

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission)	
On Its Own Motion)	
)	
v.)	ICC No.: 11-0119
)	
North Shore Gas Company)	
)	
Reconciliation of revenues collected under)	
Coal Tar riders with prudent costs associated)	
with Coal Tar clean up expenditures)	

**DIRECT TESTIMONY OF
BRIAN F. BARTOSZEK**

- 1 Q. Please state your name.
- 2 A. My name is Brian F. Bartoszek
- 3 Q. Please describe your educational background and employment history.
- 4 A. I received a Bachelor of Science degree in Environmental Engineering
- 5 from Michigan Technological University in 1994. I began my career as a Staff
- 6 Engineer in 1994 with an environmental consulting firm where I remained
- 7 employed until 2004, leaving with the title of Senior Engineer. In August, 2004 I
- 8 began employment with Wisconsin Public Service Corporation (“WPSC”), now an
- 9 affiliate of the Respondent, North Shore Gas Company (“Respondent”, “North
- 10 Shore” or the “Company”) as an Environmental Consultant. I became the
- 11 Manager of Remediation and Solid Waste in 2007. On February 21, 2007, a
- 12 corporate merger occurred whereby North Shore and WPSC became one of
- 13 several subsidiaries of Integrys Energy Group, Inc.; other subsidiaries include

14 The Peoples Gas Light and Coke Company and Integrys Business Support, LLC
15 (“IBS”). I currently hold the title of Manager of Remediation and Solid Waste for
16 IBS, North Shore’s affiliate service provider company. In that position, I oversee
17 certain environmental activities for both North Shore and for The Peoples Gas
18 Light and Coke Company.

19 Q. What are your responsibilities as the Manager of Remediation and Solid
20 Waste?

21 A. As Manager, I have responsibility for the management of environmental
22 activities conducted for Respondent by the Environmental Services Department.
23 I managed these responsibilities exclusively beginning in July, 2009 and am
24 therefore familiar with all such activities that took place during the four quarters
25 beginning January 1, 2010 and ending December 31, 2010, the reconciliation
26 year for purposes of this proceeding (“Fiscal Year 2010”).

27 Q. Please describe the environmental activities and responsibilities of the
28 Environmental Services Department as they relate to the Company's former
29 manufactured gas operations.

30 A. The Environmental Services Department is responsible for the oversight of
31 the environmental operations of the Company. Personnel from the
32 Environmental Services Department review and comment upon documents and
33 technical materials that are prepared by the Company's environmental
34 consultants and also review the invoices that those consultants submit to the
35 Company for the work that they perform. In addition, personnel from the
36 Environmental Services Department oversee and assist the Company's
37 environmental consultants in conducting field investigations.

38 Q. What is the purpose of your testimony?

39 A. My testimony is given for the purpose of describing the environmental
40 activities that have given rise to the incremental costs that were recorded by
41 North Shore under its Rider 11, "Adjustment for Incremental Costs of
42 Environmental Activities," during Fiscal Year 2010.

43 Q. What is the nature of the incremental costs that Respondent records under
44 Rider 11?

45 A. The incremental costs that North Shore records under its Rider 11 are the
46 costs that it incurs in connection with the environmental activities that are
47 required in order to comply with environmental laws and regulations. These
48 incremental costs relate to manufactured gas operations that were formerly
49 conducted by North Shore's corporate predecessors and affiliates.

50 Q. What is Respondent's policy on complying with environmental laws and
51 regulations?

52 A. It is North Shore's policy to comply fully with environmental laws and
53 regulations.

54 Q. What is North Shore's policy regarding the costs that are incurred as a
55 result of its policy to fully comply with environmental laws and regulations?

56 A. It is the policy of North Shore to control such costs to the fullest possible
57 extent. Because of this policy to control costs, North Shore will make
58 expenditures only when it is determined to be prudent to do so.

59 Q. What standard does Respondent use in determining the prudence of the
60 expenditures that it makes in complying with environmental laws and
61 regulations?

62 A. In determining whether or not to make expenditures in complying with
63 environmental laws and regulations, the Company uses the following standards:
64 1) reasonable and appropriate business standards; 2) the requirements of other
65 relevant state and/or federal authorities; 3) the minimization of costs to
66 ratepayers in a manner that is consistent with safety, reliability and quality
67 assurance; and 4) the facts that are known to the Company at the time that the
68 expenditures are made.

69 Q. How does North Shore control the costs it incurs in connection with
70 complying with environmental laws and regulations?

71 A. The most effective way for North Shore to control those costs is to be
72 actively involved in the determinations that are made regarding the timing, choice
73 and scope of environmental activities. This participation is necessary because of
74 North Shore's desire to keep the cost of its service competitive.

75 Q. When did North Shore's corporate predecessors and affiliates conduct
76 manufactured gas operations?

77 A. In North Shore's territory, gas was first manufactured in the 1880's. The
78 changeover to natural gas began in 1947, when natural gas was made available
79 through the interstate pipeline system.

80 Q. Does North Shore currently conduct any manufactured gas operations?

81 A. No. The gas supply that North Shore currently distributes to its customers
82 is the natural gas obtained from the gas producing regions of the United States
83 and Canada that is transported to North Shore's service territory through the
84 intrastate and interstate pipeline systems.

85 Q. Please describe the process by which North Shore's corporate

86 predecessors and affiliates previously manufactured and stored gas.

87 A. Coal, coke (an energy rich material converted from coal) and oil were the
88 primary raw materials in the manufacturing processes. Depending upon the type
89 of manufacturing process, coal or coke was loaded into ovens and heated,
90 thereby producing a low-Btu gas. Oil was then added to enrich the heating value
91 of the gas to the required level, which was approximately half the heating value
92 of the natural gas that is distributed today. At this point in the manufacturing
93 process, the gas stream passed through a variety of purifying processes in order
94 to make the gas suitable for distribution. The manufactured gas was then stored
95 in vessels, called holders, until it was distributed.

96 Q. Do the costs that are recovered through Rider 11 arise because of a
97 failure to comply with laws in effect at the time the manufactured gas operations
98 were conducted?

99 A. No. The incremental costs that North Shore incurs are the result of
100 various duties and obligations that are imposed by laws and regulations enacted
101 long after North Shore discontinued manufactured gas operations. The
102 manufactured gas operations of North Shore's corporate predecessors and
103 affiliates were conducted in accordance with then-existing industry standards.
104 We have found no indication that those operations violated any laws in existence
105 at that time.

106 Q. Please describe the types of costs that North Shore has typically incurred
107 during the course of its environmental activities.

108 A. Costs have been incurred, and continue to be incurred, in connection with
109 a variety of environmental activities that are related to former manufactured gas

110 operations. These activities can generally be divided into four phases.

111 First, there are those activities, which are conducted before the actual
112 study of a site begins. These activities may include negotiations with the United
113 States Environmental Protection Agency ("USEPA") or the Illinois Environmental
114 Protection Agency ("IEPA"), as well as with other potentially responsible parties
115 ("PRPs"). A PRP is a party that is potentially liable for any contamination, or
116 portion of any contamination that might be present at a site. Therefore, a PRP is
117 potentially liable for the cost of any necessary investigative and remedial work at
118 the site. Costs which are associated with the negotiation of a consent decree or
119 of any other formal agreement may also be incurred during the first phase.

120 Second, an actual study of the site is conducted in order to determine the
121 nature and extent of the contamination that is present and to identify and develop
122 alternative remediation strategies.

123 Third, a remediation strategy is chosen which may entail public hearings
124 conducted by the USEPA or the IEPA.

125 Fourth, the remediation strategy is implemented and monitored.

126 The activities that are conducted during each of these phases require a
127 highly technical and specialized level of experience and expertise that is obtained
128 from carefully chosen environmental engineers and consultants, laboratory and
129 testing services, law firms, and contractors who perform field work during the
130 investigative and remedial phases. Substantial costs are incurred by the
131 Company as a result of the work that is performed by these vendors.

132 The Company may also incur costs because of the issuance of a
133 judgment, or of an order entered by a court, or of a state or federal regulatory

134 agency. In addition, costs may arise from activities related to the identification of
135 PRPs and insurance carriers and in connection with cost recovery litigation
136 against them.

137 Q. What is Respondent's policy with regard to PRPs and insurance carriers?

138 A. It is the Company's policy to make all reasonable efforts necessary to
139 vigorously pursue recovery of incremental costs from PRPs and insurance
140 carriers that are incurred as a result of environmental activity.

141 Q. Does the Company incur any other types of costs in connection with
142 environmental activities at its sites?

143 A. Yes. With respect to property acquired before October 1, 2005, the
144 Company has incurred and will continue to incur costs in connection with the
145 acquisition and subsequent ownership of all or a portion of a site. The purpose of
146 such an acquisition is to enable the Company to better control the timing and
147 extent of remediation of the property which it acquires and to eliminate or reduce
148 the potential for various types of claims associated with the property. The
149 Company bases its decision to purchase the property after evaluating some or all
150 of the following factors: (1) information about market value of the property without
151 consideration for environmental factors; (2) nature and extent of contamination;
152 (3) range of remedial levels and associated costs; (4) litigation costs and
153 potential litigation outcomes; (5) timing of remedial expenditures; (6) claims for
154 reimbursement of technical and legal fees associated with the review of
155 environmental reports; (7) claims for lease payments or access payments during
156 remediation; (8) claims for reimbursement of business interruption and relocation
157 costs; and (9) claims for reimbursement of costs associated with the

158 management of contaminated soil and groundwater remaining on the property
159 after remediation.

160 Q. What does the Company do with any income which it realizes in
161 connection with a property which it has acquired under the circumstances
162 described above?

163 A. In the event that the Company realizes income on a property which it has
164 acquired (through sale, lease or otherwise), it credits the income back to the
165 ratepayer under Rider 11.

166 Q. Does Respondent incur costs in connection with environmental activities
167 that it does not recover under Rider 11?

168 A. Yes. The in-house environmental engineers, attorneys and regulatory
169 personnel of IBS, North Shore's corporate affiliate, are actively involved in the
170 Company's environmental activities. The Company incurs costs for wages or
171 salaries of these employees in connection with their environmental-related
172 activities. These costs are not "incremental costs" under Rider 11, and therefore
173 are not recoverable by the Company under Rider 11.

174 Q. Please describe Respondent's Exhibit 1.

175 A. Respondent's Exhibit 1 includes North Shore's verified report regarding its
176 Incremental Costs of Environmental Activities, which was filed with the Illinois
177 Commerce Commission on February 12, 2011 pursuant to the Commission's
178 Order dated November 8, 1991 in Docket 91-0010 and Section D of Rider 11 of
179 the Company's Schedule of Rates. Respondent's Exhibit 1 details the
180 incremental costs of environmental activities that Respondent incurred during the
181 quarter ended December 31, 2010, during Fiscal Year 2010, and cumulative

182 through December 31, 2010. Also included in Respondent's Exhibit 1 is the
183 related certification by North Shore's independent public accountant, Deloitte &
184 Touche, LLP, as required by the Company's Rider 11.

185 Page 5 of Respondent's Exhibit 1 consists of a "Statement of Activity in
186 Account 182.3, Other Regulatory Assets, Quarter Ended December 31, 2010,
187 Fiscal Year 2010, and Cumulative Through December 31, 2010." Line 1 of
188 Column C shows that Respondent had a balance at the beginning of Fiscal Year
189 2010 in Account 182.3 of \$7,755,339.67 which represents environmental costs
190 incurred prior to Fiscal Year 2010 and which had yet to be recovered. Line 4 of
191 Column C represents debits (increases) to the account of \$7,254,742.83, which
192 were incurred during Fiscal Year 2010. Line 7 of Column C represents credits
193 (decreases) to the account of \$7,979,186.76 that were recovered from
194 ratepayers during Fiscal Year 2010 through operation of Rider 11. Line 10 of
195 Column C represents credits (decreases) to the account of \$4,450.97 that were
196 recovered through the settlement fund, which I will discuss later in my testimony.
197 Line 17 of Column C represents the Fiscal 2010 Year-end balance in the account
198 of \$7,026,444.77. This balance will remain in the account until recovered
199 through rates, through the Settlement Fund, or through reimbursement by other
200 PRPs or insurance carriers.

201 Page 6 of Respondent's Exhibit 1 consists of a "Statement of Activity in
202 the Settlement Fund, Quarter Ended December 31, 2010, Fiscal Year 2010 and
203 Cumulative Through December 31, 2010."

204 Page 7 consists of a "Summary of Incremental Costs, Quarter Ended
205 December 31, 2010, Fiscal Year 2010, and Cumulative through December 31,

206 2010." Column D shows the Fiscal Year 2010 total costs of \$7,254,742.83,
207 shown in Line 11, broken down by site, or by other category for those costs that
208 are not attributable to a specific site.

209 Q. Please describe the Settlement Fund.

210 A. On February 26, 1999, the Commission, in Docket R-18957, granted
211 North Shore's Request for Special Permission to revise Rider 11 to add
212 provisions relating to amounts received from insurance carriers or other entities
213 in settlement of the Company's claims where the payments apply to future costs.
214 The occasion for the Company's filing was the receipt of a substantial payment
215 by an insurance carrier in settlement of claims made in a pending lawsuit. The
216 Commission approved North Shore's proposal to establish a settlement fund to
217 identify and track the amounts arising from settlements with insurance carriers or
218 other entities that are available to pay costs otherwise recoverable under Rider
219 11. Beginning with incremental costs incurred in December 1998, 50% of such
220 costs are recovered through the settlement fund and 50% through Rider 11.

221 Q. Respondent's Exhibit 1 shows that during Fiscal Year 2010, Respondent
222 recovered \$4,450.97 through the Settlement Fund. Please describe this
223 recovery.

224 A. During Fiscal Year 2010, the Company recovered \$4,450.97 in
225 settlements with an insurance carrier, which recovery was accounted for through
226 the Settlement Fund. Normally, this amount would represent 50% of the amount
227 available to recover for the net incremental costs incurred by the Company
228 during the Fiscal Year, but as of December 31, 2009, and except for one-time
229 recoveries, the Settlement Fund has been depleted.

230 Q. Respondent's Exhibit 1 shows that during Fiscal Year 2010, Respondent
231 incurred a total of \$121,074.94 in incremental costs for environmental activities
232 related to the North Plant. Please describe the activities that resulted in North
233 Shore incurring incremental costs related to the North Plant during Fiscal Year
234 2010.

235 A. These incremental costs are attributable to real estate taxes accrued on
236 the property previously purchased under the Rider prior to October 1, 2005.
237 Additional costs were incurred for site remediation and maintenance activities
238 that were conducted by the Company's outside environmental consultants,
239 payments made to the USEPA and professional services performed by the
240 Company's outside legal counsel.

241 Q. Respondent's Exhibit 1 shows that during Fiscal Year 2010, Respondent
242 incurred a total of \$5,967,723.30 in incremental costs for environmental activities
243 related to the Waukegan Coke Plant. Please describe the activities that resulted
244 in North Shore incurring incremental costs related to the Waukegan Coke Plant
245 during Fiscal Year 2010.

246 A. Costs were primarily incurred for investigation and remediation activities
247 performed by the Company's outside environmental consultants and professional
248 services provided by outside legal counsel. Costs were also incurred for ground
249 maintenance. Certain of these costs were incurred because, after filing for
250 bankruptcy protection, General Motors ("GM") suspended its payments for its
251 50% share of the costs otherwise payable under a consent decree entered into
252 by GM, North Shore and the USEPA. The Company expects to be reimbursed
253 for substantially all of GM's share of the costs when the USEPA accesses a

254 surety bond posted by GM to guarantee these obligations.

255 Q. Respondent's Exhibit 1 shows that during Fiscal Year 2010, Respondent
256 incurred a total of \$606,883.27 in incremental costs for environmental activities
257 related to the South Plant. Please describe the activities that resulted in North
258 Shore incurring incremental costs related to the South Plant during Fiscal Year
259 2010.

260 A. Costs were incurred primarily in connection with investigation and
261 remediation activities performed by the Company's environmental consultants.
262 Additional costs were incurred for real estate tax accruals. Other costs were
263 incurred for professional services provided by outside legal counsel and waste
264 disposal services by an outside waste disposal company as well as payments
265 made to the USEPA.

266 Q. What does Respondents Exhibit 1 show in regards to Insurance Related
267 Costs and Recoveries incurred by Respondent during Fiscal Year 2010?

268 A. Exhibit 1 indicates that Respondent incurred no Insurance Related Costs
269 and Recoveries during Fiscal Year 2010. However, upon preparation of this
270 testimony, it was noted that certain insurance costs were misclassified into
271 General and Unallocated Costs. With the next quarterly filing, these costs will be
272 reclassified into the proper Insurance Related Costs and Recoveries category.
273 The amount of General and Unallocated Costs will be reduced by \$17,255.48,
274 and the amount of Insurance Related Costs will increase by \$17,255.48. This
275 correction will have no net effect on the total Fiscal Year 2010 costs incurred and
276 to be recovered from rate payers, as shown on Exhibit 1, Page 7, Line 11.

277 Q. According to Respondent's Exhibit 1, Respondent incurred \$46,978.68 in

278 General and Unallocated Costs under Rider 11 for environmental activities during
279 Fiscal Year 2010. Please describe the activities that gave rise to these costs.

280 A. As previously noted, upon the preparation of my testimony, it was noted
281 that certain insurance related costs were misclassified into General and
282 Unallocated Costs. With the next quarterly filing, these costs will be reclassified
283 into the proper Insurance Related Costs and Recoveries category. General and
284 Unallocated Costs will be reduced by \$17,255.48 and Insurance Related Costs
285 will increased by \$17,255.48. The costs reflected in Exhibit 1 were not allocable
286 to environmental activity at a specific former manufactured gas plant site, but
287 generally common to all of Respondent's former manufactured gas plant sites.
288 Costs were primarily attributable to outside legal counsel and an outside
289 environmental consultant for professional services not associated with any one
290 particular site.

291 Q. According to Respondent's Exhibit 1, Respondent incurred \$512,082.64 in
292 Carrying Charges. Please explain.

293 A. Pursuant to Respondent's Rider 11 and the Commission's Order on
294 Remand in Consolidated Dockets 91-0080, *et al.*, Respondent is entitled to
295 recover carrying charges on its unrecovered balance of incremental costs of
296 environmental activities. The amount of \$512,082.64 was calculated and
297 recorded pursuant to Rider 11.

298 Q. In the Initiating Order for this proceeding, the Commission ordered the
299 Company to include as part of its filing cumulative totals of recoveries by
300 customer class. Has the Company provided this data?

301 A. Yes. Respondent's Exhibit 2 presents by customer class the cumulative

302 total of recoveries through rates of \$36,985,057.14 as detailed in Line 7, Column
303 D, Page 5 of Exhibit 1.

304 Q. In Ordering Paragraph No. (8) in the Final Order entered in Docket No. 04-
305 0111, the Commission directed the Company to provide information in its direct
306 testimony regarding the status of all properties for which purchase costs were
307 previously recovered through Rider 11. Has the Company provided this data?

308 A. Yes. Respondent's Exhibit 3 presents all land acquisitions for
309 environmental remediation purposes that were made prior to October 1, 2005
310 and for which recovery was allowed under Rider 11.

311 Q. Once again, since October 1, 2005, has the Company made any
312 additional land acquisitions for environmental remediation purposes?

313 A. No.

314 Q. How does the Company plan to treat any costs associated with land
315 acquisitions for environmental remediation purposes incurred after October 1,
316 2005?

317 A. Pursuant to the Commission's Order, as outlined in Ordering Paragraph
318 No. 6 in the Final Order entered in Docket 04-0111, if any land purchases are
319 made, any costs associated with land acquisitions for environmental remediation
320 purposes shall be treated as a rate base asset in a rate case.

321 Q. In the Initiating Order for this proceeding the Commission ordered the
322 Company to provide notice of its filing in the manner that notice be made for a
323 general rate increase prescribed under Part 255 of the Illinois Administrative
324 Code. Will the Company comply with those filing requirements?

325 A. Yes.

326 Q. Does this conclude your direct testimony?

327 A. Yes, it does.

Docket 11-0119

North Shore Gas Company

Exhibit 1

North Shore Gas Company
Report To Illinois Commerce Commission
With Respect To Operation Of Rider 11, Adjustment
For Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2010
And Fiscal Year 2010

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2010 And Fiscal Year 2010

This report addresses the operation of the Company's Rider 11, Adjustment For Incremental Costs of Environmental Activities, during the quarter ended December 31, 2010, and during fiscal year 2010.

Fourth quarter of Fiscal 2010 reflects activity from October 2010 through December 2010 to recognize calendar year reporting made pursuant to the Order of Illinois Commerce Commission entered on February 7, 2007 in Docket #06-0540.

Section D of the Company's Rider 11, Adjustment for Incremental Costs of Environmental Activities, requires that the Company file quarterly reports with the Commission. Rider 11 further requires that each such report contain: a statement of activity in the Deferred Account for the quarter and for the fiscal year through the quarter; a statement of activity in the Settlement Fund for the quarter and for the fiscal year through the quarter; a statement of adjustments that were terminated during the quarter; a summary of the incremental costs incurred during 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. Cumulative incremental costs and recoveries through December 31, 2010 are also included in these reports.

Statement Of Activity In The Deferred Account

Under its Rider 11, the Company recorded the amount of \$1,092,347.75 in the Deferred Account during the quarter ended December 31, 2010, the fourth quarter of fiscal 2010. This amount represents the net incremental costs that were incurred in connection with the environmental activities that were conducted by the Company during the quarter ended December 31, 2010. This amount is offset by a credit of \$28.55 representing the amount available for recovery through the Settlement Fund.

During the quarter ended December 31, 2010, the Company recognized \$2,869,675.90 in revenues arising from the application of the adjustments determined under Rider 11.

Page 5 of this report presents the "Statement Of Activity In Account 182.3, Other Regulatory Assets, quarter ended December 31, 2010, Fiscal Year 2010 And Cumulative Through December 31, 2010".

Statement of Activity in Settlement Fund

On February 26, 1999, the Commission approved the changes in Rider 11, including the establishment of the Settlement Fund, by Special Permission No. R-18957. The revision to the rider provides that the lesser of 50% of the incremental costs incurred or the Settlement Fund balance are recovered monthly through the Settlement Fund. At December 31, 2009 the Settlement Fund balance was \$0.00. In January 2010, March 2010, September 2010 and December 2010, the Company received monies as a result of insurance settlements. All transactions were recorded after income taxes. All settlements received by the Company were completely depleted as of December 31, 2010.

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2010 And Fiscal Year 2010

Therefore, a net balance of \$0.00 is shown for the Quarter ended December 31, 2010, which results from a deduction of \$17.20, a portion (less than 50%) of the quarter's net incremental costs less income tax benefits, and the addition of interest (after tax) of \$0.00.

Page 6 of this report presents the "Statement of Activity in the Settlement Fund, Quarter ended December 31, 2010, Fiscal Year 2010 And Cumulative Through December 31, 2010".

Summary Of Incremental Costs

The Company experienced a total of \$1,092,347.75 in incremental costs relative to the environmental activities that were conducted during the quarter ended December 31, 2010. Of this amount, \$42,546.91 is attributable to North Plant, \$778,568.41 is attributable to the former Waukegan Coke Plant, \$115,777.41 is attributable to South Plant, \$12,005.92 is attributable to General and Unallocated Costs, and \$143,449.10 is attributable to Carrying Charges.

Page 7 of this report presents the "Summary Of Incremental Costs, Quarter Ended December 31, 2010, Fiscal Year 2010 And Cumulative Through December 31, 2010".

Description Of Environmental Activities

North Plant:

During the quarter ended December 31, 2010, the Company incurred \$42,546.91 in incremental costs associated with the environmental activities that were conducted relative to North Plant. Costs were primarily incurred for payments to the U. S. Environmental Protection Agency, real estate taxes accrued on the property previously purchased under the Rider prior to October 1, 2005 and for investigative activities performed by the Company's outside environmental consultants. Costs were also incurred for professional services provided by outside legal counsel.

Waukegan Coke Plant:

During the quarter ended December 31, 2010, the Company incurred \$778,568.41 in incremental costs associated with the environmental activities that were conducted relative to the Waukegan Coke Plant. Costs were primarily incurred for remediation activities performed by the Company's outside environmental consultants and for professional services provided by outside legal counsel. Costs were also incurred for grounds maintenance. Certain costs were incurred because General Motors ("GM") suspended its payments for its ½ share of costs under the Consent Decree. The Company expects to be reimbursed for GM's ½ share when the USEPA accesses a surety bond that GM posted.

North Shore Gas Company
Operation Of Rider 11, Adjustment For
Incremental Costs Of Environmental Activities
Quarter Ended December 31, 2010 And Fiscal Year 2010

South Plant:

During the quarter ended December 31, 2010, the Company incurred \$115,777.41 in incremental costs associated with the environmental activities that were conducted relative to South Plant. Costs incurred were primarily attributable to investigation and remediation activities performed by the Company's outside environmental consultants, payments to the U. S. Environmental Protection Agency, and for real estate taxes accrued on the property previously purchased under the Rider prior to October 1, 2005. Costs were also incurred for professional services provided by outside legal counsel and disposal of environmental waste material by an outside waste disposal company.

General and Unallocated Costs:

During the quarter ended December 31, 2010, the Company incurred \$12,005.92 in general and unallocated costs which are not associated with any one particular site. Costs were primarily incurred for professional services by outside legal counsel, outside environmental consultants and other miscellaneous charges.

Carrying Charges:

During the quarter ended December 31, 2010, the Company incurred \$143,449.10 in carrying charges. This amount represents the cost of carrying amounts in the deferred account before recovery through the Settlement Fund and application of adjustments determined under Rider 11.

Cost Recoveries from Settlement Fund:

During the quarter ended December 31, 2010, the Company recovered \$28.55 through the Settlement Fund. Settlement Fund recoveries represent up to 50% of the net incremental costs, excluding carrying charges, incurred by the Company for the quarter ended December 31, 2010. However, all prior Settlement Fund amounts received by the Company were completely depleted at the start of the quarter, and as the amount above recovered during the fourth quarter of 2010 was less than 50% of the net incremental costs incurred during the quarter, the Settlement Fund was again completely depleted as of December 31, 2010.

Adjustments:

In accordance with the terms of Rider 11, page 8 of this report identifies three adjustments which were terminated during the quarter ended December 31, 2010.

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
STATEMENT OF ACTIVITY IN ACCOUNT 182.3, OTHER REGULATORY ASSETS
QUARTER ENDED DECEMBER 31, 2010, FISCAL YEAR 2010 AND
CUMULATIVE THROUGH DECEMBER 31, 2010

Line No.	Description (A)	Quarter Ended 12/31/2010 (B)	Fiscal Year 2010 (C)	Cumulative Through 12/31/2010 (D)
1	Balance at Beginning of Period	\$ 8,803,801.47	\$ 7,755,339.67	\$ -
2	Plus Costs Incurred:			
3	Quarter (Page 7, Line 11, Col. C)	1,092,347.75	-	-
4	Fiscal Year (Page 7, Line 11, Col. D)	-	7,254,742.83	-
5	Cumulative (Page 7, Line 11, Col. E)	-	-	52,345,283.31
6	Sub-total	\$ 9,896,149.22	\$ 15,010,082.50	\$ 52,345,283.31
7	Less Costs Recovered Through Rates	2,869,675.90	7,979,186.76	36,985,057.14
8	Less Recovery Through Settlement Fund:			
9	Quarter (Page 7, Line 13, Col. C)	28.55	-	-
10	Fiscal Year (Page 7, Line 13, Col. D)	-	4,450.97	-
11	Cumulative (Page 7, Line 13, Col. E)	-	-	8,337,194.90
12	Add Settlement Fund Adjustment			
13	to Incremental Costs: (1)			
14	Quarter (Page 7, Line 15, Col. C)	-	-	-
15	Fiscal Year (Page 7, Line 15, Col. D)	-	-	-
16	Cumulative (Page 7, Line 15, Col. E)	-	-	3,413.50
17	Balance at End of Period	\$ <u>7,026,444.77</u>	\$ <u>7,026,444.77</u>	\$ <u>7,026,444.77</u>

(1) Adjustments reflect correction to November 2006 filing on Deferred Account for Incremental Costs of Environmental Activities.

NORTH SHORE GAS COMPANY
STATEMENT OF ACTIVITY IN THE SETTLEMENT FUND
QUARTER ENDED DECEMBER 31, 2010, FISCAL YEAR 2010
AND CUMULATIVE THROUGH DECEMBER 31, 2010

Line No.		Quarter Ended 12/31/2010	Fiscal Year 2010	Cumulative Through 12/31/2010
1	Balance at Beginning of Period	\$ -	\$ -	\$ -
2	Add: Settlements with insurance carriers			
3	Or other entities (after tax)	17.20	2,681.93	3,996,096.66
4	Deduct: 50% of the amount available for net			
5	incremental costs, Less income tax benefit (See note)	17.20	2,681.93	5,028,004.05
6	Add: Interest (after-tax)	-	-	1,031,907.39
7	Balance at end of period	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ (0.00)</u>
Note:	Incremental costs, excluding carrying charges	\$ 948,898.65	\$ 6,742,660.19	\$ 42,497,841.06
	Less: Incremental costs recovered from insurance carriers or other entities	-	-	538,167.39
	Net incremental costs	<u>\$ 948,898.65</u>	<u>\$ 6,742,660.19</u>	<u>\$ 41,959,673.67</u>
	50% of net incremental costs	\$ 474,449.33	\$ 3,371,330.10	\$ 20,979,836.84
	Less: Amount not available from fund	474,420.78	3,366,879.13	12,642,641.94
	Amount to recover through settlement fund	28.55	4,450.97	8,337,194.90
	Less: Income tax benefit calculated at State and Federal Rate of 39.667% through 12-31-04	-	-	2,251,501.03
	Less: Income tax benefit calculated at an Effective State and Federal Rate of 39.745%**	11.35	1,769.04	1,057,689.82
	Total	<u>\$ 17.20</u>	<u>\$ 2,681.93</u>	<u>\$ 5,028,004.05</u>

**Effective January 1, 2005 @ 39.745%

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
SUMMARY OF INCREMENTAL COSTS (1)
QUARTER ENDED DECEMBER 31, 2010, FISCAL YEAR 2010 AND
CUMULATIVE THROUGH DECEMBER 31, 2010

Line No.	Site or Other Category of Costs (A)	Recorded in GL Account (B)	Quarter Ended 12/31/2010 (C)	Fiscal Year 2010 (D)	Cumulative Through 12/31/2010 (E)
1	Deerfield Station	182024	\$ -	\$ -	\$ 410.00
2	North Plant	182024	42,546.91	121,074.94	4,292,456.19
3	Waukegan Coke Plant	182024	778,568.41	5,967,723.30	34,207,693.55
4	South Plant	182024	115,777.41	606,883.27	6,865,207.36
5	Spring Street	182024	-	-	29,382.00
6	Waukegan Tar Pit	182024	-	-	1,745,092.98
7	Community Relations Program	182024	-	-	147,722.62
8	Insurance-Related Costs and Recoveries	182024	-	-	1,858,829.95
9	General and Unallocated Costs	182024	12,005.92	46,978.68	884,188.87
10	Carrying Charges	182020	<u>143,449.10</u>	<u>512,082.64</u>	<u>2,314,299.79</u>
11	Total		\$ 1,092,347.75	\$ 7,254,742.83	\$ 52,345,283.31
12	Less: Recovery from				
13	Settlement Fund (Page 6, Note)	182024	28.55	4,450.97	8,337,194.90
14	Add: Settlement Fund Adjustment				
15	to Incremental Costs (2)	182024	<u>-</u>	<u>-</u>	<u>3,413.50</u>
16	Net Total after Settlement				
17	Fund recovery		<u>\$ 1,092,319.20</u>	<u>\$ 7,250,291.86</u>	<u>\$ 44,011,501.91</u>

- (1) Recorded in Account 182.3, Other Regulatory Assets
(2) Adjustments reflect correction to November 2006 filing on Deferred Account for Incremental Costs of Environmental Activities.

NORTH SHORE GAS COMPANY
INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES
ADJUSTMENTS UNDER RIDER 11 TERMINATED
DURING QUARTER ENDED DECEMBER 31, 2010

Adjustments Effective Beginning:	Amount Reflected in Determination of Adjustment	Amount Recovered Through Rates	Difference (1)
(A)	(B)	(C)	(D)
October 1, 2009	\$72,725.57	\$63,254.02	\$9,471.55
November 1, 2009	(\$1,257,252.47)	(\$1,044,171.01)	(\$213,081.46)
December 1, 2009	\$3,300,849.08	\$2,783,989.68	\$516,859.40

(1) Maintained in deferred account for inclusion in subsequent determination of an adjustment.

North Shore Gas Company

Report to the Illinois Commerce Commission on
Incremental Costs of Environmental Activities —
Statement of Activity in Account 182.3, Other
Regulatory Assets and Statement of Activity in
Settlement Fund for the Year Ended December 31,
2010, and Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Shore Gas Company
Chicago, Illinois

We have audited, in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), the financial statements of North Shore Gas Company (the "Company") for the year ended December 31, 2010, and have issued our report thereon dated February 28, 2011 (which report expresses an unqualified opinion). We have also audited the Company's Report to the Illinois Commerce Commission on Incremental Costs of Environmental Activities — Statement of Activity in Account 182.3, Other Regulatory Assets and Report to the Illinois Commerce Commission on Incremental Costs of Environmental Activities — Statement of Activity in Settlement Fund (the "Statements") of North Shore Gas Company (the "Company") for the year ended December 31, 2010, pursuant to Section D of the Company's Rider 11, in effect and on file with Illinois Commerce Commission. These Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Statements based on our audit.

We conducted our audit of the Statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as it relates to the Statement as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting as it relates to the Statements. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Statements. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Statements were prepared for the purpose of complying with Section D of the Company's Rider 11 filed with the Illinois Commerce Commission, and are not intended to be a complete presentation of the Company's revenues and expenses, nor are they intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Statements referred to above present fairly, in all material respects, the information set forth therein of the Company for the year ended December 31, 2010, in accordance with the Company's Rider 11, in effect and on file with the Illinois Commerce Commission.

This report is intended solely for the information and use of the management and the Board of Directors of the Company and the Illinois Commerce Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

April 8, 2011

NORTH SHORE GAS COMPANY

REPORT TO THE ILLINOIS COMMERCE COMMISSION ON INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES — STATEMENT OF ACTIVITY IN ACCOUNT 182.3, OTHER REGULATORY ASSETS FOR THE YEAR ENDED DECEMBER 31, 2010

Description

BALANCE — Beginning of year	\$7,755,340
Plus costs incurred	<u>7,254,743</u>
Subtotal	15,010,083
Less costs recovered through rates	7,979,187
Less recovery through settlement fund	<u>4,451</u>
BALANCE — End of year	<u>\$7,026,445</u>

NORTH SHORE GAS COMPANY

REPORT TO THE ILLINOIS COMMERCE COMMISSION ON INCREMENTAL COSTS OF ENVIRONMENTAL ACTIVITIES — STATEMENT OF ACTIVITY IN SETTLEMENT FUND FOR THE YEAR ENDED DECEMBER 31, 2010

Description	
BALANCE — Beginning of year	\$ -
Add settlements with insurance carriers or other entities (after tax)	2,682
Deduct 50% of net incremental costs — less income tax benefit	2,682
Add interest (after tax)	<u>-</u>
BALANCE — End of year	<u>\$ -</u>
Note: Incremental costs — excluding carrying charges	\$6,742,660
Less incremental costs recovered from insurance carriers or other entities	<u>-</u>
Net incremental costs	<u>\$6,742,660</u>
50% of net incremental costs	\$3,371,330
Less amounts not available from settlement fund	<u>3,366,879</u>
Amount to recover through settlement fund	4,451
Less income tax benefit calculated at an effective state and federal rate of 39.745%	<u>1,769</u>
TOTAL	<u>\$ 2,682</u>

North Shore Gas Company
Rider 11 Recoveries by Customer Class

<u>Fiscal Year</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Total</u>
1992*	*	*	*	\$ 956,618.10
1993	\$ 1,282,820.57	\$ 520,192.97	\$ 364,106.51	2,167,120.05
1994	299,109.89	126,095.69	95,615.96	520,821.54
1995	123,542.80	52,345.34	44,950.94	220,839.08
1996	958,269.31	331,261.11	300,527.92	1,590,058.34
1997	743,062.64	226,488.21	188,312.77	1,157,863.62
1998	313,348.16	143,357.79	111,817.03	568,522.98
1999	622,909.61	265,879.75	134,276.44	1,023,065.80
2000	324,760.56	141,893.43	76,543.00	543,196.99
2001	558,422.52	209,746.82	106,872.82	875,042.16
2002	459,531.44	194,433.32	78,774.52	732,739.28
2003	501,797.63	208,355.24	93,451.40	803,604.27
2004	720,937.61	335,091.52	122,394.29	1,178,423.42
2005	1,101,550.70	544,639.21	216,824.66	1,863,014.57
2006	1,227,311.57	624,514.86	213,450.29	2,065,276.72
2007	1,167,108.43	592,805.30	183,947.60	1,943,861.33
2008	2,824,845.19	1,474,805.58	515,571.29	4,815,222.06
2009	3,598,662.31	1,819,515.77	562,401.99	5,980,580.07
2010	<u>4,729,010.76</u>	<u>2,462,880.04</u>	<u>787,295.96</u>	<u>7,979,186.76</u>
Total	<u>\$ 21,557,001.70</u>	<u>\$ 10,274,301.95</u>	<u>\$ 4,197,135.39</u>	<u>\$ 36,985,057.14</u>

* Customer Class data for Fiscal 1992 Rider 11 recoveries is not available.

**North Shore Gas Company
Property Purchased Prior to October 1, 2005
for which Purchase Costs were Recovered through Rider 11**

**Docket No. 11-0119
Respondent's Exhibit 3**

Property Acquired in Fiscal Year	Property Description	PIN's	Current Ownership/Lease	Current Property Use
2002	South Plant - Alloy Parcel	08-21-421-030	NSG Owns	Vacant (see note 1)
2003	North Plant	08-15-300-024	NSG Owns	Vacant (see note 1)
2003	South Plant - McKinney	08-21-421-027-0000	NSG Owns	Vacant (see note 1)

¹ SAS RI - USEPA Superfund Alternate Sites Program Remedial Investigation