

PEOPLES ENERGY CORPORATION

CHARTER

OF THE AUDIT COMMITTEE

OF THE BOARD OF DIRECTORS

Effective: December 2, 2005

**CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS
OF PEOPLES ENERGY CORPORATION**

I. Purpose

The Audit Committee shall assist the Board in its oversight of (1) the quality and integrity of the Company's financial statements, accounting, internal controls, and auditing; (2) the Company's compliance with legal and regulatory requirements; (3) the qualifications and independence of the independent auditor responsible for the annual financial audit ("Independent Auditor") and other independent public accountants; (4) the performance of the Company's internal audit function, the Independent Auditor and other independent public accountants; (5) the Company's Code of Business Conduct and Ethics; and (6) such other matters as the Chairman of the Audit Committee deems appropriate.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

II. Organization

A. Membership and Term

The Audit Committee shall comprise three or more directors. Each member of the Committee shall meet the independence and financial literacy requirements of the Sarbanes-Oxley Act of 2002, the New York Stock Exchange and other relevant listing authority. At least one member shall have accounting or related financial management expertise, as defined by the New York Stock Exchange. At least one member shall be an Audit Committee financial expert, as defined by the Securities and Exchange Commission.

Each member shall be chosen by the Board to serve for a term of one year or such other term as determined by the Board. The Board may choose one or more alternate members to serve in the event that any regular member is unable to act or complete his or her term for any reason. The Board shall have the power at any time to change the membership of the Committee.

If any member serves on the audit committee of more than three public companies, the Board must determine that such simultaneous service will not impair the ability of the member to serve on this Committee.

B. Chairperson of the Audit Committee

The Board shall choose the Chairperson of the Committee to serve for a term of one year or such other term as determined by the Board. The Chairperson can convene a meeting of the Committee at his/her discretion. In the absence of the Chairperson, the members of the Committee may choose another member to preside.

C. Delegation of Authority

The Audit Committee may delegate to one or more of its members the authority to grant pre-approvals of audit services and permitted non-audit services to be performed by the Independent Auditor. Any exercise of such delegated authority must be reported to the full Committee at its next scheduled meeting.

D. Meetings

The Committee shall meet as often as it determines necessary but at least quarterly.

III. Responsibilities

The Audit Committee shall have the following responsibilities:

A. General

1. Meet periodically with management, with the Independent Auditor and with the internal auditors in separate sessions.
2. Review important areas of risk for the focus of audits by the Independent Auditor, other independent public accountants or the internal auditors.
3. Have responsibility for the review of any material deviation from or failure to comply with any Company policy or procedure that comes to the attention of the Committee.
4. Concerning the relationship between the Independent Auditor and the internal auditors, (a) understand their division of responsibilities; (b) review the allocation of their work loads; and (c) facilitate full cooperation between them.
5. Review procedures for (a) the receipt, retention and treatment of complaints, questions and other information received by the Company regarding accounting, internal controls or auditing matters, and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable matters related to accounting, auditing or internal control over financial reporting.

6. Review and recommend to the Board for approval the Company's Code of Business Conduct and Ethics for directors, officers and employees of the Company; periodically review such code and recommend any proposed changes to the Board for approval.
7. Sole authority to retain and terminate outside legal, accounting or other advisors to the Committee, as appropriate, and to approve the advisor's fees and other retention terms.
8. The Committee shall receive appropriate funding, as determined by the Committee, from the Company for the payment of the Independent Auditor, any outside advisors retained by the Committee and ordinary administrative expenses of the Committee that are necessary or appropriate to carry out the Committee's duties.
9. Provide oversight of the Company's funding policy for its noncontributory defined benefit pension plans.
10. Annually evaluate the Committee's own performance in coordination with the annual performance evaluations conducted by other committees of the Board.
11. Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

B. Independent Auditor and Independent Public Accountants

1. Sole authority to retain, compensate, evaluate and replace the Independent Auditor and pre-approve all audit engagement fees and terms and all permitted non-audit engagements. The Committee shall consult with management but shall not delegate these responsibilities, except that pre-approvals of audit services and non-audit services may be delegated to one or more members of the Committee in accordance with Section II.C of this charter. The Committee shall be directly responsible for the oversight of the work of the Independent Auditor and for the resolution of disagreements between management and the Independent Auditor.
2. Evaluate the qualifications, performance and independence of the Independent Auditor, including a review and evaluation of the lead audit partner, taking into account the opinions of management and the Company's internal auditors.
3. At least annually, receive periodic reports from the Independent Auditor regarding the Independent Auditor's independence consistent with Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees), as may be modified or supplemented, discuss such reports with the Independent Auditor, and if so determined by the Committee, recommend that the Board

take appropriate action to satisfy itself of the independence of the Independent Auditor.

4. At least annually, obtain and review a report from the Independent Auditor describing (a) the firm's internal quality control procedures, (b) any material issues raised by the most recent quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the Independent Auditor and the Company.
5. Ensure that the lead audit partner of the Independent Auditor and the concurring review audit partner are rotated as required by law.
6. Review with the Independent Auditor any audit problems or difficulties the Independent Auditor encountered in the course of the audit work, including any restrictions on the scope of the Independent Auditor's activities or on access to requested information and any significant disagreements with management, and management's response, and other matters required to be discussed by generally accepted auditing standards.
7. Review policies for the Company's hiring of employees or former employees of the Independent Auditor.
8. Retain and terminate the independent public accountants who will perform annual audits of Company-sponsored benefit plans and trusts that are required to be audited under the Employee Retirement Income Security Act of 1974, as amended, and to approve such firm's fees and other retention terms and review the reports of such audits.
9. Review financial statements and reports of independent public accountants for non-consolidated joint ventures of the Company.

C. Internal Auditor

1. Ensure that the internal audit function is structured in a manner that achieves organizational independence and permits full and unrestricted access to senior management, this Committee and the Board.
2. Ensure full and unrestricted access by internal auditors to records, personnel, and property relevant to the performance of internal audits.
3. Review and approve the charter of the internal audit function.
4. Review and concur in the appointment, termination or other change of the internal audit director and provide input to management in the performance assessment and salary and bonus of the internal audit director.

5. Review and approve the internal audit function's annual audit plan, budget and staffing.
6. Assess the work performed by the internal auditors.
7. Review various auditing matters of importance, including matters relating to the Company's Code of Business Conduct and Ethics.
8. Annually review the business related expenses of all elected officers and certain appointed officers. The Chairperson of the Committee shall annually review and approve the business related expenses of the Chairman of the Board.

D. Independent Auditor and Company Management

1. Review and discuss with management and the Independent Auditor the Company's annual and quarterly financial statements, including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations.
2. Discuss the impact on the financial statements of new pronouncements and prospective changes in the accounting profession.
3. Review major changes to the Company's auditing and accounting principles and practices as suggested by the Independent Auditor, internal auditors or management.

E. Company Management

1. Review disclosures made by the Chief Executive Officer and the Chief Financial Officer in connection with their certification obligations under the Sarbanes-Oxley Act of 2002 and related regulations, the Company's disclosure controls and procedures and its internal control over financial reporting.
2. Discuss earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies.
3. Discuss with management the Company's guidelines and policies relating to risk assessment and risk management, its major financial risk exposures and the steps management has taken to monitor and control such exposures.
4. Review with management any significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements.

5. Review Company management's response to problems or questions raised by the internal auditing department or the Independent Auditor regarding allegations of illegal acts and monitor that Company management takes timely and appropriate remedial actions if advised of illegal acts that could have a material effect on the Company's financial statements.
6. As it deems necessary, review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies, and any material reports or inquiries received from regulators or governmental agencies.

F. SEC and Listing Authority Reporting Matters

1. Make recommendations to the Board regarding the audited financial statements to be included in the Company's annual report on Form 10-K for the prior fiscal year for filing with the Securities and Exchange Commission.
2. Prepare and approve the report of the Audit Committee required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.
3. Prepare any annual reports or the like required by the New York Stock Exchange or other relevant listing authority regarding the application of such listing authority's or authorities' standards regarding the Audit Committee.
4. Review any reports of the Independent Auditor mandated by Section 10A of the Securities Exchange Act of 1934, as amended, and obtain from the Independent Auditor any information with respect to illegal acts in accordance with Section 10A; notify the Securities and Exchange Commission of the Independent Auditor's conclusion within one business day after receipt of the report, and furnish the Independent Auditor with a copy of such notice.

G. Communication and Reporting to the Board

1. Report regularly to the Board.
2. Provide for a line of communication between the Board and both the Independent Auditor and the internal auditors.
3. Report to the Board on the results of the benefit plan and trust audits.

Effective: December 2, 2005
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