RIDER QIP – QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

APPLICABILITY

Rider QIP – Qualifying Infrastructure Plant Surcharge (Rider QIP) is applicable to all Customers taking Service under this Gas Service Schedule except Rate GDS-7. The Qualifying Infrastructure Plant Surcharge shall be determined in accordance with the provisions of this Rider. The QIP Surcharge Percentage calculated pursuant to this Rider shall be applied to the Base Rate Revenues of Customer bills.

PURPOSE

The purpose of the QIP Surcharge is to recover a return on, and Depreciation Expense related to, the Company's investment in Qualifying Infrastructure Plant as described under the Qualifying Infrastructure Plant section of this Rider.

DEFINITIONS

Generally, definitions of terms used in this Rider are provided in the Definitions part of the Customer Terms and Conditions of the Company's Gas Schedule of Rates. The following definitions are for use specifically in this Rider:

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

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* **Base Rate Revenues**
Base Rate Revenues, for purposes of this Rider, means revenues recovered through base rates, as determined in the Company's last rate case. Base Rate Revenues shall include costs and revenues associated with the Delivery Service Rates (under both Riders S and T) for GDS-1, GDS-2, GDS-3, GDS-4, GDS-5, and GDS-6, Rider GUA, Rider TBS, and the Unsubscribed Bank Capacity Charge (UBCC) portion of Rider S. Base Rate Revenues shall not include revenues or credits arising from Delivery Service Rate GDS-7 and Riders EF, G, GC, GEA, GER, PGA, S (excluding UBCC), VBA, and TAR.

Baseline Amount
Baseline Amount means an amount equal to $42,759,000, which is the Company's average total depreciation expenses, 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
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.

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Depreciation Expense
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 Qualifying Infrastructure Plant section of this Rider, 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.

Difficult to Locate Main
Difficult to Locate Main means a main from which the Company cannot obtain a reliable conductive electronic locating signal.

Difficult to Locate Service Pipe
Difficult to Locate Service Pipe means a service pipe from which the Company cannot obtain a reliable conductive electronic locating signal.

Effective Period
Effective Period means the period during which the QIP Surcharge Percentage, the recovery mechanism for QIP eligible projects, is applied to the Company's Base Rate Revenues. The Effective Period begins with the first monthly Billing Period after the QIP Surcharge Percentage is filed.

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

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Informational Sheet
Informational Sheet means a tariff sheet filed in accordance with this Rider to initiate or modify a QIP Surcharge Percentage.

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

Qualifying Infrastructure Investment
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
QIP Surcharge means the amount added to a Customer bill when the QIP Surcharge Percentage is applied in accordance with the Determination of the QIP Surcharge Percentage section of this Rider.

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QIP Surcharge Percentage
QIP Surcharge Percentage means the percentage determined in accordance with the Determination of the QIP Surcharge Percentage, Informational Sheet Filing and Annual Reconciliation sections of this Rider.

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

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

QUALIFYING INFRASTRUCTURE PLANT (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;

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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; and

   d. Modernization investments by a utility as defined in subsection (b) of Section 16-108.5 of the Act [220 ILCS 5/16-108.5] to install: i) 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 ii) 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.

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* e. Replacing high-pressure transmission pipelines and associated facilities identified as having a higher risk of leakage or failure;

* f. Installing or replacing high-pressure transmission pipelines and associated facilitates to establish records and maximum allowable operating pressures;

* g. Replacing difficult to locate mains and service pipes and associated facilities;

* h. Replacing or installing transmission and distribution regulator stations, regulators, valves, and associated facilities to establish over-pressure protection; and

* 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: a) integral to the general government public facilities improvement program, or b) ranked in the highest risk categories in the utility's most recent Distribution Integrity Management Program where removal or replacement is the remedial measure.

RECOVERABLE COSTS – RETURN ON QIP

Costs associated with QIP projects shall have the meaning described in the Definitions section of this Rider.

PTR means pre-tax return and shall be calculated by using the following formulas:

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

Where:

PTR = Pre-tax return.

WCCE = Weighted cost of common equity approved in the Company's last rate case.

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WCPE = Weighted cost of preferred equity approved in the Company's last rate case.

GRCF = Gross Revenue Conversion Factor calculated as follows:

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

Where:

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.

WCLTD = Weighted cost of long term debt and credit facilities fees approved in the Company's last rate case.

WCSTD = Weighted cost of short term debt approved in the Company's last rate case.

DETERMINATION OF THE QIP SURCHARGE PERCENTAGE

The QIP Surcharge Percentage shall be expressed as a percentage carried to two decimal places and applied to Base Rate Revenues of each Customer’s bill.

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The QIP surcharge percentage for an Effective Period shall be calculated by using the following formula:

$$S\% = \frac{((NetQIP+AdjNetQIP)xPTRx1/12)+((NetDep+AdjNetDep)x1/12)+(Rx1/9)+(O+INT)/NBPo}{PBR} \text{ x } 100$$

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 = The actual amount of NetQIP as of the end of the QIP forecast period used in the Company's last rate case less the amount of NetQIP the Commission approved to be added to the Company's rate base as of the end of the QIP forecast period.

PTR = Pre-tax return as described in Recoverable Costs – Return on QIP.

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

AdjNetDep = The actual amount of NetDep applicable to the QIP forecast period used in the Company's last rate case less the amount of NetDep the Commission approved for the QIP forecast period used in the Company's last rate case.

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R	=	Company-determined reconciliation component calculated for the Reconciliation Year as described in the Annual Reconciliation section 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 the Annual Reconciliation section of this Rider.
INT	=	The calculated interest attributable to the O component. This interest shall be calculated as described in Annual Reconciliation section of this Rider.
NBPo	=	Number of billing periods (O + INT) will be collected or refunded.
PBR	=	The projected Base Rate Revenues for the Effective Period that S% shall be in effect.

Following the final Order in each rate case and before the Effective Period that will initiate the inclusion of AdjNetQIP and AdjNetDep, the Company shall file a public document in the rate case docket titled "Impact of Rate Case on Rider QIP" that provides the calculation of AdjNetQIP and AdjNetDep, including each component to determine AdjNetQIP and AdjNetDep.

INFORMATIONAL SHEET FILING

The QIP Surcharge Percentage shall be shown on an Informational Sheet filing supplemental to this Rider and filed with the ICC no later than the 20th day of the month immediately preceding the Effective Period of the QIP Surcharge Percentage. An Informational Sheet filing postmarked after that date but prior to the first day of the Effective Period will be accepted only if it corrects an error or errors for a timely filed report for the same effective date. Any other Informational Sheet filing postmarked after that date will be accepted only if submitted as a special permission request to become effective on less than 45 days under the provision of Section 9-201 (a) of the Act. The Informational Sheet filing shall be accompanied by work papers showing the calculation of the QIP Surcharge Percentage. Unless otherwise required as indicated in the succeeding paragraph, each QIP Surcharge Percentage shall become effective as indicated on the informational filing.

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

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

The Company shall submit with each Informational 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 the Qualifying Infrastructure Plant section of the 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.

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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.

ANNUAL QIP SURCHARGE RECONCILIATION

* No later than March 20th 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 filed shall also include the number of jobs attributable to the qualifying infrastructure investments whose costs are recovered through Rider QIP along with a description how it determined the number of jobs. 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 investment 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 section of this Rider over succeeding Effective Periods. Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code 280.40(g)(1) from the end of the Reconciliation Year to the Order date in the reconciliation case.

Any adjustment made through the R component shall be in effect for nine months beginning with the April Billing Period immediately following submittal of the annual reconciliation.

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The Company shall calculate the R component using the following formula:

R = ((ActNetQIP+AdjNetQIP) x PTR) + (ActNetDep+AdjNetDep) - QIPRev + Rpy + 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 the Definitions section of this Rider. If the Total Plant Additions did not exceed the Baseline Amount, then ActNetQIP shall be zero.

AdjNetQIP = AdjNetQIP as defined in the Determination of the QIP Surcharge Percentage section of this Rider. The effective date of AdjNetQIP will be as disclosed in the document required following a rate case as described in the Determination of the QIP Surcharge Percentage section of this Rider.

PTR = Pre-tax return as described in the Determination of the QIP Surcharge Percentage section of this Rider.

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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 the Definitions section of this Rider.

AdjNetDep = AdjNetDep as defined in the Determination of the QIP Surcharge Percentage section of this Rider. The effective date of AdjNetDep will be as disclosed in the document required following a rate case as described in the Determination of the QIP Surcharge Percentage section of this Rider.

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.

Each annual reconciliation shall include the following schedules:

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 of the amount to be recovered or refunded over a nine-month period beginning with the April Billing Period;

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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 the Terms and Conditions section 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 and 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.

The first reconciliation year shall begin January 1 and end on December 31 of the same calendar year in which the first Informational Sheet became effective. Each subsequent Reconciliation Year shall end on December 31.

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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;

3. Total annual amount invested for each of the categories defined in Section 90-220.3(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.

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

ANNUAL REPORTING AND REVIEW

Annual Audit Report

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 under the Annual Reconciliation 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, 2016.

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The internal audit shall determine if:

1. Internal controls are effectively preventing the double recovery of costs through the QIP Surcharge;

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.

The above list of determinations does not limit the scope of the audit.

Annual QIP Plan Update

The Company shall annually file with the Commission in Docket 14-0573 and submit a copy to the Commission's Director of the Financial Analysis Division and 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 556.130. The initial annual plan update under this Rider shall be filed and submitted no later than April 1, 2016. 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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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 Section 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; and

5. The anticipated total cost of the project to have been incurred by the end of the calendar year.

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 utility'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.

RIDER QIP – QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

TERMS AND CONDITIONS

Requirements

Pursuant to Section 9-220.3 of the Act and Section 556.30 of the Commission's rules, the following are requirements imposed on the Company:

1. The cumulative amount of increases billed under this Rider, since the Company's last delivery service rate case Order, shall not exceed an annual average 4% of the Company's Base Rate Revenues but shall not exceed 5.5% in any given year. Following the final Order in each rate case and before the Effective Period, the Company shall file a public document in the rate case docket titled "Impact of Rate Case on Rider QIP" that states the 4% cumulative annual average increase and the 5.5% single year increase for the QIP Surcharge limits, stated in dollars.

2. The QIP Surcharge Percentage shall apply only to Base Rate Revenues;

3. 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;

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4. 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; and

5. The revenues resulting from this Rider shall be recorded with a separate revenue identifier or in a separate revenue sub-account.

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.