (B)	2011 - 2012 Average Cr. Balances ((C+D)/2) (C)	Days in Month (D)	Interest Rate (E)	Staff Interest Calculation (C x D x E) (F)
1	January 31	3,861	31	0.50%	$ 2
2	February 28	1,589	28	0.50%	$ 1
3	March 31	1,084	31	0.50%	$ 0
4	April 30	976	30	0.50%	$ 0
5	May 31	1,070	31	0.50%	$ 0
6	June 30	1,335	30	0.50%	$ 1
7	July 31	1,761	31	0.50%	$ 1
8	August 31	2,774	31	0.50%	$ 1
9	September 30	4,514	30	0.50%	$ 2
10	October 31	6,571	31	0.50%	$ 3
11	November 30	7,304	30	0.50%	$ 3
12	December 31	5,443	31	0.50%	$ 2
13	Sum of Lines 1 through 12				$ 16

Sources:
Column (C): Company response to Staff Data Request TEE 1.20 Attach 01
Column (E): Order, Docket No.10-0719, interest rate for calendar year 2011

North Shore Gas Company
Adjustment to Interest on Customer Deposits
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Interest on Customer Deposits per Staff	$ 13	Staff Ex. 3.0, Sch. 3.5 N, Page 2 of 2, Column F, Line 13
2	Interest on Customer Deposits per Company	52	NS Schedule C-2.9, Line 8
3	Difference -- Staff Adjustment	$ (39)	Line 1 less Line 2

North Shore Gas Company
Adjustment to Interest on Customer Deposits
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Month	2011 - 2012 Average Credit Balances	Days in Month	Interest Rate	Staff Interest Calculation (C x D x E)
(A)	(B)	(C)	(D)	(E)	(F)
1	January 31	2,635	31	0.50%	$ 1
2	February 28	2,611	28	0.50%	1
3	March 31	2,605	31	0.50%	1
4	April 30	2,517	30	0.50%	1
5	May 31	2,551	31	0.50%	1
6	June 30	2,543	30	0.50%	1
7	July 31	2,511	31	0.50%	1
8	August 31	2,777	31	0.50%	1
9	September 30	2,722	30	0.50%	1
10	October 31	2,688	31	0.50%	1
11	November 30	2,665	30	0.50%	1
12	December 31	2,650	31	0.50%	1
13	Sum of Lines 1 through 12				$ 13

Sources:
Column (C): Company response to Staff Data Request TEE 1.20 Attach 01
Column (E): Order, Docket No.10-0719, interest rate for calendar year 2011

North Shore Gas Company
Adjustment to Solicitation Revenue
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Solicitation Revenue per Staff	$ 116	Staff Ex. 9.0, p. 40
2	Solicitation Revenue per Company	-	
3	Difference -- Staff Adjustment	$ 116	Line 1 less Line 2

North Shore Gas Company
Adjustment to Repairs Revenue
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Repairs Revenue per Staff	$ 2	Staff Ex. 9.0, p. 42
2	Repairs Revenue per Company	1	Company response to Staff DR DAS 2.10 Att. 01
3	Difference -- Staff Adjustment	$ 1	Line 1 less Line 2

Peoples Gas Light and Coke Company
Adjustment to Pension Asset
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Pension Asset per Staff	$ -	
2	Pension Asset per Company	119,101	Company Schedule B-1.2
3	Staff Proposed Adjustment to Pension Asset	$ (119,101)	Line 1 minus line 2
4	Accumulated Deferred Income Taxes Per Staff	$ -	
5	Accumulated Deferred Income Taxes Per Company	(63,407)	Company response to TEE 4.08 Attach 01
6	Staff Proposed Adjustment to Accumulated Deferred Income Tax	$ 63,407	Line 4 minus line 5

Peoples Gas Light and Coke Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description		Amount	Source
	(a)		(b)	(c)
1	Summary			
2	Total Storage Adjustment per Staff		$ (130)	Sch. 3.2 P, p. 3 , line 2, cols. (c) & (e)
3	Total Storage Adjustment per Company		-	
4	Total Staff Proposed Adjustment to Storage Expense		$ (130)	
5	Total Transmission Adjustment per Staff		$ (53)	Sch. 3.2 P, p. 3 , line 3, cols. (c) & (e)
6	Total Transmission Adjustment per Company		-	
7	Total Staff Proposed Adjustment to Transmission Expense		$ (53)	
8	Total Customer Accounts Adjustment per Staff		$ (576)	Sch. 3.2 P, p. 3 , line 5, cols. (c) & (e)
9	Total Customer Accounts Adjustment per Company		-	
10	Total Staff Proposed Adjustment to Customer Accounts Exp.		$ (576)	
11	Total Distribution Adjustment per Staff		$ (803)	Sch. 3.2 P, p. 3 , line 4, cols. (c) & (e)
12	Total Distribution Adjustment per Company		-	
13	Total Staff Proposed Adjustment to Distribution Expense		$ (803)	
14	Total Cust. Serv. and Info. Serv. Adjustment per Staff		$ (82)	Sch. 3.2 P, p. 3 , line 6, cols. (c) & (e)
15	Total Cust. Serv. and Info. Serv. Adjustment per Company		-	
16	Total Staff Proposed Adjustment to Cust.& Info. Services Exp.		$ (82)	
17	Total Admin. & General Adjustment per Staff		$(5,956)	Sch. 3.2 P, p. 2 , lines 4, 7 and 8 + Sch. 3.2 P, p. 3 , line 7, cols. (c) & (e) + Sch. 3.2 P, p. 4 , line 4
18	Total Admin. & General Adjustment per Company		-	
19	Total Staff Proposed Adjustment to Admin. & General Expense		$(5,956)	
20	Total Capitalized Adjustment amount per Staff		$(1,356)	Sch. 3.2 P, p. 3 , line 8, cols. (c) & (e) + Sch. 3.2 P, p. 5 , line 4
21	Total Capitalized Adjustment amount per Company		-	
22	Total Staff Proposed Adjustment to Rate Base		$(1,356)	
23	Total Payroll Taxes Adjustment per Staff		$ (685)	(Sum of Lines 4, 7, 10, 13, 16, 19 and 22) x 7.65%
24	Total Payroll Taxes Adjustment per Company		-	
25	Total Staff Proposed Adjustment to Taxes Other Than Income		$ (685)	
26	Depreciation Exp from Non-Executive Plan Gross Plant	$ (23)		Sch. 3.2 P, p. 3 , line 8, cols. (c) & (e) x Composite rate of 3.28%
27	Depreciation exp on costs disallowed in Docket 07-0241/024	(5)		Company response to Staff data request TEE 1.11 Attach 01
28	Depreciation exp on costs disallowed in Docket 09-0166/016	(16)		Company response to Staff data request TEE 1.11 Attach 01
29	Depreciation Expense Adjustment per Staff		$ (44)	Sum of lines 26 through 28
30	Depreciation Expense Adjustment per Company		-	
31	Staff Proposed Adjustment to Depreciation Expense		$ (44)	
32	Accumulated Depreciation Adjustment per Staff		$ 157	Sch. 3.2 P, p. 1 , line 26 x -1 + Sch. 3.2 P, p. 5 , line 6
33	Accumulated Depreciation Adjustment per Company		-	
34	Staff Proposed Adjustment to Accumulated Depreciation		$ 157	
35	Accumulated Deferred Income Taxes Adjustment per Staff		$ 42	Sch. 3.2, p. 5, line 9
36	Accumulated Deferred Income Taxes Adjustment per Company		-	
37	Staff Proposed Adjustment to Accum. Def. Income Taxes		$ 42	

Peoples Gas Light and Coke Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description (a)	Amount (b)	Source (c)
1	Executive Plan		
2	Administrative and General Total Cost	$ 1,364	Company Response to TEE 12.05 (PGL 7000)
3	Financial Weighting	70%	Company Response to TEE 12.04
4	Executive Plan Financial Goals Cost	$ (955)	Line 2 x line 3 x -1
5	Non-Financial Weighting	30%	1 minus line 3
6	Executive Plan Non-Financial Goals Cost	$ 409	Line 5 x line 2
7	Performance Goals Based on Non-PGL Achievements	$ (300)	Lline 7 x line 15
8	Performance Goals Based on IEG Net Income	$ (55)	(Line 6 + line 7) x -50%; Company Response to TEE 1.03 Attach 01
9	Allocation for line 8 calculated based upon the percentage of Stock Options etc to total Peoples Gas:		
10	Stock Options, etc.	1,000	Company Response to TEE 12.05 (PGL 7008)
11	Total Exec PGL Charges	$ 1,364	Col. (b) line 2
12	Calculated Allocation percent	73%	Line 14 / line 15

Peoples Gas Light and Coke Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Total Amount	Financial Goals	Subtotal	Perform. Goals Based on Non-PGL Achievements
	(a)	(b)	(c) (b) x -50%	(d) (b) + (c)	(e) (d) x- 44%
1	Non-Executive Plan				
2	Storage	$ 180	$ (90)	$ 90	$ (40)
3	Transmission	73	(37)	36	(16)
4	Distribution	1,115	(558)	557	(245)
5	Customer Accounts	800	(400)	400	(176)
6	Cust. Serv. & Info. Serv.	113	(57)	56	(25)
7	Admin. and General	2,108	(1,054)	1,054	(464)
8	Gross Plant	982	(491)	491	(216)

Sources by Column:
(b) Company Response to TEE 12.05 (PGL 7001 and 7002)
(c) Weighted at 50% per PGL Ex. 9.1
(e) Allocation calculated based upon the percentage of IEG to total Peoples Gas:

Integrys Energy Group	2,352	Company Response to TEE 12.05(PGL 7006)
Total Non-Exec PGL Charges	$ 5,371	Col. (b) sum of line 2 through 8
Calculated Allocation percent	44%	

Peoples Gas Light and Coke Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description (a)	Amount (b)	Source (c)
1	Omnibus Incentive Compensation Plans		
2	Omnibus Incentive Compensation Award per Staff	$ -	
3	Omnibus Incentive Compensation Award per Company	3,129	Company Response to TEE 12.05 (PGL 7000)
4	Staff Proposed Adjustment to Admin. & General Exp.	$ (3,129)	Line 2 - line 3

Peoples Gas Light and Coke Company
Adjustment to Incentive Compensation
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Capitalized costs disallowed in Docket 07-0241/0242	$ (166)	Company response to Staff data request TEE 1.11 Attach 01
	Capitalized costs disallowed in Docket 09-0166/0167	$ (483)	Company response to Staff data request TEE 1.11 Attach 01
2	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
3	Staff proposed adjustment to plant	$ (649)	Line 1 minus line 2
4	Accumulate depreciation on capitalized costs in Docket 07-0241/0242	$ 95	Company response to Staff data request TEE 1.11 Attach 01
	Accumulate depreciation on capitalized costs in Docket 09-0166/0167	$ 39	Company response to Staff data request TEE 1.11 Attach 01
5	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
6	Staff proposed adjustment to plant	$ 134	Line 4 minus line 5
7	Deferred Taxes associated with capitalized costs in Docket 07-0241/0242	$ 29	Company response to Staff data request TEE 1.11 Attach 01
	Deferred Taxes associated with capitalized costs in Docket 09-0166/0167	$ 13	Company response to Staff data request TEE 1.11 Attach 01
8	Amount removed by Company	-	Company response to Staff data request TEE 1.11 Attach 01
9	Staff proposed adjustment to plant	$ 42	Line 7 minus line 8

Peoples Gas Light and Coke Company
Adjustment to Non-Union Wages
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description (a)	Test Year Amount per Staff (b)	Test Year Amount per Company (c)	Staff Proposed Adjustment (d)
1	Storage	$ 3,205	$ 3,110	$ 95
2	Transmission	$ 575	1,188	(613)
3	Distribution	$ 14,936	14,668	268
4	Customer Accounts	$ 10,730	9,945	785
5	Customer Services & Informational Services	$ 1,563	1,364	199
6	Administrative & General	$ 19,232	21,182	(1,950)
7	Construction	$ 6,853	10,821	(3,968)
8	Total	$ 57,094	$ 62,278	$ (5,184)
9	Payroll Taxes at line 8 x 7.65%			(397)
10	Depreciation Expense at line 7 x Composite rate of 2.5% per TEE 10.06			(99)
11	Accumulated Depreciation at line 7 x -1 x Composite rate of 2.5% per TEE 10.06			99
12	Accumulated Deferred Income Tax per TEE 7.02			5

Sources by Column:
(b) Source: Sch. 3.x P, p. 2, col (d)
(c) Source: Company Response to TEE 7.01, Attach 1, col [B]

Total Other Payroll from TEE 7.01 Allocated Based on Test Year Split in TEE 10.05:	
Total Other included in Schedule B-1 per TEE 10.05	$ 9,523
Total Other included in ScheduleC-1, Distribution, per TEE 10.05	4,694
Total Other Payroll per TEE 10.05	$ 14,217
Test Year Non-Union Base Total Other Payroll of $14,217 Allocated to Constuction at 80%	9,523
Test Year Non-Union Base Total Other Payroll of $14,217 Allocated to Distribution at 20%	4,694

(d) Source: Col. (b) - Col. (c)

Peoples Gas Light and Coke Company
Adjustment to Non-Union Wages
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Actual 2010 Amount	Calculated 2011 Per Staff	Calculated 2012 Per Staff
	(a)	(b)	(c)	(d)
1	Storage	$ 3,040	$ 3,131	$ 3,205
2	Transmission	545	561	575
3	Distribution	14,168	14,593	14,936
4	Customer Accounts	10,178	10,483	10,730
5	Customer Services & Informational Services	1,483	1,527	1,563
6	Administrative & General	18,243	18,790	19,232
7	Construction	6,501	6,696	6,853
8	Total	$ 54,158	$ 55,783	$ 57,094

Sources by Column:

(b) Source:Company Revised Response to TEE 7.01, Attach 1, col [D]
Total Other Payroll from TEE 7.01 Allocated Based on Test Year Split in TEE 10.05:
Test Year Non-Union Base Total Other Payroll of $6,673 Allocated to Constuction at 80%
Test Year Non-Union Base Total Other Payroll of $6,673 Allocated to Distribution at 20%
(c) Source: Col. (b) x 1.03
(d) Source: Col. (c) x 1.022

Peoples Gas Light and Coke Company
Adjustment to Materials and Supplies Inventory
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	2009 Amount	2010 Amount	Source
(A)	(B)	(C)	(D)	(E)
	Additions to Materials & Supplies Inventory			
1	January	$ 1,670	$ 1,257	Company response to TEE 6.02 Attach 01
2	February	1,822	1,385	Company response to TEE 6.02 Attach 01
3	March	2,371	1,516	Company response to TEE 6.02 Attach 01
4	April	2,062	1,684	Company response to TEE 6.02 Attach 01
5	May	1,721	610	Company response to TEE 6.02 Attach 01
6	June	1,766	855	Company response to TEE 6.02 Attach 01
7	July	1,734	1,025	Company response to TEE 6.02 Attach 01
8	August	1,854	840	Company response to TEE 6.02 Attach 01
9	September	1,625	810	Company response to TEE 6.02 Attach 01
10	October	2,020	807	Company response to TEE 6.02 Attach 01
11	November	1,588	1,098	Company response to TEE 6.02 Attach 01
12	December	1,653	1,256	Company response to TEE 6.02 Attach 01
13	Lead Days associated with Materials and Supplies		46.62	Company response to TEE 6.04
14	Days in the Year		365	
15	Percentage Materials and Supplies in Accounts Payable		12.77%	Line 13 divided by line 14
16	Average Materials and Supplies annual purchases 2009-2010		$ 17,515	Company response to TEE 6.02 Attach 01
17	Materials & Supplies Accounts Payable per Staff		$ (2,237)	Line 15 times line 16
18	Materials & Supplies Accounts Payable per Company		(31)	Company Schedule B-8.1
19	Proposed adjustment to Materials & Supplies per Staff		$ (2,206)	Line 17 minus line 18

Peoples Gas Light and Coke Company
Adjustment to Gas in Storage Inventory
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Amount	Source
(A)	(B)	(C)	(D)	(E)
1	Lead Days associated with Gas Purchases		40.62	Company Schedule B-8, line 6
2	Days in the Year		365	
3	Percentage Gas Purchases in Accounts Payable		11.13%	Line 1 times line 2
4	Test Year Gas Injections	57,062		Company Schedule F-8
5	Price	$5.14		Company response to PGL ENG 5.01 Attach 02
6	Test Year Gas Injections Value		$ 293,299	Line 4 times line 5
7	Gas in Storage Accounts Payable per Staff		$ (32,641)	Line 3 times line 6
8	Gas in Storage Accounts Payable per Company		(12,845)	Company Schedule B-1.1
9	Proposed adjustment to Gas in Storage per Staff		$ (19,796)	Line 7 minus line 8

Peoples Gas Light and Coke Company
Adjustment to Interest on Budget Payment Plan Balances
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Interest on Budget Payment Plan Balances per Staff	$ 81	Staff Ex. 3.0, Sch. 3.4P, Page 2 of 2, Column F, Line 13
2	Interest on Budget Payment Plan Balances per Company	325	PGL Schedule C-2.10, Line 8
3	Difference -- Staff Adjustment	$ (244)	Line 1 less Line 2

The Peoples Gas Light and Coke Company
Adjustment to Interest on Budget Payment Plan Balances
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Month	2011 - 2012 Average Credit Balances	Days in Month	Interest Rate	Staff Interest Calculation (C x D x E)
(A)	(B)	(C)	(D)	(E)	(F)
1	January 31	18,851	31	0.50%	$ 8
2	February 28	9,439	28	0.50%	$ 4
3	March 31	5,461	31	0.50%	$ 2
4	April 30	4,854	30	0.50%	$ 2
5	May 31	5,195	31	0.50%	$ 2
6	June 30	6,241	30	0.50%	$ 3
7	July 31	9,160	31	0.50%	$ 4
8	August 31	14,942	31	0.50%	$ 6
9	September 30	23,339	30	0.50%	$ 10
10	October 31	33,447	31	0.50%	$ 14
11	November 30	36,497	30	0.50%	$ 15
12	December 31	26,914	31	0.50%	$ 11
13	Sum of Lines 1 through 12				$ 81

Sources:
Column (C): Company response to Staff Data Request TEE 1.20 Attach 01
Column (E): Order, Docket No.10-0719, interest rate for calendar year 2011

The Peoples Gas Light and Coke Company
Adjustment to Interest on Customer Deposits
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Interest on Customer Deposits per Staff	$ 144	Staff Ex. 3.0, Sch. 3.5 P, Page 2 of 2, Column F, Line 13
2	Interest on Customer Deposits per Company	576	PGL Schedule C-2.9, Line 8
3	Difference -- Staff Adjustment	$ (432)	Line 1 less Line 2

The Peoples Gas Light and Coke Company
Adjustment to Interest on Customer Deposits
For the Test Year Ending December 31, 2012
(In Thousands)

Line No.	Month	2011 - 2012 Average Credit Balances	Days in Month	Interest Rate	Staff Interest Calculation (C x D x E)
(A)	(B)	(C)	(D)	(E)	(F)
1	January 31	29,194	31	0.50%	$ 12
2	February 28	29,243	28	0.50%	11
3	March 31	29,187	31	0.50%	12
4	April 30	28,493	30	0.50%	12
5	May 31	28,301	31	0.50%	12
6	June 30	27,740	30	0.50%	11
7	July 31	27,328	31	0.50%	12
8	August 31	29,484	31	0.50%	13
9	September 30	29,101	30	0.50%	12
10	October 31	28,998	31	0.50%	12
11	November 30	29,043	30	0.50%	12
12	December 31	29,267	31	0.50%	12
13	Sum of Lines 1 through 12				$ 144

Sources:
Column (C): Company response to Staff Data Request TEE 1.20 Attach 01
Column (E): Order, Docket No.10-0719, interest rate for calendar year 2011

The Peoples Gas Light and Coke Company
Adjustment to Solicitation Revenues
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Solicitation Revenues per Staff	$ 656	Staff Ex. 9.0, p. 40
2	Solicitation Revenues per Company	-	
3	Difference -- Staff Adjustment	$ 656	Line 1 less Line 2

The Peoples Gas Light and Coke Company
Adjustment to Repairs Revenue
For the Test Year Ending December 31, 2012
(In Thousands)

Line No. (A)	Description (B)	Amount (C)	Source (D)
1	Repairs Revenue per Staff	$ 17	Staff Ex. 9.0, p. 42
2	Repairs Revenue per Company	10	Company response to Staff DR DAS 2.10 Att. 01
3	Difference -- Staff Adjustment	$ 7	Line 1 less Line 2