

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

<b>North Shore Gas Company</b>	:	
	:	
<b>Proposed general increase in gas rates. (tariffs filed February 26, 2014)</b>	:	<b>14-0224</b>
	:	
<b>The Peoples Gas Light and Coke Company</b>	:	
	:	
<b>Proposed general increase in gas rates. (Tariffs filed February 26, 2014)</b>	:	<b>14-0225 (Consol.)</b>

**SECOND AMENDATORY ORDER**

On January 21, 2015, the Commission entered an Order granting an increase in rates to North Shore Gas Company and The Peoples Gas Light and Coke Company. Subsequently on January 28, 2015, the Commission entered an Amendatory Order (“Amendatory Order”) correcting numerical errors in the Findings and Ordering paragraphs of the January 21, 2015 Order (“Order”).

On January 26, 2015, the Attorney General (“AG”) filed an emergency motion to correct the Commission’s Final Order of January 21, 2015 (“Motion”). The substance of the Motion was that the Commission’s January 21, 2015 Order (and the subsequent Amendatory Order) failed to incorporate the benefits to rate payers of a bonus depreciation provision in the “Tax Increase Prevention Act of 2014” (HR 5771) (“Act”) passed by Congress and signed into law as Public Law No. 113-295 on December 19, 2014. The Act extends 50% bonus depreciation through 2014, with retroactive effect to January 1, 2014.

On January 30, 2015, the Companies and Commission Staff filed their Responses to the AG’s Emergency Motion. The AG filed its Reply on February 3, 2015. The Parties are in agreement that neither order reflected this law change which allows additional depreciation on 2014 additions to plant in service in calculating the 2015 test-year revenue requirements. Incorporating the effects of the new law changes many of the calculations underlying the Order and Amendatory Order to the net benefit of rate payers.

Section 10-113 of the Public Utilities Act, entitled “Rescission or hearing of order,” provides the Commission with specific authority to re-open a case for, among many other reasons, the purpose of correcting a ministerial error. Section 10-113 provides in relevant part that:

- (a) . . . the Commission may at any time, upon notice to the public utility affected, and after opportunity to be heard as provided in the case of complaints, rescind, alter or amend any rule, regulation, order or decision made by it. Any order rescinding, altering or amending a prior rule, regulation, order or decision shall, when served upon the public utility affected, have the same effect as is herein provided for original rules, regulations, orders or decisions.

220 ILCS 5/10-113.

The Commission finds that it is in the public interest to issue this Second Amendatory Order incorporating the effects of the law change.

Wherefore, the record in this matter is reopened for the purpose of incorporating the effects of the Act on the rates set by the Orders of January 21, 2015 and January 28, 2015. The changes incorporated in this Second Amendatory Order include amended Appendices A and B referenced in the January 21, 2015 Order and:

- 1) changes to the conclusion at the bottom of page 10 of the January 21, 2015 Order, which shall be amended as follows:

The Commission finds that the appropriate revenue requirement for Peoples Gas is \$668,007,000. As the Commission acknowledged in the preceding section of this Order, it is very cognizant of the need to balance the interests of ratepayers entitled to fair and reasonable rates with the financial requirements of the Companies. The Commission concludes that the adjustments to the revenue requirement reflected in this Order are supported by the evidence.

- 2) and substituting the following Findings and Ordering Paragraphs for those found in the January 21, 2015 Order and the January 28, 2015 Amendatory Order:

#### FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Peoples Gas is an Illinois corporation engaged in the transportation, purchase, storage, distribution and sale of natural gas to the public in Illinois and is a public utility as defined in Section 3-105 of the Act;
- (2) North Shore is an Illinois corporation engaged in the transportation, purchase, storage, distribution and sale of natural gas to the public in Illinois and is a public utility as defined in Section 3-105 of the Act;

- (3) the Commission has jurisdiction over the parties and the subject matter herein;
- (4) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record, and are hereby adopted as findings of fact and conclusions of law; the Appendices attached hereto provide supporting calculations;
- (5) the test year for the determination of the rates herein found to be just and reasonable should be the 12 months ending December 31, 2015; such test year is appropriate for purposes of this proceeding;
- (6) the \$443,539,000 original cost of plant for North Shore at December 31, 2012, and the \$3,285,370,000 original cost of plant for Peoples Gas at December 31, 2012, as presented in Staff Ex.6.0, are unconditionally approved as the original costs of plant;
- (7) for the test year ending December 31, 2015, and for the purposes of this proceeding, Peoples Gas' original cost rate base with adjustments is \$1,669,698,000;
- (8) for the test year ending December 31, 2015, and for the purposes of this proceeding, North Shore's original cost rate base with adjustments is \$217,184,000;
- (9) a just and reasonable return which Peoples Gas should be allowed to earn on its net original cost rate base is 6.56%; this rate of return incorporates a return on common equity of 9.05% and costs of long-term debt of 4.26% and short-term debt of 0.91%, with a just and reasonable capital structure of 50.33% common equity, 46.51% long-term debt and 3.16% short-term debt;
- (10) a just and reasonable return which North Shore should be allowed to earn on its net original cost rate base is 6.26%; this rate of return incorporates a return on common equity of 9.05% and costs of long-term debt of 4.13% and short-term debt of .74%, with a just and reasonable capital structure of 50.48% common equity, 38.94% long-term debt and 10.58% short-term debt;
- (11) Peoples Gas' rate of return set forth in Finding (9) results in approved base rate net operating income of \$109,532,000;
- (12) North Shore's rate of return set forth in Finding (10) results in approved base rate net operating income of \$13,591,000;

- (13) pursuant to Section 9-229 of the Act, the Commission has specifically assessed the amounts expended by North Shore and Peoples Gas to compensate attorneys and experts to prepare and litigate this general rate case filing and finds those amounts as adjusted in Sections V.B.13, V.C. 3.a.iv, and V.C.4 to be just and reasonable;
- (14) Peoples Gas' rates, which are presently in effect, are insufficient to generate the operating income necessary to permit Peoples Gas the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;
- (15) North Shore's rates, which are presently in effect, are insufficient to generate the operating income necessary to permit North Shore the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently canceled and annulled;
- (16) the specific rates proposed by Peoples Gas in its initial filing do not reflect various determinations made in this Order regarding revenue requirement, expenses, cost of service allocations, and rate design; Peoples Gas' proposed rates should be permanently canceled and annulled consistent with the findings herein;
- (17) the specific rates proposed by North Shore in its initial filing do not reflect various determinations made in this Order regarding revenue requirement, expenses, cost of service allocations, and rate design; North Shore's proposed rates should be permanently canceled and annulled consistent with the findings herein;
- (18) Peoples Gas should be authorized to place into effect tariff sheets designed to produce annual base rate revenues of \$651,401,000, in addition to \$16,606,000 of other revenues, which represents a total base rate increase of \$71,141,000 or 11.92% in base rate revenues; such revenues will provide Peoples Gas with an opportunity to earn the rate of return set forth in Finding (9) above; based on the record in this proceeding, this return is just and reasonable;
- (19) North Shore should be authorized to place into effect tariff sheets designed to produce annual base rate revenues of \$85,170,000, in addition to \$1,597,000 of other revenues, which represents a base rate increase of \$3,513,000 or 4.42% in base rate revenues; such revenues will provide North Shore with an opportunity to earn the rate of return set forth in Finding (10) above; based on the record in this proceeding, this return is just and reasonable;

- (20) it is further ordered that the uncollectible expense included in base rates for Peoples Gas is \$13,619,000 and for North Shore is \$497,000, which excludes amounts recoverable under Rider UEA GC;
- (21) The test year amounts of test year pipelines safety-related training for Peoples Gas are: \$11,355 for Corrosion-NACE Levels 1 and 2 Certification; \$80,500 for 49 CFR Parts 191 and 192 Training; \$0 for Construction Inspection; \$6,300 for all other pipeline safety-related training, totaling \$98,135;
- (22) the determinations regarding cost of service and rate design contained in the prefatory portion of this Order are reasonable for purposes of this proceeding; the tariffs filed by North Shore and Peoples Gas should incorporate the rates and rate designs set forth and referred to herein, including revisions to their Schedule of Rates for Gas Service;
- (23) the percentage of fixed costs for purposes of computations under Rider VBA shall be 100% for each of North Shore and Peoples Gas and North Shore and Peoples Gas shall file revised Rate Case Revenues for Rider VBA;
- (24) Peoples Gas shall reflect in its Rider QIP Surcharge Percentage following the date of this Order the variance from the 2014 QIP amounts included in base rates to its actual 2014 QIP amounts, which may be an increase or decrease to the amount to be recovered through the Rider QIP Surcharge Percentage. The 2014 QIP amounts included in base rates are comprised of \$144,512,614, less a negative amount of \$40,847,793 for accumulated depreciation and less a positive amount of \$38,292,242 for accumulated deferred income taxes, and \$1,477,502 for annualized depreciation expense less annualized depreciation expense applicable to the plant being retired;
- (25) as required in this Order, under the discussion of Rider SSC, Storage Service Charge, North Shore and Peoples Gas shall file Rider SSC charges (Storage Banking Charge and Storage Service Charge) consistent with the approved revenue requirements;
- (26) new tariff sheets authorized to be filed by this Second Amendatory Order should be filed no later than five business days after this Second Amendatory Order is served on the parties; and
- (27) North Shore and Peoples Gas' updated depreciation rates are uncontested and they are approved.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect of The Peoples Gas Light and Coke Company and North Shore Gas Company that are the subject of this proceeding are hereby permanently canceled

and annulled, effective at such time as the new tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general rate increase, filed by The Peoples Gas Light and Coke Company and North Shore Gas Company on February 26, 2014, are permanently canceled and annulled.

IT IS FURTHER ORDERED the \$443,539,000 original cost of plant for North Shore at December 31, 2012, and the \$3,285,370 original cost of plant for Peoples Gas at December 31, 2012, as presented in Staff Ex. 1.0, are unconditionally approved as the original costs of plant.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company and North Shore Gas Company are authorized to file new tariff sheets with supporting work papers in accordance with Findings (18) and (19) of this Order, applicable to service furnished on and after the effective date of said tariff sheets, which date shall be no later than four business days after said sheets are filed.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company and North Shore Gas Company shall revise their Schedule of Rates for Gas Service in accordance with Finding 22 of this Order.

IT IS FURTHER ORDERED that the Peoples Gas Light and Coke Company and North Shore Gas Company shall file revised Rider VBA Rate Case Revenue amounts and set the percentage of fixed costs for purposes of computations under Rider VBA at 100%.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company shall reflect in its Rider QIP Surcharge Percentage following the date of this Order the variance from the 2014 QIP amounts included in base rates to its actual 2014 QIP amounts, which may be an increase or decrease to the amount to be recovered through the Rider QIP Surcharge Percentage. The 2014 QIP amounts included in base rates are comprised of \$144,512,614, less a negative amount of \$40,847,793 for accumulated depreciation and less a positive amount of \$38,292,242 for accumulated deferred income taxes, and \$1,477,502 for annualized depreciation expense less annualized depreciation expense applicable to the plant being retired.

IT IS FURTHER ORDERED that The Peoples Gas Light and Coke Company and North Shore Gas Company shall file Rider SSC charges (Storage Banking Charge and Storage Service Charge) consistent with the approved revenue requirements.

IT IS FURTHER ORDERED that the Utilities' updated depreciation rates are approved.

IT IS FURTHER ORDERED that any motions, petitions, objections, and other matters in this proceeding which remain unresolved are disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that the orders entered on January 21, 2015 and January 28, 2015 remain in full force and effect, except for the changes enumerated above.

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

By Order of the Commission this 11<sup>th</sup> day of February, 2015.

(SIGNED) BRIEN SHEAHAN

Acting Chairman