

Nicor Gas Company
Weighted Average Cost of Capital

	Nicor Gas Co. Capital Structure (Percent)¹	Average Cost (Percent)¹	Weighte Cost (Percent)
Debt	43.51 %	6.72 %	2.92 %
Preferred Stock	0.12	4.77	0.01
Equity	56.37	10.82	6.10
WACC	100.00		9.03 %

[1] See: NICOR Gas Witness R. Hawley/R. Mudra, Exhibit 20.1, Revised & Updated Schedule D-1, p. 1 of 3.

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Debt	43.51 %	6.72 %	2.92 %
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Equity	56.37	10.95	6.17
WACC	100.00		9.10 %

[1] See: NICOR Gas Witness R. Hawley/R. Mudra, Exhibit 20.1, Revised & Updated Schedule D-1, p. 1 of 3.

Prepared by:
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**Nicor Gas Company
 Comparable Group**

Company	Ticker Symbol	Revenue from Regulated Operations ¹ 2003	Revenue from Regulated Operations ¹ 2004
1 Cascade Natural Gas	CGC	100.0	100.0
2 KeySpan Corp.	KSE	81.9	92.4
3 Nicor, Inc.	GAS	88.3	86.0
4 Northwest Nat. Gas	NWN	96.8	98.0
5 Piedmont Natural Gas	PNY	100.0	100.0
6 Southwest Gas	SWX	84.0	85.0
Average		91.8	93.6

¹ From SEC Filings 10-K and Annual Reports. Data for 2003 and 2004.

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Nicor Gas Company
Comparable Group
Spot - Date Adjusted Stock Prices

Company	Ticker Symbol	Ex-Dividend Date ²		Stock Price Date	Days to Ex-Div Date	Percent Days Expired ¹	Last Dividend	Adjusted Dividend	Closing Stock Price ²	Adjusted Stock Price
		Last [a]	Next [b]							
1 Cascade Natural Gas	CGC	12-Jan-05	12-Apr-05	7-Feb-05	64	28.89	0.240	0.07	20.46	20.39
2 KeySpan Corp.	KSE	10-Jan-05	10-Apr-05	7-Feb-05	62	31.11	0.455	0.14	40.18	40.04
3 Nicor	GAS	29-Dec-04	29-Mar-05	7-Feb-05	50	44.44	0.465	0.21	37.26	37.05
4 Northwest Nat. Gas	NWN	27-Jan-05	27-Apr-05	7-Feb-05	79	12.22	0.325	0.04	34.94	34.90
5 Piedmont Natural Gas	PNY	20-Dec-04	20-Mar-05	7-Feb-05	41	54.44	0.215	0.12	23.24	23.12
6 Southwest Gas	SWX	10-Nov-04	11-Feb-05	7-Feb-05	4	95.56	0.21	0.20	25.50	25.30

Notes:

[1] $((90 - \text{Days to Ex-Div Date}) / 90) * 100$

[2] Yahoo! Finance Research, <http://finance.yahoo.com>. Closing prices on February 7, 2005.

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Nicor Gas Company
Comparable Group
Dividends

Company	Recent Quarterly Dividends Paid Per Share (D ₀)				Growth ¹ Rate, g (Percent)	Expected Quarterly Dividend Growth Rate Per Share (D ₁)			
	Q ₁ (\$/Share)	Q ₂ (\$/Share)	Q ₃ (\$/Share)	Q ₄ (\$/Share)		Q ₁ (\$/Share)	Q ₂ (\$/Share)	Q ₃ (\$/Share)	Q ₄ (\$/Share)
1 Cascade Natural Gas	0.240	0.240	0.240	0.240	7.68	0.26	0.26	0.26	0.26
2 KeySpan Corp.	0.445	0.445	0.445	0.455	4.57	0.47	0.47	0.47	0.48
3 Nicor	0.465	0.465	0.465	0.465	4.49	0.49	0.49	0.49	0.49
4 Northwest Nat. Gas	0.325	0.325	0.325	0.325	5.23	0.34	0.34	0.34	0.34
5 Piedmont Natural Gas	0.215	0.215	0.215	0.215	5.64	0.23	0.23	0.23	0.23
6 Southwest Gas	0.205	0.205	0.205	0.205	8.35	0.22	0.22	0.22	0.22
Average									

Notes:

[1] Simple Average of Value Line EPS, Value Line BR+SV, and Zacks growth rates.

Nicor Gas Company
Comparable Group
Sustainable Growth Method

Company	R	D _e	V _e	V		R _{av}	B ³	B*R ⁴	S*V	B*R+S*V
	Estimated Return on Common Equity ¹ (Percent)	Estimated Dividend Per Share ¹ (\$)	Estimated Book Value Per Share ¹ (\$)	Book Value Per Share	2003	2002			Return on Average Equity ² (Percent)	
1 Cascade Natural	12.00	0.98	13.75	10.11	10.34	11.87	39.93	4.74	0.07	4.81
2 KeySpan Corp.	10.50	1.95	29.20	22.94	20.67	11.05	39.55	4.37	1.79	6.16
3 Nicor	15.00	2.12	19.40	17.13	16.55	15.26	28.38	4.33	(0.81)	3.52
4 Northwest Nat. Gas	10.00	1.45	23.50	19.52	18.88	10.17	39.31	4.00	0.38	4.38
5 Piedmont Natural	10.50	0.95	14.40	9.36	8.91	10.76	38.68	4.16	1.09	5.25
6 Southwest Gas	9.50	0.82	23.25	18.42	17.91	9.63	63.39	6.11	0.65	6.76
Average:										5.15 %

Source: *The Value Line Investment Survey*, Issue 3, December 17, 2004.

Notes:

[1] 2007-2009 estimated return on common equity, dividends per share, and book value per share as reported in Value Line.

[2] $R_{av} = R * [(2 * V_{01}) / (V_{01} + V_{00})]$. In this formula, current data, (on the end-of-year book values for 2002 and 2003) is used as a factor to transform the end-of-year 2007-2009 projected book values from Value Line to a mid-year book value.

[3] $B = 1 - (D_e / (R_{av} * V_e))$.

[4] $B * R = B * R_{av} = (R_{av} - D_e / V_e)$.

[5] S*V equals five year average of S, multiplied by current V, where S = annual growth rate of common shares outstanding and V = fraction of new funds provided that accrues to original shareholders.

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Nicor Gas Company
Comparable Group
S and V Estimation

Company	Growth Rate of Common Shares Outstanding (S)					Average S ¹	V ²	S*V (h)=[(f)*(g)]
	1999 (a)	2000 (b)	2001 (c)	2002 (d)	2003 (e)			
1 Cascade Natural Gas	0.0000	0.0000	0.0000	0.0000	0.0072	0.0014	0.5042	0.0007
2 KeySpan Corp.	0.0265	0.0186	0.0225	0.0214	0.1211	0.0420	0.4271	0.0179
3 Nicor	(0.0130)	(0.0299)	(0.0240)	(0.0088)	0.0007	(0.0150)	0.5377	(0.0081)
4 Northwest Nat. Gas	0.0097	0.0056	0.0000	0.0143	0.0137	0.0086	0.4407	0.0038
5 Piedmont Natural Gas	0.0181	0.0198	0.0172	0.0193	0.0171	0.0183	0.5952	0.0109
6 Southwest Gas	0.0191	0.0232	0.0246	0.0246	0.0282	0.0240	0.2721	0.0065

Source: *The Value Line Investment Survey*, Issue 3, December 17, 2004.

Notes:

[1] Average common shares outstanding growth rate for 1999-2003.

[2] V = (1-(2003 Book Value per Share/Average Stock Price))

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Nicor Gas Company
Comparable Group
Growth Rate Estimates

Company	Value Line EPS ¹		Estimated	Zacks	B*R+S*V	Average
	2003	2007-2009	VL Growth ²	Growth ³	Growth	Growth ⁴
	(\$)	(\$)	(Percent)	(Percent)	(Percent)	(Percent)
1 Cascade Natural Gas	0.87	1.55	12.24	6.00	4.81	7.68
2 KeySpan Corp.	2.62	3.00	2.75	4.80	6.16	4.57
3 Nicor	2.11	2.90	6.57	3.38	3.52	4.49
4 Northwest Nat. Gas	1.76	2.40	6.40	4.90	4.38	5.23
5 Piedmont Natural Gas	1.11	1.55	6.91	4.77	5.25	5.64
6 Southwest Gas	1.13	2.15	13.73	4.57	6.76	8.35
Average:			8.10 %	4.74 %	5.15 %	5.99 %

Notes:

[1] *The Value Line Investment Survey*, Issue 3, December 17, 2004.

[2] $([2007-2009 \text{ EPS Estimate}] / [2003 \text{ EPS}]^{0.20} - 1) * 100$.

[3] Estimated Long Term EPS Growth Rate as next 5 yrs as reported in the Direct Testimony of Illinois Commerce Commission Witness Michael McNally, Docket No. 04-04779, Schedule 5.7 and telephone conversation with Zachs representative on March 22, 2005.

[4] Simple average of Estimated Value Line EPS, Value Line BR+SV, and Zacks growth rates.

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Nicor Gas Company
Equity Issuance Expense³

SEC Filing Date	Number of Shares Issued (No.)	Price/Share (\$)	Proceeds (\$)	Per Share Underwriting Discounts & Commissions (\$)	Total Underwriting Discounts & Commissions (\$)	Net Proceeds ¹ (\$)	Estimated Company's Expenses (\$)	Selling & Issuance Costs ² (Percent)
7/11/1961	450,037	49.500	22,276,832	0.297	133,661	22,143,171	165,000	1.34
4/22/1971	900,000	32.875	29,587,500	0.780	702,000	28,885,500	62,000	2.58
7/19/1973	1,000,000	25.500	25,500,000	0.727	727,000	24,773,000	57,000	3.07
7/25/1979	1,500,000	31.500	47,250,000	0.830	1,245,000	46,005,000	80,000	2.80
9/2/1980	1,500,000	32.500	48,750,000	0.890	1,335,000	47,415,000	90,000	2.92
Average Expense				0.705	828,532	33,844,334	90,800	2.54
Issuance Expense Adjustment								97.46

Notes:

[1] Net Proceeds = Proceeds - Total Underwriting Discounts & Commissions.

[2] Selling & Issuance Costs = (Total Underwriting Discounts & Commissions + Estimated Company's Expenses)/Proceeds.

[3] Issuance data is derived from Hawley/ Mudra, See Exhibit 4.2.

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Nicor Gas Company
Comparable Group
DCF Cost of Equity

Company	Dividend ¹ Yield (Percent)	Growth ² Rate, g (Percent)	Adjusted ³ Stock Price, P ₀ (\$)	Stock Price ⁴ S&I Adjusted (\$)	Unadjusted ^{5,6} ROE, k _e Before S&I (Percent)	Change (Percent)	S&I ⁷ Adjusted ROE (Percent)
1 Cascade Natural Gas	5.31	7.68	20.39	19.87	13.00	0.14	13.14
2 KeySpan Corp.	4.84	4.57	40.04	39.02	9.41	0.13	9.53
3 Nicor	5.44	4.49	37.05	36.11	9.93	0.14	10.07
4 Northwest Nat. Gas	4.05	5.23	34.90	34.01	9.28	0.11	9.39
5 Piedmont Natural Gas	4.07	5.64	23.12	22.53	9.71	0.11	9.82
6 Southwest Gas	3.67	8.35	25.30	24.66	12.02	0.10	12.12
Average					10.56 %	0.12 %	10.68 %

Notes:

[1] Forward Quarterly Dividend per Share (Qf) = {[Qf*(1+ke)^{0.75}+Qf*(1+ke)^{0.5}+Qf*(1+ke)^{0.25}+Qf]/Po} * (1+Growth Rate)

[2] Simple Average of Value Line, Zacks earnings and BR+SV growth rates.

[3] Spot-Date Adjusted Stock Price.

[4] Adjusted Price=0.9746*Ex-Div Price. Adjustment based on flotation cost of 2.54 percent.

[5] Calculated using Quarterly DCF Formula: Cost of Equity (ke) = {[Qf*(1+ke)^{0.75}+Qf*(1+ke)^{0.5}+Qf*(1+ke)^{0.25}+Qf]/Po}

[6] Not adjusted for selling and issuance expenses.

[7] ROE adjusted by selling and issuance expenses.

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Nicor Gas Company
Comparable Group
Capital Asset Pricing Model (CAPM)

No. Company	30-Year T-Bond Return (Rf) ¹	Beta Value Line ²	Market Risk Premium	CAPM Cost of Equity ⁵
			Top-Down DCF - 30 Yr T- Bond Return ^{3,4}	Top-Down DCF - 30 Yr T-Bond Return
	%			%
1 Cascade Natural Gas	4.68	0.75	7.84	10.56
2 KeySpan Corp.	4.68	0.80	7.84	10.95
3 Nicor	4.68	1.05	7.84	12.91
4 Northwest Nat. Gas	4.68	0.65	7.84	9.78
5 Piedmont Natural Gas	4.68	0.75	7.84	10.56
6 Southwest Gas	4.68	0.80	7.84	10.95
Average		0.80		10.95

Notes:

[1] From *The Value Line Selection and Opinion*, February 4, 2005.

[2] From *The Value Line Investment Survey*, Issue 3, December 17, 2004.

[3] The formula used is Risk Premium = $[(Do \cdot (1+g)) + g] - Rf$

[4] Dividend yield for S&P 500 is from Standard & Poors Online, Indices, S&P 500, Month End Data. See Exhibit No. x-11. Five-year earnings growth rate is from Yahoo! Finance (First Call)

[5] Cost of Equity = $Rf + \text{Beta} (RM - Rf)$, where Rf is the return on the 30-year Treasury Bond, and (RM - Rf) is the market premium computed as described in footnote [3] and [4].

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Nicor Gas Company
Comparable Group
Capital Asset Pricing Model (CAPM)

No.	Company	30-Year T-Bond Return (Rf) ¹	Beta Value Line ²	Market Risk Premium		CAPM Cost of Equity ⁴	
				(I/S) ³ 1926-2003	(I/S) ³ 1926-1999	Value Line, (I/S) 1926-2003	Value Line, (I/S) 1926-1999
		%				%	%
1	Cascade Natural Gas	4.68	0.75	6.63	7.78	9.65	10.52
2	KeySpan Corp.	4.68	0.80	6.63	7.78	9.98	10.90
3	Nicor	4.68	1.05	6.63	7.78	11.64	12.85
4	Northwest Nat. Gas	4.68	0.65	6.63	7.78	8.99	9.74
5	Piedmont Natural Gas	4.68	0.75	6.63	7.78	9.65	10.52
6	Southwest Gas	4.68	0.80	6.63	7.78	9.98	10.90
Average			0.80			9.98	10.90

Notes:

- [1] From *The Value Line Selection and Opinion*, February 4, 2005.
[2] From *The Value Line Investment Survey*, Issue 3, December 17, 2004.
[3] Computed as the difference between the arithmetic averages of annual returns over the periods 1926-2003 and 1926-1999 from [a] large company stocks, and [b] long-term government bonds, from Ibbotson Associates, 2004 Yearbook.
[4] Cost of Equity = Rf + Beta (RM - Rf), where Rf is the return on the 30-year Treasury Bond, and (RM - Rf) is the market premium computed as described in footnote [3].

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Nicor Gas Company
DCF of the S&P 500

Dividend Yield S&P 500 ¹	1.72 %
Growth Rate S&P 500 ²	10.57 %
DCF S&P 500 ³	12.47 %
Issuance Expense	0.05 %
Total DCF S&P 500	12.52 %

Notes:

[1] From Standard & Poors S&P 500 Earnings and Estimate Report at http://www2.standardandpoors.com/NASApp/cs/ContentServer?pagename=sp/Page/IndicesIndexPg&l=EN&b=4&f=1&s=6&ig=48&i=56&r=1&xcd=500&fd=IndicesMonthEnd_500

[2] Yahoo! Finance (First Call)

[3] $DCF = (Div\ Yield * (1 + Growth)) + Growth$

[4] $Total\ DCF = (DCF\ S\&P\ 500)(1 - Average\ Issuance\ Expense) + Growth\ Rate\ S\&P\ 500$

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