

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
The Peoples Gas Light and)	Docket No. 16-0565
Coke Company)	
)	
Reconciliation of revenues)	
collected under gas adjustment)	
charges with actual costs prudently)	
incurred.)	

DIRECT TESTIMONY
OF
THOMAS A. SMITH

- 1 Q. Please state your name and business address.
- 2 A. Thomas A. Smith. 200 East Randolph Street, Chicago, Illinois, 60601.
- 3 Q. By whom are you employed?
- 4 A. WEC Business Services LLC ("WBS").
- 5 Q. What position do you hold with WBS?
- 6 A. I am Manager Gas Supply (PGL/NSG) for Respondent, The Peoples Gas
- 7 Light and Coke Company ("Peoples Gas"), and North Shore Gas Company
- 8 ("North Shore").
- 9 Q. What are your responsibilities in that position?
- 10 A. I am responsible for directing the activities of the Gas Supply Department
- 11 for Peoples Gas and North Shore, as well as the activities of Peoples Gas'
- 12 interstate services area.

13 Q. Please summarize your educational background and experience.

14 A. I have both a Bachelor's Degree in Accounting and a Master's Degree in
15 Finance from Saint Xavier University in Chicago, Illinois. I have been employed
16 by WBS or its affiliates since 1993 in various positions related to accounting and
17 gas supply, including property and plant accounting, gas accounting, gas supply
18 middle office, gas control, planning, contracting and trading.

19 Q. What is the purpose of your direct testimony?

20 A. The purpose of my testimony is to describe Peoples Gas' 2016 supply and
21 capacity procurement practices, including negotiation of contracts and related
22 accounting and auditing practices. This includes a description of how Peoples
23 Gas' company-owned storage field, Manlove Field, fits into Peoples Gas' portfolio
24 and how Peoples Gas allocated available capacity among Peoples Gas, North
25 Shore and Peoples Gas' interstate storage services. In addition, I discuss steps
26 that Peoples Gas took to reduce gas price volatility. I also address the prudence
27 of Peoples Gas' 2016 supply and capacity and the resulting gas costs that
28 Peoples Gas billed to customers.

29 **2016 PROCUREMENT OVERVIEW**

30 Q. Please describe Peoples Gas' 2016 gas supply procurement process.

31 A. WBS provides services to Peoples Gas under an affiliated interest
32 agreement approved by the Illinois Commerce Commission ("Commission"). In
33 general, personnel in the Gas Supply Department, and others, as appropriate,
34 developed specific gas supply recommendations and put those forward for
35 management approval. The Gas Supply Department was responsible for

36 entering into and administering contracts for gas supply and for purchases of
37 transportation and storage services.

38 Q. What procedure did Peoples Gas follow in 2016 in order to select its
39 resource mix?

40 A. Prior to the start of the year, Peoples Gas developed a number of
41 interconnected forecasts, including: a peak day forecast, a long-term sales
42 forecast, and a gas sendout requirements forecast. These forecasts support the
43 Gas Dispatch Model, which calculates daily sendout requirements and balances
44 the normal year's daily requirements with available gas supply, including term
45 purchases, spot market purchases, customer-owned deliveries, and gas
46 available for withdrawal or injection. The Gas Dispatch Model optimizes, from a
47 full-year perspective, the daily gas dispatching activities by forecasting the supply
48 and storage mix to meet the expected customer sendout requirements for each
49 day of the forecast year.

50 Using the annual Gas Dispatch Model as a starting point and just prior to
51 the start of each month, the Gas Supply Department computed at least three
52 potential load forecasts for the coming month and met to address purchasing
53 decisions for the month. After establishing the monthly plan, Gas Supply
54 personnel, on a daily basis, as changing requirements and the market dictated,
55 addressed any changes needed to accommodate the need for additional or
56 reduced amounts of supply or capacity.

57 Q. Please describe Peoples Gas' contractually available sources of firm gas
58 supply during the reconciliation period.

59 A. Peoples Gas purchases firm gas supply from many parties under four
60 general forms: field baseload, citygate delivered baseload, field call, and citygate
61 delivered call. There were no field call purchases in 2016.

62 Q. Please describe the field baseload and citygate delivered baseload
63 purchases.

64 A. Peoples Gas contracted for firm baseload supplies that it purchased at
65 field locations and transported to the citygate using its transportation. Peoples
66 Gas also contracted for firm baseload supplies bought directly at the citygate.
67 Peoples Gas made these purchases on a seasonal and month-to-month basis.
68 The baseload contracts called for Peoples Gas to purchase the same quantity
69 each day and most were priced using a first of the month ("FOM") index price.

70 Q. Please describe field call purchases.

71 A. Although Peoples Gas had no field call purchases in 2016, these
72 purchases would be firm supplies that would be available at a daily index price,
73 and, when purchased, are transported to the citygate using Peoples Gas'
74 transportation. Peoples Gas makes these purchases on a seasonal (November
75 through March) and January only basis. In each case, the quantity that Peoples
76 Gas could purchase each day could vary between zero and the maximum
77 quantity stated in the contract. Under these contracts, the supplier would have
78 the obligation to deliver the gas, but Peoples Gas would have no obligation to
79 ever purchase any gas.

80 Q. Please describe the citygate delivered call purchases.

81 A. Citygate delivered call purchases are firm supplies that were, when
82 requested by Peoples Gas, delivered to the citygate by the supplier and available
83 on any day during the November 2015 through March 2016 and the November
84 2016 through March 2017 periods.

85 Citygate delivered call purchases are priced in two forms: at a daily index
86 or on an average of the FOM prices for specified months. For purchases under
87 the second form, the supplier had the obligation to deliver the gas, and if Peoples
88 Gas did not purchase the full quantity, then a cashout occurred at an index
89 defined in the transaction confirmation.

90 Some transactions also included what the contract calls a “minimum term
91 purchase quantity” for federal regulatory reasons.

92 Q. Did Peoples Gas have any other sources of gas available for system
93 supply?

94 A. Yes. Peoples Gas purchased swing supply on the spot market. These
95 transactions were typically for less than one month and were often for only a
96 single day or a few days. Once contracted, these sources were firm.

97 Also, a significant portion of Peoples Gas’ end use market opts for
98 deliveries of customer-owned gas under Peoples Gas’ Schedule of Rates. This
99 gas was another source available to Peoples Gas for system supply. However,
100 Peoples Gas did not know the customer-owned gas quantity that it would receive
101 until customers and their suppliers nominated it and Peoples Gas and the
102 pipelines confirmed it.

103 Q. How many suppliers did Peoples Gas purchase from during the
104 reconciliation period?

105 A. During 2016 Peoples Gas purchased gas from 32 suppliers.

106 Q. Please describe Peoples Gas' contractual agreements for the purchase of
107 supply and capacity recovered through the monthly Gas Charge filings.

108 A. During 2016 Peoples Gas purchased the majority of its supply under firm
109 contracts with suppliers. It made these purchases under the terms of the
110 individual contracts that Peoples Gas had with each supplier. Peoples Gas
111 purchased a portion of its total supply volumes as spot purchases from various
112 suppliers. It made spot purchases, on an as-needed basis, from suppliers under
113 the terms of the individual contracts that Peoples Gas had with each supplier.

114 Capacity (both pipeline storage and transportation) transactions are
115 subject to contracts with the pipelines and the pipelines' Federal Energy
116 Regulatory Commission ("FERC") Gas Tariffs or Statements of Operating
117 Conditions.

118 Q. Did Peoples Gas purchase gas or release capacity under an asset
119 management arrangement during the reconciliation period?

120 A. No.

121 Q. Did Peoples Gas conduct any after-the-fact analyses of its 2016 gas
122 supply procurement?

123 A. Yes, Peoples Gas reviews its purchases for the entire year across a
124 number of different parameters.

125 REQUESTS FOR PROPOSALS

126 Q. Did Peoples Gas use a Request for Proposal (“RFP”) process for any of
127 the purchases identified above?

128 A. Yes. Peoples Gas believes the RFP process allows the market to
129 competitively bid to determine the fair value of the products sought. Peoples Gas
130 issued RFPs, with specific directions to bidders, for the three types of firm supply
131 it purchased. The goal of the RFP process is to reach as broad a market as
132 possible to meet Peoples Gas’ requirements. Peoples Gas attempted to be as
133 clear as possible in what it was seeking and what it would consider a conforming
134 bid. This practice provided Peoples Gas with objective criteria with which to
135 eliminate non-conforming bids and make a comparison of conforming bids.

136 Q. You stated that Peoples Gas tries to be as clear as possible when it
137 structures its RFPs. Please explain what you mean.

138 A. One of Peoples Gas’ goals is to receive bids that are in an identical format
139 so that it can make fair comparisons. In its RFPs, it specifies all the key
140 commercial terms of service to limit the number of variables that it must consider
141 in evaluating bids. For example, a typical RFP would specify the location(s) at
142 which Peoples Gas would take delivery of supply; whether the supply would be
143 baseload or swing and, if it is a swing supply, the conditions under which Peoples
144 Gas may call on the supply; acceptable pricing structures, such as based on
145 specific FOM or daily indices and whether demand charges would be acceptable;
146 and any quantity limitations, such as bids must be in increments of 5,000 dth¹/d.
147 In addition, the RFP specifies the credit terms that will apply to the winning

¹ “dth” means dekatherm. “Mdth” means one thousand dekatherms.

148 bidder, and bidders must be parties to a master contract that will govern the
149 transaction. Generally, the supplier need only select an acceptable delivery
150 location from among those specified, specify a daily contract quantity and bid a
151 price in the required form, for example, an addition to or subtraction from an
152 index that Peoples Gas identified in the RFP. Peoples Gas can then perform an
153 apples-to-apples comparison among the conforming bids and promptly notify the
154 winning bidder(s).

155 Q. What RFP process did Peoples Gas use for summer purchases?

156 A. For its summer purchases (the months of April through October), Peoples
157 Gas purchased firm supply on a monthly basis through a blast-type instant
158 message request process to several suppliers. It sent the instant message to at
159 least 10 suppliers each month. Like the RFP process described above, the
160 content of the instant message stated the location or locations where Peoples
161 Gas was seeking baseload supply tied to the FOM index at the point(s). As a
162 check on the market Peoples Gas' traders had access to the
163 IntercontinentalExchange ("ICE"), an electronic trading platform, which provided
164 real time trading information at the relevant locations.

165 Q. Why did Peoples Gas use this process?

166 A. Prior to 2012, Peoples Gas used a more seasonally structured RFP
167 process that resulted in baseload purchases that were fixed by location for the
168 season. While this was an effective process, it lacked flexibility to respond to
169 pipeline curtailments due to maintenance and *force majeure* restrictions that
170 limited transportation from any given location. By moving to a monthly baseload

171 purchase process Peoples Gas could move the purchases around to avoid the
172 restrictions and limit the need to reconfigure or otherwise renegotiate the
173 baseload agreement with the seller.

174 Q. Were all the RFPs used to obtain the supplies discussed above completed
175 in the reconciliation year?

176 A. No. Peoples Gas completed one RFP prior to 2016 for gas that flowed in
177 2016 with cost recovery through the Gas Charge. The types of supply procured
178 under the RFP were baseload and non-baseload, *i.e.*, call gas supplies.

179 Q. What criteria did Peoples Gas use in reviewing these RFP responses and
180 awarding contracts?

181 A. The award criteria were lowest price first, and, where applicable,
182 secondary considerations. Secondary considerations were the nomination
183 deadline and the pipeline on which the supply was to be delivered. In addition,
184 for the non-baseload RFP supplies, Peoples Gas used a bid valuation model to
185 evaluate swing and call supply products with varying price, term and quantity
186 attributes on an equal footing.

187 Q. Did Peoples Gas issue RFPs in 2016 for gas that flowed in 2016?

188 A. Yes. Peoples Gas completed eight RFPs in 2016 for gas that flowed in
189 2016 with cost recovery through the Gas Charge. The types of supply procured
190 under those RFPs were summer 2016 baseload, winter 2016-2017 baseload and
191 non-baseload, *i.e.*, call, gas supplies. The seven summer supply RFPs are
192 discussed above.

193 Q. What criteria did Peoples Gas use in reviewing these RFP responses and
194 awarding contracts?

195 A. The award criteria were lowest price first, and, where applicable,
196 secondary considerations. Secondary considerations were the nomination
197 deadline and the pipeline on which the supply was to be delivered. Another
198 criterion was vendor diversity, which was applied where applicable. Also, for the
199 winter season non-baseload RFP supplies, Peoples Gas used a bid valuation
200 model to evaluate swing and call supply products with varying price, term, and
201 quantity attributes on an equal footing.

202 Q. Did Peoples Gas purchase all its gas through the RFP process?

203 A. No. Peoples Gas purchased all its spot gas pursuant to bilateral
204 discussions with suppliers or through trades on ICE.

205 Q. Does Peoples Gas purchase gas and conduct RFPs for which gas costs
206 are not recovered through the Gas Charge?

207 A. Yes. Peoples Gas does not recover company use gas costs through the
208 Gas Charge.

209 **CITYGATE PURCHASES**

210 Q. Did Peoples Gas purchase gas at the citygate in 2016?

211 A. Yes. Peoples Gas purchased term gas and spot gas delivered at the
212 citygate in 2016. Citygate purchases accounted for about 22% of total purchase
213 quantities and about 24% of total purchase costs.

214 Q. Why does Peoples Gas purchase term gas at the citygate, rather than
215 making purchases in the field and using its transportation to move the gas to its
216 citygate?

217 A. Peoples Gas buys gas at the citygate for two main reasons. First, in the
218 case of the call gas, citygate purchases limit the amount of pipeline capacity that
219 Peoples Gas needs to hold. Winter-only firm capacity is typically unavailable and
220 year-round capacity would only be needed for winter or peaking requirements.
221 Second, it diversifies the type of pricing in the portfolio. The Gas Charge will
222 include a mix of field index purchases, citygate index purchases, and fixed price
223 purchases.

224 Q. Why does Peoples Gas buy spot gas at the citygate?

225 A. Peoples Gas buys spot gas at the citygate to meet demands that vary
226 daily and are in excess of the transportation capacity held on interstate pipelines.
227 Because demands vary based on weather and customer-owned gas deliveries
228 and, as such, are unpredictable, holding additional firm transportation from field
229 locations to meet them is not reasonable. Also, Peoples Gas buys at the citygate
230 when it is economically favorable.

231 **SUPPLY INTERRUPTIONS**

232 Q. Did Peoples Gas experience any supply interruptions in 2016?

233 A. None of Peoples Gas' suppliers failed to deliver the quantity of gas that
234 was requested. However, as discussed later, pipeline restrictions and outages
235 occurred that affected nominated gas flow.

236 **TRANSPORTATION AND STORAGE CAPACITY**

237 Q. Did any significant changes to Peoples Gas' transportation and storage
238 capacity portfolio affect the 2016 portfolio?

239 A. Yes. Peoples Gas released some Natural Gas Pipeline Company of
240 America ("Natural") Nominated Storage Service ("NSS") and the related Firm
241 Transportation ("FT") needed to effectuate injections and withdrawals to its
242 affiliate North Shore in 2016. The capacity release made the proportions of
243 Peoples Gas' and North Shore's flowing supply, storage and peaking supplies
244 more closely aligned. In particular, it reduced Peoples Gas' reliance on storage
245 and increased Peoples Gas' reliance on market area flowing supply. In addition,
246 the capacity release more properly allocated primary delivery rights to North
247 Shore's city gate by moving these rights from Peoples Gas to North Shore.

248 Q. Were there any significant pipeline outages, interruptions, or restrictions
249 during 2016 that affected Peoples Gas?

250 A. Yes. Natural experienced outages and imposed restrictions during 2016.

251 Q. Did Peoples Gas receive reservation charge credits associated with any of
252 these outages?

253 A. Yes. Peoples Gas received a total of \$161,906.96 in reservation credits
254 from Natural in June and July.

255 Q. Did Peoples Gas incur any overrun charges or other pipeline charges
256 associated with the outages, cuts, restrictions or other reasons?

257 A. Yes. For the entire year Peoples Gas incurred \$3,384.92 of overrun
258 charges on Natural.

259 Q. Did Peoples Gas receive any other credits?

260 A. Yes. In 2016, ANR Pipeline Company (“ANR”) filed a general rate case
261 and FERC approved an uncontested settlement. As part of this settlement,
262 Peoples Gas received \$963,603.07 from ANR as its portion of a refund
263 associated with PBOP (post-employment benefits other than pensions).

264 Q. How did Peoples Gas’ planned and actual use of storage compare in
265 2016?

266 A. Peoples Gas begins each season with an established storage plan based
267 on normal weather, estimated customer-owned gas deliveries and assumptions
268 for other factors not precisely known at the time it creates the plan. Peoples Gas
269 cannot reasonably plan for other storage activity, notably no-notice balancing.
270 As a result, actual storage use will never exactly match planned storage use for a
271 given month, and Peoples Gas may need to revise storage plans for future
272 months to accommodate these differences. During 2016, actual storage
273 withdrawals of 58,792 Mdth were 2,737 Mdth (5%) more than planned.

274 Q. Is Peoples Gas’ storage field, Manlove Field, part of its storage plan?

275 A. Yes. Manlove Field storage accounts for 35% of Peoples Gas’ design day
276 and 48% of the capacity in its annual storage portfolio based on the 2016 Design
277 Day portfolio.

278 **MANLOVE FIELD**

279 Q. You stated that Manlove Field storage is part of Peoples Gas’ design day
280 and annual storage portfolio. What is the cycled top gas quantity for Manlove
281 Field?

282 A. The amount of top gas typically cycled annually from Manlove Field is
283 36,500 Mdth. However, in 2016 the decision was made to only cycle 33,500
284 Mdth, similar to 2015. Peoples Gas then allocated only 4,000 Mdth to Hub
285 services, consistent with 2015.

286 Q. What quantity of this capacity does Peoples Gas use to serve its retail end
287 use customers?

288 A. 27,800 Mdth.

289 Q. Do both retail sales and transportation customers receive services
290 supported by Manlove Field?

291 A. Yes.

292 Q. Does anyone other than Peoples Gas' retail customers receive services
293 supported by Manlove Field?

294 A. Yes. North Shore purchases a storage service from Peoples Gas under a
295 Commission-approved contract. Peoples Gas also offers storage services in the
296 interstate market under the FERC's authority. The interstate services are
297 sometimes called "hub" services.

298 Q. Please describe the storage service that North Shore purchases.

299 A. Under its agreement, North Shore delivers gas to the Peoples Gas system
300 for injection into Manlove Field during the injection period. Peoples Gas' and
301 North Shore's systems are not physically interconnected. When North Shore
302 called on gas for withdrawal, Peoples Gas withdrew the gas and by displacement
303 delivered an equivalent quantity to North Shore using gas supplies that Peoples
304 Gas otherwise had flowing on either the Natural or ANR system.

305 Q. Please describe the interstate services that Peoples Gas was authorized
306 to provide during the reconciliation period.

307 A. Under a FERC-approved Operating Statement Peoples Gas may offer five
308 services: Firm Transportation, Interruptible Transportation, Firm Storage,
309 Interruptible Storage, and Parking and Lending. Peoples Gas supports these
310 services with capacity at Manlove Field and on the Mahomet Pipeline, which
311 connects Manlove Field to Peoples Gas' service territory. During 2016, Peoples
312 Gas provided only Parking and Lending Service, which is an interruptible service.

313 Q. Did Peoples Gas enter into any significant interstate service agreements
314 that were in effect during the reconciliation period?

315 A. No.

316 Q. How does Peoples Gas determine the amount of Manlove Field capacity
317 that is available to North Shore?

318 A. The quantity that North Shore receives is defined in its contract with
319 Peoples Gas.

320 Q. How does Peoples Gas determine how much capacity is available for
321 interstate services?

322 A. The determination process is an extension of Peoples Gas' existing
323 optimization models. The process is a point in time analysis that Peoples Gas
324 performs at least once per year but not longer than 18 months after the previous
325 study. The process is designed to allocate Manlove Field storage capacity in a
326 way that does not adversely affect Peoples Gas' retail customers with the

327 principal goal of maintaining performance at Manlove Field. Peoples Gas
328 performed this analysis in September 2016.

329 Q. What were the results of this process for 2016?

330 A. The analysis showed that no change in the allocation was necessary at
331 this time.

332 Q. Is this process a reasonable way to allocate capacity among Peoples Gas'
333 retail customers, North Shore and Peoples Gas' interstate customers and why?

334 A. Yes. The process takes steps to include and update as many market,
335 asset availability, and operating constraints as reasonably practicable. It also
336 takes advantage of advances in analytical tools and does so in a way that fits
337 Manlove Field into the comprehensive portfolio plan.

338 Q. Was the capacity allocated to interstate customers fully used by them in
339 2016?

340 A. Yes.

341 Q. Did any unexpected events occur in 2016 that affected Manlove Field's
342 operations?

343 A. Yes. There was some gas lost due to a leak at one of the Manlove Field
344 wells. During 2016 a leak path developed in an injection/withdrawal well at
345 Manlove Field. This leak allowed working gas stored in the Mt. Simon storage
346 formation to migrate to a much shallower formation from which it cannot be
347 recovered. On December 17, 2016, the lower portion of the well bore was
348 plugged with cement and permanently abandoned. This abandonment sealed
349 the leak path and halted any further loss of working gas.

350 Q. Did this incident adversely affect Peoples Gas' ability to serve its
351 customers?

352 A. No.

353 Q. Was the gas lost as a result of this incident recovered through the Gas
354 Charge?

355 A. No.

356 Q. Does Peoples Gas own and operate an LNG facility?

357 A. Yes. The LNG facility is part of the Manlove Field complex.

358 Q. Please describe Peoples Gas' use of the LNG facility in 2016.

359 A. The LNG facility was not used in 2016 to support any daily or hourly
360 deliveries.

361 **RESERVE MARGIN**

362 Q. What was Peoples Gas' design day reserve margin in 2016?

363 A. Peoples Gas' 2016 design day reserve margin was approximately 3%.
364 Peoples Gas describes its design day calculation in detail in the response to Staff
365 data request ENG 1.17. In general, Peoples Gas defines its design day as the
366 sendout expected to occur on a January weekday with a temperature of -16
367 degrees Fahrenheit (equivalent to 81 degree days) and an average wind speed
368 of 22 miles per hour ("mph") following a day with a temperature of -1 degrees
369 Fahrenheit and an average wind speed of 16 mph where the weather-normalized
370 monthly sales and number of customers are consistent with Peoples Gas' most
371 recent normal weather budget forecast for the January containing the design day.
372 The temperature and wind data listed above are based on the weighted average

373 of four weather stations (Midway; Lansing, Illinois; O'Hare; and Waukegan). The
374 percentage weighting comes from a GasDay[®] weather optimization study.

375 The reserve margin is intended to ensure that Peoples Gas will be able to
376 serve its customers under extreme conditions. Because of the serious effects on
377 public health and safety of a gas outage, in addition to the difficulties of restoring
378 gas service, it is imperative that Peoples Gas plan for extreme conditions. Firm
379 gas supply and deliverability to Peoples Gas' distribution system were thus set at
380 levels that provide a margin over Peoples Gas' projected peak day requirements.
381 This reserve margin was necessary to accommodate, among other things, the
382 fact that Peoples Gas is located near the end of Natural's and Northern Border
383 Pipeline Company's ("Northern Border") facilities, the possibility of deliverability
384 shortfalls in connection with storage and flow gas, and the fact that requirements
385 could exceed design day projections.

386 **PRICE RISK MANAGEMENT**

387 Q. Please describe the steps taken to address price volatility, including any
388 hedging strategies.

389 A. Peoples Gas took several steps to address price volatility. During the
390 year, Peoples Gas followed a price protection program, approved by the former
391 Integrys Regulated Risk Oversight Committee and continued in 2016, which was
392 specifically designed to mitigate the effects of gas price volatility. This program
393 protected a significant portion of Peoples Gas' purchases using approved
394 financial derivative tools including fixed price swaps, call options, synthetic calls,
395 or consumer collars (purchased calls and sold puts simultaneously). These

396 purchases were either hedged physically through fixed forward purchases
397 directly with a supplier or through the use of financial derivative instruments.
398 Under the plan, Peoples Gas began executing its hedges nineteen months prior
399 to the start of each season (*i.e.*, winter or summer). The timing of the transaction
400 execution follows a time driven matrix approach and results in 100% of the
401 planned hedges in place prior to the start of the season. Under normal weather
402 conditions, Peoples Gas would expect to hedge between 25% and 50% of its
403 annual purchases under this plan with a target of 37.5%.

404 Peoples Gas' supply portfolio also contained storage assets, both owned
405 and contractual, that allowed it to use the natural physical hedge that seasonal
406 storage provides. Peoples Gas also purchased gas supplies from a variety of
407 parties and from different producing regions to protect against regional price
408 anomalies.

409 Q. How much of its annual purchases did Peoples Gas hedge under its plan?

410 A. For the reconciliation period, 43% of actual annual purchases were
411 financially hedged. While the financially hedged percentage was above the
412 37.5% target noted above, it was within the plan parameters.

413 Q. What is a "time driven matrix" approach?

414 A. The "time driven matrix" approach means that Peoples Gas executed its
415 hedge transactions on a defined schedule, unless predefined market conditions
416 were met and Peoples Gas elected to accelerate its financial hedge purchases.
417 This is in contrast to, for example, purchasing all of the hedges eighteen months

418 prior or waiting until one month prior to the hedged period to purchase the
419 hedges.

420 Q. Were there any changes made to this plan that affected the reconciliation
421 period?

422 A. No.

423 Q. Were there any significant deviations from this plan?

424 A. No.

425 Q. Please describe the impact on the Gas Charge of the hedging strategies.

426 A. Peoples Gas' purchases under its price protection programs partially
427 insulated customers against price volatility. By taking fixed price positions on a
428 large portion of the anticipated baseload purchases, Peoples Gas can dampen
429 the effect that large swings in the price of gas have on its total cost of gas. This,
430 in turn, leads to more stable prices for Peoples Gas' customers. In the absence
431 of this program, customers would be exposed to the full risk of market
432 fluctuations. Peoples Gas' price protection strategies were not aimed at
433 guaranteeing the lowest possible price for gas. The purpose is to mitigate
434 volatility.

435 **INTERSTATE SERVICES**

436 Q. You testified that Peoples Gas provides interstate services. What revenue
437 did Peoples Gas receive from interstate transactions in 2016?

438 A. Interstate services transactions resulted in approximately \$1.7 million in
439 revenue that Peoples Gas flowed through its Gas Charge during 2016.

440 Q. Do hub transactions increase gas costs to customers?

441 A. No. First, the revenues generated through the provision of hub services
442 are a credit to the Gas Charge and, as such, reduce costs to customers.

443 Second, hub services tend to increase the liquidity at Peoples Gas' citygate.

444 Generally, the more liquid the trading point the better the price signals and the
445 easier it is for supply to meet demand.

446 Q. Did Peoples Gas enter into any off-system gas sales for resale during
447 2016?

448 A. Yes. Peoples Gas entered into off-system sales transactions that were
449 supported by approximately 1% of Peoples Gas' purchases in terms of quantity
450 and approximately 1% in terms of cost for the year. These transactions were for
451 asset optimization reasons.

452 Q. Did Peoples Gas release any capacity in 2016?

453 A. Yes. As mentioned earlier Peoples Gas released a portion of its Natural
454 NSS storage and the related FT to its affiliate North Shore. Peoples Gas also
455 released a segment of ANR capacity for the November 2015 through March 2016
456 period as well as the November 2016 through March 2017 period.

457 Q. Did Peoples Gas acquire any capacity through a capacity release?

458 A. No.

459 **AFFILIATE TRANSACTIONS**

460 Q. Did Peoples Gas enter into any transactions with any affiliate that affected
461 its Gas Charge?

462 A. Yes. As mentioned earlier Peoples Gas released a portion of its Natural
463 NSS storage and the related FT to its affiliate North Shore. Peoples Gas also

464 awarded a portion of the above-mentioned ANR capacity release to Wisconsin
465 Public Service Corporation, an affiliate of Peoples Gas. The revenue from both
466 of these transactions was credited to the Gas Charge.

467 Q. Does Peoples Gas have any other gas supply-related transactions with its
468 affiliates?

469 A. Yes. Peoples Gas provides a storage service to North Shore, an affiliated
470 gas utility, pursuant to a Commission-approved agreement. This service does
471 not affect Peoples Gas' Gas Charge.

472 **PRUDENCE OF 2016 GAS COSTS**

473 Q. Were Peoples Gas' incurred expenditures for 2016 gas supply prudent?

474 A. Yes. The 2016 incurred gas supply expenditures reflected Peoples Gas'
475 continuing efforts to minimize the cost of its gas supply consistent with
476 operational and contractual constraints and the statutory obligation to provide
477 adequate and reliable service to customers throughout the year. In particular,
478 following RFP processes, Peoples Gas purchased supply from a diverse pool of
479 suppliers to fill its storage services and to supply its customers. It purchased
480 supply at the citygate and in the field, which both diversifies the pricing applicable
481 to those purchases and enhances reliability. It met a large portion of its peak day
482 and seasonal requirements from storage. It also used storage to help it balance
483 its system on a daily and intra-day basis. Finally, it hedged a significant portion
484 of its annual purchases, which helps to mitigate price volatility for customers.

485 Q. Has Peoples Gas made other efforts to ensure that pipelines serving it
486 provide reliable services on a best-cost basis?

487 A. Yes. Peoples Gas made efforts to maintain adequate, reliable services
488 from pipeline transporters and to keep gas costs to a minimum by active
489 participation in its pipeline transporters' rate and certificate proceedings and
490 other matters before the FERC. Peoples Gas monitored the filings of its principal
491 pipeline suppliers of storage and transportation services and other pipelines
492 interconnecting with Peoples Gas' system -- Natural, Northern Border, Kinder
493 Morgan Illinois Pipeline LLC ("KMIP"), Trunkline Gas Company ("Trunkline"),
494 Midwestern Gas Transmission Company ("Midwestern"), Vector Pipeline L.P.
495 ("Vector"), Washington 10 Storage Corporation ("Washington 10"), ANR,
496 Guardian Pipeline, L.L.C. ("Guardian") and Alliance Pipeline, Ltd. ("Alliance"). In
497 addition, Peoples Gas monitored FERC rulemaking and policy proceedings.

498 Based on its review of pipeline filings, Peoples Gas intervened in
499 significant proceedings including the ANR rate case mentioned above. Peoples
500 Gas also continued to participate actively as a member of the American Gas
501 Association in FERC rulemakings and other generic proceedings affecting its
502 customers.

503 **MEASUREMENT AND MONITORING OF PIPELINE DELIVERIES**

504 Q. Please describe the control procedures and monitoring related to contract
505 enforcement for Peoples Gas' pipeline purchases.

506 A. The control procedures and monitoring related to enforcement of contracts
507 for gas delivered by pipelines interconnecting with Peoples Gas were as follows:

508 1. Gas that Natural delivered to Peoples Gas is registered by Peoples
509 Gas' electronic flow measurement ("EFM") equipment located at seven locations

510 (excluding direct pipeline supplied customer locations), including Peoples Gas'
511 Manlove Field. One of Natural's seven locations, the Torrence Avenue station, is
512 also the point at which energy is delivered to Peoples Gas from KMIP. Peoples
513 Gas' Gas Control Department reviewed and monitored the accuracy of energy
514 that Natural billed at all seven of those meters on a daily basis as well as for
515 KMIP at the Torrence point. The quantities of gas received and delivered by
516 Natural and KMIP were measured in accordance with the General Terms and
517 Conditions of its respective FERC Gas Tariff. Peoples Gas has access to
518 NGPL's and KMIP's measurement equipment at the receipt and delivery points
519 under the tariff provisions to verify flow calculations. If the Gas Control
520 Department's measurement review indicated a discrepancy, the Gas Control
521 Department would contact Natural or KMIP to resolve the discrepancy. Natural
522 and KMIP also calibrate their EFM equipment periodically. Peoples Gas'
523 representative may be present at these calibrations. Peoples Gas'
524 representative is present for physical changes (e.g., orifice plate inspection or
525 replacement) involving a meter.

526 2. ANR operates EFM equipment at its station near East Joliet, Illinois
527 and at its Sharp Road station near Elwood, Illinois. Trunkline operates EFM
528 equipment at Peoples Gas' Manlove Field. Northern Border operates EFM
529 equipment at the Manhattan-South interconnect near Manhattan, Illinois, the
530 Manhattan-North interconnect near Lemont, Illinois, and the Sharp Road
531 interconnect near Elwood, Illinois. Midwestern operates EFM equipment at its
532 station near Union Hill, Illinois. Alliance operates EFM equipment at its station

533 near Elwood, Illinois. Guardian operates EFM equipment at its station near
534 Elwood, Illinois. ANR, Trunkline, Midwestern, Northern Border, Guardian, and
535 Alliance calibrate their EFM equipment periodically. A Peoples Gas
536 representative may be present at these calibrations. Peoples Gas'
537 representative is present for physical changes (e.g., orifice plate inspections or
538 replacement) involving a meter. The quantities of gas received and delivered by
539 each pipeline were measured in accordance with the General Terms and
540 Conditions of its respective FERC Gas Tariff. Peoples Gas has access to the
541 pipeline operator's measurement equipment at the receipt and delivery points
542 under the tariff provisions to verify flow calculations. Peoples Gas' Gas Control
543 Department reviews and monitors the accuracy of energy that is billed from these
544 pipelines' meters. If this review identified a discrepancy, Gas Control would
545 contact the pipeline and resolve the discrepancy.

546 3. If the Gas Control Department's measurement verification between the
547 EFM equipment and nomination systems (Peoples Gas' and pipelines'
548 nomination websites) indicates a discrepancy, the Gas Control Department will
549 contact the pipeline to resolve the discrepancy. Once Gas Control has resolved
550 all discrepancies, the Gas Supply Department will verify the amount of gas
551 nominated to the Gas Supply transaction tracking database ("TRM"). This
552 ensures that all gas nominated is recorded in TRM. The Fuel and Supply
553 Accounting Department confirms data from TRM with the pipelines' invoices.

554 4. ANR, Midwestern, Guardian, and Trunkline determine gas quality and
555 heating value by use of onsite chromatographs. Natural determines gas quality

556 and heating value by use of chromatographs at a point on its system near Joliet,
557 Illinois and at Peoples Gas' Manlove Field. Northern Border determines gas
558 quality and heating value by use of a chromatograph on its system near Ventura,
559 Iowa. Alliance determines gas quality and heating value by use of a
560 chromatograph on its system near Morris, Illinois. Peoples Gas independently
561 monitors gas quality and heating value by means of chromatographs owned by
562 Peoples Gas at the citygates, Manlove Field, the ANR East Joliet and
563 Midwestern meter stations, and two of the three Northern Border meter stations.
564 These chromatographs are calibrated on a regular basis.

565 5. Internal Audit Services examines the accuracy and performance of
566 procedures identified by management as SOX controls annually during its
567 Sarbanes-Oxley Act of 2002, Section 404, testing to support management's
568 assertion that the internal control structure is operating as designed. These tests
569 include examination of the various records and reports used by the Fuel and
570 Supply Accounting Department to record volumetric and pricing information
571 including the various reconciliations to source measurement and pipeline
572 information.

573 Q. Please describe the control procedures and monitoring programs related
574 to enforcement of Peoples Gas' contracts for purchases from suppliers.

575 A. The gas purchased by Peoples Gas from each supplier was invoiced
576 based on quantities delivered at the agreed delivery points. Each month the Fuel
577 and Supply Accounting Department verified that suppliers used the appropriate

578 unit prices in their invoicing to Peoples Gas, and it also confirmed that suppliers
579 delivered volumes based on the agreed to delivery point on the pipeline invoices.

580 Q. Please describe the control procedures and monitoring programs that
581 Peoples Gas used with respect to its gas transportation contracts.

582 A. The control procedures and monitoring related to the enforcement of the
583 transportation contracts and point operator agreements with ANR, Natural, KMIP,
584 Northern Border, Guardian, Vector, Washington 10, and Midwestern were as
585 follows:

586 1. Each of these pipelines or storage providers rendered monthly
587 statements of the quantity of gas received on behalf of Peoples Gas from each
588 supplier at each receipt point and the quantity of gas each transporter or storage
589 provider delivered to Peoples Gas. The quantities of gas received and delivered
590 by each transporter or storage provider were measured in accordance with the
591 General Terms and Conditions of its respective FERC Gas Tariff or Statement of
592 Operating Conditions. Peoples Gas has access to transporters' measurement
593 equipment at the receipt and delivery points under the tariff provisions. The Fuel
594 and Supply Accounting Department verified the accuracy of each monthly
595 statement based on records maintained by the Gas Supply area in coordination
596 with each transporting pipeline.

597 2. Transportation charges for each of the various receipt points include a
598 percentage retained by the transporter from gas received for Peoples Gas'
599 account to compensate for the transporter's compressor fuel and lost-and-
600 unaccounted-for gas. Storage provider charges also include a percentage

601 retained by the storage provider from gas received for Peoples Gas' account to
602 compensate for storage providers' compressor fuel and lost-and-unaccounted-for
603 gas. The Fuel and Supply Accounting Department reviewed for accuracy the
604 quantities that the transporter or storage provider retained, the transportation and
605 storage charges, and the reservation fees against published tariffs, contracts or
606 discount letters or agreements, as appropriate.

607 Q. Does this conclude your direct testimony?

608 A. Yes, it does.

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
The Peoples Gas Light and)	Docket No. 16-0565
Coke Company)	
)	
Reconciliation of revenues)	
collected under gas adjustment)	
charges with actual costs prudently)	
incurred.)	

DIRECT TESTIMONY
OF
SONIA HOLLER

- 1 Q. Please state your name and business address.
- 2 A. Sonia Holler, 200 East Randolph Street, Chicago, Illinois 60601.
- 3 Q. By whom are you employed?
- 4 A. WEC Business Services LLC.
- 5 Q. What position do you hold with WEC Business Services LLC?
- 6 A. I am a Project Specialist 3 in Regulatory Affairs.
- 7 Q. What are your responsibilities in that position?
- 8 A. I am responsible for gas charge related matters involving the maintenance
- 9 and forecasts of gas fuel costs, gas charge revenues, reconciliation balances
- 10 and rates as they pertain to Rider 2 of the rate schedules for Respondent, The
- 11 Peoples Gas Light and Coke Company ("Peoples Gas"), and an affiliate, North

12 Shore Gas Company. In addition, I am also responsible for performing activities
13 related to rate and tariff administration.

14 Q. Please summarize your educational background and experience.

15 A. I have a Bachelor of Science Degree from Illinois Institute of Technology. I
16 have been employed by Peoples Gas or its affiliates since 1985 in various
17 positions in Gas Supply, State Regulatory Affairs, Gas Accounting and in the
18 Rates area. I have been in my present position since 2008.

19 Q. Please give a brief description of the operations and status of Peoples
20 Gas.

21 A. Peoples Gas is a corporation organized and existing under the laws of the
22 State of Illinois, having its principal office at 200 East Randolph Street, Chicago,
23 Illinois 60601. It is engaged in the business of purchasing, distributing and
24 selling natural gas to approximately 830,000 customers in the City of Chicago.
25 Peoples Gas is a public utility within the meaning of the Public Utilities Act.

26 Q. Please describe the subject matter of this proceeding.

27 A. Pursuant to Section 9-220 of the Public Utilities Act, on November 22,
28 2016, the Illinois Commerce Commission (“Commission”) entered a citation order
29 (“order”) directed to Illinois gas utilities, including Peoples Gas. The order
30 requires Peoples Gas to present evidence to the Commission at a public hearing
31 in Docket No. 16-0565 reconciling revenue collected under the purchased gas
32 adjustment clause (Rider 2, Gas Charge, of Peoples Gas’ Schedule of Rates)
33 with the actual costs prudently incurred and recoverable under Rider 2, for the
34 twelve months ended December 31, 2016. The order also requires Peoples Gas’

35 filing to reflect fifteen specified data for each of its Gas Charges. The order
36 further requires that Peoples Gas make notice of the filing of this evidence under
37 the requirements of 83 Illinois Administrative Code Part 255.

38 Q. Please describe the notice of the filing that Peoples Gas gave in this case.

39 A. When Peoples Gas made its filing in this proceeding, it placed copies of
40 the filed evidence, available for public inspection, in each of its offices. It also
41 posted public notice of the filing in each of these offices. Further, Peoples Gas
42 will cause notice of the filing to be published in the Chicago Tribune, a secular
43 newspaper of general circulation in Peoples Gas' service territory, under the
44 requirements of 83 Illinois Administrative Code Part 255.

45 Q. Please describe PGL Ex. 2.1.

46 A. PGL Ex. 2.1 includes a copy of the audit report of Peoples Gas'
47 independent public accountants, Deloitte & Touche LLP, and the verification by
48 Peoples Gas' President and Chief Executive Officer, Charles Matthews. The
49 audit report includes a copy of Peoples Gas' Statement to Illinois Commerce
50 Commission - Determination of Reconciliation Balance for Gas Charge for the
51 Year Ended December 31, 2016 ("2016 Statement") and Independent Auditors'
52 Report, as described in Rider 2, Section G, of Peoples Gas' Schedule of Rates.

53 Q. Was the 2016 Statement prepared under your supervision and direction?

54 A. Yes, it was.

55 Q. Are the verification and the audit report true and correct copies of Mr.
56 Matthews' verification and the audit report of the independent public
57 accountants?

58 A. Yes, they are.

59 Q. What are the types of Gas Charges that Peoples Gas files pursuant to its
60 Rider 2 and what costs do the Gas Charges recover?

61 A. Each month, Peoples Gas files a Commodity Gas Charge (“CGC”), a Non-
62 Commodity Gas Charge (“NCGC”), a Demand Gas Charge (“DGC”), and a
63 Storage Gas Charge (“SGC”). Peoples Gas also files two Hub Credit Gas
64 Charges (“HCGC₁” and “HCGC₂”). The sum of the CGC, NCGC and HCGC₁ is
65 the Gas Charge, which applies to all Peoples Gas-supplied therms except
66 standby therms supplied to transportation customers.

67 The standby commodity charge applies to standby therms. Peoples Gas
68 uses published price indices prescribed in the riders to determine the standby
69 commodity charge.

70 The CGC recovers commodity-related costs. The NCGC recovers non-
71 commodity related costs. The DGC also recovers non-commodity related costs
72 but from transportation customers. Peoples Gas credits revenues arising from
73 the application of the DGC against the non-commodity related costs used in
74 computing the NCGC.

75 The SGC recovers non-commodity related costs from customers served
76 under Riders CFY and SST. The SGC applies to all storage capacity therms
77 allocated to or subscribed by customers served under these riders. Peoples Gas
78 credits revenues arising from the application of the SGC against the non-
79 commodity related costs used in computing the NCGC. Given that the NCGC,

80 DGC, and SGC all recover non-commodity related costs, Peoples Gas jointly
81 reconciles revenues recovered under these charges with such costs.

82 The HCGC₁ and HCGC₂ are a credit for revenues Peoples Gas receives
83 from interstate transportation and storage services that it offers under the Federal
84 Energy Regulatory Commission's jurisdiction. These services are often called
85 "hub" services. The HCGC₁ and the HCGC₂ are stand alone credits for Rider
86 CFY customers and for large volume transportation customers, respectively.

87 Q. The Commission's order requires Peoples Gas to include certain data
88 from the prior reconciliation year in its determination of the current year's
89 reconciliation. Please specify any unamortized balance at December 31, 2015.

90 A. The unamortized balance at December 31, 2015, for each Gas Charge is
91 shown on Page 2, Line 1, of PGL Ex. 2.1. Peoples Gas' unamortized Factor A
92 balance at December 31, 2015, reflects a refundable balance of \$11,655,067.20
93 for the CGC, a recoverable balance of \$433,299.40 for the NCGC, DGC and
94 SGC, and a balance of \$0 for the HCGC, for a total refundable balance of
95 \$11,221,767.80. These amounts are also shown on Page 2, Line 12, of Peoples
96 Gas' Statement to Illinois Commerce Commission, Determination of
97 Reconciliation Balance for Gas Charge for the Year Ended December 31, 2015
98 ("2015 Statement"). Peoples Gas filed this document as PGL Ex. 2.1 REV with
99 my revised direct testimony in Docket No. 15-0521, reconciliation of revenues
100 collected under gas adjustment charges with actual costs prudently incurred for
101 the period January 1, 2015, through December 31, 2015.

102 Q. Please specify the total adjustments to gas costs (that is, Factor A) that
103 were amortized to Schedule I in Peoples Gas' 2015 monthly filings but were not
104 yet reconciled through Schedule II of Peoples Gas' monthly filings at December
105 31, 2015.

106 A. Total unreconciled adjustments to gas costs (Factor A) reflect a refundable
107 amount of \$14,600,682.12 for the CGC, a recoverable amount of \$765,541.36 for
108 the NCGC, DGC and SGC, and a refundable amount of \$87,967.35 for the
109 HCGC, for a total refundable Factor A of \$13,923,108.11. These adjustments,
110 for the reported months of November and December 2015, were not yet
111 reconciled at December 31, 2015. However, they are reflected in the respective
112 Gas Charges for the effective months of January and February 2016. These
113 amounts are shown on Page 2, Line 2, of PGL Ex. 2.1. They are also shown on
114 Page 2, Line 13, of Peoples Gas' 2015 Statement.

115 Q. What was Peoples Gas' refundable or recoverable balance for the year
116 ended December 31, 2015?

117 A. Peoples Gas' refundable or recoverable balance for the year ended
118 December 31, 2015, which is the sum of the amounts on Page 2, Lines 1 through
119 3, of PGL Ex. 2.1, reflects a refundable balance of \$26,255,749.32 for the CGC,
120 a recoverable balance of \$1,198,840.76 for the NCGC, DGC and SGC, and a
121 refundable balance of \$87,967.35 for the HCGC, for a total refundable balance of
122 \$25,144,875.91. These amounts are shown on Page 2, Line 4, of PGL Ex. 2.1.
123 They are also shown on Page 2, Line 11 and Line 15, of Peoples Gas' 2015
124 Statement.

- 125 Q. What are Peoples Gas' 2016 recoverable gas costs and revenues?
- 126 A. Recoverable gas costs and revenues are summarized and shown on Page
127 2, Line 5 and Line 6, respectively, of PGL Ex. 2.1. Recoverable gas costs
128 summarized and shown on Page 2, Line 5, of PGL Ex. 2.1 are \$264,318,293.40
129 for the CGC, \$46,887,720.17 for the NCGC, DGC and SGC and hub revenues to
130 be credited of \$1,731,077.30 for the HCGC, for a total of \$309,474,936.27 to be
131 recovered under the Gas Charge. Revenues arising through the application of
132 each Gas Charge summarized and shown on Page 2, Line 6, of PGL Ex. 2.1 are
133 \$225,390,925.12 for the CGC, \$52,251,920.77 for the NCGC, DGC and SGC,
134 and a credit amount of \$2,131,438.54 for the HCGC, for a total of
135 \$275,511,407.35 recovered under the Gas Charge. Recoverable gas costs and
136 revenues are shown in more detail on Pages 3, 4, and 5 of PGL Ex. 2.1 for the
137 CGC, NCGC, DGC and SGC, and HCGC, respectively.
- 138 Q. Please specify the pipeline refunds or surcharges that Peoples Gas
139 separately reported in 2016 monthly Gas Charge filings.
- 140 A. Peoples Gas' 2016 monthly Gas Charge filings included no separately
141 reported pipeline refunds or surcharges.
- 142 Q. Please specify any other adjustments that Peoples Gas separately
143 reported in 2016.
- 144 A. Peoples Gas' 2016 monthly Gas Charge filings included no other
145 separately reported adjustments.
- 146 Q. Please specify the interest, calculated pursuant to Section 525.50 of the
147 Commission's rules, for inclusion in Adjustments to Gas Costs (Factor A).

148 A. Interest, calculated pursuant to Section 525.50, for inclusion in
149 Adjustments for Gas Costs (Factor A) is shown on Page 2, Line 9, of PGL Ex.
150 2.1, and reflects a refundable amount of \$27,466.38 for the CGC, and a
151 refundable amount of \$4,816.94 for the NCGC, DGC and SGC, for a total
152 refundable amount of \$32,283.32.

153 Q. What was Peoples Gas' over- or under- recovery for 2016?

154 A. Peoples Gas' over- or under-recovery for 2016 is shown on Page 2, Line
155 10, of PGL Ex. 2.1. The over- or under-recovery for each Gas Charge can be
156 determined by deducting the amount on Line 6 (revenues arising through the
157 application of each Gas Charge) from the amount on Line 5 (costs recoverable
158 through each Gas Charge) and adding the amounts on Line 7 (separately
159 reported pipeline refunds or surcharges), Line 8 (separately reported other
160 adjustments), and Line 9 (interest). Using this calculation, Peoples Gas' over- or
161 under-recovery for 2016 reflects an under-recovery of \$38,889,901.90 for the
162 CGC, an over-recovery of \$5,369,017.54 for the NCGC, DGC and SGC, and an
163 under-recovery of \$400,361.24 for the HCGC, for a total under-recovery of
164 \$33,931,245.60.

165 Q. Please specify the cumulative recovery balance for the reconciliation year.

166 A. The cumulative recovery balance for the reconciliation year, which reflects
167 the sum of the (refundable)/recoverable balances for prior periods and for the
168 year ended December 31, 2016, for each respective Gas Charge, is shown on
169 Page 2, Line 11, of PGL Ex. 2.1. This amount, which can be determined by
170 summing the amounts on Line 4 (prior periods' balance) and Line 10 (2016

171 balance), reflects an under-recovery of \$12,644,152.58 for the CGC, an over-
172 recovery of \$4,170,176.78 for the NCGC, DGC and SGC and an under-recovery
173 of \$312,393.89 for the HCGC, for a total under-recovery of \$8,786,369.69.

174 These amounts are also shown on line 15 and equal the sum of the
175 amounts shown on lines 12 (unamortized balance at the end of 2016), 13
176 (unreconciled adjustments to gas costs), and 14 (requested Factor O amounts).

177 Q. Please specify any unamortized balance at the end of 2016.

178 A. The unamortized balance at the end of 2016 is shown on Page 2, Line 12,
179 of PGL Ex. 2.1. Peoples Gas' unamortized balance at the end of 2016 reflects a
180 recoverable balance of \$7,370,739.44 for the CGC, and a refundable balance of
181 \$3,352,845.43 for NCGC, DGC, and SGC for a total recoverable amount of
182 \$4,017,894.01.

183 Q. Please specify any adjustments to gas costs that were not yet reconciled
184 through Schedule II of Peoples Gas' monthly filings at December 31, 2016.

185 A. Total unreconciled adjustments to gas costs, which are shown on Page 2,
186 Line 13, of PGL Ex. 2.1, reflect a recoverable amount of \$5,273,413.14 for the
187 CGC, a refundable amount of \$817,331.35 for the NCGC, DGC and SGC, and a
188 recoverable balance of \$312,393.89 for the HCGC, for a total recoverable
189 balance of \$4,768,475.68. The unreconciled adjustments to gas costs (Factor
190 A), for the reported months of November and December 2016, are not yet
191 reconciled at the end of 2016. However, they are reflected in the respective Gas
192 Charges for the effective months of January and February, 2017.

193 Q. Please specify any Factor O amounts requested by Peoples Gas for 2016.

194 A. Peoples Gas is not requesting any Factor O amounts for 2016.

195 Q. Does PGL Ex. 2.1 include other reports that support the summary
196 amounts shown on Page 2?

197 A. Yes. PGL Ex. 2.1 includes a summary of the detailed Schedule II,
198 Adjustments to Gas Costs (Factor A) reports that Peoples Gas filed as part of its
199 monthly Gas Charge reports for 2016. Pages 6, 7 and 8 of PGL Ex. 2.1 reflect
200 Schedule II reports filed for the CGC, NCGC, DGC and SGC, and HCGC
201 respectively. These reports reflect the monthly reconciliation of recoverable gas
202 costs and Gas Charge revenues, adjustments to gas costs (Factor A), refunds
203 and other adjustments, Factor A amortizations and unamortized balances, Factor
204 O amortizations and unamortized balances, and interest determined for each
205 Gas Charge. Finally, Page 9 of PGL Ex. 2.1 contains notes that explain Gas
206 Charge reconciliation summary items noted on Page 2 of PGL Ex. 2.1.

207 Q. In its February 16, 2012 Order in Docket No. 07-0577, the Commission
208 approved the way Peoples Gas recovers costs incurred under a contract with
209 Kinder Morgan Illinois Pipeline (“KMIP”), but it ordered Peoples Gas “to track and
210 identify KIMP (*sic*) costs for future PGA Reconciliations.” How does Peoples Gas
211 recover KMIP costs?

212 A. KMIP is an interstate pipeline, and Peoples Gas incurs commodity and
213 non-commodity costs under the contract. Peoples Gas recovered these costs, in
214 the reconciliation period and in prior periods, through the CGC, NCGC and the
215 DGC. This is the same recovery mechanism it uses for other pipeline commodity
216 and non-commodity costs that are unrelated to storage services.

217 Q. What amount of KMIP costs did Peoples Gas include in the CGC, NCGC
218 and DGC calculations in the reconciliation period?

219 A. The CGC included \$6,018.29 in 2016. The NCGC and DGC included
220 \$3,283,200 in 2016.

221 Q. Does this conclude your direct testimony?

222 A. Yes, it does.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Shore Gas Company
Chicago, Illinois

We have audited the accompanying Report to the Illinois Commerce Commission – Determination of Reconciliation Balance for Gas Charge (the "Statement") of North Shore Gas Company (the "Company") for the year ended December 31, 2016, pursuant to Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Statement referred to above, presents fairly, in all material respects, the information set forth therein for the year ended December 31, 2016, in accordance with Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission.

Basis of Accounting

The Statement was prepared by the Company on the basis of Section G of the Company's Rider 2, in effect and on file with the Illinois Commerce Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Illinois Commerce Commission referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of management and the Board of Directors of the Company and the Illinois Commerce Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 13, 2017

The Peoples Gas Light and Coke Company

STATEMENT TO ILLINOIS COMMERCE COMMISSION

DETERMINATION OF RECONCILIATION BALANCE

FOR GAS CHARGE

FOR THE YEAR ENDED DECEMBER 31, 2016

The Peoples Gas Light and Coke Company
Statement to Illinois Commerce Commission - Determination of Reconciliation Balance (1)
For the Year Ended December 31, 2016

<u>Line</u>	<u>Commodity Gas Charge (CGC)</u>	<u>Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge (NCGC, DGC and SGC)</u>	<u>Hub Credit Gas Charge (HCGC)</u>	<u>Total Gas Charge</u>	
Year Ended December 31, 2015					
1	Unamortized Balance at December 31, 2015 (Refund)/Recovery (2)	(\$11,655,067.20)	\$433,299.40	\$0.00	(\$11,221,767.80)
2	Factor A Adjustments unreconciled at December 31, 2015 (Refund)/Recovery (3)	(14,600,682.12)	765,541.36	(87,967.35)	(13,923,108.11)
3	Factor O (Refunded)/Recovered	0.00	0.00	0.00	0.00
4	Cumulative (Refundable)/Recoverable from December 31, 2015 (Line 1 + Line 2 + Line 3)	(26,255,749.32)	1,198,840.76	(87,967.35)	(25,144,875.91)
Year Ended December 31, 2016					
5	Costs Recoverable through the Gas Charge (4)	264,318,293.40	46,887,720.17	(1,731,077.30)	309,474,936.27
6	Revenues Arising through Application of the Gas Charge (5)	225,390,925.12	52,251,920.77	(2,131,438.54)	275,511,407.35
7	Separately Reported Pipeline Refunds or Surcharges	0.00	0.00	0.00	0.00
8	Separately Reported Other Adjustments	0.00	0.00	0.00	0.00
9	Interest	(27,466.38)	(4,816.94)	0.00	(32,283.32)
10	(Over)/Under Recovery For Reconciliation Year (Line 5 - Line 6 + Line 7 + Line 8 + Line 9)	38,899,901.90	(5,369,017.54)	400,361.24	33,931,245.60
11	Cumulative (Over)/Under Recovery Balance For Reconciliation Year (Line 4 + Line 10)	12,644,152.58	(4,170,176.78)	312,393.89	8,786,369.69
12	Unamortized Balance at December 31, 2016 (Refund) / Recovery (Line 11 - Line 13) (6)	7,370,739.44	(3,352,845.43)	0.00	4,017,894.01
13	Factor A Adjustments unreconciled at December 31, 2016 (Refund)/Recovery (7)	5,273,413.14	(817,331.35)	312,393.89	4,768,475.68
14	Factor O to be (Refunded)/Recovered in Future Periods	\$0.00	\$0.00	\$0.00	\$0.00
15	Cumulative (Over)/Under Recovery Balance For Reconciliation Year (Line 12 + Line 13 + Line 14) = Line 11	12,644,152.58	(4,170,176.78)	312,393.89	8,786,369.69

The Peoples Gas Light and Coke Company

**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE
FOR THE COMMODITY GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2016				
1.	Gas Costs by Type:			
	a. Purchases	\$ 244,094,700.42		
	b. Liability For Redelivery of Customer-Owned Gas	<u>(9,060,863.21)</u>		
2.	TOTAL GAS COSTS		\$ 235,033,837.21	Sum Lines 1a - 1b
3.	Less: Gas Used by Company	\$ 0.00		
4.	a. Add: Gas Withdrawn from Storage	173,129,390.77		
	b. Less: Gas Injected into Storage	<u>(143,850,340.93)</u>		
5.	Less: Off-System Transaction Revenues	0.00		
6.	Less: Penalty / Imbalance Charge Revenues	<u>(76,745.11)</u>		
7.	a. Less: "Cash-Out" Schedule Revenues	<u>(357,182.26)</u>		
	b. Add: "Cash-Out" Schedule Costs	<u>439,333.72</u>		
8.	TOTAL OTHER COSTS / REVENUES		<u>29,284,456.19</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 264,318,293.40	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Commodity Gas Charge Revenues		<u>225,390,925.12</u>	
11.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
12.	Interest		<u>(27,466.38)</u>	
13.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>38,899,901.90</u>	Line 9 - Line 10 + Line 11 + Line 12

The Peoples Gas Light and Coke Company**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE
FOR THE NON-COMMODITY GAS CHARGE, DEMAND GAS CHARGE AND STORAGE GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
	ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2016			
1.	Gas Costs by Type:			
	a. Transportation	\$ 11,288,338.25		
	b. Storage	47,995,645.42		
	c. FERC Order 636 Transition Costs	89.88		
	d. Demand Gas Charge Revenues	(4,749,589.96)		
	e. Storage Gas Charge Revenues	(8,119,943.51)		
2.	TOTAL GAS COSTS		\$ 46,414,540.08	Sum Lines 1a - 1e
3.	Less: Gas Used by Company	\$ 0.00		
4.	a. Add: Gas Withdrawn from Storage	7,434,417.34		
	b. Less: Gas Injected into Storage	(6,961,237.25)		
5.	Less: Off-System Transaction Revenues	0.00		
6.	Less: Penalty / Imbalance Charge Revenues	0.00		
7.	a. Less: "Cash-Out" Schedule Revenues	0.00		
	b. Add: "Cash-Out" Schedule Costs	0.00		
8.	TOTAL OTHER COSTS / REVENUES		<u>473,180.09</u>	Sum Lines 3 - 7
9.	TOTAL ACTUAL RECOVERABLE GAS COSTS FOR THE PERIOD		\$ 46,887,720.17	Line 2 + Line 8
10.	LESS ACTUAL REVENUES:			
	a. Non-Commodity Gas Charge Revenues	51,198,425.02		
	b. Excess Bank Charge	122,939.15		
	c. Storage and Balancing Charges	<u>930,556.60</u>		
11.	TOTAL REVENUES		<u>52,251,920.77</u>	Sum Lines 10a - 10c
12.	Pipeline Surcharge/(Refunds)/Other Adjustments		0.00	
13.	Interest		(4,816.94)	
14.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>(5,369,017.54)</u>	Line 9 - Line 11 + Line 12 + Line 13

The Peoples Gas Light and Coke Company

**STATEMENT TO ILLINOIS COMMERCE COMMISSION - DETERMINATION OF RECONCILIATION BALANCE
FOR THE HUB CREDIT GAS CHARGE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Line No. [A]	Description [B]	Amount [C]	Totals [D]	Reference
	ACTUAL RECOVERABLE GAS COSTS: YEAR ENDED DECEMBER 31, 2016			
1.	TOTAL ACTUAL HUB REVENUES (applicable to Hub Credit Gas Charge)		\$ (1,731,077.30)	
2.	LESS ACTUAL HUB CREDIT GAS CHARGE ADJUSTMENTS		<u>(2,131,438.54)</u>	
3.	Refunds/Other Adjustments		0.00	
4.	Interest		0.00	
5.	Reconciliation Balance Recoverable or (Refundable) Including Interest		\$ <u>400,361.24</u>	Line 1 - Line 2 + Line 3 + Line 4

The Peoples Gas Light and Coke Company
 Statement to Illinois Commerce Commission - Determination of Reconciliation Balance
 Commodity Gas Charge

Summary of Schedule II
 For the Year Ended December 31, 2016

Line	Reported Month	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
		November 2015	December	January 2016	February	March	April	May	June	July	August	September	October	November	December	Total 2016	
	Effective Month	January 2016	February	March	April	May	June	July	August	September	October	November	December	January 2017	February		
1	Actual Recoverable Costs - Reported Month	20,976,988.56	29,910,551.23	49,165,667.66	33,922,649.61	20,530,088.93	18,887,799.84	11,681,666.64	6,661,115.01	7,710,468.37	5,626,057.42	6,385,095.47	11,437,797.50	21,756,192.13	70,553,694.82	264,318,293.40	1
2	Actual Recoveries - Reported Month	22,890,397.12	26,653,562.75	38,863,373.52	35,364,351.05	23,322,890.35	14,736,490.03	6,710,980.94	5,379,582.64	4,093,905.05	4,055,273.67	5,317,032.55	10,922,193.51	23,274,634.46	53,350,217.35	225,390,925.12	2
3	Under/(Over) Recovery - Reported Month	(1,913,408.56)	3,256,988.48	10,302,294.14	(1,441,701.44)	(2,792,801.42)	4,151,309.81	4,970,685.70	1,281,532.37	3,616,563.32	1,570,783.75	1,068,062.92	515,603.99	(1,518,442.33)	17,203,477.47	38,927,368.28	3
4	Factor A Included in Reported Month	(2,270,879.10)	(5,705,927.68)	(7,207,618.20)	(7,393,063.92)	(2,416,669.61)	(2,296,511.41)	(2,337,544.40)	(1,497,563.72)	(1,596,773.84)	(1,431,654.52)	(284,386.26)	(272,093.54)	(403,918.17)	(438,551.45)	(27,576,349.04)	4
5	Factor O Included in Reported Month	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5
6	Adjusted (Over)/Under Recovery - Reported Month	(4,184,287.66)	(2,448,939.20)	3,094,675.94	(8,834,765.36)	(5,209,471.03)	1,854,798.40	2,633,141.30	(216,031.35)	2,019,789.48	139,129.23	783,676.66	243,510.45	(1,922,360.50)	16,764,926.02	11,351,019.24	6
7	Refunds/Pipeline Surcharges/Other Adjustments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7
8	Unamortized Balance Including Previous Interest	(19,610,756.77)	(16,594,337.66)	(11,655,067.20)	(6,146,281.53)	(12,689,820.70)	(15,568,231.39)	(12,220,959.22)	(7,994,373.68)	(6,781,574.99)	(4,479,264.83)	(4,069,737.08)	(2,883,343.14)	(2,202,198.44)	(2,824,357.06)		8
9	Total Adjustments Before Amortization	(23,795,044.43)	(19,043,276.86)	(8,560,391.26)	(14,981,046.89)	(17,899,291.73)	(13,713,432.99)	(9,587,817.92)	(8,210,405.03)	(4,761,785.51)	(4,340,135.60)	(3,286,060.42)	(2,639,832.69)	(4,124,558.94)	13,940,568.96		9
10	Total Amortization	(7,207,618.20)	(7,393,063.92)	(2,416,669.61)	(2,296,511.41)	(2,337,544.40)	(1,497,563.72)	(1,596,773.84)	(1,431,654.52)	(284,386.26)	(272,093.54)	(403,918.17)	(438,551.45)	(1,302,553.55)	6,575,966.69	(7,702,253.78)	10
11	Unamortized Balance - Factor A	(16,587,426.23)	(11,650,212.94)	(6,143,721.65)	(12,684,535.48)	(15,561,747.33)	(12,215,869.27)	(7,991,044.08)	(6,778,750.51)	(4,477,399.25)	(4,068,042.06)	(2,882,142.25)	(2,201,281.24)	(2,822,005.39)	7,364,602.27		11
12	Unamortized Balance - Factor O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		12
13	Total Unamortized Balances	(16,587,426.23)	(11,650,212.94)	(6,143,721.65)	(12,684,535.48)	(15,561,747.33)	(12,215,869.27)	(7,991,044.08)	(6,778,750.51)	(4,477,399.25)	(4,068,042.06)	(2,882,142.25)	(2,201,281.24)	(2,822,005.39)	7,364,602.27		13
14	Interest	(6,911.43)	(4,854.26)	(2,559.88)	(5,285.22)	(6,484.06)	(5,089.95)	(3,329.60)	(2,824.48)	(1,865.58)	(1,695.02)	(1,200.89)	(917.20)	(2,351.67)	6,137.17	(27,466.38)	14
15	Unamortized Balance Including Interest	(16,594,337.66)	(11,655,067.20)	(6,146,281.53)	(12,689,820.70)	(15,568,231.39)	(12,220,959.22)	(7,994,373.68)	(6,781,574.99)	(4,479,264.83)	(4,069,737.08)	(2,883,343.14)	(2,202,198.44)	(2,824,357.06)	7,370,739.44		15

The Peoples Gas Light and Coke Company
 Statement to Illinois Commerce Commission - Determination of Reconciliation Balance
 Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge

Summary of Schedule II
 For the Year Ended December 31, 2016

Line		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]	[N]	[O]	Line
		Reported Month November 2015	December	January 2016	February	March	April	May	June	July	August	September	October	November	December	January 2017	
	Effective Month	January 2016	February	March	April	May	June	July	August	September	October	November	December	January 2017	February		
1	Actual Recoverable Costs - Reported Month	5,366,565.19	5,621,001.89	6,914,458.73	6,473,161.79	5,636,623.67	3,687,532.34	2,688,705.34	2,836,648.60	2,411,663.39	2,165,532.79	2,433,511.49	2,785,358.13	4,435,274.49	4,419,249.41	46,887,720.17	1
2	Actual Recoveries - Reported Month	5,121,503.93	6,976,874.48	9,715,314.85	8,628,233.28	5,046,418.64	3,504,015.24	1,761,130.39	1,080,494.71	1,062,929.95	1,150,931.96	1,232,208.96	2,307,496.49	4,725,842.87	12,036,903.43	52,251,920.77	2
3	Under/(Over) Recovery - Reported Month	245,061.26	(1,355,872.59)	(2,800,856.12)	(2,155,071.49)	590,205.03	183,517.10	927,574.95	1,756,153.89	1,348,733.44	1,014,600.83	1,201,302.53	477,861.64	(290,568.38)	(7,617,654.02)	(5,364,200.60)	3
4	Factor A Included in Reported Month	683,753.84	1,625,402.11	171,201.29	594,340.07	(620,684.05)	(478,328.27)	(209,075.49)	(532,524.95)	(70,046.04)	(10,458.47)	62,750.35	346,060.98	1,123,136.06	2,617,141.13	2,993,512.61	4
5	Factor O Included in Reported Month	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5
6	Adjusted (Over)/Under Recovery - Reported Month	928,815.10	269,529.52	(2,629,654.83)	(1,560,731.42)	(30,479.02)	(294,811.17)	718,499.46	1,223,628.94	1,278,687.40	1,004,142.36	1,264,052.88	823,922.62	832,567.68	(5,000,512.89)	(2,370,687.99)	6
7	Refunds/Pipeline Surcharges/Other Adjustments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7
8	Unamortized Balance Including Previous Interest	0.00	757,929.48	433,299.40	(1,576,327.91)	(2,659,838.86)	(2,482,276.24)	(2,245,497.69)	(1,457,559.25)	(223,564.95)	992,785.59	1,651,554.83	1,793,218.51	0.00	672,727.92		8
9	Total Adjustments Before Amortization	928,815.10	1,027,459.00	(2,196,355.43)	(3,137,059.33)	(2,690,317.88)	(2,777,087.41)	(1,526,998.23)	(233,930.31)	1,055,122.45	1,996,927.95	2,915,607.71	2,617,141.13	832,567.68	(4,327,784.97)		9
10	Total Amortization	171,201.29	594,340.07	(620,684.05)	(478,328.27)	(209,075.49)	(532,524.95)	(70,046.04)	(10,458.47)	62,750.35	346,060.98	1,123,136.06	2,617,141.13	160,399.90	(977,731.25)	1,410,639.90	10
11	Unamortized Balance - Factor A	757,613.81	433,118.93	(1,575,671.38)	(2,658,731.06)	(2,481,242.39)	(2,244,562.46)	(1,456,952.19)	(223,471.84)	992,372.10	1,650,866.97	1,792,471.65	0.00	672,167.78	(3,350,053.72)		11
12	Unamortized Balance - Factor O	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		12
13	Total Unamortized Balance	757,613.81	433,118.93	(1,575,671.38)	(2,658,731.06)	(2,481,242.39)	(2,244,562.46)	(1,456,952.19)	(223,471.84)	992,372.10	1,650,866.97	1,792,471.65	0.00	672,167.78	(3,350,053.72)		13
14	Interest	315.67	180.47	(656.53)	(1,107.80)	(1,033.85)	(935.23)	(607.06)	(93.11)	413.49	687.86	746.86	0.00	560.14	(2,791.71)	(4,816.94)	14
15	Unamortized Balance Including Interest	757,929.48	433,299.40	(1,576,327.91)	(2,659,838.86)	(2,482,276.24)	(2,245,497.69)	(1,457,559.25)	(223,564.95)	992,785.59	1,651,554.83	1,793,218.51	0.00	672,727.92	(3,352,845.43)		15

The Peoples Gas Light and Coke Company

Statement to Illinois Commerce Commission Determination of Reconciliation Balance for Gas Charge For the Year Ended December 31, 2016 Notes

- (1) The Peoples Gas Light and Coke Company (the Company) maintains its financial books and records in accordance with accounting principles generally accepted in the United States of America. This Statement to Illinois Commerce Commission – Determination of Reconciliation Balance for Gas Charge has been prepared from the financial books and records of the Company on the basis of Section G of the Company’s Rider 2, in effect and on file with the Illinois Commerce Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Illinois Commerce Commission.
- (2) Unamortized (refundable)/recoverable balance at December 31, 2015. For the Commodity Gas Charge, see Page 6, Line 15, Column B. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 7, Line 15, Column B. For the Hub Credit Gas Charge, see Page 8, Line 15, Column B.
- (3) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2016 and February 1, 2016 and not yet reconciled for the reporting months of November 2015 and December 2015, respectively. For the Commodity Gas Charge, see Page 6, Line 10 and sum the amounts in Column A and Column B. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 7, Line 10 and sum the amounts in Column A and Column B. For the Hub Credit Gas Charge, see Page 8, Line 10 and sum the amounts in Column A and Column B.
- (4) Detail of costs recoverable through the Commodity Gas Charge provided on Page 3. Detail of costs recoverable through the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge provided on Page 4. Detail of hub revenues to be credited through the Hub Credit Gas Charge provided on Page 5.
- (5) Revenue arising through the application of the Gas Charge including the Adjustment for Gas Costs (Factor A). Detail of revenue arising from the Commodity Gas Charge provided on Page 3. Detail of revenue arising from the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge provided on Page 4. Detail of hub credits arising from the Hub Credit Gas Charge provided on Page 5.
- (6) Unamortized balance at December 31, 2016. For the Commodity Gas Charge, see Page 6, Line 15, Column N. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 7, Line 15, Column N. For the Hub Credit Gas Charge, see Page 8, Line 15, Column N.
- (7) Adjustments to Gas Costs (Factor A) included in filed Gas Charges effective January 1, 2017 and February 1, 2017 and not yet reconciled for the reporting months of November 2016 and December 2016, respectively. For the Commodity Gas Charge, see Page 6, Line 10 and sum the amounts in Column M and Column N. For the Non-Commodity Gas Charge, Demand Gas Charge and Storage Gas Charge, see Page 7, Line 10 and sum the amounts in Column M and Column N. For the Hub Credit Gas Charge, see Page 8, Line 10 and sum the amounts in Column M and Column N.

STATE OF ILLINOIS)
)
COUNTY OF COOK)

Charles Matthews, of lawful age, being first duly sworn on oath, states that he is President and Chief Executive Officer of The Peoples Gas Light and Coke Company; that he has read the foregoing Statement to Illinois Commerce Commission - Determination of Reconciliation Balance for Gas Charge for the Year Ended December 31, 2016, and knows the contents thereof; and that the facts therein stated are true to the best of his knowledge, information and belief.

By: *Charles Matthews*
Charles Matthews
President and Chief Executive
Officer

SUBSCRIBED and SWORN TO before me this 12th day of April, 2017.

By: *Agatha M. Szeczyk*

My Commission Expires: 2/23/2019



STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	
)	
The Peoples Gas Light and)	
Coke Company)	Docket No. 16-0565
)	
)	
)	
Reconciliation of revenues)	
collected under gas adjustment)	
charges with actual costs prudently)	
incurred.)	

NOTICE OF FILING AND CERTIFICATE OF SERVICE

I hereby certify that The Peoples Gas Light and Coke Company filed its direct testimony on the Illinois Commerce Commission’s e-docket system and served by electronic mail upon each person designated in the official service list compiled in this proceeding, Docket No. 16-0565, in accordance with requirements of the Commission’s Rules of Practice.

Dated at Chicago, Illinois, this 13th day of April, 2017.

By: /S/ MARY KLYASHEFF

Mary Klyasheff
An Attorney for
The Peoples Gas Light
and Coke Company