

We Have the Energy 2007

Gas Distribution Update

Delivering safe and reliable natural gas to improve the lives of people

January 12, 2007

Gas Distribution Update focuses on the following areas, which vary by issue:

- ◆ *Operational Excellence*
- ◆ *Stakeholder Relationships*
- ◆ *Gas Prices Update*
- ◆ *Managing Bad Debt*
- ◆ *In the Community*
- ◆ *While at Work*
- ◆ *Financial Results*
- ◆ *Just for Customers*

Operational Excellence

Compliance

A settlement on the **Corrosion Inspection Case** was approved by the Illinois Commerce Commission (ICC) on December 20. In the settlement, Peoples Gas agreed to pay a fine of \$1 million and to pay for a consultant hired by the ICC to conduct a comprehensive investigation of PGL's compliance with ICC pipeline safety regulations. In addition, Peoples Gas and the city of Chicago will institute a series of regular meetings for planning, exchange of information, and coordination of activities related to infrastructure and compliance work.

Last year, in an effort to complete the **120,000 Inside Safety Inspections (ISI)** due as required by federal regulations, we conducted a comprehensive campaign that included four mailings to customers along with easy scheduling methods on-line and over the phone. By the end of 2006, these efforts resulted in all but 10,000 inspections being completed. To help achieve 100% compliance, our team initiated an outbound call campaign along with door-to-door visits. We're now down to about 6,900 remaining to complete for calendar 2006. We will be working with the ICC and the City of Chicago to address the remaining ISIs due from last year. Beginning this year, we will be adding random quality checks of ISIs to ensure effectiveness and customer satisfaction.

Gas Management Audit As part of the Settlement Agreement which resolved the open gas charge cases from fiscal 2001 through fiscal 2004, the company agreed to an external management audit of the Peoples Gas and North Shore Gas gas supply functions. The ICC awarded the management audit contract to Liberty Consulting Group. Liberty has submitted its first set of data and interview requests. The audit kickoff meeting with the ICC and Liberty is scheduled for Wednesday, January 17 with the first set of interviews to be conducted on January 18 and 19. Liberty will then be here on and off over the next several months gathering and verifying information. They are expected to produce a draft report of the management audit with recommendations before the end of 2007.

Infrastructure As a condition to the merger agreement, the ICC requested that we hire a consultant to evaluate our Cast Iron & Ductile Iron Gas Pipe Replacement program. PGL's gas main distribution network currently includes approximately 4,000 miles of distribution piping of which approximately 2,000 miles is comprised of cast and ductile iron pipe material. A Request for Proposal ("RFP") was sent out to three consultants. Kiefner & Associates, Inc. was determined to be the best qualified to perform the evaluation of our system. The study is projected to be completed by mid-February. It will include several criteria, including evaluation of the current replacement program and recommendations going forward.

Financial

Distribution operating costs were favorable to budget through November by \$7.2 million. This was primarily the result of a higher delivery margin of \$1.9 million, including \$1 million related to weather and lower operating expenses of \$5.7 million including reduced bad debt, lower costs for outside services and inter-company billing. However, the outlook includes weather that is 109 degree days warmer than normal (4.9%) and send-out that is 2.5Bcf less than budget.

While at Work

Gas Distribution Holiday Events

On **December 8**, over 300 employees and guests from both PGL and NSG gathered at Macy's Narcissus Room to celebrate the holidays.

This year's event was themed *Dancing Under the Stars*, which certainly ended up being appropriate, as employees and their guests boogied the night away.

Three raffles per hour featuring cool electronics and gift cards allowed for an air of excitement all night long. Attendees enjoyed the expansive party room with an urban chic feel along with the festive holiday decorations and delicious appetizers.

Then, on **December 22**, almost 100 employees and retirees of NSG attended a celebration at Midlane Country Club in Wadsworth. A DJ spun festive music as employees danced the night away, and a caricature artist created instant alter egos of many attendees. Raffles were held as well, including an HD television, a Sony handheld Playstation and cold hard cash!

While At Work

Peoples Gas and North Shore Gas continue to bring new employees into the organization in order to help us serve our 1 million customers. Gas Distribution welcomes the following new employees to its ranks:

Peoples Gas

Arthur Sternberg, Jr. and Cedric Tucker, *operations apprentice*; Sheena Woodfork, *associate engineer*

In the Community

Volunteerism

As has become customary, Peoples Energy employees saw needs in the community and responded accordingly this holiday season. Here are some of the opportunities that employees took part in:

- Build a Library at Marconi – So far, employees have donated over 100 books to Marconi Community Academy's by visiting Amazon.com and selecting books from the school's preferred list, thus helping to spread the gift of literacy to children. You can still visit the site and send books, if you'd like to help.
- Stuff a Stocking for The Night Ministry – Employees contributed numerous items for The Night Ministry's stocking program. In addition, employees prepared 200 bag suppers, which were distributed on December 27 to the homeless, letting people who have lost the ties of friends and family know that someone cares.
- Billing and Revenue Assurance Holiday Drive for the Needy — Suggested during a staff meeting that instead of having a gift exchange, the department sponsor a family in need. Employees learned through Humboldt Park-based Casa Central that a family of five had lost all of their belongings due to a November fire in a basement apartment. Employees rose to the occasion and donated a twin mattress set, toys for the children, clothes, gift cards and other items.
- The Residential Enrollment Services (RES) department in Revenue Assurance sponsored an additional family, which was located through the Rainbow House charity. This was the second needy family in 2006 that RES sponsored. The first drive was held at Thanksgiving.

"We are proud of the way our employees take time to recognize those in need during the holiday season," says Pat Alexander of Corporate Contributions. "It's a very busy time of the year, and I know that many lives have been touched by the efforts that were made by employees across the company."