

**Rider 3
Variable Tax Cost Adjustment**

**Applicable to All Rates
Except Rate 21 and Other Negotiated Contracts**

Applicability and Purpose

This Rider is applicable to all customers taking service from the Company, except to the extent a customer is taking service under Rate 21 and other negotiated contract rates. Its purpose is to provide for more accurate recovery of the Invested Capital Tax (“ICT”) imposed on the Company under Section 2a.1 of the Gas Revenue Tax Act (35 ILCS 615/2a.1) as heretofore and hereafter amended. The amount of the ICT annually paid by the Company may be less than or greater than the value used in the calculation of base rates. This Rider adjusts for differences between the Company’s ICT liability for each Tax Period and the amount included in base rates, and reconciles those adjustments so that rates accurately reflect the ICT payable by the Company for that Tax Period and that any potential over- or under-collection of ICT does not distort the costs of different sources of capital available to the Company.

ICT Adjustment

An Invested Capital Tax Adjustment (ICTA) relating to each year for which Nicor Gas has ICT liability (“Tax Period”) will be determined by the Company for each of the following three classifications:

- Residential (Rate 1)
- Small Non-residential (Rates 4, 5, 74 and 75)
- Large Non-residential (Rates 6, 7, 76 and 77)

ICTAs for each Tax Period shall be charged to each applicable classification in identical percentages of the respective forecasted base rate revenues for each classification. ICTAs shall be determined for each classification in accordance with the following formula:

$$ICTA = ((ICTTU \times P \times 100) / CT) + ARC$$

$$ARC = \frac{ARB \times P \times 100}{CT_R}$$

Where: ICTA = Invested Capital Tax Adjustment for each classification in cents per therm rounded to the nearest 0.01¢; any fraction of 0.01¢ shall be dropped if less than 0.005¢; or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

ICTTU= The amount of Invested Capital Tax True Up determined annually by the arithmetic result of ICT Costs less ICT Base Rate Allowance (ICT Costs – ICT Base Rate Allowance) for each applicable Tax Period.

ARC = The Annual Reconciliation Charge for each classification in cents per therm rounded to the nearest 0.01¢; any fraction of 0.01¢ shall be dropped if less than 0.005¢; or, if 0.005¢ or more, shall be rounded up to the next full 0.01¢.

ARB = Annual Reconciliation Balance from any over-collection or under-collection during the immediately preceding July 1 through June 30 recovery period, plus any Commission ordered adjustment.

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- P = Ratio of forecasted throughput classification base revenue to total of forecasted base revenue for applicable rates.
- CT = The total number of therms by classification the Company estimates it will sell, deliver, or transport during the twelve (12) month period beginning July 1 of the filing year and ending June 30 of the following year.
- CT_R = The total number of therms by classification the Company estimates it will sell, deliver, or transport during the nine (9) month period beginning October 1 of the filing year and ending June 30 of the following year.

The ICTTU applicable to each Tax Period may be a positive or negative value and shall be calculated annually by the Company as provided herein according to the following formula:

$$\text{ICTTU} = (\text{ICT Costs} - \text{ICT Base Rate Allowance})$$

Where:

ICT Costs = The total dollar liability of the Company for ICT due on account of the Company's taxable invested capital during the Tax Period, calculated as provided in the Gas Revenue Tax Act (35 ILCS 615/1 *et seq.*) as heretofore and hereafter amended. In the event that the Company's ICT liability due on account of the Company's taxable invested capital during the Tax Period is adjusted after the payment by the Company of ICT for that Tax Period, then that adjustment (which may be positive or negative) will be added to the next annual ICT Costs calculated under this Rider.

ICT Base Rate Allowance = The amount of ICT liability included in the revenue requirement from which the base rates in force during the applicable calendar year are derived. If base rates applicable to service provided by the Company during the applicable Tax Period are derived from more than one such revenue requirement, then the ICT Base Rate Allowance shall be the arithmetic mean of the amounts of ICT liability included in each such revenue requirement, weighted by the number of days of service during the applicable Tax Period that the rates derived from that revenue requirement were applicable.

ICTAs shall be applicable to service rendered to each customer during the twelve (12) monthly billing periods commencing with the customer's first bill issued on or after July 1 of the calendar year following the end of the Tax Period. The initial ICTAs will be calculated for the Tax Period running January 1, 2017 through December 31, 2017, and be applicable to service rendered during the twelve (12) monthly billing periods beginning on or after July 1, 2018.

The amount of the ICTA will be separately designated on each customer's bill as "Capital Tax Cost Adjustment" or similar legend.

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Informational Submission

No later than the first business day on or after June 7 of each calendar year (beginning June 7, 2018), an informational sheet shall be submitted to the Commission specifying the ICTA to be effective during the subsequent twelve (12) monthly billing periods and describing and supporting its calculation. The informational submission shall be accompanied by workpapers showing the calculation and determination of that ICTA and the identifying the data that went into its calculation.

Reconciliation Process

On or before September 30 of each calendar year during which an ICTA has been applied (beginning September 30, 2019), the Company shall file a petition with the Chief Clerk of the Commission to initiate an annual reconciliation process. The petition shall include a reconciliation that compares (a) the actual total incremental collections or credits under this Rider on account of bills rendered during the twelve (12) monthly billing periods commencing on July 1 of the prior calendar year with (b) the total ICTTU used in the calculation of that ICTA. Any applicable Annual Reconciliation Charge (ARC) shall be effective for the nine (9) month period beginning October 1, 2019 and ending June 30, 2020 and each subsequent nine (9) month period beginning October 1 thereafter. ICTAs shall be recalculated prior to the commencement of each such 9-month period to reflect the inclusion of the ARC. Documentation and workpapers supporting the Company's calculation shall be presented with its reconciliation petition and shall be provided to the Commission's Accounting Staff at the time of or before the petition's filing.

Upon review of each annual petition and reconciliation filed by the Company, the Commission may require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of the determination and reconciliation of credits or charges under this Rider. If the Commission finds, after hearing, that any amounts were incorrectly calculated, debited, or credited during the applicable reconciliation year, the Commission may by order require that the ICTA calculated under this rider be prospectively adjusted by appropriate credits or debits thereto.

The difference described above, together with any adjustment ordered by the Commission in the reconciliation process, shall be the Annual Reconciliation Balance (ARB) applicable to the next annual calculation of the Annual Reconciliation Charge.