

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution margin approved by the Commission in the Company's most recent rate proceeding. This rider shall operate on a pilot basis for a four-year period pursuant to the Commission's order in Docket No. 07-0242. The initial adjustments determined under this rider shall be filed with the Commission by April 20, 2008, and the final adjustments determined under this rider shall be filed with the Commission by March 20, 2012, unless the rider is implemented on a permanent basis upon the Commission's approval in a general rate proceeding. Absent implementation of a permanent program, this rider shall terminate upon the conclusion of the required Reports and Reconciliations set forth in Section C of this rider and the required Audit set forth in Section E of this rider applicable to the four-year pilot program.

* Each month the Company shall determine adjustments under this rider. A separate adjustment shall be calculated for each applicable Service Classification. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The Reconciliation Adjustment and each of its two components, RA₁ and RA₂, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31 and amortized for the nine-month period commencing the following April 1. The Company may shorten or lengthen the amortization period for RA₁ and RA₂ pursuant to the terms in Section B of this rider.

Section A - Definitions

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

Actual Margin (AM) shall mean that dollar amount of monthly delivery charge revenues, excluding customer charge revenues and revenues arising from adjustments under this rider, which were billed for each applicable Service Classification for the specified period.

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

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

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

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

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

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Asterisk (*) indicates change.

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130 East Randolph Drive, Chicago, Illinois 60601

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Section A - Definitions - continued

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

* **Previous Reconciliation Period** shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year, except for the first reconciliation amortization period which shall mean the ten-month reconciliation amortization period ended December 31, 2009.

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

Rate Case Margin (RCM) shall mean that dollar amount of delivery charge revenues, excluding customer charge revenues, approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification.

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

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

Section B - Determination of Adjustment

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

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

$$[(RCM / RCC) - (AM / AC)] \times PFC \times RCC / T \times 100$$

Where:

RCM represents the Rate Case Margin for the Reconciliation Month.

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

AM represents the Actual Margin for the Reconciliation Month.

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

T represents the forecast Factor T for the Effective Month.

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

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Section B - Determination of Adjustment – continued

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

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

Where:

RA₁ = an amount due the Company (+RA₁) or an amount due the customer (-RA₁) arising from the reconciliation of Rate Case Margin revenues and Actual Margin revenues plus revenues arising from application of the Effective Component in subsection B (1) above.

RA₁ shall be represented by the following formula:

$$(RCM - (AM / AC \times RCC)) \times PFC - VBAR$$

Where:

RCM represents the Rate Case Margin for the Fiscal Year.

AM represents the Actual Margin for the Fiscal Year.

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

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

VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.

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

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

RA₂ = an amount due the Company (+RA₂) or an amount due the customer (-RA₂) as a consequence of any prior RA₁ adjustment.

RA₂ shall be represented by the following formula:

$$RA - RAR$$

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Section B - Determination of Adjustment – continued

Where:

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

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

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

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

Section C - Reports and Reconciliations

The Company shall file with the Commission on or before the twentieth (20th) day of each Filing Month an information sheet that specifies the adjustments to be effective under this rider for the Effective Month. The Company shall file any corrections from a timely filed information sheet on or before the last day of the Filing Month. Any other filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

* The Company shall file with the Commission annually, no later than March 31, a statement of the Reconciliation Adjustment components RA_1 and RA_2 to be applicable for the Upcoming Reconciliation Period.

Section D - Terms and Conditions

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

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Section E – Audit

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

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