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**Rider 36  
Variable Income Tax Adjustment**

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**Applicable to All Rates  
\* Except Rates 17, 19, 21, and 82**

**Section A - Applicability and Purpose**

Rider 36, Variable Income Tax Adjustment (VITA), expressed on a cents per therm basis, recovers or refunds changes in tax expense resulting from changes in income tax rates and changes in the amortization of deferred taxes excesses and deficiencies that differ from those used in the Company's last rate case. The Company shall determine separate adjustments for the service classifications (i) Rate 1 – Residential Service, (ii) Rates 4, 5, 74, and 75 (Small Non-Residential), and (iii) Rates 6, 7, 76, and 77 (Large Non-Residential). Rates 17, 19, 21, and 82 are excluded.

The Company annually shall review the need for any adjustments under this rider. Any adjustments, as defined in Section D of this rider, shall be filed with the Commission or postmarked, no later than June 20 of each year (beginning June 20, 2018), and shall be in effect for the twelve-month period commencing the following July 1 (beginning July 1, 2018). The initial VITA shall be calculated for the 2018 Tax Period running from January 25, 2018 through December 31, 2018, and be applicable to service rendered during the twelve monthly billing periods beginning on or after July 1, 2018.

The amount of the VITA shall either be designated as a separate line item on each customer's bill as "Variable Income Tax Adjustment", or similar legend, or summed together with the Company's Rider 3 – Variable Tax Cost Adjustment as a single line item on the customer's bill as "Tax Cost Adjustment", or similar legend. The revenues resulting from this rider shall be recorded with a separate revenue identifier or in a separate revenue sub-account.

**Section B - Definitions**

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

**Base Rate Revenues** – shall mean for purposes of this Rider, base rate revenues as defined in Rider 32 – Qualified Infrastructure Plant ("QIP"), plus Rider 32 revenues.

**Effective Period** – shall mean the twelve (12) month period of July 1 through June 30, during which the VITA charge or credit will be in effect.

**Reconciliation Period** – shall mean the nine (9) month period of October 1 through June 30.

**Tax Period** – The 2018 Tax Period shall be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018. Beginning 2019, the Tax Period shall mean the calendar year period of January 1 through December 31.

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**Section C - Determination of Income Tax True-Up (ITTU)**

The amount of the Income Tax True-Up (ITTU), if any, applicable to each Tax Period may be a positive or negative value. It shall be determined annually using the following formulas:

$$\text{ITTU} = (((\text{OpInc} + \text{PrIT} - \text{INT}) \times \text{NetITR}) + \text{EDT}) \times \text{GRCF}$$

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

Where:

**OpInc** = Operating Income from the Company's rate case used in setting base rates, as determined in the Company's most recent rate order, in effect during the Tax Period.

**PrIT** = Income Tax Expense included in the calculation of authorized Revenue Requirement and Operating Income from the Company's rate case used in setting base rates, as determined in the Company's most recent rate order, in effect during the current Tax Period.

**INT** = Synchronized Interest from the Company's rate case used in setting base rates, as determined in the Company's most recent rate order, in effect during the current Tax Period.

**NetITR** = Difference in State and Federal Income Tax rates in the applicable Tax Period from the rates used in the Company's base rates in effect during the Tax Period, where the State Tax rate includes the Illinois Personal Property Tax Replacement Income Tax rate. The 2018 Tax Period shall be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018.

**EDT** = Difference in the amortization of deferred tax excess and deficiencies which result from the difference in the income tax provision versus income tax payable in the Tax Period from the amount calculated in the Company's rate case used in setting base rates in effect during the Tax Period adjusted for the rate of return in the Company's rate case used in setting base rates in effect during the Tax Period. An estimate of EDT for the current Tax Period shall be included in the ITTU calculation and reconciled the subsequent year. The 2018 Tax Period shall be prorated based on the number of calendar days from January 25, 2018 through December 31, 2018.

**GRCF** = Gross Revenue Conversion Factor.

**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.

If base rates change during the applicable Tax Period, then the OpInc, PrIT, and INT values and the base rate component of the EDT shall be prorated based on the number of days of service during the applicable Tax Period that each set of base rates were in effect.

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**Section C - Determination of Income Tax True-Up (ITTU) (continued)**

In a Tax Period in which new income tax rate or rates become effective, the NetITR shall be prorated based upon the number of days each tax rate was in effect in the Tax Period. If a change in one or more of the income tax rates occurs on different effective dates within the same Tax Period, separate ITTU amounts will be calculated for each. The sum of the ITTUs constitutes the total ITTU to use to calculate the VITA amounts for the applicable Tax Period. For any Tax Period for which NetITR is zero, EDT will be zero. If applicable income tax codes in a Tax Period differ from income tax codes used in the Company's last rate case and result in a material change in the Company's tax liability, the Company will file a revised tariff to make the necessary adjustments to reflect the impact of such income tax code changes.

**Section D - Determination of Adjustment**

The Variable Income Tax Adjustment (VITA) for each Tax Period shall be billed over a twelve-month period beginning July 1 of the filing year. A separate per therm adjustment shall be determined for each of the service classifications to which this rider applies, in accordance with the following formula:

$$\text{VITA} = ((\text{ITTU} \times \text{BR} \times 100) / \text{T}) + ((\text{RA} + \text{O}) / \text{T}_R)$$

Where:

VITA = Variable Income Tax Adjustment for each service classification in cents per therm.

ITTU = Income Tax True-Up as described in Section C of this rider.

BR = Forecasted Base Rate revenue for the service classification as a percentage of the total forecasted Base Rate revenue for all applicable service classifications.

T = Forecasted number of therms of gas to be delivered to the service classification by the Company for the Effective Period.

T<sub>R</sub> = Forecasted number of therms of gas to be delivered to the service classification by the Company for the Reconciliation Period.

RA = Reconciliation Adjustment, which shall be determined for each Service Classification by subtracting actual booked VITA revenues from expected VITA revenues. Expected VITA revenues shall be calculated based upon the previous Effective Period's VITA multiplied by the projected number of therms of gas to be delivered (T<sub>R</sub>). The RA shall be effective for the Reconciliation Period. No reconciliation component shall be included in the May through July period.

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**Section D - Determination of Adjustment (continued)**

O = Commission ordered adjustment amount for each service classification, resulting from a Commission Order in a reconciliation proceeding, plus the calculated interest attributable to the O component. Interest shall be at the rate established by the Commission for deposits under 83 Illinois Administrative Code Section 280.40(g)(1). Interest on the O component shall be applied from the end of the reconciliation period until the O component is refunded or charged to customers through the VITA.

**Section E - Information Sheet Filing**

The VITA shall be filed with the Commission or postmarked on an Information Sheet with supporting data no later than June 20 of each year. An Information Sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed Information Sheet for the same effective date. Any other Information Sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days' notice under the provisions of Section 9-201(a) of the Public Utilities Act.

A new VITA, if any, shall become effective on July 1, with a new RA component becoming effective, if required, on October 1.

**\* Section F - Reconciliation**

No later than September 30 of each year following an Effective Period during which a VITA charge or credit was billed, the Company shall file a petition with the Commission seeking initiation of a 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-month period commencing on July 1 of the prior year with (b) the total ITTU used in the calculations of the VITA. Any adjustment made through the RA component shall be in effect for nine months commencing on the October 1 immediately following submittal of the reconciliation. In conjunction with the reconciliation filing, a new Information Sheet may be filed adjusting the then effective VITAs under this rider for the amount to be reconciled. Supporting documentation and workpapers affecting the information presented in the Company's reconciliation petition shall be provided to the Commission's Accounting Staff at the time of this filing. At the time of filing the reconciliation for this Rider, the Company shall also file direct testimony in support of the filing.

If the Commission finds, after hearing, that any amounts were incorrectly calculated, debited, or credited during the applicable reconciliation year to the extent that the adjustment has not already been reflected through an adjustment to the RA component of the VITA, the Commission may by order require that the rider be adjusted through the O component in the VITA formula in Section D of this rider. Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Illinois Administrative Code Part 280. Interest on the O component shall be applied from the end of the reconciliation period until the O component is refunded or charged to customers through the VITA.

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**Section G – Internal Audit**

The Company shall annually conduct an internal audit of the revenue recovered or refunded pursuant to this rider. The internal audit shall determine if: 1) the actual amount of revenues collected or refunded through Variable Income Tax Adjustments are correctly reflected in the calculations; 2) the revenues are not collected or refunded through other approved tariffs; 3) Variable Income Tax Adjustments are being properly reflected in customer bills; and 4) Variable Income Tax Adjustment 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 by electronic mail to the Commission's Manager of the Accounting Department, no later than January 2<sup>nd</sup> following each annual reconciliation filing with the initial internal audit report submitted no later than January 2, 2020. Such report shall be verified by an officer of the Company.