

The Peoples Gas Light and Coke Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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**Rider VITA
Variable Income Tax Adjustment**

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

Section A – Applicability and Purpose

The Variable Income Tax Adjustment (VITA), expressed on a cents per therm basis, recovers or refunds changes in income tax expense resulting from changes in income tax rates and changes in the amortization of deferred tax excesses and deficiencies that differ from the amounts used in the Company's last rate case. The Company shall determine separate adjustments for Service Classification Nos. 1 (separately for Heating and Non-Heating), 2, 4, and 8.

The Company shall determine adjustments under this rider from January 25, 2018. The adjustments, as defined in Section D of this rider, shall be filed with the Commission or postmarked, no later than April 20 of each year (beginning April 20, 2018), and shall be in effect for the twelve-month period commencing the following May 1 (beginning May 1, 2018). The initial VITA shall be calculated for the 2018 Tax Period running January 25, 2018 through December 31, 2018, and be applicable to service rendered during the twelve monthly billing periods beginning on or after May 1, 2018.

The amount of the VITA will be included in the "Tax Cost Adjustment", or similar legend, line item on each customer's bill. The revenues resulting from this rider shall be recorded with a separate revenue identifier or in a separate revenue sub-account.

Section B – Definitions

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

"Base Rates" shall include Service Classification Nos. 1, 2, 4, and 8 and Riders ICTA, QIP, SSC, UEA, and VBA, of this rate schedule. Base Rates shall not include Service Classification Nos. 5 and 7 and Riders 1, 2, 9, 11, EOA, FST, SST, P, SBO, UEA-GC, and IT of this rate schedule.

"Effective Period" means the twelve-month period of May 1 through April 30, during which the VITA will be in effect.

"Reconciliation Period" means the nine-month period of August 1 through April 30.

"Tax Period" means the calendar year period of January 1 through December 31, except in 2018, "Tax Period" means the period of January 25, 2018 through December 31, 2018.

Section C – Determination of Income Tax True Up (ITTU)

The amount of the Income Tax True Up (ITTU), if any, applicable to each Tax Period may be a positive or negative value. The 2018 Tax Period amount will be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018. It shall be determined annually using the following formulas:

$$\text{ITTU} = (((\text{OpInc} + \text{PrIT} - \text{INT}) \times \text{NetITR}) + \text{EDT}) \times \text{GRCF}$$

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

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Section C – Determination of Income Tax True Up (ITTU) – continued

Where:

- Oplnc = Operating Income from the Company's rate case used in setting base rates in effect during the Tax Period.
- PrIT = Income Tax Expense included in the calculation of authorized Revenue Requirement and Operating Income from the Company's rate case used in setting base rates in effect during the Tax Period.
- INT = Synchronized Interest from the Company's rate case used in setting base rates in effect during the Tax Period.
- NetITR = Difference in combined State and Federal Income Tax rates in the Tax Period from the rates used in setting the Company's base rates in effect during the Tax Period, where the State Tax rate includes the Illinois Personal Property Tax Replacement Income Tax rate. The 2018 Tax Period will be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018.
- EDT = Difference in the amortization of deferred tax excess and deficiencies which result from the difference in the income tax provision versus income taxes payable in the Tax Period from the amount calculated in the Company's rate case used in setting base rates in effect during the Tax Period adjusted for the rate of return in the Company's rate case used in setting base rates in effect during the Tax Period. The 2018 Tax Period will be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018. EDT shall be estimated for the current Tax Period and trued up against actuals in the following Tax Period.
- 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.

If base rates change during the applicable Tax Period, then the Oplnc, PrIT, and INT values and the base rate component of the EDT shall be prorated based on the number of days of service during the applicable Tax Period that each set of base rates was in effect.

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Section C – Determination of Income Tax True Up (ITTU) – continued

In a Tax Period in which new income tax rate or rates become effective, the NetITR shall be prorated based upon the number of days each tax rate was in effect in the Tax Period. If a change in one or more of the income tax rates occurs on different effective dates within the same Tax Period, separate ITTU amounts will be calculated for each. The sum of the ITTUs constitutes the total ITTU to use to calculate the VITA amounts for the applicable Tax Period. For any Tax Period for which NetITR is zero, EDT will be zero. If applicable income tax codes in a Tax Period differ from income tax codes used in the Company's last rate case and result in a material change in the Company's tax liability, the Company will file a revised tariff to make the necessary adjustments to reflect the impact of such income tax code changes.

Section D – Determination of Adjustment

The Variable Income Tax Adjustment (VITA) for each Tax Period shall be billed over a twelve-month period beginning May 1 of the filing year. A separate per therm adjustment shall be determined annually for each of Service Classification Nos. 1 (separately for Heating and Non-Heating), 2, 4 and 8 in accordance with the following formula:

$$VITA = ((ITTU \times BR \times 100) / T) + ((RA + O) / T_R)$$

Where:

VITA = Variable Income Tax Adjustment for each Service Classification in cents per therm.

ITTU = Income Tax True Up as described in Section C of this rider.

BR = Projected Base Rate revenue for the Service Classification as a percentage of the total forecasted Base Rate revenue for all applicable service classifications.

T = Projected number of therms of gas to be delivered to the Service Classification by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the Effective Period.

T_R = Projected number of therms of gas to be delivered to the Service Classification by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the Reconciliation Period.

RA = Reconciliation Adjustment, which shall be determined annually for each Service Classification by subtracting actual booked VITA revenues from expected VITA revenues. Expected VITA revenues shall be calculated based upon the previous Effective Period's VITA multiplied by the projected number of therms of gas to be delivered (T_R). The RA shall be effective for the Reconciliation Period. No reconciliation component shall be included in the May through July period.

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Section D – Determination of Adjustment – continued

- O = Commission ordered adjustment amount for each Service Classification, resulting from a Commission Order in an annual reconciliation proceeding, plus the calculated interest attributable to the O component. Interest shall be at the rate established by the Commission for deposits under 83 Illinois Administrative Code Part 280. Interest on the O component shall be applied from the end of the reconciliation period until the O component is refunded or charged to customers through the VITA.

Section E – Information Sheet Filings

The VITA shall be filed with the Commission or postmarked on an Information Sheet with supporting data no later than April 20 of each year. 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 Public Utilities Act.

A new VITA, if any, shall become effective on May 1, with a new RA component becoming effective, if required, on August 1.

Section F – Annual Reconciliation

No later than July 31 of each year, the Company shall file a petition with the Commission seeking initiation of an annual reconciliation process. The petition shall include a reconciliation that compares (a) the actual total incremental collections or credits under this rider on account of bills rendered during the twelve-month period commencing on May 1 of the prior year with (b) the total ITTU used in the calculations of the VITA. Any adjustment made through the RA component shall be in effect for nine months commencing on the August 1 immediately following submittal of the annual reconciliation. In conjunction with the reconciliation filing, a new Information Sheet may be filed adjusting the then effective VITAs under this rider for the amount to be reconciled. Supporting documentation and workpapers affecting the information presented in the Company's reconciliation petition shall be provided to the Commission's Accounting Staff at the time of this filing.

If the Commission finds, after hearing, that any amounts were incorrectly calculated, debited, or credited during the applicable reconciliation year to the extent that the adjustment has not already been reflected through an adjustment to the RA component of the VITA, the Commission may by order require that the rider be adjusted through the O component in the VITA formula in Section D of this rider. Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Illinois Administrative Code Part 280. Interest on the O component shall be applied from the end of the reconciliation period until the O component is refunded or charged to customers through the VITA.

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Section G – Annual Internal Audit

The Company shall submit annually by electronic mail to the Commission's Manager of the Accounting Department, no later than November 1 for the previous Tax Period, an internal audit of the revenue recovered or refunded pursuant to this rider. Such report shall be verified by an officer of the Company. The initial internal audit under this rider shall be submitted no later than November 1, 2019. All internal audits conducted under this rider shall include at least the following tests:

- (1) The actual amount of revenues collected or refunded through Variable Income Tax Adjustments are correctly reflected in the calculations;
- (2) The revenues are not collected or refunded through other approved tariffs;
- (3) Variable Income Tax Adjustments are being properly reflected in customer rates; and
- (4) Variable Income Tax Adjustment revenues are recorded in the appropriate accounts.

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