

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

Page 1 of 4

Rider 11

Adjustment for Incremental Costs of Environmental Activities

Applicable to Service Classification Nos. 1, 2 and 4

Each month the Company shall determine an adjustment under this rider. If such adjustment computes to 0.01¢ per therm or more, it shall be billed over an annual billing cycle commencing on the first day of the month following the Filing Month. If such adjustment does not compute to at least 0.01¢ per therm, then the amount used to determine the adjustment shall be retained in the Deferred Account hereinafter described until a subsequent adjustment computes to at least 0.01¢ per therm. The charge under this rider shall be the sum of all currently effective monthly adjustments and shown on a separate line on the customer's bill.

On or before the sixth day of each month, the Company shall file with the Commission an information sheet specifying all adjustments to be effective under this rider for service rendered in the following month. Such filing shall include a statement showing the determination of the most recent monthly adjustment under this rider, along with explanatory data.

Section A - Definitions

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

Base Period shall mean the first 12 of the 13 months immediately preceding the Filing Month.

Deferred Account shall mean the Deferred Account approved by the Commission for Incremental Costs. This account shall be debited or credited according to Section B.

Environmental Activities shall mean the investigation, testing, removal, disposal, storage, remediation or other treatment of Residues associated with Manufactured Gas Operations or with the dismantling of facilities utilized in Manufactured Gas Operations or with other operations that generated substances subject to federal, state or local environmental laws conducted at locations where Manufactured Gas Operations or the dismantling of facilities utilized in Manufactured Gas Operations were at any time conducted.

Factor T shall mean the therms of gas delivered to customers by the Company, including the number of therms of customer-owned gas delivered by the Company during the Base Period.

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

Incremental Costs shall mean (a) all costs incurred by the Company in connection with Environmental Activities, which arise from charges, billings, assessments or other liabilities (other than expenses for wages and salaries of the Company's employees or for services rendered by a corporate affiliate of the Company) or from judgments, orders or decisions (including settlements) by a court, a governmental agency or department, or other adjudicatory or quasi-adjudicatory body, and (b) all costs of carrying charges before recovery through rates.

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Asterisk (*) indicates change.

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Issued by Dennis M. Derricks, Assistant Vice President
130 East Randolph Street, Chicago, Illinois 60601

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Page 2 of 4

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Section A - Definitions - continued

Manufactured Gas Operations shall mean all operations relating to the manufacture of gas, the storage, treatment, transportation and disposal of Residues, and the storage of manufactured gas.

Residues shall mean and include any hazardous substance, raw material, by-product, waste product or other residue.

Settlement Fund shall mean the amount, if any, arising from Settlements With Insurance Carriers or Other Entities that is available to pay costs otherwise recoverable under this rider, as determined under Section F.

Settlements With Insurance Carriers or Other Entities shall mean amounts received by the Company from insurance carriers or other entities in settlement or satisfaction of claims by the Company for payment of Incremental Costs other than amounts described in paragraph 2(b) of Section B.

Section B - Deferred Account

- (1) Each month this account shall be debited by the Incremental Costs incurred in such month.
- (2) Each month this account shall be credited by (a) an amount equal to the revenues arising from application of adjustments under this rider to therms sold or delivered by the Company during such month, (b) amounts received from insurance carriers or other entities during such month which represent reimbursement or recovery of Incremental Costs previously charged to the account, and (c) the amount of Incremental Costs recovered through the Settlement Fund in such month, as determined under Section F.
- (3) Each month the account shall be debited or credited, as appropriate, with a carrying charge which shall be computed as follows:

$$(A - B) \times C \times D / E$$

Where:

- (A) Represents the average of the opening and closing balances before recording the carrying charge.
- (B) Represents the accumulated deferred income taxes recognized in this rider unless provided for elsewhere.
- (C) Means the annual after-tax cost of capital as determined in the Company's most recent rate proceeding.
- (D) Represents the number of days in the month.
- (E) Represents the number of days in the fiscal year.

The carrying charge shall be debited to the account if the average balance is positive and shall be credited to the account if the average balance is negative.

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Page 3 of 4

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Section B - Deferred Account - continued

- (4) A subaccount shall be created for each adjustment that becomes effective under this rider and shall be maintained for the applicable annual billing cycle. The opening balance of such subaccount shall be the amount used to determine the adjustment. Such subaccount shall be credited monthly by an amount equal to the revenues arising from application of the subaccount's corresponding adjustment to therms sold or delivered by the Company during such month. After completion of the applicable annual billing cycle, such subaccount shall be terminated. The closing balance thereof becomes part of the Deferred Account in general.

Section C - Determination of Adjustment

The per therm adjustment amount under this rider shall be determined by dividing (a) the balance in the Deferred Account at the end of the Base Period less the total at the end of the Base Period of all subaccounts required by paragraph 4 of Section B, by (b) the number of therms equal to the quantity Factor T. 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¢.

Section D - Reports

The Company shall file with the Commission within 45 days after each fiscal quarter ending March 31, June 30, September 30 and December 31, a statement of activity in the Deferred Account and a statement of activity in the Settlement Fund for the quarter and for the fiscal year through the quarter; and, for each adjustment under this rider which terminated during the quarter, a statement of the difference between the amount of Incremental Costs used to determine the adjustment and the amount recovered through rates. The report for the quarter ending December 31 shall include a summary of adjustments under this rider during the fiscal year. The statement of activity in the Deferred Account and the statement of activity in the Settlement Fund for an entire fiscal year included in the report for the quarter ending December 31 shall be certified by independent public accountants. Each quarterly report shall include a summary of Incremental costs for the quarter and for the fiscal year through the quarter and a description of the Environmental Activities in which the Company was involved during the quarter. Each report shall be verified by an officer of the Company.

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Section E - Commission Review

Upon review of the quarterly reports filed by the Company under Section D for an entire fiscal year, the Commission may require a hearing to receive from the Company such evidence as the Commission requires regarding Incremental Costs incurred in the fiscal year. Such evidence shall include testimony which demonstrates the prudence of the Company's environmental costs included in the reports based upon the following standards: (1) reasonable and appropriate business practices, (2) requirements of state and/or federal authorities, (3) the minimization of costs to ratepayers, consistent with safety, reliability, and quality assurance, and (4) be based on facts and knowledge that the Company knew or reasonably should have known at the time the costs were incurred. If, within twelve months of the end of the fiscal year, the Commission has not ordered a hearing, the Company may file a petition to initiate a hearing. If the Commission finds after hearing that any amounts were incorrectly debited or credited to the Deferred Account during the fiscal year, the Commission may by order require that the Deferred Account be adjusted by appropriate credits or debits thereto.

Section F - Settlement Fund

- (1) Each month the fund shall be increased by (a) the after-tax amount of Settlements With Insurance Carriers or Other Entities received, and (b) the after-tax amount of interest on the fund, during and for such month.
- (2) Each month the fund shall be reduced by (a) one-half of net Incremental Costs for such month, less the income tax benefit associated with such costs, or (b) the balance of the fund if smaller than the amount computed in (a). Net Incremental Costs for a month shall be the Incremental Costs incurred in such month (exclusive of carrying charges) minus the Incremental Costs recovered from insurance carriers or other entities during such month and recorded under paragraph 2(b) of Section B, and shall be no less than zero.
- (3) Interest on the fund shall be computed on the average of the opening balance and the closing balance (before the computation of interest) of the fund at an annual rate based on the after-tax costs of capital as determined in the Company's most recent rate proceeding.
- (4) The amount of Incremental Costs recovered through the fund in a month shall be the amount of Incremental Costs, before adjustment for the income tax benefit, by which the fund is reduced in such month.
- (5) The monthly filing under this rider shall include a statement of activity in the Settlement Fund for the last month of the Base Period.

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