PROSPECTUS

150,000 Shares

Northern Illinois Gas Company

4.48% Preferred Stock

(Cumulative - Par Value $100 Per Share)

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public (1)	Underwriting Discounts and Commissions	Proceeds to Company (1)(2)
Per Unit..............	$101.00	$.9301	$100.0699
Total	$15,150,000	$139,515	$15,010,485

(1) Plus accrued dividends, if any, from the date of issue to the date of delivery and payment.
(2) Before deducting certain expenses payable by the Company, estimated at $47,000.

The Stock is offered subject to prior sale and to withdrawal, cancellation or modification of the offer without notice, and when, as and if issued and accepted by the Purchasers and subject to the approval of certain legal matters by Messrs. Wilson & McIlvaine, counsel for the Purchasers. It is expected that delivery of the Stock will be made at the office of Lehman Brothers, One William Street, New York, N. Y. 10004, on or about March 25, 1965, against payment therefor in New York funds.

Among the Purchasers are:

Lehman Brothers

Blyth & Co., Inc.

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

Salomon Brothers & Hutzler

Blair & Co., Granbery, Marache
Incorporated

Dick & Merle-Smith

Drexel & Co.

Ladenburg, Thalmann & Co.

J. Barth & Co.

Courts & Co.

Shelby Cullom Davis & Co.

Johnston, Lemon & Co.

New York Hanseatic Corporation

The Ohio Company

IN CONNECTION WITH THE OFFERING, THE PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The date of this Prospectus is March 17, 1965

NEW PREFERRED STOCK

The 150,000 shares of 4.48% Preferred Stock, cumulative, par value $100 per share (the "New Preferred Stock"), will constitute the fourth series of the Company's preferred stock. There are now outstanding 92,000 shares of the first series, designated 5% Preferred Stock; 144,000 shares of the second series, designated 5.50% Preferred Stock (which will be redeemed as stated under "Use of Proceeds" herein); and 43,240 shares of the third series, designated 5% Convertible Preferred Stock.

Dividends on the New Preferred Stock, cumulative from date of issue, will be payable quarterly, on the first day of February, May, August, and November in each year, when and as declared by the Board of Directors, at the rate of 4.48% per annum on the par value thereof.

The first dividend of 46.62 cents per share for the period March 25, 1965 (the date of issue) to May 1, 1965, will be paid on May 1, 1965, to holders of record of the New Preferred Stock on April 16, 1965.

The New Preferred Stock will be entitled to the benefit of a sinking fund, described under "Description of Stock," subcaption "Sinking Fund."

The per share optional redemption prices applicable to the New Preferred Stock are:

$105.48 if redeemed before May 1, 1970; $104.36 if redeemed on or after May 1, 1970, but before May 1, 1975; $103.24 if redeemed on or after May 1, 1975, but before May 1, 1980; and $102.12 if redeemed on or after May 1, 1980; in each case plus any accrued and unpaid dividends. The New Preferred Stock will be redeemable for the sinking fund at the initial public offering price, plus any accrued and unpaid dividends.

Holders of the New Preferred Stock will be entitled to receive, in the event of any involuntary dissolution, liquidation or winding up of the Company, $100 per share and, in the event of voluntary dissolution, liquidation or winding up, an amount equal to the then applicable optional redemption price, in each case plus any accrued and unpaid dividends.

See "Description of Stock" for other provisions relating to the stock of the Company.

THE COMPANY

Northern Illinois Gas Company, organized as an Illinois corporation in November, 1953, acquired on February 9, 1954 (as of February 1, 1954), all of the gas utility properties of Commonwealth Edison Company. The Company has four wholly-owned subsidiaries, Allied Gas Company ("Allied"), NI-Gas Supply, Inc., Apple River Chemical Company and NI-Gas Energy, Inc. With respect to information given herein relating to periods after December 31, 1961, the term "Company" includes Allied unless the context otherwise indicates.

The Company is a public utility engaged principally in the purchase, distribution and sale of natural gas in 388 communities and adjacent areas in 28 counties in northern Illinois including areas in Cook County generally outside the City of Chicago. The general office is at the East-West Tollway at Route 59, Du Page County, Illinois. The Company's service area comprises about 14,400 square miles in the northern quarter of Illinois between Lake Michigan and the Mississippi River.

The Company's service area (see Map, page 12) is characterized by diversification among industry, commerce and agriculture. Many of the communities and adjacent areas served are heavily industrialized. Since

1950 there has been a substantial increase in manufacturing activity, both in number of plants and employment. The three largest industry groups served by the Company are primary metals, glass, and petroleum products.

The population of the area is estimated at 3,580,000, an increase of about 1,584,000, or 80%, since 1950. Because of the importance of residential space heating and appliance use, this population increase and the accompanying high level of residential building activity have been significant factors in the growth of the Company. At December 31, 1964, the Company had 874,342 customers, an increase of 494,000 since December 31, 1950. During the same period, the number of space heating customers increased from about 70,000 to 667,500, representing about 76% of the total number of customers.

During the period 1946–1960, the Company had restrictions on the sale of gas for firm use. These restrictions were necessary since the Company had a limited supply of gas from its suppliers. Since late in 1958 the amount of gas available to the Company for space heating and other firm sales has substantially increased and by the end of 1960 all restrictions on the sale of gas for firm use had been removed. As a result the Company has been able to increase the number of space heating customers by 79,823 in 1959, 76,879 in 1960, 56,428 in 1961, 47,528 in 1962 (exclusive of 6,812 served by Allied), 65,795 in 1963, and 53,173 in 1964.

For information concerning the Company's nonutility subsidiaries, reference is made to "Business," subcaption "Nonutility Subsidiaries" herein.

USE OF PROCEEDS

The net proceeds from the sale of the New Preferred Stock will be applied to the redemption on May 1, 1965, of the 141,000 shares of the Company's 5.50% Preferred Stock then to be outstanding at the redemption price of $107 per share, plus accrued and unpaid dividends.

CONSTRUCTION PROGRAM

Utility construction expenditures of the Company for the five-year period 1965–1969 are now estimated at $180,000,000. About $113,000,000 is to provide for the connection of new customers and for additional space heating business, $35,000,000 for the development of additional underground gas storage facilities, $20,000,000 for supply mains to deliver gas to local systems, and $12,000,000 for general plant. It is estimated that the expenditures, by years, will be as follows: 1965—$46,000,000, 1966—$31,000,000, 1967—$33,000,000, 1968—$39,000,000, 1969—$31,000,000. It is expected that approximately $95,000,000 of the required funds will be obtained through the sale of securities, of which $20,000,000 principal amount of 4½% Sinking Fund Debentures, due March 1, 1986, being offered to the public concurrently with the New Preferred Stock, will be a part. The balance is expected to be provided principally out of depreciation accruals over the five-year period.

During 1965, the Company expects to invest approximately $18,000,000 in Apple River Chemical Company which will use the funds to complete the construction of its new plant for the manufacture of anhydrous ammonia. No further construction expenditures by this or any other nonutility subsidiary of the Company are presently contemplated during the 1965–1969 period.

The nature and timing of such additional financing as may be required will be determined in the light of future developments and market conditions. The construction program and the financing thereof are subject to continuous review and revision.

CAPITALIZATION

The capitalization of the Company as of December 31, 1964, and adjusted to reflect the issuance and sale of the New Preferred Stock, the redemption on May 1, 1965, of the Company's 5.50% Preferred Stock, and the issuance and sale of the Debentures referred to under "Construction Program," was as follows:

	Amount Authorized	Amount Outstanding — December 31, 1964	Amount Outstanding — Adjusted on the Basis Stated Above	
LONG-TERM DEBT:				
First Mortgage Bonds—	(a)			
3½% series, due January 1, 1979		$ 49,073,000	$ 49,073,000	
3¾% series, due April 1, 1981		12,579,000	12,579,000	
5% series, due June 1, 1984		18,400,000	18,400,000	
4⅝% series, due July 1, 1985		28,200,000	28,200,000	
4⅜% series, due July 1, 1988		19,620,000	19,620,000	
4½% series, due August 1, 1989		20,000,000	20,000,000	
		$147,872,000	$147,872,000	41.7%
Sinking Fund Debentures—				
4½%, due March 1, 1986		$ —	$ 20,000,000	5.7%
Total Long-Term Debt		$147,872,000	$167,872,000	47.4%
PREFERRED STOCK:				
Cumulative—$100 par value, issuable in series—	800,000 shs.			
5% Preferred Stock—Outstanding 92,000 shares (b)		$ 9,000,000	$ 9,000,000	
5.50% Preferred Stock—Outstanding 144,000 shares (b)		14,100,000	—	
5% Convertible Preferred Stock—Outstanding 43,240 shares		4,324,000	4,324,000	
4.48% Preferred Stock (to be outstanding—150,000 shares)		—	15,000,000	
Total Preferred Stock		$ 27,424,000	$ 28,324,000	8.0%
COMMON EQUITY:				
Common Stock, $5 par value (11,538,542 shares outstanding) (c)	18,750,000 shs.	$ 57,692,710	$ 57,692,710	
Paid-in Surplus		41,359,515	41,359,515	
Capital Stock Expense		952,019*	952,019*	
Retained Earnings (d)		60,922,901	59,935,901	
Total Common Equity		$159,023,107	$158,036,107	44.6%
Total Capitalization		$334,319,107	$354,232,107	100.0%

*Denotes deduction.

(a) No additional bonds of any outstanding series may be issued. Bonds of other series are issuable under the Indenture, subject to the terms thereof, without specified limit as to aggregate principal amount.

(b) Excludes sinking fund requirements due within one year (on May 1, 1965) of $200,000 on 5% Preferred Stock and $300,000 on 5.50% Preferred Stock.

(c) 257,835 shares are reserved for issuance under Employe Stock Purchase Plan and 129,720 shares are reserved for conversion of 5% Convertible Preferred Stock.

(d) Adjusted column reduced for the redemption premium of $987,000 on the 141,000 shares of 5.50% Preferred Stock to be redeemed.

SUMMARY OF EARNINGS

The following consolidated statement of income of the Company for the five years ended December 31, 1964, has been examined by Arthur Andersen & Co., independent public accountants (whose opinion with respect thereto is hereinafter set forth), and is included herein in reliance upon the authority of that firm as experts in giving such opinion. This statement should be read in conjunction with the other financial statements of the Company, and notes thereto, appearing elsewhere in this Prospectus. Reference is made to "Statistics" and "Wages" under "Business" for information regarding recent customer rate reductions and revisions and as to wage increases.

	Year Ended December 31				
	1960	1961	1962(a)	1963(a)	1964(a)
Operating Revenues:					
Gas	$130,221,635	$147,840,864	$166,855,395	$177,336,594	$189,156,120
Other	217,746	206,577	180,777	144,270	54,108
	$130,439,381	$148,047,441	$167,036,172	$177,480,864	$189,210,228
Operating Expenses and Taxes:					
Gas purchased	$ 52,833,531	$ 60,132,106	$ 66,338,023	$ 68,301,008	$ 72,823,784
Other operation	24,815,417	27,893,626	29,366,114	31,309,052	34,109,320
Maintenance	4,054,825	3,882,756	3,765,715	4,141,733	4,243,690
Depreciation	6,428,942	7,231,340	9,234,722	10,278,777	11,260,465
Taxes, other than federal income	7,209,788	8,040,934	8,878,935	9,902,779	10,743,606
Federal income taxes	14,414,000	16,279,000	20,107,700	21,499,500	21,429,000
Deferred federal income taxes	1,332,000	1,615,000	2,134,000	2,344,300	2,452,600
Deferral of investment tax credit	—	—	834,200	946,300	964,900
	$111,088,503	$125,074,762	$140,659,409	$148,723,449	$158,027,365
Net Operating Income	$ 19,350,878	$ 22,972,679	$ 26,376,763	$ 28,757,415	$ 31,182,863
Other Income	240,444	15,471*	122,744	90,720	2,742
Gross Income	$ 19,591,322	$ 22,957,208	$ 26,499,507	$ 28,848,135	$ 31,185,605
Income Deductions:					
Interest on debt	$ 4,072,318	$ 4,736,078	$ 4,790,095	$ 5,107,487	$ 5,807,522
Other deductions	17,771	24,868	128,155	46,020	134,488
Interest charged to construction	420,000*	231,000*	302,000*	343,700*	260,000*
	$ 3,670,089	$ 4,529,946	$ 4,616,250	$ 4,809,807	$ 5,682,010
Net Income	$ 15,921,233	$ 18,427,262	$ 21,883,257	$ 24,038,328	$ 25,503,595

*Denotes red figure.

NOTE:

(a) Allied Gas Company, which became a subsidiary of the Company on December 31, 1962, has been consolidated for periods after December 31, 1961. For further information, see Notes to Consolidated Financial Statements—Subsidiary Companies.

Annual dividends on the 5% and 5.50% Preferred Stocks and the 5% Convertible Preferred Stock are now $460,000, $792,000 and $216,200, respectively, and on the New Preferred Stock will initially be $672,000. Interest for one year on the long-term debt of the Company, outstanding as of December 31, 1964, after giving effect to the sale of the 4½% Sinking Fund Debentures, due March 1, 1986, will be $7,072,000.

BUSINESS

Statistics. The following tabulation shows data with respect to the Company's gas business for the years indicated:

	Year Ended December 31				
	1960	1961	1962 (a)	1963 (a)	1964 (a)
Operating Revenues					
Residential—					
With space heating	$ 79,715,965	$ 91,503,147	$101,967,641	$109,245,481	$115,308,640
Without space heating	12,301,708	11,165,603	10,388,690	9,614,553	8,613,989
Commercial and Public Authorities	9,399,413	13,662,260	18,432,568	21,662,118	26,046,782
Industrial—					
Firm	13,301,447	15,582,917	18,056,171	19,937,097	25,789,707
Interruptible	14,544,001	15,012,530	17,012,794	15,680,946	12,291,795
Other revenues	959,101	914,407	997,531	1,196,399	1,105,207
Total	$130,221,635	$147,840,864	$166,855,395	$177,336,594	$189,156,120
Therms Produced and Purchased (in thousands)					
Produced	878	280	139	530	38
Purchased	1,789,543	1,976,852	2,279,038	2,407,688	2,539,795
Total produced and purchased	1,790,421	1,977,132	2,279,177	2,408,218	2,539,833
Net injection for storage	67,455	99,520	99,933	82,699	101,978
Losses and company use, etc	51,465	46,279	65,229	89,802	29,057
Total	118,920	145,799	165,162	172,501	131,035
Remainder	1,671,501	1,831,333	2,114,015	2,235,717	2,408,798
Therms Sold (in thousands)					
Residential—					
With space heating	779,428	880,402	987,576	1,073,269	1,151,680
Without space heating	85,903	76,863	71,865	67,272	59,720
Commercial and Public Authorities	103,870	146,703	200,269	240,473	303,227
Industrial—					
Firm	219,131	251,533	293,904	333,367	479,395
Interruptible	483,169	475,832	560,401	521,336	414,776
Total sales	1,671,501	1,831,333	2,114,015	2,235,717	2,408,798
Customers (at end of period)					
Residential—					
With space heating	425,165	474,419	522,405	580,900	627,084
Without space heating	253,222	235,707	224,118	203,591	188,588
Commercial and Public Authorities	33,564	38,754	43,528	48,636	53,222
Industrial—					
Firm	4,176	4,581	4,931	5,164	5,380
Interruptible	54	52	70	78	68
Total	716,181	753,513	795,052	838,369	874,342
Average Annual Revenue Per Residential Customer					
With space heating	$202.71	$202.88	$203.41	$198.50	$191.99
Without space heating	46.06	45.86	45.16	44.96	43.79
Degree Days (b) (billing basis)					
For the period	6,189	6,052	6,340	6,264	6,118
% of 1951–1960 U.S. Weather Bureau average	103.0	100.7	105.5	104.2	101.8

(a) Includes Allied Gas Company. For further information, see Notes to Consolidated Financial Statements—Subsidiary Companies.

(b) A degree day is the unit used in estimating fuel consumption. The number of degree days in a given day is the average of that day's high and low temperature readings subtracted from 65°.

The maximum day sendout of firm gas of 1,504 million cubic feet occurred on February 2, 1965, when the average temperature was one degree above zero. Approximately 51% of the sendout was furnished by the Company's pipeline suppliers and 49% came from gas storage. See subcaption "Gas Storage" for a description of the Company's storage facilities.

Rate reductions and revisions were made effective during 1962, 1963 and 1964 which it was estimated would reduce revenues in excess of $12,000,000 on an annual basis. The 1964 reductions, totaling about

$8,300,000, were made in part on April 1 and the remainder on September 1; therefore, only about 33% of the full reduction was reflected in 1964 revenues. Approximately one-half of the 1964 reductions represent the effect of passing on to customers the savings resulting from the reductions in federal corporate income tax rates effective beginning January 1, 1964 and January 1, 1965. The Company anticipates that additional rate reductions will be made in the future.

Sources of Gas Supply. Natural gas distributed by the Company, having an average heating content of approximately 1,040 Btu per cubic foot, is purchased from three major pipeline companies, none of which is affiliated with the Company. Part of the supply is delivered, under a service agreement extending to 1984, through facilities of Chicago District Pipeline Company, a non-affiliated natural gas transportation company. The rates charged by the pipeline companies and the transportation company are subject to regulation by the Federal Power Commission ("FPC").

The following tabulation shows the daily contract demand quantities of natural gas to which the Company is entitled from each of its suppliers and the years of expiration of the respective service agreements with such suppliers:

Supplier	Cubic Feet	Year of Expiration (a)
Natural Gas Pipeline Company of America ("Natural")	577,553,000(b)	1984(c)
Midwestern Gas Transmission Company ("Midwestern")	100,528,000	1983(c)
Northern Natural Gas Company ("Northern Natural")	92,250,000	1979
	770,331,000	

(a) Under the Natural Gas Act these pipeline suppliers may not terminate service to the Company at the expiration of their respective service agreements without first receiving authorization to do so from the FPC.

(b) Includes 25,862,000 cubic feet being delivered through facilities constructed pursuant to temporary authorization of the FPC on August 16, 1963.

(c) Continuing from year to year thereafter until terminated by either party on one year's notice.

On December 11, 1964, Natural filed an application with the FPC to increase its pipeline delivery capacity by 192.4 million cubic feet daily, of which the Company has requested 85 million cubic feet daily.

In authorizing Natural to furnish an increase in gas supply to the Company and others, the FPC, in its order of November 13, 1961, found the gas reserves of Natural to be adequate to support the expanded service authorized by the FPC. In its order of July 27, 1964, approving a certificate application of Natural for additional pipeline delivery capacity, the FPC did not question the adequacy of natural gas reserves committed to the increased capacity of Natural.

The FPC, in authorizing Midwestern to furnish the Company the initial contract quantity of 60,000,000 cubic feet per day in its opinion and order of May 12, 1959, and an additional 15,000,000 cubic feet per day in its opinion and order of September 19, 1963, found the gas supply showing of Tennessee Gas Transmission Company (Midwestern's parent and the supplier of gas sold by Midwestern to the Company) to be adequate to support the service that Tennessee was authorized to furnish to Midwestern. In the order of July 27, 1964, approving a certificate application under which the Company received an additional 25,000,000 cubic feet per day, the FPC did not question the adequacy of the natural gas reserves committed to the capacity increase.

In authorizing Northern Natural to furnish the Company the additional supply called for by the present service agreement, the FPC, in its order of June 28, 1961, agreed with and adopted the decision of its Presiding Examiner which found that the gas reserves of Northern Natural were adequate to support the expansion of service for which Northern Natural received authorization. In its order of December 21, 1964, approving a certificate application of Northern Natural for additional pipeline delivery capacity, the FPC did not question the adequacy of natural gas reserves committed to the increased capacity of Northern Natural.

The Company makes no representation as to the existing or potential natural gas reserves of its suppliers.

Gas Storage. The Company's underground gas storage reservoir near Troy Grove, Illinois, has been operating as a part of its distribution system, by authority of the Illinois Commerce Commission, since December 9, 1959. During the 1963-1964 heating season, an aggregate of 7,539 million cubic feet of gas was withdrawn on 91 days. During the 1964-1965 heating season, through January 31, 1965, an aggregate of 11,877 million cubic feet of gas was withdrawn on 81 days. The greatest one day withdrawal was 519 million cubic feet. On January 31, 1965, approximately 16,595 million cubic feet of gas available to meet winter loads was in storage at Troy Grove. Development of this storage field is continuing.

The Company has been authorized by the Illinois Commerce Commission to undertake the preliminary development of an underground gas storage reservoir near Crescent City, Illinois. Certain persons have refused to sign gas storage agreements with the Company and the Company has obtained, through eminent domain proceedings, the gas storage rights which it needs in the land owned by such persons. The judgments entered in such proceedings are the subject of an appeal by such persons.

Pursuant to authority given the Company by the Illinois Commerce Commission, test injections were begun on August 29, 1963, at a new gas storage site near Ancona, Illinois, and on July 20, 1964, at an additional gas storage site near Garfield, Illinois. As of January 31, 1965, a total of 2,300 million cubic feet of gas has been injected into these two storage sites now being developed.

The above mentioned underground gas storage locations are shown on the Map (page 12).

The Company is continuing its efforts to locate other possible underground storage reservoirs in or near its service area. In 1964, a promising formation was found near Pontiac, Illinois. Further drilling and testing will be necessary before deciding whether or not it is suitable.

The Company has an agreement with Natural (which extends to 1984 and thereafter until cancelled by either party on one year's notice) under which the Company is entitled to store gas in Natural's underground reservoirs (located at Herscher and Cooks Mills, Illinois) and to withdraw such gas at an approximate maximum rate of 315 million cubic feet daily. On December 11, 1964, Natural filed an application with the Federal Power Commission to increase its storage withdrawal quantities at the present reservoirs and at a new reservoir in Iowa by 52 million cubic feet daily, of which the Company will be entitled to 15.6 million cubic feet. Natural, under its presently effective rate schedule is not obligated to withdraw gas for the account of any customer, from November 1 of any year to the next succeeding April 30, in excess of 30 times such customer's maximum daily withdrawal quantity. During the 1963–1964 heating season, Natural withdrew for the Company an aggregate of 8,110 million cubic feet of gas on 79 days, equal to 28 times the Company's then maximum daily contract withdrawal quantity. During the 1964–1965 heating season, through January 31, 1965, an aggregate of 7,637 million cubic feet of gas was withdrawn on 72 days. The greatest one day withdrawal was 294 million cubic feet. On January 31, 1965, the Company had approximately 6,358 million cubic feet of gas stored under this agreement.

Cost of Natural Gas. The average per therm cost of natural gas purchased for distribution by the Company, including transportation costs, for the five years 1960–1964 was as follows: 1960—3.06¢; 1961—3.18¢; 1962—3.03¢; 1963—2.93¢; 1964—2.98¢. A therm is a quantity of heat equal to 100,000 British thermal units (Btu). Thus a therm is equivalent to the heat in 100 cubic feet of natural gas having a heating content of 1,000 Btu per cubic foot.

The cost of gas purchased by the Company from Natural is determined by tariff effective January 1, 1965. At 100% load factor the cost under this tariff is 2.81¢ per therm. On February 25, 1963, the FPC issued an order instituting an investigation of Natural's rate design. No decision has as yet been rendered by the FPC.

The cost of gas purchased by the Company from Midwestern was specified in a tariff made effective January 1, 1965, in accordance with an FPC order of December 30, 1964. At 100% load factor the cost under this tariff is 3.20¢ per therm. On February 13, 1961, the FPC ordered an investigation of the rates charged by Midwestern. No decision has as yet been rendered by the FPC on certain matters, primarily related to the question of rate design.

The cost of gas which the Company purchases from Northern Natural is determined by tariff effective July 27, 1964. At 100% load factor the cost under this tariff is 3.38¢ per therm.

The Company's rate schedules on file with the Illinois Commerce Commission include a purchased gas cost adjustment clause under which increases or decreases in the unit cost of gas purchased by it on a firm supply basis are reflected in the Company's per therm charges for gas for the major portion of its sales. The purchased gas cost adjustment clause also provides for the making of refunds to the Company's customers if and when refunds are received by the Company from its pipeline suppliers. Certain refunds have been and are now being made.

Regulation. The Company is subject to the jurisdiction of the Illinois Commerce Commission. The Commission is vested with the power of supervision, regulation and control of substantially all phases of the public utility business in the State, including rates and charges, issuance of securities, service, plants and facilities, classification of accounts, transactions with affiliated interests, as defined in the Illinois Public Utilities Act, and other matters.

The Company is not subject to the jurisdiction of the Federal Power Commission under the provisions of the Natural Gas Act, as amended.

The Company is not subject to regulation by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935.

Nonutility Subsidiaries. The Company, believing that over the long term it should participate in the search for additional natural gas or the acquisition of reserves, organized NI-Gas Supply, Inc. in March, 1956, as a wholly-owned subsidiary for the purpose of engaging in the development of sources of gas through exploration, production, acquisition of reserves or otherwise. The Company has authority from the Illinois Commerce Commission to make an annual investment in this subsidiary of not to exceed 25% of the Company's prior year's net income after payment of all dividends. The Company's investment from the date of organization of NI-Gas Supply, Inc. through December 31, 1964, has been $11,590,000.

Through December 31, 1964, NI-Gas Supply, Inc. had taken fractional interests in the drilling of 704 wells. The subsidiary owned an interest at December 31, 1964, in 165 gas wells, 191 oil wells, and 21 wells productive of both gas and oil. Average participation for all wells has been 16.6%. NI-Gas Supply, Inc. estimates that its share of the gas and oil which will ultimately be recovered from the completed wells in which it owns an interest will return substantially more than its total expenditure to date.

The Company has been authorized by the Illinois Commerce Commission to invest up to $4,000,000 in, and to lend, for a period not extending beyond July 1, 1969, up to $16,000,000 to, a wholly-owned subsidiary, Apple River Chemical Company, formed in 1964, which initially will manufacture anhydrous ammonia. It is proposed that natural gas supplied by Allied will be the single source of all energy at this subsidiary's manufacturing plant now under construction near East Dubuque, Illinois. Natural gas also will be the basic raw material used in the manufacture of anhydrous ammonia. At December 31, 1964, the Company had invested $2,400,000 in common stock of this subsidiary.

The Company has also been authorized by the Illinois Commerce Commission to make an initial investment of up to $1,000,000 and investments in 1964 and subsequent years, on a cumulative basis, of not to exceed 15% of the Company's prior year's net income, after payment of all dividends, in a wholly-owned subsidiary, NI-Gas Energy, Inc., also formed in 1964, which provides financing, leasing, servicing, maintenance and other services related to gas equipment and multiple installations of gas appliances for the Company's customers. At December 31, 1964, the Company had invested $300,000 in common stock of this subsidiary.

Although studies made by the Company support the economic feasibility of Apple River Chemical Company and NI-Gas Energy, Inc., there is no assurance as to whether or when these projects will be profitable.

Wages. Collective Bargaining Agreements effective February 1, 1964, and extending to January 31, 1966, have been entered into by the Company with the eight Local Unions of the International Brotherhood of Electrical Workers. In addition, Supplemental Agreements were negotiated covering the retirement and life insurance plans, effective October 1, 1963, and expiring January 31, 1969, and the medical expense plan, effective February 1, 1964, and expiring January 31, 1967.

The increase in costs resulting from the general wage adjustments and the agreed benefit improvements for hourly personnel, other than benefits relating to the retirement plan, is estimated at $417,000 for 1964 or 2.5% of base payroll and an additional $360,000 for 1965 or 2.1% of base payroll.

Relative to the retirement plan benefit improvements, which apply to supervisory as well as union personnel, the Company's contribution to the plan for 1964 was $3,550,524, or $600,524 more than the contribution for 1963. Reference is made to "Pension Plans" under "Notes to Consolidated Financial Statements".

Increases in the rates of compensation of supervisory employes have been and will continue to be made from time to time.

About 28% of wage and salary payments and retirement and other benefit costs is currently being charged to construction.

Competition. Gas competes with other fuels and forms of energy available to the Company's customers. The use of electricity for cooking, water heating, space heating and other purposes is being actively promoted by electric utility companies in substantially all portions of the territory in which the Company supplies gas service.

Gas for house heating, certain other household uses, and small commercial and industrial space heating is now being sold by the Company at lower prices than are charged for competitive fuels and forms of energy.

PROPERTY

Net additions to the Company's plant account since 1950 represented about 76% of the plant account at December 31, 1964. The properties have been well maintained and are in good operating condition.

The Company's distribution system, which represents about 82% of its gross investment in property, includes about 13,400 miles of steel and cast iron mains and about 10,500 miles of service pipe connecting the mains to customers' premises. The larger mains which distribute major supplies of natural gas to various points in the system are generally of welded steel construction, ranging in size from 10" to 36" in diameter. There are also some cast iron mains 20" to 36" in diameter serving the same purpose inside the larger communities. Because of the widespread nature of the territory, a large amount of 2" and 4" steel pipe is used. A major portion of the steel pipe is covered with a corrosion-resisting coating reinforced by a wrapper. In addition, a substantial portion of the steel pipe distribution system is cathodically protected against the effects of corrosion.

The Company's other properties include headquarters, sales, office, service and garage buildings, repair shops, motor vehicles, meters, and construction equipment and tools, all as required for the conduct of its business.

Character of Ownership. The principal office and headquarters buildings, reporting centers, and certain sales and service offices of the Company, its gas production facilities, and certain of its storage facilities and pumping and regulating station facilities are located on or in land owned in fee; other storage facilities and pumping and regulating station facilities are on or in premises held under easements, permits or leases; the gas distribution system (which constitutes a major part of the investment in physical property) is for the most part located under highways, streets or other public places, or under property owned by others, for which easements, permits, grants or licenses (deemed satisfactory, but without examination of underlying land titles) have been obtained; and certain sales, office, service and garage buildings are located on land held under leases. The principal plants and properties of the Company are subject to the lien of the Indenture securing its mortgage bonds.

The plant, for the manufacture of anhydrous ammonia, of the Company's subsidiary, Apple River Chemical Company, is being constructed on land owned in fee by such subsidiary.

MANAGEMENT

Directors

H. A. Barber, *President*, Barber-Greene Company, Aurora, Illinois

Marvin Chandler, *President of the Company*

George L. Clements, *Chairman of the Board*, Jewel Tea Co., Inc., Chicago, Illinois

Calvin Fentress, Jr., *Chairman*, Allstate Insurance Companies, Skokie, Illinois

William S. Kerr, *Vice-President and Business Manager*, Northwestern University, Evanston, Illinois

C. Virgil Martin, *President*, Carson Pirie Scott & Co., Chicago, Illinois

Harold Meidell, *Chairman of the Board*, La Salle National Bank, Chicago, Illinois

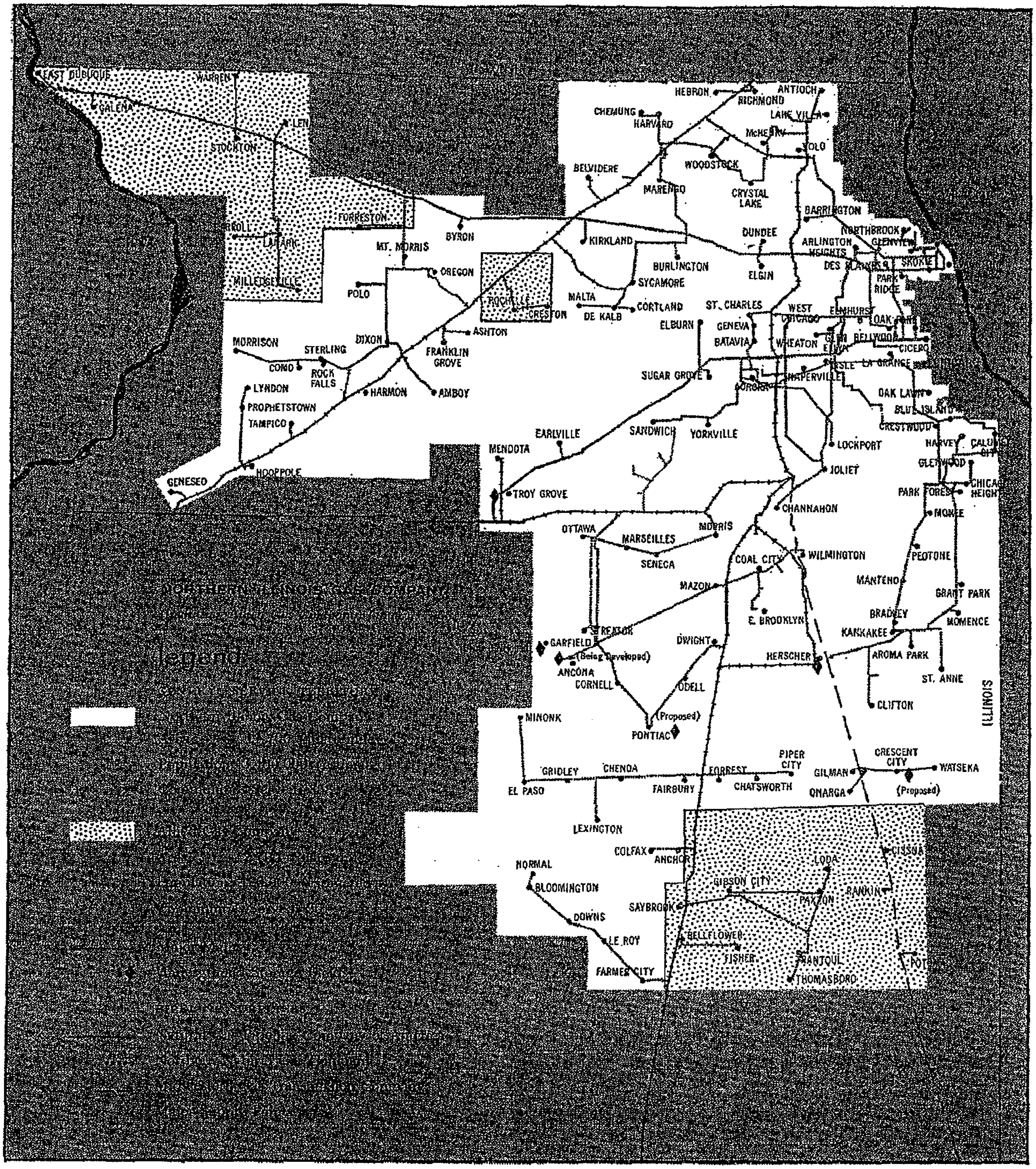
Edward D. Sheehan, *Former Executive Vice-President of the Company*, Aurora, Illinois

Harold B. Smith, *Chairman*, Illinois Tool Works Inc., Chicago, Illinois

Officers

Marvin Chandler, *President*
William J. Crowley, *Executive Vice-President*—Finance
C. J. Gauthier, *Executive Vice-President*—Operations
Henry A. Diekmann, *Vice-President*—Sales
Howard E. Ford, *Vice-President*—Procurement
Charles F. Henness, *Vice-President*—Public Relations
Mathew G. Markle, *Vice-President*—Engineering and Division Services
Charles L. Mee, *Vice-President*—Divisions
William E. Preston, *Vice-President*—Corporate Services
George W. Ryerson, *Secretary*
Joseph M. Quigley, *Treasurer*
Everett M. Holwick, *Comptroller*
Luster L. Starrett, *Assistant to the President*
George C. Habenicht, *Assistant Vice-President*—Personnel
William F. Hayes, *Assistant Vice-President*—Data Processing
Frank Vermaat, Jr., *Assistant Secretary*
Charles W. Daniels, *Assistant Treasurer*
Harold L. Pfrang, *Assistant Comptroller*

All of the officers of the Company have been in its employ for more than the last five years, except for Mr. Quigley, who was employed by Arthur Andersen & Co., independent public accountants, for eight years and by the State University of Iowa for two years prior to his employment by the Company on February 28, 1961.


EAST DUBUQUE
WARREN
GALENA
STOCKTON
FORRESTON
MILLEDGEVILLE
LANARK
HEBRON
ANTIOCH
RICHMOND
LAKE VILLA
CHEMUNG
HARVARD
McHENRY
VOLO
WOODSTOCK
BELVIDERE
MARENGO
CRYSTAL LAKE
BARRINGTON
NORTHBROOK
GLENVIEW
DUNDEE
ARLINGTON HEIGHTS
DES PLAINES
SKOKIE
PARK RIDGE
ELGIN
BYRON
MT. MORRIS
KIRKLAND
BURLINGTON
SYCAMORE
OREGON
POLO
ROCHELLE
CRESTON
MALTA
DE KALB
CORTLAND
ST. CHARLES
WEST CHICAGO
ELMHURST
GENEVA
BATAVIA
WHEATON
ELBURN
BELLWOOD
CICERO
LA GRANGE
NAPERVILLE
LISLE
ASHTON
DIXON
MORRISON
STERLING
COMO
ROCK FALLS
FRANKLIN GROVE
HARMON
AMBOY
LYNDON
PROPHETSTOWN
TAMPICO
SUGAR GROVE
AURORA
OAK LAWN
BLUE ISLAND
CRESTWOOD
HARVEY
SANDWICH
YORKVILLE
EARLVILLE
MENDOTA
LOCKPORT
JOLIET
GLENWOOD
GENESEO
HOOPPOLE
TROY GROVE
CHANNAHON
PARK FOREST
MONEE
OTTAWA
MARSEILLES
MORRIS
SENECA
WILMINGTON
COAL CITY
PEOTONE
MAZON
MANTENO
GRANT PARK
NORTHERN ILLINOIS GAS COMPANY
E. BROOKLYN
BRADLEY
MOMENCE
KANKAKEE
STREATOR
GARFIELD
DWIGHT
(Being Developed)
ANCONA
CORNELL
HERSCHER
AROMA PARK
ST. ANNE
ODELL
Legend
CLIFTON
MINONK
(Proposed)
PONTIAC
ILLINOIS
PIPER CITY
CRESCENT CITY
GRIDLEY
CHENOA
FORREST
GILMAN
WATSEKA
EL PASO
FAIRBURY
CHATSWORTH
ONARGA
LEXINGTON
COLFAX
ANCHOR
NORMAL
LODA
CISSNA
BLOOMINGTON
GIBSON CITY
RANKIN
SAYBROOK
PAXTON
DOWNS
BELLFLOWER
LE ROY
FISHER
RANTOUL
FARMER CITY
THOMASBORO

During 1964, the only persons among the directors and three highest-paid officers of the Company whose aggregate remuneration, paid directly or indirectly by the Company, exceeded $30,000 were Mr. Chandler whose compensation as President was $87,060, Mr. Sheehan whose compensation as Executive Vice President (retired as of December 31, 1964) was $47,505 and Mr. Crowley whose compensation as Vice President (Finance) and Comptroller (now Executive Vice President—Finance) was $37,005. The aggregate remuneration paid during 1964, directly or indirectly by the Company, to all directors and principal officers, as a group, was $422,401.

No portion of the Company's contributions to the trust funds under its pension plan or of the assets thereof, is paid or set aside for the account or benefit of any individual employe or officer. Upon retirement, Messrs. Chandler and Crowley are expected to be entitled to $36,544 and $16,550 per year, respectively, calculated upon a basis of retirement of each at age 65 with no change in their present salaries or in the plan in the interim. Mr. Sheehan is receiving $13,613 annually under this plan. For further information regarding this plan and the Company's supplementary retirement plan, reference is made to Notes to Consolidated Financial Statements—Pension Plans.

Under the Company's Employe Stock Purchase Plan, during 1964, after giving effect to the 3-for-2 stock split-up on July 31, 1964, Messrs. Chandler, Sheehan and Crowley purchased 97, 78 and 72 shares of the Company's common stock, respectively, and the Company's eligible directors and principal officers, as a group, purchased an aggregate of 577 shares. As of December 31, 1964, deductions under the plan at the annual rates of $4,200, $3,840 and an aggregate of $21,264 were made from the pay of Messrs. Chandler and Crowley and the Company's eligible directors and principal officers as a group, respectively. Reference is made to Notes to Consolidated Financial Statements—Employe Stock Purchase Plan, for further information concerning the Plan.

On December 31, 1964, the directors and principal officers of the Company, as a group, beneficially owned, or had direct or contingent beneficial interests in, 12,133 shares of the Company's common stock.

DESCRIPTION OF STOCK

The authorized stock of the Company is divided into two classes, preferred stock of the par value of $100 per share and common stock of the par value of $5 per share. Certain of the rights of the holders of the preferred stock, as a class, and of the common stock, as set forth in the Articles of Incorporation, as amended, and certain of the terms of two of the three series of outstanding preferred stock, and of the series in which the New Preferred Stock is to be issued, as set forth in the resolutions of the Board of Directors establishing the respective series, are summarized below. The summary does not include certain information with respect to the 5.50% Preferred Stock since the shares of this series are to be redeemed on May 1, 1965.

Issuance in Series. The Board of Directors is authorized by the Company's Articles of Incorporation to provide for the issue from time to time of the preferred stock in series, and as to each series to fix the designation, dividend rate, redemption prices, voluntary and involuntary liquidation prices, sinking fund provisions, if any, and conversion provisions, if any, applicable to the shares of such series. (Each outstanding share of the 5% Convertible Preferred Stock is now convertible into three shares, subject to adjustment under certain conditions, of Common Stock.)

Dividends. Dividends on the shares of each series of the preferred stock at any time established, at the rate fixed therefor by the Board of Directors, are payable, out of legally available funds and subject to declaration by the Board, quarterly (unless otherwise provided by the Board) on the first day of February, May, August and November in each year. Dividends are cumulative with respect to each share from date of issue.

No funds may be paid into or set aside for any sinking fund created for any series of the preferred stock or for any stock of any parity or junior class, unless all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment.

No dividend may be paid or other distribution made on the common stock or on stock of any other class junior to the preferred stock, other than a dividend or distribution solely of shares of the common stock or of such other junior stock, and no common stock or such other junior stock may be purchased or otherwise acquired by the Company for a consideration, unless (1) all dividends on the preferred stock for all past quarterly dividend periods shall have been paid or shall have been declared and funds set aside for such payment, and (2) all funds then and theretofore required to be paid into or set aside for any sinking fund or funds created for one or more series of the preferred stock shall have been so paid or set aside.

Subject to the foregoing limitations, holders of the common stock are entitled to dividends, out of legally available funds, when and as declared by the Board of Directors.

Redemption. Subject to the limitations hereinafter stated under "Limitations on Redemption and Purchase" and except as may be otherwise provided by the Board of Directors in respect of the shares of a particular series, shares of any one or more series of the preferred stock may be called for redemption and redeemed, on not less than 30 days' notice by mail, in whole at any time or in part from time to time at the option of the Company or in part from time to time pursuant to any sinking fund or funds created for one or more series of the preferred stock, in each case by the payment therefor in cash of the then applicable redemption price or prices of the shares to be redeemed. Provision is made whereby, subject to certain conditions, all rights of the holders of shares called for redemption (except the right to receive the redemption moneys and the right to exercise any then effective privilege of conversion) will terminate before the redemption date, upon the deposit with a bank or trust company of the funds necessary for redemption.

The optional and sinking fund redemption prices applicable to the New Preferred Stock are stated under "New Preferred Stock" on page 2 of this Prospectus, and those applicable to the outstanding 5% Preferred Stock and 5% Convertible Preferred Stock are stated in the Notes to Consolidated Financial Statements.

Sinking Fund. On or before May 1 of each year beginning with the year 1968, so long as any shares of the New Preferred Stock are outstanding, the Company will be required to set aside as a sinking fund, out of legally available funds (in priority to dividends on common stock and after payment or provision for payment of dividends on preferred stock), but only to the extent of "available net income" of the Company for the preceding year, an amount sufficient to redeem, at the sinking fund redemption price, 3,000 shares of the New Preferred Stock. The sinking fund requirement will be fully cumulative if and to the extent not satisfied in any year. The amount to be set aside on or before each May 1 is to be applied on that date to the redemption of shares at the sinking fund redemption price. Available net income for any year is defined as net income determined in accordance with generally accepted accounting principles, but after deducting an amount equal to the aggregate of dividends payable during the year on outstanding shares of preferred stock.

In lieu of all or any part of the amount otherwise required to be set aside for the sinking fund in any year, the Company may apply any shares of the New Preferred Stock, not previously so applied, which it shall have purchased or shall have redeemed otherwise than through the sinking fund, such shares to be taken for the purposes of such application at the sinking fund redemption price thereof.

The outstanding 5% Preferred Stock is entitled to the benefit of a sinking fund sufficient to retire 2,000 shares of such stock annually. The general provisions of such sinking fund are identical with those of the sinking fund for the New Preferred Stock. The 5% Convertible Preferred Stock provides no sinking fund or analogous fund for the redemption or other retirement of shares.

Limitations on Redemption and Purchase. If and so long as the Company shall be in default in the payment of any quarterly dividend on shares of any series of the preferred stock, or shall be in default in the payment of funds into or the setting aside of funds for any sinking fund created for any series of the preferred stock, the Company may not (other than by the use of unapplied funds, if any, paid into or set aside for a sinking fund or funds prior to such default) (1) redeem any shares of the preferred stock unless all shares thereof are redeemed, or (2) purchase or otherwise acquire for a consideration any shares of the preferred stock, except pursuant to offers of sale made by holders of the preferred stock in response to an invitation for tenders given simultaneously by the Company by mail to the holders of record of all shares of the preferred stock then outstanding.

Status of Preferred Stock Redeemed or Purchased. All shares of the preferred stock redeemed, purchased or otherwise reacquired by the Company shall have the status of authorized and unissued shares of preferred stock or shall be retired and cancelled as may, in each case, be determined by the Board of Directors. In respect of each of the three series of the preferred stock (the 5% Preferred Stock, the 5% Convertible Preferred Stock and the New Preferred Stock), the Board has determined that no shares redeemed, purchased or otherwise reacquired may be reissued as shares of the same series, but that such shares shall have the status of authorized and unissued shares of preferred stock, subject to later issuance as shares of one or more other series hereafter established.

Liquidation Preferences. In the event of dissolution, liquidation or winding up of the Company, voluntary or involuntary, holders of the preferred stock of each series at any time established will be entitled to receive out of the assets of the Company such amount per share as shall have been fixed by the Board of Directors as the voluntary liquidation price or the involuntary liquidation price, as the case may be, for the shares of such series.

The per share voluntary and involuntary liquidation prices of the New Preferred Stock are stated under "New Preferred Stock" on page 2 of this Prospectus, and those of the outstanding 5% Preferred Stock and the 5% Convertible Preferred Stock are stated in the Notes to Consolidated Financial Statements.

After payment in full shall have been made to holders of the preferred stock, or funds or other assets set aside for such payment, holders of the common stock will be entitled to ratable distribution of the remaining assets of the Company.

Voting Rights. Holders of the preferred stock and common stock at any time outstanding are entitled to one vote for each share held on each matter submitted to a vote at a meeting of stockholders, with the right to cumulate votes in all elections for directors.

Restrictions on Certain Corporate Action. So long as any shares of the preferred stock shall be outstanding, the Company may not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the preferred stock outstanding:

(1) create or authorize any stock of any prior or parity class; or

(2) amend the Articles of Incorporation of the Company so as adversely to affect any of the preferences or other rights of the holders of the preferred stock; provided, however, that if any such amendment would adversely affect any of the preferences or other rights of the holders of one or more, but less than all, of the series of the preferred stock then outstanding, the affirmative vote or consent of, and only of, the holders of at least two-thirds of the shares of each series so adversely affected will be required.

Any amendment of the resolution of the Board of Directors establishing a series of preferred stock which would adversely affect the rights of the holders of the shares of such series may be made only with the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of such series.

So long as any shares of the preferred stock shall be outstanding, the Company may not, without the affirmative vote or consent of the holders of a majority of the shares of the preferred stock outstanding:

(1) issue any shares of the preferred stock, which may hereafter be authorized (in addition to the 300,000 shares authorized by amendment to the Company's Articles of Incorporation, effective June 12, 1957), or any shares of stock of any prior or parity class which may hereafter be authorized (other than for the purpose of effecting the retirement, by redemption, exchange or otherwise, of outstanding shares ranking at least on a parity with, and representing an aggregate amount of stated capital at least equal to the

aggregate amount of the stated capital to be represented by, the shares proposed to be issued), if the aggregate amount of the stated capital represented by all preferred stock and all prior and parity stock to be outstanding after the proposed issue, after giving effect to the retirement of any preferred stock or any prior or parity stock to be retired in connection with such issue, would exceed 75% of the aggregate amount of the stated capital represented by the common stock then outstanding and by stock of any other class, then outstanding, junior to the preferred stock, plus the amount of the retained earnings of the Company and its consolidated subsidiaries, if any, as of the end of the preceding fiscal year (the term "stated capital," as above used, includes any related paid-in surplus); or

(2) consolidate with or merge into any other corporation, under applicable statutory procedure, or make any sale or transfer of the property and business of the Company as or substantially as an entirety, except that such restriction does not apply to any such consolidation with or merger into or any such sale or transfer to (a) any corporation which owns, directly or indirectly through one or more other corporations, 50% or more of the voting securities of the Company, (b) any corporation 50% or more of the voting securities of which are owned by the Company, or (c) any corporation, when such consolidation, merger, sale or transfer shall be required by any commission or other governmental agency having jurisdiction. The term "sale or transfer" as above used includes a lease or exchange but not a mortgage or pledge.

Preemptive Rights. Holders of neither the preferred stock nor the common stock have any preemptive rights.

Nonassessability. The New Preferred Stock will, when issued, be fully paid and nonassessable.

On January 31, 1965, Carothers & Clark, c/o Bank of Delaware, 901 Market Street, Wilmington, Delaware 19800, nominee for Investors Mutual, Inc., held of record 9,700 shares of 5% Preferred Stock and 24,600 shares of 5.50% Preferred Stock, being 12.28% of the then outstanding shares of the Preferred Stock as a class.

LITIGATION

In 1959, certain coal producers and the United Mine Workers of America filed a complaint with the Illinois Commerce Commission requesting that the interruptible boiler fuel rates of the Company be rescinded or amended and that the sale of natural gas for boiler fuel by the Company be prohibited. The case is now in hearing before the Commission. In the opinion of counsel for the Company, there is no merit to the complaint and no lawful basis for the relief sought therein.

In July, 1957, suit was instituted in the United States District Court for the Northern District of Illinois by Radiant Burners, Inc., of Lombard, Illinois, against the American Gas Association, the Company and other Chicago area gas distribution companies, and certain manufacturers of gas heating equipment. The complaint charges the defendants with conspiring, in violation of the Federal antitrust laws, to prevent the sale of space heating equipment manufactured by Radiant Burners, Inc., and seeks injunctive relief and treble damages in the amount of $24,000,000. By amendment to the complaint, the plaintiff joined as parties defendant certain officers of the Company and of other gas distribution defendants and certain additional manufacturers of gas heating equipment. The case is in the pre-trial discovery stage. Counsel for the Company believe that it has a good defense on the merits to this suit.

In May, 1963, suit was instituted in the Circuit Court of Cook County against the Company by Gerald R. Adler, a customer, claiming that the rates charged by the Company for the 15-month period ended March 31, 1963, were unreasonable, and seeking reparation on behalf of all customers. On March 23, 1964, the Circuit Court granted the Company's motion to dismiss the suit. The plaintiff has appealed the Circuit Court's order to the Appellate Court of Illinois, First District. In the opinion of counsel for the Company, the suit is without merit.

LEGAL OPINIONS

The legality of the New Preferred Stock will be passed upon for the Company by Messrs. Isham, Lincoln & Beale, 72 West Adams Street, Chicago, Illinois, counsel for the Company, and for the Purchasers by Messrs. Wilson & McIlvaine, 120 West Adams Street, Chicago, Illinois.

The statements made under "Business," subcaption "Regulation," and under "Litigation," insofar as such statements relate to matters of law or legal conclusions, are based upon the opinion of Messrs. Isham, Lincoln & Beale.

Messrs. Wilson & McIlvaine have in the past acted and are now acting as counsel for the Company in special matters.

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

To Northern Illinois Gas Company:

We have examined the consolidated balance sheet of Northern Illinois Gas Company (an Illinois corporation) and utility subsidiary as of December 31, 1964, and the related statements of income (included under "Summary of Earnings"), retained earnings and paid-in surplus for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, retained earnings and paid-in surplus present fairly the financial position of Northern Illinois Gas Company and its utility subsidiary as of December 31, 1964, and the results of their operations for the periods referred to above, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Chicago, Illinois
February 5, 1965