

A registration statement relating to these securities has been filed with the Securities and Exchange Commission, but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold or may offer to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

*J. M. Greenberg*

PRELIMINARY PROSPECTUS ISSUED SEPTEMBER 21, 1962

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PROSPECTUS

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45,000 Shares

NORTHERN ILLINOIS GAS COMPANY

5% Convertible Preferred Stock

(Cumulative—Par Value \$100 Per Share)

*Convertible into two shares of Northern Illinois Gas Company's Common Stock, par value \$5 per share, subject to adjustment in certain contingencies.*

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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.

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*Northern Illinois Gas Company hereby offers to the holders of the outstanding shares of Common Stock, par value \$5 per share, of Allied Gas Company the privilege of exchanging all or any part of such shares for shares of 5% Convertible Preferred Stock, par value \$100 per share, of Northern Illinois Gas Company on the basis of 1 share of Northern Illinois Gas Company 5% Convertible Preferred Stock for each 4 shares of Allied Gas Company Common Stock, all upon the terms and subject to the conditions set forth herein under "Exchange Offer".*

*The Exchange Offer will expire at 3:00 P.M., Central Standard Time, on November , 1962, unless extended as herein provided. All exchanges are subject to acceptance by Northern Illinois Gas Company at the office of the Exchange Agent, The Northern Trust Company, 50 South LaSalle Street, Chicago 90, Illinois.*

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The date of this Prospectus is November , 1962 \

## EXCHANGE OFFER

**Offer.** Northern Illinois Gas Company ("Northern Illinois") hereby offers to the holders of the outstanding shares of common stock, par value \$5 per share, of Allied Gas Company ("Allied") the privilege of exchanging all or any part of such shares for shares of 5% Convertible Preferred Stock, par value \$100 per share (the "New Preferred Stock"), of Northern Illinois on the basis of 1 share of New Preferred Stock for each 4 shares of Allied's common stock. All tenders of shares of common stock of Allied for exchange shall be irrevocable.

**Reasons for Offer.** It is believed that the affiliation of Northern Illinois and Allied, whose territories are contiguous, would be in the best interest of each company and of the public which each company serves for the reasons that: it should allow the optimum utilization of the sources of supply, both pipeline flow gas and underground gas storage capacity, available to both companies, resulting in better load factors and greater system security for each company; it should provide increased growth potential for each company; and it should allow increased efficiency in the engineering, accounting and general business operations of each company.

*The Board of Directors of Allied has declared the Exchange Offer to be fair and reasonable and in the best interest of Allied stockholders.*

**Expiration Date of Offer.** The Exchange Offer will expire at 3:00 P.M., Central Standard Time, on November , 1962, or such other date not later than December , 1962, as Northern Illinois shall determine. In the event of any extension of the Exchange Offer beyond November , 1962, Northern Illinois will give written notice thereof to the stockholders of Allied.

Northern Illinois or Allied may cancel the Exchange Offer if any of the conditions to its consummation have not been complied with, in which event all certificates for shares of Allied's common stock previously deposited for exchange will be returned to the depositing stockholders. The conditions to the consummation of the Exchange Offer are set forth in an agreement between Northern Illinois and Allied dated September 17, 1962. Such conditions include the valid acceptance of the Exchange Offer by holders of not less than 80% of the outstanding shares of common stock of Allied; the furnishing to Northern Illinois and Allied as of the closing date provided for in the agreement of satisfactory opinions of counsel as to certain matters pertaining to Northern Illinois and Allied; certifications by Northern Illinois and Allied officers as to the correctness of the representations and warranties of their respective companies contained in the agreement; and the absence of any material adverse change in the business of Northern Illinois or Allied.

**Exchange Agent.** The Exchange Agent is:

THE NORTHERN TRUST COMPANY  
Stock Transfer Department  
50 South LaSalle Street  
Chicago 90, Illinois

Holders of shares of common stock of Allied who desire to accept the Exchange Offer must either deliver their certificates for Allied common stock to the Exchange Agent not later than 3:00 P.M., Central Standard Time, on the expiration date of the Exchange Offer, accompanied by the Letter of Transmittal (furnished by Northern Illinois) properly filled out and signed, or forward such stock certificates, with the Letter of Transmittal, to the Exchange Agent in ample time to reach such Agent not later than 3:00 P.M., Central Standard Time, on the expiration date of the offer. The Letter of Transmittal must be filled out and signed in accordance with the instructions on the reverse side thereof, and must be accompanied by any supporting legal documents required by the instructions.

**Fractional Shares.** No fractional shares of New Preferred Stock will be issued pursuant to the Exchange Offer. However, each exchanging stockholder of Allied otherwise entitled to receive a fraction of a share of New Preferred Stock will have the election of (a) consolidating his fractional interest into a full share of New Preferred Stock by purchasing the additional fraction required for such consolidation, or (b) directing the Exchange Agent to sell his fractional interest and remit to the stockholder the proceeds of such sale. The Exchange Agent may offset orders to buy and sell fractional interests. If no election is made, any fractional interest due an exchanging stockholder will be sold by the Exchange Agent and the proceeds of the sale will be remitted to such holder.

The price of a fractional interest purchased or sold will be based upon the closing price of Northern Illinois' common stock on the Midwest Stock Exchange on the second business day prior to the date on which the Exchange Offer expires, each  $\frac{1}{4}$  of a share of New Preferred Stock to be valued at 50% of such closing price.

**Payment of Expenses.** Allied will pay, on behalf of its stockholders accepting the Exchange Offer, Federal Stock Transfer Tax payable in connection with the transfer of shares of Allied common stock to Northern Illinois, and any expenses of the Exchange Agent chargeable to such stockholders.

**Tax Effect of Exchange Offer.** A ruling dated \_\_\_\_\_, 1962, received from the Internal Revenue Service states that for federal income tax purposes no gain or loss will be recognized in the case of Northern Illinois or in the case of any Allied stockholder whose shares are exchanged pursuant to the Exchange Offer, except such gain or loss as may result from the sale for cash by an Allied stockholder of any fractional interest in the New Preferred Stock; that the New Preferred Stock received by Allied stockholders pursuant to the Exchange Offer, and common stock of Northern Illinois issuable upon conversion thereof, will not constitute Section 306 stock within the meaning of the Internal Revenue Code of 1954; that the adjusted cost basis of a stockholder's New Preferred Stock will be the same as the cost basis of his shares of Allied stock exchanged therefor; and that, provided the New Preferred Stock held by any former Allied stockholder constitutes a capital asset in the hands of such stockholder, any gain or loss realized on the sale of New Preferred Stock or of common stock of Northern Illinois issued on conversion thereof will constitute a capital gain or loss subject to the provisions and limitations of Subchapter P of said Code, measured by the difference between the amount realized on such sale and the adjusted cost basis of the stock sold.

*The information herein relating to Allied has been prepared from material furnished to Northern Illinois by Allied.*

Northern Illinois has been advised by the holders of \_\_\_\_\_ shares (approximately \_\_\_\_\_ %) of Allied's outstanding common stock that they propose to accept the Exchange Offer.

**PRICE RANGE OF COMMON STOCK—NORTHERN ILLINOIS**

The common stock of Northern Illinois is listed on the Midwest Stock Exchange. High and low prices on such Exchange during the respective periods indicated were as follows:

| <u>Year</u>                    | <u>High</u>      | <u>Low</u>       |
|--------------------------------|------------------|------------------|
| 1957.....                      | 19 $\frac{1}{4}$ | 15 $\frac{3}{4}$ |
| 1958.....                      | 28 $\frac{3}{4}$ | 16 $\frac{3}{8}$ |
| 1959.....                      | 32 $\frac{7}{8}$ | 25 $\frac{5}{8}$ |
| 1960.....                      | 44               | 28 $\frac{5}{8}$ |
| 1961.....                      | 64 $\frac{1}{2}$ | 41 $\frac{5}{8}$ |
| 1962 through September 18..... | 68 $\frac{3}{4}$ | 46 $\frac{3}{8}$ |

The last reported sale price of the common stock on the Midwest Stock Exchange on September 18, 1962, was 57 $\frac{7}{8}$ .

### PRICE RANGE OF COMMON STOCK—ALLIED

The following table sets forth the reported high and low bid quotations in the over-the-counter market for the common stock of Allied for the periods shown, in each case adjusted for the 3 for 2 stock splits in 1957 and in 1961:

| <u>Year</u>                    | <u>High</u>      | <u>Low</u>       |
|--------------------------------|------------------|------------------|
| 1957.....                      | 9 $\frac{3}{8}$  | 8 $\frac{7}{8}$  |
| 1958.....                      | 14               | 9 $\frac{5}{8}$  |
| 1959.....                      | 16 $\frac{3}{8}$ | 14               |
| 1960.....                      | 15 $\frac{5}{8}$ | 14 $\frac{3}{8}$ |
| 1961.....                      | 23 $\frac{1}{2}$ | 15 $\frac{5}{8}$ |
| 1962 through September 17..... | 30               | 23               |

### DIVIDENDS—NORTHERN ILLINOIS

After the payment on May 1, 1954, of an initial dividend of 10¢ per share, dividends have been paid quarterly on the common stock of Northern Illinois as follows:

| <u>Date</u>                               | <u>Quarterly Payment Per Share</u> |
|---|------------------------------------|
| August 1, 1954 to November 1, 1956.....   | 20¢                                |
| February 1, 1957 to February 1, 1959..... | 22¢                                |
| May 1, 1959 to February 1, 1960.....      | 25¢                                |
| May 1, 1960 to February 1, 1961.....      | 30¢                                |
| May 1, 1961 to February 1, 1962.....      | 35¢                                |
| May 1 and August 1, 1962.....             | 38¢                                |

A dividend of 38¢ per share has been declared payable November 1, 1962, to stockholders of record on September 21, 1962. For limitations applicable to the payment of dividends on the common stock, see "Description of Stock—Northern Illinois," subcaption "Dividends."

Dividends have been paid quarterly on Northern Illinois' outstanding 5% Preferred Stock and 5.50% Preferred Stock at the respective stipulated dividend rates.

### DIVIDENDS—ALLIED

Quarterly cash dividends have been paid on the common stock of Allied since 1949. The amount of such dividends for the past five fiscal years, adjusted for the 3 for 2 stock splits in 1957 and in 1961, have been as follows:

| <u>Date</u>                               | <u>Quarterly Payment Per Share</u> |
|---|------------------------------------|
| December 1, 1956 to December 1, 1957..... | 13¢                                |
| March 1, 1958 to December 1, 1958.....    | 17¢                                |
| March 1, 1959 to December 1, 1960.....    | 20¢                                |
| March 1, 1961 to June 1, 1962.....        | 25¢                                |
| September 1, 1962.....                    | 30¢                                |

Allied stockholders are presently receiving cash dividends at the rate of 30¢ per share per quarter or \$1.20 per annum. The annual dividend on one share of the New Preferred Stock (issuable in exchange for four shares of Allied's common stock) will be 20¢ more than the present annual dividend on four shares of Allied's common stock.

## CAPITALIZATION

### Northern Illinois and Allied

The following table sets forth the capitalization of Northern Illinois and of Allied as of June 30, 1962, and on a pro-forma combined basis as of the same date, assuming all shares of Allied's common stock are exchanged for shares of the New Preferred Stock pursuant to the Exchange Offer.

|  | Outstanding<br>(In thousands of dollars)    |                |                           | Pro-<br>Forma<br>Ratios |
|--|---|----------------|---------------------------|-------------------------|
|  | As of June 30, 1962<br>Northern<br>Illinois | Allied         | Pro-Forma<br>Combined (d) |                         |
| <b>Long-Term Debt:</b>   |   |                |                           |                         |
| Northern Illinois  |   |                |                           |                         |
| First Mortgage Bonds (a)—  |   |                |                           |                         |
| 3½% series, due Jan. 1, 1979.....  | \$ 51,910                                   | \$ —           | \$ 51,910                 |                         |
| 3¾% series, due April 1, 1981.....   | 13,336                                      | —              | 13,336                    |                         |
| 5% series, due June 1, 1984 (b).....                                       | 19,600                                      | —              | 19,600                    |                         |
| 4½% series, due July 1, 1985.....  | 29,392                                      | —              | 29,392                    |                         |
| Allied   |   |                |                           |                         |
| First Mortgage Bonds (a)—  |   |                |                           |                         |
| 4¼% series, due July 1, 1976 (c).....                                      | —   | 360            | 360                       |                         |
| 4¼% series, due May 1, 1981 (c).....                                       | —   | 378            | 378                       |                         |
| 5½% series, due July 1, 1985.....  | —   | 650            | 650                       |                         |
| Total Long-Term Debt.....  | <u>\$114,238</u>                            | <u>\$1,388</u> | <u>\$115,626</u>          | 40.1%                   |
| <b>Preferred Stock:</b>  |   |                |                           |                         |
| Northern Illinois  |   |                |                           |                         |
| Cumulative—\$100 par value, issuable in series, authorized 800,000 shares— |   |                |                           |                         |
| 5% Preferred Stock (94,852 shares outstanding) (b).....                    | \$ 9,485                                    | \$ —           | \$ 9,485                  |                         |
| 5.50% Preferred Stock (150,000 shares outstanding) (b).....                | 15,000                                      | —              | 15,000                    |                         |
| 5% Convertible Preferred Stock (44,291 shares to be outstanding).....      | —   | —              | 4,429                     |                         |
| Total Preferred Stock.....   | <u>\$ 24,485</u>                            | <u>\$ —</u>    | <u>\$ 28,914</u>          | 10.0                    |
| <b>Common Equity:</b>  |   |                |                           |                         |
| Northern Illinois  |   |                |                           |                         |
| Common Stock, \$5 par value, authorized 12,500,000 shares (e),             |   |                |                           |                         |
| 7,661,860 shares outstanding.....  | \$ 38,309                                   | \$ —           | \$ 38,309                 |                         |
| Paid-in Surplus.....   | 62,488                                      | —              | 58,945                    |                         |
| Capital Stock Expense.....   | 848*  | —              | 873*                      |                         |
| Retained Earnings.....   | 46,871                                      | —              | 47,326                    |                         |
| Allied   |   |                |                           |                         |
| Common Stock, \$5 par value, authorized 250,000 shares                     |   |                |                           |                         |
| 177,166 shares outstanding.....  | —   | 886            | —                         |                         |
| Retained Earnings.....   | —   | 455            | —                         |                         |
| Total Common Equity.....   | <u>\$146,820</u>                            | <u>\$1,341</u> | <u>\$148,707</u>          | 49.9                    |
| Total Capitalization.....  | <u>\$285,543</u>                            | <u>\$2,729</u> | <u>\$288,247</u>          | 100.0%                  |

\*Denotes red figure.

- (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) Includes Northern Illinois' sinking fund requirements due within one year of \$400,000 on 5% bonds, \$85,200 on 5% Preferred Stock and \$300,000 on 5.50% Preferred Stock.
- (c) Includes Allied's sinking fund requirements due within one year of \$24,000 on 4¼% series bonds, due July 1, 1976 and \$18,000 on 4¼% series bonds, due May 1, 1981.
- (d) Assuming the Exchange Offer is consummated, Northern Illinois intends to record the transaction on a pooling of interest concept under which the investment in Allied will be recorded by Northern Illinois at the underlying book value of the Allied stock exchanged.
- (e) 89,246 shares are reserved for issuance under Northern Illinois' Employee Stock Purchase Plan and sufficient shares are to be reserved for issuance on conversion of the New Preferred Stock, at the initial conversion price, if the Exchange Offer is consummated.
- (f) See Northern Illinois' "Notes to Financial Statements" for description of short term bank credit agreements entered into on September 4, 1962.

## SUMMARY OF EARNINGS—NORTHERN ILLINOIS

The following statement of income of Northern Illinois for the five years ended December 31, 1961, 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. The statement of income for the 12 months ended June 30, 1962, not examined by Arthur Andersen & Co., reflects, in the opinion of Northern Illinois, all known adjustments (which include only normal and recurring accruals) necessary for a fair statement of the results of operations. This statement should be read in conjunction with the other Northern Illinois' financial statements and notes thereto appearing elsewhere in this Prospectus.

|   | Year Ended December 31 |                     |                      |                      |                      | Twelve<br>Months<br>Ended<br>June 30,<br>1962 |
|---|------------------------|---------------------|----------------------|----------------------|----------------------|---|
|   | 1957                   | 1958                | 1959                 | 1960                 | 1961                 |   |
| <b>Operating Revenues:</b>                            |                        |                     |                      |                      |                      |   |
| Gas.....  | \$84,409,981           | \$91,058,425        | \$105,097,468        | \$130,221,635        | \$147,840,864        | \$161,646,169                                 |
| Other.....  | 272,076                | 254,555             | 209,783              | 217,746              | 206,677              | 199,989                                       |
|   | <u>\$84,682,057</u>    | <u>\$91,312,980</u> | <u>\$105,307,251</u> | <u>\$130,439,381</u> | <u>\$148,047,441</u> | <u>\$161,846,158</u>                          |
| <b>Operating Expenses and Taxes:</b>                  |                        |                     |                      |                      |                      |   |
| Gas purchased (a).....                                | \$31,556,293           | \$33,867,848        | \$ 39,408,691        | \$ 52,833,531        | \$ 60,132,106        | \$ 63,129,520                                 |
| Other operation (a).....                              | 18,212,704             | 20,189,841          | 22,092,672           | 24,815,417           | 27,893,626           | 29,482,737                                    |
| Maintenance.....                                      | 2,886,235              | 3,264,212           | 3,559,990            | 4,054,825            | 3,882,756            | 3,775,674                                     |
| Depreciation.....                                     | 4,706,520              | 4,973,102           | 5,499,575            | 6,428,942            | 7,231,340            | 7,579,259                                     |
| Taxes, other than federal income.....                 | 4,882,983              | 5,080,467           | 5,784,558            | 7,209,788            | 8,040,934            | 8,537,712                                     |
| Federal income taxes.....                             | 9,890,000              | 10,208,000          | 12,146,000           | 14,414,000           | 16,279,000           | 20,527,000                                    |
| Deferred federal income taxes.....                    | 564,000                | 696,000             | 954,000              | 1,332,000            | 1,615,000            | 1,753,000                                     |
|   | <u>\$72,693,735</u>    | <u>\$78,279,470</u> | <u>\$ 89,445,486</u> | <u>\$111,088,503</u> | <u>\$125,074,762</u> | <u>\$134,784,902</u>                          |
| Net Operating Income.....                             | \$11,988,322           | \$13,033,510        | \$ 15,861,765        | \$ 19,350,878        | \$ 22,972,679        | \$ 27,061,256                                 |
| Other Income.....                                     | 294,430                | 28,780              | 262,667              | 240,444              | 15,471*              | 71,564  |
| Gross Income.....                                     | <u>\$12,277,752</u>    | <u>\$13,062,290</u> | <u>\$ 16,124,432</u> | <u>\$ 19,591,322</u> | <u>\$ 22,957,208</u> | <u>\$ 27,132,820</u>                          |
| <b>Income Deductions:</b>                             |                        |                     |                      |                      |                      |   |
| Interest on debt.....                                 | \$ 2,617,145           | \$ 2,557,308        | \$ 2,995,449         | \$ 4,072,318         | \$ 4,736,078         | \$ 4,697,510                                  |
| Other deductions.....                                 | 7,074                  | 44,969              | 49,944               | 17,771               | 24,868               | 114,084                                       |
| Interest charged to construction.....*                | 50,000*                | 60,000*             | 340,000*             | 420,000*             | 231,000*             | 221,500*                                      |
|   | <u>\$ 2,574,219</u>    | <u>\$ 2,542,277</u> | <u>\$ 2,705,393</u>  | <u>\$ 3,670,089</u>  | <u>\$ 4,529,946</u>  | <u>\$ 4,590,094</u>                           |
| Net Income.....                                       | \$ 9,703,533           | \$10,520,013        | \$ 13,419,039        | \$ 15,921,233        | \$ 18,427,262        | \$ 22,542,726                                 |
| Less: Provision for Dividends on Preferred Stock..... | —                      | 413,705             | 498,767              | 1,273,888            | 1,301,256            | 1,299,263                                     |
| Earnings Applicable to Common Stock.....              | <u>\$ 9,703,533</u>    | <u>\$10,106,308</u> | <u>\$ 12,920,272</u> | <u>\$ 14,647,345</u> | <u>\$ 17,126,006</u> | <u>\$ 21,243,463</u>                          |
| <b>Common Stock—</b>                                  |                        |                     |                      |                      |                      |   |
| Shares outstanding at end of period..                 | 7,145,488              | 7,163,376           | 7,178,809            | 7,194,699            | 7,656,628            | 7,661,860                                     |
| Earnings per share.....                               | \$1.36                 | \$1.41              | \$1.80               | \$2.04               | \$2.24               | \$2.77  |
| Dividends declared per share.....                     | \$.88                  | \$.88               | \$1.00               | \$1.20               | \$1.40               | \$1.46  |

\*Denotes red figure.

(a) In accordance with a revised classification of accounts adopted in 1961, the expenses of storing gas in underground facilities of a non-affiliated company for 1957 to 1960, inclusive, have been reclassified from "Gas purchased" to "Other operation."

Annual dividends on the 5% and 5.50% Preferred Stocks are now \$474,260 and \$825,000 respectively, and on the New Preferred Stock will initially be \$221,455 assuming 100% issuance in exchange for Allied common stock.

## SUMMARY OF EARNINGS—ALLIED

The following statement of income of Allied for the five years ended September 30, 1961, has been examined by Lawrence Scudder & Co., independent public accountants (whose opinion with respect thereto is herein-after set forth), and is included herein in reliance upon the authority of that firm as experts in giving such opinion. The statement of income for the 12 months ended June 30, 1962, not examined by Lawrence Scudder & Co., reflects, in the opinion of Allied, all known adjustments (which include only normal and recurring accruals) necessary for a fair statement of the results of operations. This statement should be read in conjunction with the other Allied's financial statements and notes thereto appearing elsewhere in this Prospectus.

|  | Year Ended September 30 |                    |                    |                    |                    | Twelve<br>Months<br>Ended<br>June 30,<br>1962 |
|--|-------------------------|--------------------|--------------------|--------------------|--------------------|---|
|  | 1957                    | 1958               | 1959               | 1960               | 1961               |   |
| <b>Operating Revenues:</b>                   |                         |                    |                    |                    |                    |   |
| Gas.....                                     | \$1,260,001             | \$1,407,752        | \$1,564,811        | \$1,830,533        | \$1,983,724        | \$2,234,452                                   |
| <b>Operating Expenses and Taxes:</b>         |                         |                    |                    |                    |                    |   |
| Gas purchased.....                           | \$ 535,953              | \$ 582,259         | \$ 646,594         | \$ 768,358         | \$ 915,541         | \$1,105,852                                   |
| Other operation.....                         | 231,803                 | 248,824            | 269,923            | 283,601            | 306,375            | 307,101                                       |
| Maintenance.....                             | 25,198                  | 28,663             | 35,668             | 35,947             | 34,285             | 34,196  |
| Depreciation.....                            | 52,843                  | 59,005             | 64,804             | 70,542             | 75,993             | 75,992  |
| Taxes, other than federal income.....        | 72,739                  | 77,768             | 94,066             | 102,895            | 112,899            | 117,645                                       |
| Federal income taxes.....                    | 141,936                 | 182,000            | 198,631            | 255,259            | 229,185            | 257,236                                       |
| Deferred federal income taxes.....           | 11,481                  | 7,433              | 9,463              | 11,263             | 12,363             | 13,533  |
|  | <u>\$1,071,953</u>      | <u>\$1,185,952</u> | <u>\$1,319,147</u> | <u>\$1,527,865</u> | <u>\$1,686,141</u> | <u>\$1,911,555</u>                            |
| Net Operating Income.....                    | \$ 188,048              | \$ 221,800         | \$ 245,664         | \$ 302,608         | \$ 297,583         | \$ 322,897                                    |
| Other Income.....                            | 8,304                   | 7,094              | 3,889              | 6,521              | 16,464             | 11,686  |
| Gross Income.....                            | <u>\$ 196,352</u>       | <u>\$ 228,894</u>  | <u>\$ 249,553</u>  | <u>\$ 309,189</u>  | <u>\$ 314,047</u>  | <u>\$ 334,583</u>                             |
| <b>Income Deductions:</b>                    |                         |                    |                    |                    |                    |   |
| Interest on debt.....                        | \$ 39,270               | \$ 38,250          | \$ 36,911          | \$ 39,694          | \$ 69,091          | \$ 67,755                                     |
| Other deductions.....                        | 3,693                   | 4,250              | 9,477              | 12,030             | 7,409              | 3,354   |
| Interest charged to construction.....        | —                       | —                  | —                  | —                  | 1,699*             | 3,138*  |
|  | <u>\$ 42,963</u>        | <u>\$ 42,500</u>   | <u>\$ 46,388</u>   | <u>\$ 51,724</u>   | <u>\$ 74,801</u>   | <u>\$ 67,971</u>                              |
| Net Income Applicable to Common Stock.....   | <u>\$ 153,389</u>       | <u>\$ 186,394</u>  | <u>\$ 203,165</u>  | <u>\$ 257,465</u>  | <u>\$ 239,246</u>  | <u>\$ 266,612</u>                             |
| <b>Common Stock—</b>                         |                         |                    |                    |                    |                    |   |
| Shares outstanding at end of period (a)..... | 177,166                 | 177,166            | 177,166            | 177,166            | 177,166            | 177,166                                       |
| Earnings per share (a).....                  | \$.87                   | \$1.05             | \$1.15             | \$1.45             | \$1.35             | \$1.50  |
| Dividends declared per share (a).....        | \$.53                   | \$.63              | \$.77              | \$.80              | \$.95              | \$1.05  |

\*Denotes red figure.

(a) Number of shares outstanding has been adjusted to reflect the 3 for 2 stock splits on December 2, 1957, and on February 17, 1961; dividends and earnings per share are based on the adjusted number of shares outstanding.

Assuming that as of June 30, 1962, there had been full participation in the Exchange Offer and immediate conversion of shares of the New Preferred Stock into common stock of Northern Illinois, the earnings per share of Northern Illinois for the twelve months then ended, after combining the earnings of Northern Illinois and Allied, would not have changed.

## BUSINESS—NORTHERN ILLINOIS

Northern Illinois, 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.

Northern Illinois, is a public utility engaged principally in the purchase, distribution and sale of natural gas in 330 communities and adjacent areas in 22 counties in northern Illinois including areas in Cook County generally outside the City of Chicago. Northern Illinois also operates a small steam utility property which was acquired from Commonwealth Edison Company with the gas utility properties. The principal office is located at 50 Fox Street, Aurora, Illinois, and operating headquarters at 615 Eastern Avenue, Bellwood, Illinois.

Northern Illinois' service area, comprising about 11,000 square miles located between Lake Michigan and the Mississippi River (see Map), 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 Northern Illinois are primary metals, glass, and petroleum products.

The population of the area is estimated at approximately 3,140,000, an increase of about 1,300,000, or 70%, 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 Northern Illinois. At June 30, 1962, Northern Illinois had 767,246 customers, an increase of 386,953 since December 31, 1950. During the same period, the number of heating customers increased from about 70,000 to 515,892, representing about 67% of the total number of customers.

During the period 1946-1960, because of shortages in gas supply available to Northern Illinois, sales of gas for space heating and firm industrial use were restricted under authority of the Illinois Commerce Commission. Since late in 1958, however, there has been a substantial increase in the amount of gas available to Northern Illinois from pipeline suppliers and from storage. This has enabled Northern Illinois to increase the number of heating customers by 79,823 in 1959, 76,879 in 1960, 56,428 in 1961 and 21,721 through June 30, 1962. At present Northern Illinois is free from all restrictions in the sale of gas for space heating and, although the Commission has continuing jurisdiction in the matter, it is not anticipated that any such restrictions will be reimposed in the foreseeable future.

**Sources of Gas Supply.** Natural gas distributed by Northern Illinois, having a heating content of slightly more than 1,000 Btu per cubic foot, is obtained from three major pipeline companies, none of which is affiliated with Northern Illinois. Part of the supply is delivered, under a service agreement extending to 1980, 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 (adjusted to 1,000 Btu per cubic foot and common pressure base) of natural gas to which Northern Illinois is entitled from each of its suppliers and the years of expiration of the respective service agreements with such suppliers:

| <u>Supplier</u>  | <u>Cubic Feet</u>  | <u>Year of Expiration</u> |
|--|--------------------|---------------------------|
| Natural Gas Pipeline Company of America ("Natural")..... | 534,190,000        | 1981*                     |
| Northern Natural Gas Company ("Northern Natural").....   | 90,943,000         | 1975                      |
| Midwestern Gas Transmission Company ("Midwestern").....  | 63,947,000         | 1979*                     |
|  | <u>689,080,000</u> |                           |

\*Continuing from year to year thereafter until terminated by either party on one year's notice.

Northern Illinois has entered into precedent agreements with Midwestern for an additional 15,000,000 cubic feet per day beginning with the 1962-63 heating season, and 25,000,000 cubic feet per day more beginning with the 1963-64 heating season. The FPC currently is reviewing Midwestern's request for the 1962-63 increase in daily demand quantity; the application for the 1963-64 increase has not as yet been filed.

In authorizing Natural to furnish Northern Illinois the supply called for by the present service agreement, the FPC in its order of November 13, 1961, found the gas reserves of Natural to be adequate.

In authorizing Northern Natural to furnish Northern Illinois 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 increased sale of gas to Northern Illinois.

In authorizing Midwestern to furnish Northern Illinois the present contract quantity, the FPC, in its order of May 12, 1959, found the gas supply showing of Tennessee Gas Transmission Company (Midwestern's parent and supplier of gas sold by Midwestern to Northern Illinois) to be adequate.

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

Northern Illinois, 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. Subsequent to an initially authorized appropriation for this subsidiary of \$1,600,000 over a three-year period, the Illinois Commerce Commission approved on March 18, 1959, an annual appropriation of not to exceed 25% of Northern Illinois' prior year's net income after payment of all dividends. Northern Illinois' appropriation for 1960 was \$1,430,000, for 1961 \$1,480,000, and for 1962 is expected to be \$1,680,000.

Through June 30, 1962, NI-Gas Supply, Inc. had taken fractional interests in the drilling of 293 wells. Average participation was about 13.5%. This drilling resulted in 103 gas wells, 64 oil wells, 16 productive of both gas and oil, 103 dry holes, and 7 wells which initially produced gas or oil but have since been abandoned. The subsidiary 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 more than its total expenditure to date.

**Gas Storage.** The underground gas storage reservoir near Troy Grove, Illinois has been operating as a part of Northern Illinois' distribution system by authority of the Illinois Commerce Commission, since December 9, 1959. During the 1961-62 heating season, an aggregate of 2,151.9 million cubic feet of gas was withdrawn on 37 days. The greatest one-day withdrawal was 246.5 million cubic feet. On June 30, 1962, approximately 12,986.9 million cubic feet of gas available to meet peak loads was in storage at Troy Grove. Development of this storage field is still continuing.

Northern Illinois has been authorized by the Illinois Commerce Commission to undertake the preliminary development of an underground gas storage reservoir near Crescent City, Illinois. Certain landowners from the area of the proposed storage project have initiated a statutory proceeding to obtain judicial review of an order of the Commission which grants Northern Illinois the right of eminent domain in connection with this project. The case is now pending in the Circuit Court of Kankakee County, Illinois.

Northern Illinois is searching for additional underground gas storage sites. It has located what it believes to be a promising site in the Garfield-Ancona area not far from Streator, Illinois. Preliminary geological investigation of this site is now in process.

In addition, Northern Illinois has an agreement (which extends to 1982 and thereafter until cancelled by either party on one year's notice) with Natural Gas Storage Company of Illinois (the "Storage Company"), a corporation owned by Natural, under which Northern Illinois is entitled to store gas in the Storage Com-

pany's reservoirs (located at Herscher and Cooks Mills, Illinois) and to withdraw such gas at an approximate maximum rate of 235 million cubic feet daily until December 1, 1962, and thereafter at an approximate maximum rate of 261 million cubic feet daily. The Storage Company on May 4, 1962 filed with FPC for certification of an additional increase in daily withdrawal capacity of 75 million cubic feet to become available for the 1963-64 heating season. Northern Illinois' portion will be approximately 25 million cubic feet. The Storage Company, 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 March 31, in excess of 30 times such customer's maximum daily withdrawal quantity. During the 1961-62 heating season, the Storage Company withdrew an aggregate of 4,475.3 million cubic feet of gas on 60 days for Northern Illinois' account. The greatest such one-day withdrawal was 232.7 million cubic feet. On June 30, 1962, Northern Illinois had approximately 8,516.9 million cubic feet of gas stored under the Storage Company agreement.

**Cost of Natural Gas.** The average per therm cost of natural gas purchased by Northern Illinois, including transportation costs, for the five years 1957-1961 and for the 12 months ended June 30, 1962, was as follows: 1957-2.52¢; 1958-2.53¢; 1959-2.53¢; 1960-3.06¢; 1961-3.18¢; 12 months ended June 30, 1962-3.11¢.

The cost of gas purchased by Northern Illinois from Natural is determined by tariff effective March 1, 1961, subject to refund. The cost of natural gas at 100% load factor under this tariff is 2.95¢ per therm. A rate settlement agreement between Natural and all of its customers is now before the FPC for approval. The agreement proposes a new rate which will result in a cost of natural gas at 100% load factor of 2.85¢ per therm. The agreement also proposes a refund for the period from March 1, 1961, to the effective date of the new rate.

The cost of gas which Northern Illinois purchases from Northern Natural is determined by tariff effective December 27, 1961. The cost of gas at 100% load factor under this tariff is 3.55¢ per therm. The cost of gas purchases from Midwestern was specified by the FPC in its order of May 12, 1959. The cost of gas at 100% load factor under this tariff is 3.25¢ per therm. On February 13, 1961, the FPC ordered an investigation of the rate charged by Midwestern. No date has as yet been set for the commencement of hearings.

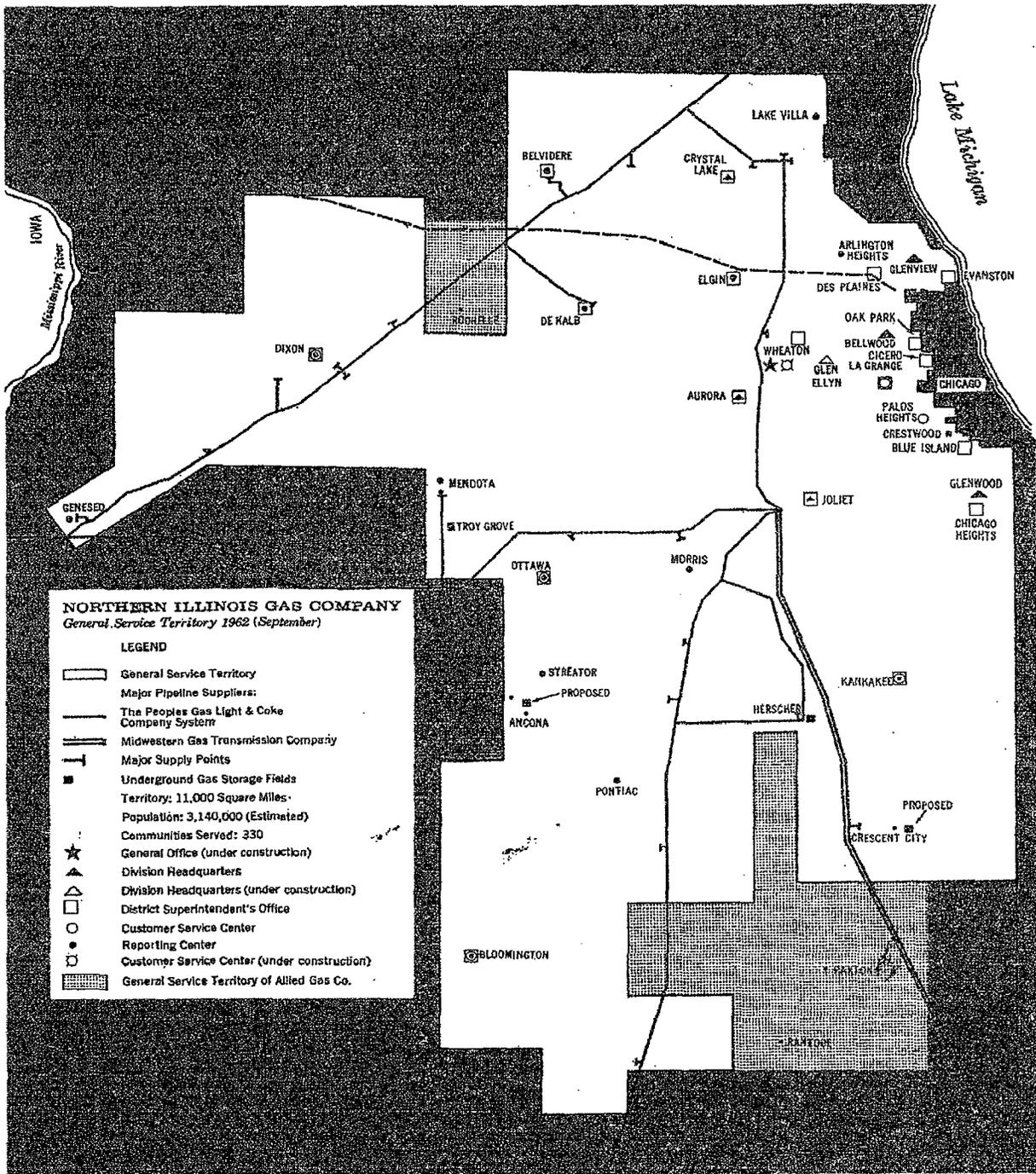
Northern Illinois' rate schedules on file with the Illinois Commerce Commission include a purchased gas cost adjustment clause whereby increases or decreases in the unit cost of gas purchased by it on a firm supply basis are reflected in Northern Illinois' per therm charges for gas for the major portion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

**Regulation.** Northern Illinois 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.

Northern Illinois has been exempted from jurisdiction of the Federal Power Commission under the provisions of the Natural Gas Act, as amended.

Northern Illinois and Allied are presently exempt from regulation by the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935. If the Exchange Offer is consummated appropriate action will be taken to continue the exemptions of the companies from the provisions of the Act.

**Wages.** Collective bargaining agreements, which were effective February 1, 1961, between Northern Illinois and seven locals of the International Brotherhood of Electrical Workers, have been extended to January 31, 1964. In accordance with the reopening provisions of these agreements, a general wage increase of approximately 3.9%, on an annual basis, was granted on February 1, 1962. These same agreements further



provide for a general wage increase on February 1, 1963, which will average about 3.65%, on an annual basis. Increases in the rates of compensation of supervisory employes have been and will continue to be made from time to time. About 29% of wage and salary payments are currently being charged to construction.

**Competition.** Gas competes with other fuels and forms of energy available to Northern Illinois' 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 Northern Illinois supplies gas service.

At the present time, gas for house heating, certain other household uses, and small commercial and industrial space heating is sold by Northern Illinois at a considerable price advantage relative to available competitive fuels and forms of energy.

**Statistics.** The following tabulation shows data for the periods indicated with respect to Northern Illinois' gas business:

|   | Year Ended December 31 |                     |                      |                      |                      | Twelve Months Ended June 30, 1962 |
|---|------------------------|---------------------|----------------------|----------------------|----------------------|-----------------------------------|
|   | 1957                   | 1958                | 1959                 | 1960                 | 1961                 |                                   |
| <b>Operating Revenues</b>                           |                        |                     |                      |                      |                      |                                   |
| Residential—  |                        |                     |                      |                      |                      |                                   |
| With house heating.....                             | \$45,005,504           | \$49,325,977        | \$ 59,952,799        | \$ 79,715,965        | \$ 91,503,147        | \$100,699,467                     |
| Without house heating.....                          | 13,501,177             | 14,286,130          | 13,644,748           | 12,301,708           | 11,165,603           | 10,702,607                        |
| Commercial and Public Authorities (a).....          | 4,605,805              | 5,029,860           | 5,860,432            | 9,399,413            | 13,662,260           | 16,922,991                        |
| Industrial—   |                        |                     |                      |                      |                      |                                   |
| Firm.....   | 8,193,877              | 8,356,330           | 10,493,714           | 13,301,447           | 15,582,917           | 17,330,376                        |
| Interruptible—                                      |                        |                     |                      |                      |                      |                                   |
| Processing.....                                     | 6,381,721              | 6,273,390           | 6,295,433            | 8,468,154            | 10,084,629           | 9,659,934                         |
| Boiler fuel (b).....                                | 6,072,716              | 7,053,258           | 8,025,389            | 6,075,847            | 4,927,901            | 5,332,275                         |
| Other revenues.....                                 | 649,181                | 733,430             | 824,953              | 959,101              | 914,407              | 998,519                           |
| Total.....  | <u>\$84,409,981</u>    | <u>\$91,058,425</u> | <u>\$105,097,468</u> | <u>\$130,221,635</u> | <u>\$147,840,864</u> | <u>\$161,646,169</u>              |
| <b>Therms Produced and Purchased (in thousands)</b> |                        |                     |                      |                      |                      |                                   |
| Produced.....                                       | 3,853                  | 1,935               | 652                  | 878                  | 280                  | 397                               |
| Purchased.....                                      | 1,250,592              | 1,335,788           | 1,610,764            | 1,789,543            | 1,976,852            | 2,113,470                         |
| Total produced and purchased.....                   | <u>1,254,445</u>       | <u>1,337,723</u>    | <u>1,611,416</u>     | <u>1,790,421</u>     | <u>1,977,132</u>     | <u>2,113,867</u>                  |
| Net injection for storage.....                      | 4,242                  | 1,435*              | 54,214               | 67,455               | 99,520               | 91,049                            |
| Losses and company use, etc.....                    | 35,012                 | 45,821              | 48,330               | 51,465               | 46,279               | 31,009                            |
| Total.....  | <u>39,254</u>          | <u>44,336</u>       | <u>102,544</u>       | <u>118,920</u>       | <u>145,799</u>       | <u>122,058</u>                    |
| Remainder.....                                      | <u>1,215,191</u>       | <u>1,293,337</u>    | <u>1,508,872</u>     | <u>1,671,501</u>     | <u>1,831,333</u>     | <u>1,991,809</u>                  |
| <b>Therms Sold (in thousands)</b>                   |                        |                     |                      |                      |                      |                                   |
| Residential—  |                        |                     |                      |                      |                      |                                   |
| With house heating.....                             | 459,546                | 499,735             | 619,471              | 779,428              | 880,402              | 976,052                           |
| Without house heating.....                          | 95,584                 | 102,020             | 98,654               | 85,903               | 76,863               | 73,782                            |
| Commercial and Public Authorities (a).....          | 50,760                 | 56,020              | 68,016               | 103,870              | 146,703              | 182,078                           |
| Industrial—   |                        |                     |                      |                      |                      |                                   |
| Firm.....   | 147,447                | 149,756             | 191,150              | 219,131              | 251,533              | 277,659                           |
| Interruptible—                                      |                        |                     |                      |                      |                      |                                   |
| Processing.....                                     | 210,614                | 207,144             | 213,232              | 237,918              | 276,838              | 267,158                           |
| Boiler fuel (b).....                                | 251,240                | 278,662             | 318,349              | 245,251              | 198,994              | 215,080                           |
| Total sales.....                                    | <u>1,215,191</u>       | <u>1,293,337</u>    | <u>1,508,872</u>     | <u>1,671,501</u>     | <u>1,831,333</u>     | <u>1,991,809</u>                  |

|  | Year Ended December 31 |                |                |                |                | Twelve Months Ended June 30, 1962 |
|--|------------------------|----------------|----------------|----------------|----------------|-----------------------------------|
|  | 1957                   | 1958           | 1959           | 1960           | 1961           |                                   |
| <b>Customers (at end of period)</b>        |                        |                |                |                |                |                                   |
| Residential—                               |                        |                |                |                |                |                                   |
| With house heating.....                    | 247,031                | 277,901        | 356,270        | 425,165        | 474,419        | 493,050                           |
| Without house heating.....                 | 322,780                | 322,377        | 284,632        | 253,222        | 235,707        | 228,722                           |
| Commercial and Public Authorities (a)..... | 24,425                 | 25,425         | 27,880         | 33,564         | 38,754         | 40,888                            |
| Industrial—                                |                        |                |                |                |                |                                   |
| Firm.....                                  | 3,432                  | 3,563          | 3,784          | 4,176          | 4,581          | 4,733                             |
| Interruptible.....                         | 60                     | 58             | 56             | 54             | 52             | 53                                |
| Total.....                                 | <u>597,728</u>         | <u>629,324</u> | <u>672,622</u> | <u>716,181</u> | <u>753,513</u> | <u>767,246</u>                    |

**Average Annual Revenue Per Residential Customer**

|                            |          |          |          |          |          |          |
|----------------------------|----------|----------|----------|----------|----------|----------|
| With house heating.....    | \$190.57 | \$189.39 | \$194.63 | \$202.71 | \$202.88 | \$212.39 |
| Without house heating..... | 42.46    | 44.05    | 43.98    | 46.06    | 45.86    | 45.45    |

**Degree Days (c) (billing basis)**

|   |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|
| For the period.....                             | 6,123 | 5,998 | 6,500 | 6,189 | 6,052 | 6,446 |
| % of 1951-1960 U.S. Weather Bureau average..... | 101.9 | 99.8  | 108.2 | 103.0 | 100.7 | 107.4 |

\*Denotes red figure.

(a) Includes one other gas utility in 1959 and 1960.

(b) Natural gas available, after service to firm customers, interruptible processing customers, and after storage injection, is supplied by Northern Illinois on an interruptible basis for use as boiler fuel in certain of Commonwealth Edison Company's electric generating stations located outside Chicago. A contract for such boiler fuel gas was entered into with that company as of February 1, 1954, modified by a supplemental agreement as of January 1, 1955, and further amended as of April 3, 1961.

(c) 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 11,058,000 therms occurred on January 9, 1962, when the average temperature was nine degrees below zero. The following tabulation shows the sources of gas used to supply this peak load:

|   | Number of Therms         |
|---|--------------------------|
| <b>Purchased:</b>                                       |                          |
| Natural.....  | 5,346,000                |
| Northern Natural.....                                   | 908,000                  |
| Midwestern.....   | 634,000                  |
| <b>From Storage:</b>                                    |                          |
| Underground Storage Reservoir of Northern Illinois..... | 2,465,000                |
| Natural Gas Storage Company of Illinois.....            | 1,627,000                |
| Local Storage Facilities of Northern Illinois.....      | 27,000                   |
| Propane Gas Produced.....                               | 51,000                   |
| <b>Total Firm Gas Sendout.....</b>                      | <b><u>11,058,000</u></b> |

## PROPERTY—NORTHERN ILLINOIS

Net additions to Northern Illinois' plant account since 1950 represented about 69% of the plant account at June 30, 1962. The properties have been well maintained and are in good operating condition.

Northern Illinois' distribution system, which represents about 85% of its gross investment in property, includes about 11,100 miles of steel and cast iron mains and about 9,000 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.

In addition to its Troy Grove underground gas storage reservoir, Northern Illinois owns and operates local gas storage installations with an aggregate capacity of 180,060,800 cubic feet or 1,800,608 therms. These include high-pressure underground storage installations with a total capacity of 174,700,000 cubic feet or 1,747,000 therms. Also, it has 3,375,000 gallons or 3,123,000 therms of liquefied petroleum gas storage capacity (propane or butane), and has facilities for producing propane or butane gas which have an aggregate peak day production capacity of 760,800 therms.

Northern Illinois' 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 Northern Illinois, 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 Northern Illinois are subject to the lien of the Indenture securing its mortgage bonds.

## MANAGEMENT—NORTHERN ILLINOIS

### Directors

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

MARVIN CHANDLER, *President of Northern Illinois*

GEORGE L. CLEMENTS, *President*, Jewel Tea Co., Inc., Melrose Park, 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, *Executive Vice-President of Northern Illinois*

HAROLD B. SMITH, *President*, Illinois Tool Works, Chicago, Illinois

### Officers

MARVIN CHANDLER, *President*

EDWARD D. SHEEHAN, *Executive Vice-President*

WILLIAM J. CROWLEY, *Vice-President and Comptroller*

HENRY A. DIEKMANN, *Vice-President (Sales)*

HOWARD E. FORD, *Vice-President (Supply)*

LOREN W. TUTTLE, *Vice-President (Distribution)*

CHARLES F. HENNESS, *Vice-President (Divisions)*

MATHEW G. MARKLE, *Vice-President (Engineering)*

WILLIAM E. PRESTON, *Vice-President (Personnel, Planning and Research)*

C. J. GAUTHIER, *Vice-President (Finance)*

GEORGE W. RYERSON, *Secretary*

LUSTER L. STARRETT, *Treasurer*

ORVILLE E. FRY, *Assistant Vice-President (Personnel)*

STEPHEN E. TAYLOR, *Assistant Secretary*

CHARLES W. DANIELS, *Assistant Treasurer*

WILLIAM F. HAYES, *Assistant Comptroller*

EVERETT M. HOLWICK, *Assistant Comptroller*

All of the officers of Northern Illinois have been in its employ for more than the last five years.

During 1961, the only persons among the directors and the three highest-paid officers of Northern Illinois whose aggregate remuneration, paid directly or indirectly by Northern Illinois, exceeded \$30,000 were Mr. Chandler whose compensation as President was \$70,000 and Mr. Sheehan whose compensation as Executive Vice-President was \$38,059. The aggregate remuneration paid during 1961 directly or indirectly by Northern Illinois to all directors and principal officers, as a group, was \$349,742.

No portion of Northern Illinois' contributions to the trust fund under its Service Annuity System, 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 Sheehan are expected to be entitled to \$27,610 and \$15,181 per year, respectively, calculated upon a basis of retirement of each at age 65 with no change in their present salaries or in the Service Annuity System in the interim. Reference is made to Northern Illinois' "Notes to Financial Statements" for information relating to a discretionary supplementary retirement plan.

Northern Illinois has an Employe Stock Purchase Plan which was established September 7, 1954. All regular employes of legal age, including officers but not directors who are not officers, are entitled to participate. Participants may accumulate up to 10% of their regular pay and on designated dates twice each year (in April and October) use such accumulated savings to purchase, at their option, common stock of Northern Illinois. The purchase price is 90% of the closing market price on such designated dates, but not less than \$10 per share. The Plan may be terminated at any time by Northern Illinois' Board of Directors. Under present arrangements, it will terminate on October 31, 1964, or whenever at any earlier time all or substantially all of the

200,000 shares reserved for the Plan have been purchased. Under the Plan, during 1961, Messrs. Chandler and Sheehan purchased 71 and 67 shares, respectively, and Northern Illinois' eligible directors and principal officers, as a group, purchased an aggregate of 416 shares. As of June 30, 1962, deductions under the Plan at the annual rates of \$4,200, \$3,384 and an aggregate of \$23,784 were being made from the pay of Messrs. Chandler and Sheehan and Northern Illinois' eligible directors and principal officers as a group, respectively. Information with respect to shares purchased under the Plan by all participants during the years 1959, 1960, 1961 and the six months ended June 30, 1962, is set forth in the following table:

|           | No. of Shares Purchased | Price per Share | Aggregate Price | Market Price per Share | Aggregate Market Price |
|-----------|-------------------------|-----------------|-----------------|------------------------|------------------------|
| 1959..... | 7,064                   | \$25.09         | \$177,236       | \$27.875               | \$196,909              |
|           | 8,369                   | 27.57           | 230,733         | 30.625                 | 256,300                |
| 1960..... | 8,441                   | 29.03           | 245,042         | 32.250                 | 272,222                |
|           | 7,449                   | 36.34           | 270,697         | 40.375                 | 300,753                |
| 1961..... | 5,880                   | 48.60           | 285,768         | 54.000                 | 317,520                |
|           | 6,012                   | 52.20           | 313,826         | 58.000                 | 348,696                |
| 1962..... | 5,232                   | 60.75           | 317,844         | 67.500                 | 353,160                |

As of June 30, 1962, an aggregate of 110,754 shares of Northern Illinois' common stock had been purchased or subscribed for by participants under the Plan for \$2,928,295 (aggregate market price \$3,253,162) at an average price of \$26.44 per share (average market price \$29.37 per share).

As of June 30, 1962, the directors and principal officers of Northern Illinois, as a group, beneficially owned, or had direct or contingent beneficial interests in, 10,466 shares of Northern Illinois' common stock.

On June 30, 1962, Carothers & Clark, c/o Bank of Delaware, 901 Market Street, Wilmington 99, Delaware, nominee for Investors Mutual, Inc., held of record 10,000 shares of 5% Preferred Stock and 25,000 shares of 5.50% Preferred Stock, being about 14% of the then outstanding shares of the Preferred Stock as a class.

#### BUSINESS—ALLIED

Allied, organized as an Illinois corporation in 1906, adopted its present corporate name in July, 1946, immediately following its acquisition of all of the properties, assets and franchises of the Paxton Gas Company.

Allied is a public utility engaged principally in the purchase, distribution and sale of natural gas. Its service area, comprising about 1,400 square miles, is divided into two non-connected divisions, the Paxton Division in the east central part of Illinois, serving eight communities and the Chanute Air Force Base, and the Rochelle Division, approximately 75 miles west of the City of Chicago, serving two communities.

Population of the communities served and their immediately surrounding areas, based on the 1960 census, is estimated at approximately 40,000 which includes approximately 14,000 military personnel at Chanute Air Force Base. At June 30, 1962, Allied had 9,364 customers including 1,515 military housing units at the Chanute Air Force Base.

**Sources of Gas Supply.** Natural gas distributed by Allied is obtained from Natural Gas Pipeline Company of America, a non-affiliated company. The rates charged by Natural are subject to regulation by the Federal Power Commission.

**Gas Storage.** Allied has an agreement (which extends to 1982 and thereafter until cancelled by either party on one year's notice) with Natural Gas Storage Company of Illinois under which Allied is entitled to store gas in the Storage Company's reservoirs (located at Herscher and Cooks Mills, Illinois) and to withdraw gas until December 1, 1962, at a maximum rate of 4,826,000 cubic feet daily and thereafter at a maximum rate of 5,464,000 cubic feet daily. The Storage Company, under its presently effective rate schedule, is not obligated

to withdraw for the account of any customer, from November 1 of any year to the next succeeding March 31, in excess of 30 times such customer's maximum daily withdrawal quantity. On June 30, 1962, Allied had approximately 209.4 million cubic feet of gas stored under the Storage Company agreement.

**Regulation.** Allied 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.

**Wages.** Allied has no collective bargaining agreements. However, on July 16, 1962, Allied's operating personnel voted to be represented by the International Brotherhood of Electrical Workers. Negotiations with the Union are in progress. About 20% of wage and salary payments are currently being charged to construction.

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

At the present time, gas for house heating, certain other household uses, and small commercial and industrial space heating is sold by Allied at a considerable price advantage relative to available competitive fuels and forms of energy.

**Statistics.** The following tabulation shows data for the periods indicated with respect to Allied's gas business:

|  | Year Ended September 30 |                    |                    |                    |                    | Twelve Months Ended June 30, 1962 |
|--|-------------------------|--------------------|--------------------|--------------------|--------------------|-----------------------------------|
|  | 1957                    | 1958               | 1959               | 1960               | 1961               |                                   |
| <b>Operating Revenues</b>                              |                         |                    |                    |                    |                    |                                   |
| Residential (a) .....                                  | \$ 798,081              | \$ 921,891         | \$1,028,744        | \$1,235,299        | \$1,284,712        | \$1,355,364                       |
| Commercial .....                                       | 151,015                 | 186,700            | 223,554            | 286,842            | 304,130            | 337,839                           |
| Industrial .....                                       | 122,494                 | 99,562             | 105,121            | 107,321            | 142,055            | 159,243                           |
| Public Authorities .....                               | 177,773                 | 183,813            | 193,931            | 186,174            | 226,356            | 320,332                           |
| Other revenues .....                                   | 10,638                  | 10,786             | 13,461             | 14,897             | 26,471             | 61,654                            |
| Total .....  | <u>\$1,260,001</u>      | <u>\$1,407,752</u> | <u>\$1,664,811</u> | <u>\$1,830,533</u> | <u>\$1,983,724</u> | <u>\$2,234,452</u>                |
| <b>Therms Purchased (in thousands)</b>                 |                         |                    |                    |                    |                    |                                   |
| Purchased and produced .....                           | 17,776                  | 19,225             | 20,884             | 23,446             | 26,562             | 32,081                            |
| Net injection for storage .....                        | 19                      | 25                 | 22                 | 7                  | 58                 | 54                                |
| Losses and company use, etc. ....                      | 525                     | 764                | 640                | 690                | 886                | 971                               |
| Total .....  | <u>544</u>              | <u>789</u>         | <u>662</u>         | <u>697</u>         | <u>944</u>         | <u>1,025</u>                      |
| Remainder .....  | <u>17,232</u>           | <u>18,436</u>      | <u>20,222</u>      | <u>22,749</u>      | <u>25,618</u>      | <u>31,056</u>                     |
| <b>Therms Sold (in thousands)</b>                      |                         |                    |                    |                    |                    |                                   |
| Residential (a) .....                                  | 7,105                   | 8,350              | 9,324              | 11,314             | 11,761             | 12,667                            |
| Commercial .....                                       | 1,595                   | 2,031              | 2,430              | 3,041              | 3,233              | 3,678                             |
| Industrial .....                                       | 3,874                   | 3,089              | 3,336              | 3,439              | 4,542              | 5,124                             |
| Public Authorities .....                               | 4,658                   | 4,966              | 5,132              | 4,955              | 6,082              | 9,537                             |
| Total sales .....                                      | <u>17,232</u>           | <u>18,436</u>      | <u>20,222</u>      | <u>22,749</u>      | <u>25,618</u>      | <u>31,056</u>                     |
| <b>Customers (at end of period)</b>                    |                         |                    |                    |                    |                    |                                   |
| Residential (a) .....                                  | 6,648                   | 6,988              | 7,495              | 8,101              | 8,420              | 8,532                             |
| Commercial .....                                       | 522                     | 576                | 619                | 671                | 705                | 766                               |
| Industrial .....                                       | 10                      | 9                  | 9                  | 11                 | 12                 | 14                                |
| Public Authorities .....                               | 2                       | 2                  | 2                  | 2                  | 2                  | 2                                 |
| Total .....  | <u>7,182</u>            | <u>7,575</u>       | <u>8,125</u>       | <u>8,785</u>       | <u>9,139</u>       | <u>9,384</u>                      |
| <b>Average Annual Revenue Per Residential Customer</b> | \$120.05                | \$131.92           | \$137.25           | \$153.42           | \$153.91           | \$157.93                          |

(a) Residential customers include military housing units as follows: 1,114 in 1957 and 1958; 1,218 in 1959; 1,559 in 1960; and 1,515 in 1961 and the twelve months ended June 30, 1962.