The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

The Infrastructure Cost Recovery Charge shall be determined in accordance with the provisions of this rider. The Infrastructure Cost Recovery Charge shall be applied to bills of customers.

Section A – Applicability

The purpose of the ICR Charge is to recover a return on, and depreciation expense related to, the Company's investment in QIP net of related savings as described in Section D of this rider.

On or before March 20 of each year, the Company shall file with the Commission an information sheet specifying the ICR Charge Percentage to be effective for service rendered during the period of April 1 through December 31 of such year. Such filing shall include a statement showing the determination of such Percentage under Sections F and G and supporting data. The initial charge to be determined under this rider shall be effective April 1, 2011.

Section B – Definitions

As used in this rider, the terms below are defined as follows:

"Act" means the Public Utilities Act [220 ILCS 5/1-101 et seq.].

“Annual ICR Base Rate Revenues” mean ICR Base Rate Revenues for the calendar year period beginning January 1 and ending December 31 of the Effective Period.

“Base Index Amount” shall mean the most recently published index data in the Handy-Whitman Index® of Public Utility Construction Costs™, Cost Trends of Gas Utility Construction Gas Construction Index for the North Central Region, when the first ICR Charge Percentage is determined after new base rates are approved by the Commission. A Base Index Amount shall be set for each QIP Cost category described in Section D of this rider. The initial Base Index Amount shall be based on January 2011 index data.

“Effective Period” means a period commencing April 1 and ending the following December 31 for charges billed under this rider.

“Escalation Factor” shall mean a factor, determined in accordance with Section F of this rider, used in the annual calculation of the QIP Baseline.

“Excluded Credits” mean credits resulting from Riders 2, EEP, and SBO.

* “Excluded Revenues” means revenues arising from Service Classification Nos. 5 and 7 and Riders 1, 2, 9, 11, EEP, EOA, FST, SST, SST-T, P, P-T, CFY, AGG, SBO, and IT and revenues arising from ICR Charges.

"ICR Base Rate Revenues" mean revenues recorded in Accounts 480, 481, 482 and 489. ICR Base Rate Revenues, however, shall not include any Excluded Revenues and shall not be reduced by any Excluded Credits.

The Peoples Gas Light and Coke Company

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

Section B – Definitions - continued

** "ICR Charge Percentage" is the percentage determined in accordance with Section F of this rider.

* "Index Weighting Factors" shall have the meaning ascribed to it in Section F(b) of this rider.

** "Infrastructure Cost Recovery Charge" or "ICR Charge" means the amount added to a customer bill when the ICR Charge Percentage is applied in accordance with Section F(a) of this rider.

** "Operation Year" means any calendar year after the Test Year.

"Qualifying Infrastructure Plant" or "QIP" means certain plant that is not reflected in the rate base used to establish the Company's base rates and is consistent with the terms of Section D of this rider.

* "QIP Baseline" means the dollar amount for which QIP Costs which exceed such amount are recoverable through the ICR Charge. The QIP Baseline for each Operation Year shall be the product of $45.28 million and the Escalation Factor, rounded to the nearest ten thousand dollars. The QIP Baseline shall be allocated among the accounts described in Section D of this rider based upon the Index Weighting Factors described in Section F(b) of this rider. Such allocations of the QIP Baseline shall be the "Allocated QIP Baseline."

"QIP Costs" mean Qualifying Infrastructure Plant costs that meet the criteria set forth in Section D of this rider.

"QIP Percent" means the percentage for each applicable category of QIP that is to be applied to QIP Costs as set forth in Sections F and H of this rider. The initial QIP Percent for Accounts 381 and 383, as set forth in Section D of this rider, shall be 10% and 90%, respectively. The QIP Percent shall be re-determined each reconciliation year as described in Section H(c) of this rider and shall be applicable for the Effective Period immediately following the reconciliation year.

"Test Year" means the test year period used by the Company in its last rate case as defined in 83 Ill. Adm. Code Sec. 287.20.

Section C - Terms and Conditions

(a) The annual amount to be billed under Rider ICR shall not exceed the product of Annual ICR Base Rate Revenues multiplied by 5%. The ICR Charge Percentage shall only be applied to charges which derive ICR Base Rate Revenues.

(b) On the effective date of new base rates that provide for the recovery of the costs that had previously been recovered under this rider, the ICR Charge Percentage shall be reset to zero.

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

** **Section C - Terms and Conditions** - continued

(c) The ICR Charge, which shall be the product of the ICR Charge Percentage times applicable base rate charges for the Effective Period, shall be presented as a separate line item on customer bills.

(d) The revenues resulting from this rider shall be recorded in a separate revenue sub-account.

Section D – Qualifying Infrastructure Plant

(a) To be classified as QIP, the plant additions must meet the following criteria:

(1) Plant additions must be replacements of existing plant items from the accounts listed in subsection (b) or additions required to support replacement of existing plant items from the accounts listed in subsection (b) or additions required to be installed as part of the Company's main replacement program;

(2) Such replacements are installed to replace cast iron and ductile iron main and ancillary infrastructure; and

(3) Such replacements were not included in the calculation of the rate base in the Company's last rate case.

(b) The plant additions shall include items from the following accounts, pursuant to 83 Ill. Adm. Code Part 505:

(1) Account 376, Distribution Mains;
(2) Account 378, Measuring and Regulating Station Equipment, General;
(3) Account 379, Measuring and Regulating Station Equipment, City Gate Check Stations;
(4) Account 380, Services;
(5) Account 381, Meters including Meter Installations; and
(6) Account 383, House Regulators

(c) QIP shall include only plant additions installed or estimated to be installed on or after January 1 of the year in which the Company files its initial ICR Charge Percentage and shall exclude incentive compensation expenses. For Accounts 381 and 383, QIP shall include all Company additions installed or estimated to be installed and adjusted by the applicable QIP Percent as defined in Section B of this rider.

The Peoples Gas Light and Coke Company

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Applicable to Service Classification Nos. 1, 2, 4 and 8

Section E - Recoverable Qualifying Infrastructure Plant Costs

** QIP costs shall include the pre-tax return on QIP and the depreciation expense applicable to QIP.

** (1) PTR means pre-tax return and is calculated using the weighted cost of debt and weighted cost of equity determined in the Company's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor. The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$GRCF = \frac{1}{(1-UE)\ (1 - SIT)\ (1 - FIT)}$$

$$PTR = (WCCE \times GRCF) + WCD$$

Where:

GRCF = Gross Revenue Conversion Factor.

UE = The uncollectible expense percentage from the Company's last rate case.

SIT = Effective Illinois State income tax rate.

FIT = Effective Federal income tax rate.

PTR = Pre-tax return.

WCCE = Weighted cost of common equity from the Company's last rate case including any adjustments ordered by the Commission.

WCD = Weighted cost of debt from the Company's last rate case.

(2) Depreciation expense shall be calculated monthly by applying the Company's approved depreciation rates, including removal and salvage, to the beginning and ending month average QIP balance and related retirements, net of the Allocated QIP Baseline and related retirements, for each category of QIP as described in Section D of this rider.

Section F - Determination of the Infrastructure Cost Recovery Charge Percentage

(a) The ICR Charge Percentage shall be expressed as a percentage carried to two decimal places. The ICR Charge Percentage shall be applied to the total amount billed to each customer based on the Company's applicable charges that would derive ICR Base Rate Revenues for the Effective Period.

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RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

Section F - Determination of the Infrastructure Cost Recovery Charge Percentage - continued

* and ** (b) The Escalation Factor shall be determined using July index data for the previous Operation Year published in the Handy-Whitman Index® of Public Utility Construction Costs™, Cost Trends of Gas Utility Construction Gas Construction Index for the North Central Region relative to such data for the Base Index Amount. Weighted indices shall be determined for the July index data and the Base Index Amount by multiplying the following Index Weighting Factors for the QIP Baseline costs times the published index data, and rounding to two decimal places.

Cost Category	Plant Account No.	Index Weighting Factor	Cost Category	Plant Account No.	Index Weighting Factor
Installation of PL Main	376	41.69%	Meter Replacement Cost	381	6.29%
Installation of ST Main	376	5.09%	House Regulator Cost	383	3.15%
Main Restoration Cost	376	12.16%	Cost to Abandon Regulator Stations	378	0.39%
Installation of PL Services	380	24.13%	New Regulator Stations	378	0.30%
Service Restoration Cost	380	6.80%	New City Gate Stations	379	0%

The July Index shall be the sum of the weighted July indices. The Base Index Amount shall be the sum of the weighted Base Index Amounts.

$$\text{Escalation Factor} = \frac{\text{July Index}_{\text{Operation Year - 1}}}{\text{Base Index Amount}}$$

The Escalation Factor shall be 1 for the first Rider ICR Charge Percentage determined after new base rates have been approved by the Commission.

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

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130 East Randolph Drive, Chicago, Illinois 60601

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Entered June 2, 2010 in Docket No. 09-0167

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

Section F - Determination of the Infrastructure Cost Recovery Charge Percentage – continued

* and ** (c) If the QIP Costs for the Operation Year exceed the QIP Baseline, the ICR Charge Percentage for an Effective Period shall be determined by using the following formula:

$$ICR\% = \frac{(NetQIP \times PTR) + NetDep - SV + RA \pm O + INT}{BRR} \times 100$$

Where:

ICR% = ICR Charge Percentage.

NetQIP =

(i) For Accounts 376, 378, 379 and 380, the average forecasted cost of the investment in QIP less the Allocated QIP Baseline, less forecasted accumulated depreciation. The average forecasted cost of QIP, net of the Allocated QIP Baseline, and accumulated depreciation, shall be computed by using an average of the balances of QIP, net of the QIP Baseline and accumulated depreciation for December 31 of the year preceding the Operation Year and December 31 of the Operation Year.

(ii) For Accounts 381 and 383, the average forecasted cost of the investment in QIP, less the Allocated QIP Baseline, less forecasted accumulated depreciation, all multiplied times the applicable QIP Percent. The average forecasted cost of QIP, net of the Allocated QIP Baseline, and accumulated depreciation, shall be computed by using an average of the balances of QIP, and accumulated depreciation for December 31 of the year preceding the Operation Year and December 31 of the Operation Year.

(iii) NetQIP shall be the sum of the amounts in (i) and (ii).

PTR = Pre-tax return as described in Section E (1) of this rider.

NetDep = Depreciation expense as described in Section E(2). For Accounts 381 and 383, Deprecation Expense shall be applied to the QIP adjusted for its respective QIP Percent. NetDep shall be the sum of NetDep calculated for each QIP Account.

SV = Savings, which is determined as $6,000.00 times the number of miles of cast iron and ductile iron that is abandoned or estimated to be abandoned under the Company's main replacement program in the Operation Year.

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** **Section F - Determination of the Infrastructure Cost Recovery Charge Percentage** – continued

RA = Company-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Sections H (c) and (d) of this rider. The reconciliation component shall be collected over nine months from April through December. The reconciliation year shall be the Operation Year of the preceding Effective Period.

BRR = The Company's forecasted ICR Base Rate Revenues for the Effective Period.

O = An amount ordered by the Commission as described in Section H(a) of this rider.

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section H(a) of this rider.

* (d) If the QIP Costs for the Operation Year do not exceed the QIP Baseline, the ICR Charge Percentage for an Effective Period shall be determined by using the following formula:

$$ICR\% = \frac{(NetQIP \times PTR) + NetDep - SV + RA +- O + INT}{BRR} \times 100$$

Where:

ICR% = ICR Charge Percentage.

NetQIP = ActNetQIP amount from the reconciliation year preceding the Effective Period as defined in Section H(c) of this rider.

NetDep = ActNetDep amount from the reconciliation year preceding the Effective Period as defined in Section H(c) of this rider.

SV = ActSav amount from the reconciliation year preceding the Effective Period as defined in Section H(c) of this rider.

* PTR, RA, BRR, O, RA and INT shall have the meanings described in Section F(c) of this rider.

** **Section G - Information Sheet Filings**

The ICR Charge Percentage shall be filed on an information sheet with supporting data no later than March 20. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

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** **Section H - Annual Reconciliation**

(a) No later than March 31 of each year following the first Effective Period, the Company shall file a petition, testimony and reconciliation statement seeking initiation of an annual reconciliation hearing. Upon review of the Company's filing, the Commission may require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider including a determination of whether all costs recovered under this rider were prudently incurred, just and reasonable. If the Commission finds, after hearing, that any amounts were incorrectly debited or credited to the rider during the applicable Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected as Factor O in the ICR Charge Percentage formula in Section F over a succeeding Effective Period. Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code Sec. 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the ICR Charge.

(b) Any adjustment made through the RA component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

* (c) If the QIP Costs exceeded the QIP Baseline and an ICR Charge Percentage was computed for the reconciliation year as described under Section F(c) of this rider, the Company shall calculate the RA component using the following formula:

RA = (ActNetQIP x PTR) + ActNetDep – ActSav - ActICRRev + RApy + Opy

Where:

RA = Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the reconciliation year net of the Actual Allocated QIP Baseline, less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of the investment in QIP, net of the Actual Allocated QIP Baseline and depreciation, shall be computed by using an average of year end balances of QIP, net of the Actual Allocated QIP Baseline and accumulated depreciation for December 31 of the year preceding the reconciliation year and December 31 of the reconciliation year. For the purposes of this rider, the actual cost of the investment in QIP for Accounts 381 and 383 in any reconciliation year shall equal the average actual cost of the total investment for each Account for the reconciliation year net of the Actual Allocated QIP Baseline less actual accumulated deprecation, all multiplied times the actual QIP Percent. The actual QIP Percent will be determined separately for Accounts 381 and 383 by dividing the actual number of units installed during the reconciliation year under the Company's main replacement program by the total number of units purchased during the reconciliation year. The Company will submit data to the Commission with its filing which supports the determination of the actual QIP Percent.

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** **Section H - Annual Reconciliation** – continued

The Actual Allocated QIP Baseline shall be the amount defined in Section B of this rider, as allocated based upon the actual dollar amount of QIP plant additions under each respective account described in Section D of this rider in the reconciliation year. For Accounts 381 and 383, the Actual Allocated QIP Baseline shall be based on the actual amounts adjusted by the actual QIP Percent.

PTR = Pre-tax return as described in Section E (1) of this rider.

ActNetDep = Actual depreciation expense related to the average investment in each category of QIP for the reconciliation year. Depreciation expense shall be calculated monthly by multiplying the actual investment in QIP by plant account by the approved depreciation rates, including removal and salvage, to the beginning and ending month average QIP and related retirements, net of the Actual Allocated QIP Baseline and related retirements, for the respective accounts as described in Section D of this rider. For Accounts 381 and 383, Deprecation Expense shall be applied to the QIP adjusted for its respective QIP Percent.

ActSav = Actual savings, which is determined as $6,000.00 times the actual number of miles of cast iron and ductile iron main abandoned in the reconciliation year. The Company shall update ActSav no less than every three years. The first such update shall be required in the Company's third annual reconciliation proceeding.

ActICRRev = Actual ICR revenues billed during the reconciliation year through the ICR Charge.

RApy = The RA component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component included in the calculation of the ICR Charge Percentage during the previous reconciliation year.

* (d) If the QIP Costs did not exceed the QIP Baseline and an ICR Charge Percentage was computed for the reconciliation year as described under Section F(d) of this rider, the Company shall calculate the RA component using the following formula:

RA = ICRRev - ActICRRev

Where:

ICRRev = The revenue amount that should have been recovered under the rider during the reconciliation year. ICRRev shall be determined by multiplying the ICR Charge Percentage effective during the reconciliation year times the BRR used in the determination of such ICR Charge Percentage under Section F of this rider.

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** **Section H - Annual Reconciliation** – continued

ActICRRev = Actual ICR revenues billed during the reconciliation year through the ICR Charge.

** **Section I – Annual Internal Audit**

The Company shall submit annually to the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than September 1, an internal audit report that determines whether the ICR Charge and information provided in Section H have been calculated in accordance with this rider. The initial internal audit under this rider shall be submitted no later than September 1, 2012. All internal audits conducted under this rider shall include at least the following tests:

(1) A test that costs recovered through Rider ICR are not recovered through other approved tariffs;
(2) A test of customer bills to confirm that all Rider ICR Adjustments are being properly billed to customers in the correct time periods;
(3) A test that Rider ICR revenues are properly stated;
(4) A test that actual costs are being identified and recorded properly to be reflected in the calculation of the ICR Charge Percentage and the annual reconciliation completed under this rider; and
* (5) A test to verify that the QIP Baseline was calculated and applied correctly to the ICR Charge Percentage.

* and ** **Section J - Independent Audit**

The Company shall submit each five years to the Manager of the Accounting Department of the Commission's Financial Analysis Division and to the Commission an independent audit of the Company's infrastructure replacement plan, which audit shall include a review of the number of miles of cast iron and ductile iron main replaced and the infrastructure installed to support such replacement each year during the audit period. The first such independent audit shall be due no later than September 1, 2016.