

North Shore Gas Company

RIDER TO SCHEDULE OF RATES FOR GAS SERVICE

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Rider VBA

Volume Balancing Adjustment

Applicable to Service Classification Nos. 1 and 2

* The Volume Balancing Adjustment (VBA), expressed on a cents per therm basis, stabilizes the distribution revenue requirement approved by the Commission in the Company's most recent rate proceeding. A separate adjustment shall be calculated for each applicable Service Classification.

* Each month through January, 2012, the Company shall determine monthly adjustments under this rider. The Effective Component, as outlined in Section B (1), shall be filed with the Commission on a monthly basis and be in effect for the following month. The final monthly Effective Component shall be filed no later than January 31, 2012 and shall be in effect from February 1 through February 29, 2012. The Reconciliation Adjustment and each of its two components, RA₁ and RA₂, as outlined in Section B (2), shall be calculated and filed with the Commission annually no later than March 31, 2012 and amortized for the nine-month period commencing the following April 1.

* Beginning in March, 2013, the Company shall determine annual adjustments under this rider. The adjustments, as outlined in Section C, shall be filed with the Commission, no later than March 20th of each year, and shall be in effect for the nine-month period commencing the following April 1.

* **Section A - Definitions**

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

Actual Revenue (AR) shall mean that dollar amount of distribution charge revenues arising from revenue requirements approved by the Commission, excluding revenues arising from adjustments under this rider, which were billed for each applicable Service Classification for the applicable period.

Actual Customers (AC) shall mean the number of customers in each applicable Service Classification for the applicable period.

Effective Month shall mean the month for which the Effective Component in Section B (1) is calculated, and shall be the month after the Filing Month.

Effective Period shall mean the period for which the adjustments in Section C are to be billed to customers, and shall be the nine-month period after the Filing Month.

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Section A - Definitions - continued

Factor T (T) shall mean the number of therms of gas delivered to customers by the Company, including the number of therms of customer-owned or supplier-owned gas delivered by the Company, for the applicable period.

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

Fiscal Year shall mean the Fiscal Year of the Company that ended as of the most recent December 31.

Percentage of Fixed Costs (PFC) shall mean the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Previous Amortization Period shall mean the nine-month reconciliation amortization period that ended as of the most recent Fiscal Year.

Rate Case Customers (RCC) shall mean the number of customers that underlie the rates approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification.

Rate Case Revenue (RCR) shall mean that dollar amount of distribution charge revenues arising from the revenue requirements approved by the Commission in the Company's most recent rate proceeding for each applicable Service Classification. In a month or year in which new distribution rates come into effect, the RCR shall be prorated based upon the number of days in the month or year under the old rates and the number of days in the month or year under the new rates.

Reconciliation Month shall mean the second month prior to the Effective Month.

Upcoming Amortization Period shall mean the nine-month reconciliation amortization period commencing on April 1 following the Fiscal Year.

Section B - Determination of Adjustment through February 2012

There shall be a separate per therm adjustment amount determined under this rider for each applicable Service Classification and such amount shall be the sum of the amounts determined pursuant to subsections (1) and (2).

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Section B - Determination of Adjustment through February 2012 – continued

- (1) **Effective Component** – The adjustment, determined for each Service Classification, to be billed for the Effective Month is represented by the following formula:

$$[(RCR / RCC) - (AR / AC)] \times PFC \times RCC / T \times 100$$

Where:

- RCR represents the Rate Case Revenue for the Reconciliation Month.
RCC represents the number of Rate Case Customers for the Reconciliation Month.
AR represents the Actual Revenue for the Reconciliation Month.
AC represents the number of Actual Customers for the Reconciliation Month.
T represents the forecast Factor T for the Effective Month.
PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

The final monthly Effective Component shall be determined and billed for the Effective Month of February, 2012.

- (2) **Reconciliation Adjustment** – Through March 31, 2012, the reconciliation adjustment determined for each Service Classification is calculated annually, amortized over a nine-month period, and represented by the following formula:

$$[(RA_1 + RA_2 + O) \times (1 + i)] / T \times 100$$

Where:

- RA₁ = an amount due the Company (+RA₁) or an amount due the customer (-RA₁) arising from the reconciliation of Rate Case Revenue and Actual Revenue adjusted to Rate Case Customers plus revenues arising from application of the Effective Component in subsection B (1) above.

RA₁ shall be represented by the following formula:

$$(RCR - (AR / AC \times RCC)) \times PFC - VBAR$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
AR represents the Actual Revenue for the Fiscal Year.
AC represents the average monthly number of Actual Customers for the Fiscal Year.
RCC represents the average monthly number of Rate Case Customers for the Fiscal Year.
VBAR represents the sum of the actual monthly revenues arising from the application of the Effective Component in Section B (1) for the previous 12-month period ending February.

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Section B - Determination of Adjustment through February 2012 – continued
(2) Reconciliation Adjustment

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O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.

**

PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.

Where:

RA_2 = an amount due the Company ($+RA_2$) or an amount due the customer ($-RA_2$) as a consequence of any prior RA_1 adjustment.

RA_2 shall be represented by the following formula:

$$RA - RAR$$

Where:

RA represents RA_1 and O for the Previous Amortization Period.

RAR represents actual revenues arising from the application of RA for each month during the Fiscal Year.

i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Upcoming Amortization Period.

T represents the forecast Factor T for the Upcoming Amortization Period.

The Effective Component and the Reconciliation Adjustment shall each be separately determined. 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¢.

If the Company determines that RA will more nearly be refunded or recovered at the end of any month up to 11 months, the amortization period may be shortened or lengthened accordingly upon the Company giving 15 days' notice to the Commission of the change in the amortization period.

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Section C – Determination of Adjustment in 2013 and Thereafter

There shall be separate per therm adjustments determined annually for each applicable Service Classification, and such adjustments shall be determined with two separate components, as follows:

$$\left[\frac{(RCR - AR) \times PFC}{T} + \frac{(RA + O) \times (1 + i)}{T} \right] \times 100$$

Where:

- RCR represents the Rate Case Revenue for the Fiscal Year.
- AR represents the Actual Revenue for the Fiscal Year.
- T represents the Factor T for the Effective Period.
- O represents the Ordered adjustment, in dollars (\$), ordered by the Commission that is to be refunded to or collected from customers as a result of the reconciliation established in Section D.
- PFC represents the percentage of the Company's costs that are fixed as determined and authorized by the Commission in the Company's most recent rate proceeding.
- RA represents the dollar amount due the Company (+RA) or the customers (-RA) arising from adjustments under this rider that were under-billed or over-billed to each Service Classification in the Fiscal Year.
- i represents the interest rate established by the Commission under 83 Ill. Adm. Code 280.70(e)(1) and in effect when each adjustment under this section is calculated, adjusted for the number of months in the Effective Period.

The adjustment components above shall be summed together for billing purposes. If either component of the adjustments 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¢.

*** and ** Section D - Reports and Reconciliations**

- (1) **Through January 2012** - On or before January 31, 2012, the Company shall file with the Commission an information sheet that specifies the adjustments to be effective under this rider for the Effective Month of February, 2012. The Company shall file any corrections from a timely filed information sheet on or before January 31, 2012. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The Company shall file with the Commission annually, no later than March 31, 2012, a statement of the Reconciliation Adjustment components RA₁ and RA₂ to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a

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* and ** **Section D - Reports and Reconciliations** - continued

petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

- (2) **In 2013 and thereafter** - The Company shall file with the Commission on or before March 20 of each year, an information sheet that specifies the annual adjustments to be effective under this rider. The Company shall file any corrections from a timely filed information sheet on or before March 31. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)]. The Company shall include with its filing a report which shows a determination of the RA to be applicable for the Upcoming Amortization Period. The Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider VBA. At this same time, the Company shall also file a petition with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) shall be recovered in the manner determined by the Commission in the annual reconciliation proceeding.

* and ** **Section E - Terms and Conditions**

Subject to Terms and Conditions of Service and Riders to Schedule of Rates for Gas Service which are applicable to this rider.

* and ** **Section F – Audit**

The Company shall annually conduct an internal audit of the distribution revenue requirements recovered or refunded pursuant to this rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any approved Rate Case Revenue (RCR) collected through base rate distribution charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider VBA adjustments are being properly billed to customers; and 4) Rider VBA revenues are recorded in the appropriate accounts. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the Commission's Manager of the Accounting Department no later than August 1 of each year. Such report shall be verified by an officer of the Company.

* **Section G – Compliance Filing**

The Company shall submit as a public document, in any rate case compliance filing, the Rider VBA Rate Case Revenue (RCR) for each applicable Service Classification and Percentage of Fixed Costs (PFC) arising from the approved revenue requirement in the rate case.

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