

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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**Rider QIP
Qualifying Infrastructure Plant
Applicable to Service Classification Nos. 1, 2, 4 and 8 and Riders FST, SST, and P**

The Qualifying Infrastructure Plant Surcharge shall be determined in accordance with the provisions of this rider. The Qualifying Infrastructure Plant Surcharge Percentage shall be applied to bills of customers.

Section A – Purpose

The purpose of the QIP Surcharge is to recover a return on, and Depreciation Expense related to, the Company's investment in QIP as described in Section D of this rider.

The Company shall file with the Commission an Information Sheet showing determinations of the QIP Surcharge Percentage for the Effective Month under Sections F and G of this rider.

* **Section B – Definitions**

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

“Accumulated Depreciation” means the beginning balance of Accumulated Depreciation Expense, if any, plus Depreciation Expense less retirements less cost of removal paid or incurred.

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

“Base Rate Revenues” means revenues recovered through base rates, as determined in the Company's last rate case. Base Rate Revenues shall not include revenues or credits arising from Service Classification Nos. 5 and 7 and Riders 1, 2, 9, 11, EOA, SBO, UEA-GC, and IT and revenues arising from QIP Surcharges. Base Rate Revenues shall include costs and revenues associated with Riders ICTA, SSC, UEA, VBA, and VITA.

“Baseline Amount” means an amount equal to \$57,498,000, which is the Company's average total depreciation expense, as reported on page 336, column (b) of the Company's ILCC Form 21, for the calendar years 2006 through 2010.

"Costs associated with investments in qualifying infrastructure plant" means an amount that shall include return on Qualifying Infrastructure Plant and recovery of depreciation and amortization expense on Qualifying Infrastructure Plant, net of the depreciation included in the Company's base rates on any plant retired in conjunction with the installation of the Qualifying Infrastructure Plant.

“Depreciation Expense” means an amount that shall be calculated by applying the Company's approved depreciation rates, including removal and salvage, to the month-end QIP balance identified in Section D, for each category of QIP. The resulting Depreciation Expense for QIP shall be reduced by the depreciation included in the Company's base rates on any plant retired in conjunction with the installation of Qualifying Infrastructure Plant.

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Section B – Definitions – continued

"Difficult to locate main" refers to a main from which the Company cannot obtain a reliable locating signal.

"Difficult to locate service pipe" means a service pipe from which the Company cannot obtain a reliable locating signal.

"Effective Month" means the month following the Filing Month, during which the QIP Surcharge Percentage will be in effect.

"Filing Month" means the month in which the Company determines the QIP Surcharge Percentage and submits it to the Commission.

"Information Sheet" means a tariff sheet filed in accordance with this rider to initiate or modify a QIP Surcharge Percentage.

"Qualifying Infrastructure Plant" or "QIP" means qualifying infrastructure plant eligible to be recovered through the QIP Surcharge as described in Section D of this rider.

"Qualifying Infrastructure Investment" means QIP and "costs associated with investments in qualifying infrastructure plant". It shall not include costs or expenses incurred in the ordinary course of business for the ongoing or routine operations of the Company, including, but not limited to: (1) operating and maintenance costs; and (2) costs of facilities that are revenue-producing, which means facilities that are constructed or installed for the purpose of serving new customers.

"QIP Surcharge" means the amount added to a customer bill when the QIP Surcharge Percentage is applied in accordance with Section F(a) of this rider.

"QIP Surcharge Percentage" means the percentage determined in accordance with Sections F, G and H of this rider.

"Reconciliation Year" means the calendar year period for which actual costs associated with QIP and QIP Surcharge revenues are reconciled.

"Total Plant Additions" means all capital additions in the Reconciliation Year as recorded in gas plant in service accounts 101 and 106 and reflected as such in Form 21 ILCC, the annual report to the Commission that the Company files as required by Section 5-109 of the Act.

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Section C – Terms and Conditions

- (a) The cumulative amount of increases billed under this rider, since the Company's last rate case, shall not exceed an annual average 4% of the Company's Base Rate Revenues but shall not exceed 5.5% in any given year.
- (b) The QIP Surcharge Percentage shall apply only to Base Rate Revenues.
- (c) On the effective date of new base rates, the QIP Surcharge Percentage shall be reduced to zero with respect to Qualifying Infrastructure Investment that is transferred to rate base used to establish the Company's base rates, provided that the Company may continue to charge or refund any reconciliation adjustment determined in a Commission reconciliation Order.
- (d) The QIP Surcharge shall be presented as a separate line item on customer bills as the "Qualified Infrastructure Plant" charge or as an abbreviation that clearly conveys its meaning, and shall show the applicable percentage. If a customer's bill is for a period that includes all or part of more than one Effective Month, the percentage used to compute such bill and shown on such bill shall be a proration of the applicable QIP Surcharge Percentages.
- (e) The revenues resulting from this rider shall be recorded with a separate revenue identifier or in a separate revenue sub-account.

Section D – Qualifying Infrastructure Plant, or QIP

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

- (1) be placed into service;
- (2) not have been included in the calculation of the rate base in the Company's last rate case;
- (3) not include facilities constructed or installed for the purpose of serving new customers;
- (4) be related to one or more of the following:
 - (a) The installation of facilities to retire and replace underground natural gas facilities, including facilities appurtenant to facilities constructed of those materials such as meters, regulators, and services, and that are constructed of cast iron, wrought iron, ductile iron, unprotected coated steel, unprotected bare steel, mechanically coupled steel, copper, Cellulose Acetate Butyrate (CAB) plastic, pre-1973 DuPont Aldyl "A" polyethylene, PVC, or other types of materials identified by a State or federal governmental agency as being prone to leakage;
 - (b) The relocation of meters from inside customers' facilities to outside;
 - (c) The upgrading of the gas distribution system from a low pressure to a medium pressure system, including installation of high-pressure facilities to support the upgrade;

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Section D – Qualifying Infrastructure Plant, or QIP – continued

- (d) Modernization investments by a combination utility as defined in subsection (b) of Section 16-108.5 of the Act [220 ILCS 5/16-108.5] to install:
- A) Advanced gas meters in connection with the installation of advanced electric meters pursuant to Sections 16-108.5 and 16-108.6 of the Act [220 ILCS 5/16-108.5 and 16-108.6]; and
 - B) The communications hardware and software and associated system software that creates a network between advanced gas meters and utility business systems and allows the collection and distribution of gas-related information to customers and other parties in addition to providing information to the utility itself;
- (e) Replacing high-pressure transmission pipelines and associated facilities identified as having a higher risk of leakage or failure or installing or replacing high-pressure transmission pipelines and associated facilities to establish records and maximum allowable operating pressures;
- (f) Replacing difficult to locate mains and service pipes and associated facilities; and
- (g) Replacing or installing transmission and distribution regulator stations, regulators, valves, and associated facilities to establish over-pressure protection.
- (5) In addition with respect to the installation of the facilities identified above, the Company shall determine priorities for such installation with consideration of projects either:
- 1) Integral to a general government public facilities improvement program, or
 - 2) ranked in the highest risk categories in the utility's most recent Distribution Integrity Management Plan where removal or replacement is the remedial measure.

Section E – Recoverable Costs – Return on QIP

Costs associated with investments in Qualifying Infrastructure Plant shall have the meaning described in Section B of this rider.

PTR means pre-tax return and is calculated using the following formulas:

$$\text{GRCF} = \frac{1}{(1 - (\text{PPTRIT} + \text{SIT})) \times (1 - \text{FIT})}$$

$$\text{PTR} = ((\text{WCCE} + \text{WCPE}) \times \text{GRCF}) + \text{WCLTD} + \text{WCSTD}$$

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Section E – Recoverable Costs – Return on QIP – continued

Where:

| | |
|----------|---|
| GRCF = | Gross Revenue Conversion Factor. |
| PPTRIT = | Illinois Personal Property Tax Replacement Income Tax rate in effect at the time of the filing. |
| SIT = | Illinois State income tax rate in effect at the time of the filing. |
| FIT = | Federal income tax rate in effect at the time of the filing. |
| PTR = | Pre-tax return. |
| WCCE = | Weighted cost of common equity approved in the Company's last rate case. |
| WCPE = | Weighted cost of preferred equity approved in the Company's last rate case. |
| WCLTD = | Weighted cost of long term debt approved in the Company's last rate case. |
| WCSTD = | Weighted cost of short term debt approved in the Company's last rate case. |

* **Section F – Determination of the QIP Surcharge Percentage**

- (a) The QIP Surcharge Percentage shall be expressed as a percentage carried to two decimal places.
- (b) The QIP Surcharge Percentage for an Effective Month shall be determined by using the following formula:

$$S\% = \frac{((\text{NetQIP} + \text{AdjNetQIP}) \times \text{PTR} \times 1/12) + ((\text{NetDep} + \text{AdjNetDep}) \times 1/12) + (\text{Rx}1/9) + (\text{O} + \text{INT})/\text{NBPO}}{\text{PBR}} \times 100$$

Where:

S% = QIP Surcharge Percentage.

NetQIP = Actual cost of QIP less Accumulated Depreciation and any accumulated deferred income tax liabilities net of deferred tax assets resulting from the additional QIP.

AdjNetQIP = Actual NetQIP for the applicable period for QIP amounts added to rate base in the Company's last rate case less NetQIP amounts that the Commission order approved in such rate case.

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

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* **Section F – Determination of the QIP Surcharge Percentage** – continued

NetDep = Annualized Depreciation Expense applicable to NetQIP less the annualized depreciation expense applicable to the plant being retired.

AdjNetDep = Actual NetDep applicable to the actual NetQIP for the applicable period for which the Company added QIP amounts to rate base in its last rate case less NetDep amounts that the Commission order approved in such rate case.

R = Company-determined reconciliation component calculated for the Reconciliation Year as described in Section H(c) of this rider. The reconciliation component shall be collected or refunded, as applicable, over nine months from April through December.

O = Commission-ordered adjustment 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.

NBPo = Number of billing periods (O + INT) will be collected or refunded.

PBR = The projected Base Rate Revenues for the Effective Month that S% shall be in effect.

Following each rate case, the Company shall file a public document in the rate case docket, before the first Effective Month that will include AdjNetQIP and AdjNetDep. Such document shall include its effective date and QIP amounts added to rate base, Accumulated Depreciation, accumulated deferred income tax liabilities net of deferred tax assets resulting from the additional QIP, and the components of NetDep reflected in the Commission order.

Section G – Information Sheet Filings to Amend the QIP Surcharge

The QIP Surcharge Percentage shall be filed with the Commission or postmarked on an Information Sheet with supporting data no later than the 20th day of the month preceding the effective date of the QIP Surcharge Percentage. 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.

A new QIP Surcharge Percentage shall become effective on the first day of the Effective Month, with a new R component becoming effective, if required, on April 1. A QIP Surcharge Percentage shall continue in effect until replaced by a subsequent Information Sheet filing.

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Section G – Information Sheet Filings to Amend the QIP Surcharge – continued

The Company shall file an Information Sheet each month that reflects the continuing aggregation of Qualifying Infrastructure Investment costs regardless of whether the QIP Surcharge Percentage changes.

The Company shall submit with each Information Sheet:

- 1) A calculation of the QIP Surcharge Percentage, PTR, and GRCF;
- 2) A detailed schedule providing the following information for each completed QIP eligible project as described in Section D of this rider, provided that the Company may incorporate by reference supporting data included in prior Filing Month(s):
 - A) Plant account number and title;
 - B) Category of project;
 - C) Project name;
 - D) Description of project;
 - E) Dollar amount in the month of closing; and
 - F) Month and year of closing.
- 3) A schedule showing the calculation of Accumulated Depreciation on associated QIP;
- 4) A schedule showing the calculation of accumulated deferred income taxes associated with QIP; and
- 5) A detailed schedule showing the calculation of Depreciation Expense.

*** Section H – Annual Reconciliation**

- (a) No later than March 20 of each year, the Company shall file a petition with the Commission seeking initiation of an annual reconciliation hearing. The petition shall include testimony and schedules that support the accuracy and the prudence of the Qualifying Infrastructure Investment for the calendar year being reconciled. The petition shall also include the number of jobs attributable to the qualifying infrastructure investments whose costs were recovered through the QIP Surcharge and an explanation of how the number of jobs was determined. If the Commission finds, after hearing, that the revenue booked by operation of the QIP Surcharge does not equal the actual level of prudently incurred qualified infrastructure costs for the Reconciliation Year, to the extent that the adjustment has not already been reflected through an adjustment to the R component of the QIP Surcharge Percentage, the Commission may by order require that the rider be adjusted through the O component in the QIP Surcharge Percentage formula in Section F of this rider over succeeding Effective Months. 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 from the end of the Reconciliation Year to the Order date in the reconciliation case.
- (b) Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

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

(c) The Company shall calculate the R component using the following formula:

$$R = ((\text{ActNetQIP} + \text{AdjNetQIP}) \times \text{PTR}) + (\text{ActNetDep} + \text{AdjNetDep}) - \text{QIPRev} + \text{Rpy} + \text{Opy}$$

Where:

R = Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the Reconciliation Year net of the actual Accumulated Depreciation and any accumulated deferred income tax liabilities net of deferred tax assets resulting from the additional QIP associated with the investment in QIP based on the thirteen month average for the Reconciliation Year. The amount of Qualifying Infrastructure Investment eligible for recovery under this rider in the applicable calendar year is limited to the lesser of (i) the actual Qualifying Infrastructure Plant placed in service in the applicable calendar year, and (ii) the difference by which Total Plant Additions in the applicable calendar year exceed the Baseline Amount subject to the limitation set forth in Section C(a) of this rider. If Total Plant Additions did not exceed the Baseline Amount, then ActNetQIP shall be zero.

AdjNetQIP = AdjNetQIP as described in Section F of this rider for the applicable Reconciliation Year. The effective date of AdjNetQIP will be as disclosed in the document required following a rate case as described in Section F.

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

ActNetDep = Actual Depreciation Expense related to the investment in QIP for the Reconciliation Year. Depreciation Expense shall be net of the Depreciation Expense applicable to the plant being retired, as defined in Section B of this rider.

AdjNetDep = AdjNetDep as described in Section F of this rider for the applicable Reconciliation Year. The effective date of AdjNetDep will be as disclosed in the document required following a rate case as described in Section F.

QIPRev = Actual QIP revenues booked during the Reconciliation Year through the QIP Surcharge.

Rpy = The R component from the previous Reconciliation Year.

Opy = The sum of the O component(s) and the calculated interest attributable to the O component(s) included in the calculation of the QIP Surcharge Percentage during the Reconciliation Year.

(d) Each annual reconciliation shall include the following schedules:

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

- 1) A schedule showing the actual monthly costs associated with Qualified Infrastructure Investment for the Reconciliation Year;
- 2) A schedule showing the actual monthly revenues arising from the application of the QIP Surcharge Percentage during the Reconciliation Year;
- 3) A schedule showing the reconciliation component determined by the Company showing the amount to be recovered or refunded over a nine-month period commencing on April 1;
- 4) A schedule showing the actual operating income and 13-month average rate base for the Reconciliation Year. The calculation of actual operating income and 13-month average rate base shall be adjusted for the impact of adjustments accepted by the Commission in the Company's last rate case represented by the pro rata percentages of net plant and operating expenses approved by the Commission compared to the net plant and operating expenses requested by the Company in its initial filing. In calculating the amount of federal and State income tax expense reflected in operating income, the Company shall show as deductible interest expense for tax purposes the product that results when the weighted embedded cost-of-debt reflected in the overall rate of return calculation used in the Company's last rate proceeding is multiplied by the rate as shown in the annual reconciliation; and
- 5) A schedule demonstrating compliance with the requirements of Section C(a) of this rider, with such schedule showing:
 - a. Annual billing increase for the Reconciliation Year under the QIP Surcharge since the last rate case as a percent of Base Rate Revenues established in that last rate case.
 - b. If more than one Reconciliation Year has elapsed since the last rate case, average annual billing increases under the QIP Surcharge since the last rate case as a percent of Base Rate Revenues established in that last rate case.
- (e) The first reconciliation year shall begin January 1 and end on December 31 of the same calendar year in which the first Information Sheet became effective. Each subsequent Reconciliation Year shall end on December 31.
- (f) When the Company files its annual reconciliation petition, the Company shall provide electronic copies of the following items to the Commission's Manager of the Accounting Department:
 - 1) Copies of all workpapers pertaining to the reconciliation;
 - 2) A summary of all work orders or projects that support the costs claimed for recovery through the QIP Surcharge;

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

- 3) Total annual amount invested for each of the categories defined in Section 9-220.3(b) of the Act for Qualifying Infrastructure Investment that supports the costs claimed for recovery through the QIP Surcharge;
- 4) Copies of the applicable general ledger or comparable material supporting the recovery of the QIP Surcharge;
- 5) A detailed worksheet showing the calculation of any Company-determined reconciliation component (R component) amount based upon the annual reconciliation; and
- 6) Information regarding the prudence of the Company's investment in QIP.

(g) The annual reconciliation shall be verified by an officer of the Company.

Section I – Annual Internal Audit

The Company shall submit annually to the Commission's Manager of the Accounting Department, no later than July 31 for the previous calendar year, an internal audit report that determines whether the QIP Surcharge and information provided in Section H of this rider have been calculated in accordance with this rider and Section 9-220.3 of the Act. The initial internal audit under this rider shall be submitted no later than July 31, 2015. All internal audits conducted under this rider shall include at least the following tests:

- (1) Internal controls are effectively preventing the double recovery of costs through the QIP Surcharge and other approved tariffs;
- (2) The QIP Surcharge Percentage is being properly billed to customer bills;
- (3) QIP Surcharges are properly calculated;
- (4) Costs recovered through the QIP Surcharge are recorded in the appropriate accounts; and
- (5) Costs recovered through the QIP Surcharge are properly reflected in the calculation of the QIP Surcharge Percentage and the annual reconciliation.

Section J – Annual QIP Plan Update

The Company shall annually file with the Commission in Docket 13-0534 and submit a copy to the Commission's Director of the Financial Analysis Division and the Director of the Safety and Reliability Division, no later than April 1, an annual QIP plan update that provides the specific plan for that calendar year's Qualified Infrastructure Investment including planned replacements of underground natural gas facilities during the year as required by 83 Ill. Adm. Code Sec. 556.130. The initial annual plan update under this rider shall be filed and submitted no later than April 1, 2015. The annual QIP plan update shall include the following information for projects included in the update for which costs are anticipated to be incurred during the calendar year of the update:

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Section J – Annual QIP Plan Update – continued

- a) A schedule showing each QIP project included in the update by the classification of the project as defined in Section 556.40(a) of the Commission's rules (83 Ill. Adm. Code Sec. 556.40(a)), with the following information:
- 1) The project title;
 - 2) The priority of the project;
 - 3) The accumulated cost of the project at the beginning of the calendar year;
 - 4) The projected cost to be incurred during the calendar year;
 - 5) The anticipated total cost of the project to have been incurred by the end of the calendar year; and
- b) A listing of each QIP project included in the update by priority, with the following information:
- 1) An explanation and justification for the prioritization of the project;
 - 2) A brief description of the project;
 - 3) An indication of whether the project was ranked within the highest risk categories in the Company's most recent Distribution Integrity Management Program; and
 - 4) The rationale for the investment to be included as QIP, which may include a history of leaks, or incidents of damage by location.

Section K – Withdrawal of QIP Surcharge Tariff

The Company may file to withdraw this rider at any time pursuant to Section 9-220.3 of the Act.

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