

REBUTTAL TESTIMONY  
of  
SHEENA KIGHT-GARLISCH

Finance Department  
Financial Analysis Division  
Illinois Commerce Commission

Northern Illinois Gas Company's  
Proposed General Increase in Rates for Delivery Service

Docket No. 08-0363

October 23, 2008

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1

## WITNESS IDENTIFICATION

2 **Q. Please state your name and business address.**

3 A. My name is Sheena Kight-Garlich. My business address is 527 East Capitol  
4 Avenue, Springfield, IL 62701.

5 **Q. Are you the same Sheena Kight-Garlich who previously filed testimony in  
6 this proceeding?**

7 A. Yes, I am.

8 **Q. Please state the purpose of your rebuttal testimony in this proceeding.**

9 A. The purpose of my rebuttal testimony is to respond to the rebuttal testimony of  
10 Northern Illinois Gas Company ("Nicor Gas" or "the Company") witnesses  
11 Douglas M. Ruschau (Co. Ex. 24.0) and Jeff D. Makholm (Co. Ex. 25.0) and to  
12 the direct testimony of Citizens Utility Board ("CUB") witness Christopher C.  
13 Thomas (CUB Exhibit 1.0).<sup>1</sup>

14

## RESPONSE TO MR. RUSCHAU

15 **Q. Mr. Ruschau asserts that your ratios should be "based on the Company's  
16 actual forecast of its 2009 expenditures."<sup>2</sup> Do you agree?**

17 A. No. My ratio analysis should be based on Staff's recommendations.<sup>3</sup> The  
18 purpose of the ratio analysis I presented in my direct testimony, which I have

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<sup>1</sup> My decision not to respond to an argument or arguments contained in the testimonies of Mr. Ruschau, Dr. Makholm and Mr. Thomas should not be construed as my agreement with those arguments.

<sup>2</sup> Co. Ex. 24.0, p. 22.

<sup>3</sup> In fact, my methodology is flexible enough to reflect the recommendations of all other parties in regard to operating revenues and cash expenses without further adjustment, as will be explained later.

19 updated in this rebuttal testimony, is to show the Commission the financial  
20 strength of Nicor Gas that would result should the Commission accept Staff's  
21 proposed rates.

22 In contrast, Mr. Ruschau's argument nonsensically implies that the Commission  
23 would simultaneously accept the Company's position on expenditures but base  
24 rates on Staff's position on expenditures. If the Commission accepts the  
25 Company's position on expenditures, I would expect the Commission to reflect  
26 those expenditures in rates. Conversely, I would expect the Commission would  
27 set rates based on Staff's position on expenditures only if the Commission  
28 accepted that position. In other words, if the Commission accepts Staff's position  
29 on expenditures is correct, the Commission is concluding either the Company *will*  
30 *not* be spending as much as the Company forecasted or that rate payers should  
31 not compensate the Company for a portion of the expenditures that the Company  
32 forecasted. In the former case, Staff's position on those expenditures is  
33 obviously valid for calculating the Company's financial ratios since the  
34 Commission would have deemed the Company's forecast of expenditures was  
35 less credible. In the latter case, if the Commission were to use the Company's  
36 forecast of expenditures for the calculation of the Company's financial ratios, the  
37 Company would be at least partially compensated for that disallowed expenditure  
38 through an improperly adjusted rate of return. Therefore, ratios based on Staff's  
39 recommended expenditures are an appropriate view of Nicor Gas's financial  
40 strength for the purpose of establishing a fair rate of return.

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However, if the Commission desires to assess the effect of other parties' positions on rate base, rate of return, or non-cash expenses such as depreciation, the analysis would need to be adjusted.

41 **Q. Mr. Ruschau argues that your ratio analysis fails to include adjustments**  
42 **Moody's makes for calculating its ratios.<sup>4</sup> Do you agree with the**  
43 **adjustments Mr. Ruschau made to the calculations?**

44 A. Only in part. Mr. Ruschau includes adjustments for operating leases, a pension  
45 credit and pension service costs. I do not agree that an adjustment for pension  
46 service costs needs to be included in my ratio analysis, since Staff has included  
47 those costs in its proposed revenue requirement; therefore, the Company would  
48 receive revenue to offset pension service costs such that the Company's  
49 operating income is unaffected. In contrast, the pension credit effectively  
50 reduces operating income; therefore, I agree that adjustment should be included  
51 in the financial ratio calculations. I also have accepted the adjustment for  
52 operating leases. The revised ratios are presented in Schedules 19.01 and  
53 19.02.

54 **Q. Mr. Ruschau contends that if you include the Moody's adjustments in your**  
55 **ratio calculation, then the Nicor Gas ratios would indicate a much lower**  
56 **financial strength rating.<sup>5</sup> Is he correct?**

57 A. No. After adjusting the ratios from my direct testimony<sup>6</sup> for operating leases and  
58 pension credits, the ratios for Nicor Gas are indicative of a level of financial  
59 strength that remains commensurate with an Aa3 credit rating. The financial  
60 guideline ratios from Moody's for gas distribution companies and the ratios for  
61 Nicor Gas are shown below in Table 1.

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<sup>4</sup> Co. Ex. 24.0, pp. 22-23.

<sup>5</sup> Co. Ex. 24.0, pp. 22-23.

<sup>6</sup> Staff Ex. 6.0, p. 22.

63

64

Table 1 – Moody's Guideline Ratios

	Aaa (1)	Aa (3)	A (6)
<b>Financial Guideline Ratios</b>			
EBIT/Interest	> 7X	5.0 – 7.0X	3.0-5.0X
RCF/Debt	> 26%	21- 26%	15-21%
Debt to Book Capitalization	< 30%	30 – 40%	40-50%
FCF/FFO	> 10%	10 – (15%)	(15)-(30%)
<b>Staff Direct Proposal</b>			
EBIT/Interest			3.97X
RCF/Debt		23.44%	
Debt to Book Capitalization			42.47%
FCF/FFO	21.99%		
<b>Staff Direct Proposal-After Additional Moody's Adjustments</b>			
EBIT/Interest			3.63X
RCF/Debt		23.25%	
Debt to Book Capitalization			42.77%
FCF/FFO	21.92%		

65

The ratios above demonstrate that including operating leases and pension

66

credits in my ratio calculation has little effect on the ratios and the level of

67

financial strength they indicate for Nicor Gas. When the level of operating risk

68

implied in the Moody's credit ratings of the Utility sample is considered, Nicor's

69

implied credit rating (reflecting both operating risk and financial strength) remains

70

A2, which is the same as Nicor Gas's current Moody's credit rating.<sup>7</sup>

<sup>7</sup> Moody's Investor Services, www.moody's.com.

71

## RESPONSE TO DR. MAKHOLM

72

### Exclusion of MGE Energy

73 **Q. Do you agree with Dr. Makholm that MGE Energy is similar in operating risk**  
74 **to Nicor Gas?**

75 A. Yes.

76 **Q. If MGE Energy is similar in operating risk to Nicor Gas, why did you**  
77 **exclude it from the Utility sample?**

78 A. Although MGE Energy is similar in operating risk to Nicor Gas, it does not have  
79 an analyst forecasted growth rate for the next 3-5 years. If the Commission  
80 agrees with Staff that analyst growth rates are the appropriate source for the  
81 growth rate estimate for the first stage of the non-constant DCF model, then  
82 MGE Energy should be excluded from the sample because it lacks the growth  
83 rate estimate necessary for the calculation. However, if the Commission accepts  
84 the methodology presented by Dr. Makholm for determining the proper growth  
85 rate for the companies in the sample, then Staff has no objection to the inclusion  
86 of MGE Energy in the Utility sample.

87

### Use of GDP for Third Stage Growth Rate

88 **Q. Dr. Makhholm criticizes the use of Gross Domestic Product (“GDP”) as the**  
89 **stage 3 growth rate in your non-constant DCF analysis.<sup>8</sup> Please comment.**

90 A. Dr. Makhholm argues that GDP is not a good estimator of sustainable utility  
91 growth. He incorrectly asserts that a “company can sustain a growth rate greater  
92 than that of the overall economy.”<sup>9</sup> Dr. Makhholm provided nothing to support his  
93 assertion. However, Reilly and Brown note that “no company can grow  
94 indefinitely at a rate substantially above normal.”<sup>10</sup> Brigham and Houston define  
95 normal growth as that which is expected to be similar to the economy as a  
96 whole.<sup>11</sup> Brigham and Houston also state that:

97 ... dividend growth on average is expected to continue in  
98 the foreseeable future at about the same rate as that of  
99 the nominal gross domestic product (real GDP plus  
100 inflation).<sup>12</sup>

101 **Q. Dr. Makhholm argues that utilities are not “below-average growth**  
102 **companies.” Is he correct?**

103 A. No. The data Dr. Makhholm relied upon suggests that, relative to the overall  
104 market, the utility companies composing his sample are, in fact, below average  
105 growth companies. Specifically, relative to the overall market, which has a  
106 retention ratio of 65.31%,<sup>13</sup> the retention rate for utility companies of 44.32%<sup>14</sup> is  
107 well below average. Further, one would expect utilities overall to earn below

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<sup>8</sup> Co. Ex. 25.0, pp. 6-14.

<sup>9</sup> Co. Ex. 25.0, p. 7.

<sup>10</sup> Reilly and Brown, *Investment Analysis and Portfolio Management*, 5<sup>th</sup> edition, p. 754.

<sup>11</sup> Brigham and Houston, *Fundamentals of Financial Management*, 8<sup>th</sup> edition, p.319.

<sup>12</sup> Brigham and Houston, *Fundamentals of Financial Management*, 8<sup>th</sup> edition, p.319.

<sup>13</sup> Reuters, [www.reuters.com](http://www.reuters.com), October 20, 2008.

<sup>14</sup> Co. Ex. 25.4.

108 average returns due to the below average risk reflected in their below average  
109 betas (i.e., betas less than one), such as the 0.88 average beta Dr. Makholm  
110 adopted for his sample.<sup>15</sup> Since growth is a function of those below average  
111 earnings retention rates and the below average return on those earnings, one  
112 would expect *below average* growth for utilities.

113 **Q. Dr. Makholm implies “productivity” of utilities supports his assertion that**  
114 **utilities are not “below-average growth companies.” Please comment.**

115 A. Dr. Makholm has not shown a direct link between productivity and a company’s  
116 growth in earnings. Productivity is defined as:

117 The average output produced per worker  
118 during a specific time period.<sup>16</sup>

119 That is for productivity to lead to higher growth in earnings as Dr. Makholm  
120 claims productivity gains cannot be passed on to: (1) customers through lower  
121 prices, (2) workers through higher wages, or (3) common stock holders through  
122 higher dividends. As I discussed above, utilities have below average earnings  
123 retention and should have below average rates of return on new investment.  
124 Thus, even if utilities have above normal productivity growth, it is highly doubtful  
125 that productivity growth leads to above normal growth in earnings.

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<sup>15</sup> Co. Ex. 25.9.

<sup>16</sup> Gwartney, Stroup, Sobel, Economics Private and Public Choice, Ninth Edition

126

**Dr. Makholm's Growth Calculation**

127 **Q. Dr. Makholm claims that it is reasonable to assume that the companies in**  
128 **his sample will issue new equity securities for prices prevailing in the**  
129 **market.<sup>17</sup> Please comment.**

130 A. I do not dispute that the companies in his sample may issue some new common  
131 stock through public offerings at the prevailing market price. I dispute the  
132 assumption that all new common stock will be issued through public offerings.  
133 Recent history indicates that a portion of new common stock will be issued to  
134 employees at a discount to the prevailing market price. As noted in my direct  
135 testimony, to the degree that any of the new common stock is issued at below  
136 the prevailing market price, the SV component of Dr. Makholm's sustainable  
137 growth rate estimates is overstated. Schedule 19.03,<sup>18</sup> documentation  
138 demonstrating that at least some of the common stock issuances of the  
139 companies in Dr. Makholm's sample were, in fact, exercised stock options, which  
140 would certainly be issued at a price below the prevailing market price.<sup>19</sup>

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<sup>17</sup> Co. Ex. 25.0, p.15

<sup>18</sup> Schedule 19.03 does not represent a comprehensive review of all the stock issuances of the companies in the Utility sample.

<sup>19</sup> The option gives the holder the right to purchase the stock at a specified price. The option would only be exercised if the specified price is less than the market price of the stock.

141

### CAPM Analysis

142 **Q. Dr. Makhholm criticizes your CAPM analysis because the betas you used**  
143 **“are not readily visible to the market,” recommending, instead, the use of**  
144 **Value Line betas.<sup>20</sup> Please comment.**

145 A. The validity of Staff’s beta estimation methodology is not a function of whether  
146 investors rely upon Staff’s beta estimates. Rather, the validity of the  
147 methodology is a function of whether it is generally accepted. The methodology I  
148 used to calculate the betas for my sample, which Staff has regularly used and the  
149 Commission has consistently approved,<sup>21</sup> employs the same monthly frequency  
150 of stock price data as the widely accepted Merrill Lynch methodology. The Value  
151 Line methodology is not inherently superior to Staff’s methodology. Different  
152 beta estimation methodologies can produce different betas whenever those  
153 methodologies employ different samples of stock return data.

154 Value Line and regression betas are estimates of the unobservable true beta,  
155 which measures investors’ expectations of the quantity of non-diversifiable risk  
156 inherent in a security. Consequently, which beta estimates are more accurate is  
157 unknown. Further, other sources publish beta estimates for the companies in my  
158 Utility Sample that are even lower than the regression beta estimates. For  
159 example, the published betas for my Utility Sample from Zacks averaged 0.66  
160 after adjustment and from Scottrade averaged 0.62 after adjustment, both of  
161 which are lower than the adjusted regression beta of 0.69 that I used in my direct

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<sup>20</sup> Co. Ex. 25.0, p. 22.

<sup>21</sup> Order, Docket No. 02-0837, October 17, 2003, pp. 37-38; Order, Docket Nos. 02-0798/03-0008/03-0009 Cons., October 22, 2003, p. 85; Order, Docket No. 00-0340, February 15, 2001, p. 25; and Order, Docket No. 03-0403, April 13, 2004, p. 42.

162 testimony.<sup>22,23</sup> The beta estimates from the various sources I reviewed are  
163 shown in the table below.

Table 1

Source <sup>24</sup>	Published (Raw) Beta <sup>25</sup>	Adjusted Beta
Reuters	.48	.66
Scottrade	.43	.62
Yahoo!	.46	.64
Zacks	.49	.66

164 **Q. Dr. Makhholm states “[t]here are objective, disinterested and published**  
165 **sources of betas that investors do examine, and I think it would be wise for**  
166 **the Commission to stick to those as inputs to the cost of capital.” Please**  
167 **comment.**

168 A. As I explained above, the regression beta calculation is proper for use in the  
169 CAPM model. However, to reduce issues in this case I have updated my CAPM  
170 results using only published betas.<sup>26</sup> I utilized beta estimates from several  
171 published sources that are available to investors at no charge and Value Line.<sup>27</sup>  
172 Contrary to Dr. Makhholm’s suggestion that published betas are traditionally  
173 adjusted,<sup>28</sup> all of the sources I reviewed present unadjusted (i.e., raw) betas.  
174 CUB witness Thomas has argued for the use of raw betas in the CAPM. The  
175 inclusion of these published raw betas should not be construed as Staff’s

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<sup>22</sup> Using the same upward adjustment applied to the raw regression betas.

<sup>23</sup> Zacks Research Wizard, October 6, 2008; Scottrade, [www.scottrade.com](http://www.scottrade.com), October 6, 2008.

<sup>24</sup> Yahoo Finance Key Statistics, <http://finance.yahoo.com/q/ks?s...>, October 6, 2008; Reuters, <http://stocks.us.reuters.com/stocks.ratios>, October 6, 2008.

<sup>25</sup> The published betas provided in Table 1 are available to investors at no charge.

<sup>26</sup> The beta estimate from only published sources is the simple average of the beta estimates from Reuters, Scottrade, Yahoo!, Zacks, and Value Line.

<sup>27</sup> Value Line is only available through a paid subscription. However, many libraries have a Value Line subscription.

<sup>28</sup> Co. Ex. 25.0, p. 22

176 agreement that raw betas are proper for use in the CAPM model. However,  
177 since the Company clearly states that it prefers published betas, for this case  
178 only, I have included all published beta estimates that I obtained from well-known  
179 financial websites. Thus, the beta estimate used in this updated CAPM,  
180 presented in Schedules 19.04, is the average of the four published, raw beta  
181 estimates (i.e., Reuters, Scottrade, Yahoo!, Zacks)<sup>29</sup> and one published, adjusted  
182 beta estimate (i.e., Value Line).<sup>30</sup>

183 **Q. What is the beta estimate for the Utility sample using only published beta**  
184 **estimates?**

185 A. As shown in Schedule 19.05, the average Value Line beta for the Utility sample  
186 is 0.87.<sup>31</sup> The average monthly published beta estimate is 0.46. The average of  
187 these two estimates is 0.67.

188 **Q. What required rate of return on common equity does the risk premium**  
189 **model estimate for the Utility sample using only published beta estimates?**

190 A. The risk premium model estimates a required rate of return on common equity of  
191 10.60% for my Utility sample. The computation of that estimate appears on  
192 Schedule 19.04.

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<sup>29</sup> Hereafter collectively referred to as the "average monthly published beta." I averaged the beta estimates from Reuters, Scottrade, Yahoo!, and Zacks since all four sources calculate beta using monthly returns.

<sup>30</sup> Value Line calculates beta using weekly returns.

<sup>31</sup> The Value Line Investment Survey, "Summary and Index," July 18, 2008, pp. 4-23.

193 **Q. Based on your analysis, what is your estimate of the Company's cost of**  
194 **common equity?**

195 A. Based on my analysis, in my judgment the Company's investor-required rate of  
196 return on common equity equals 9.68%.

197 **Q. Please summarize how you estimated the investor-required rate of return**  
198 **on common equity for the Company.**

199 A. First, I estimated the investor required rate of return on common equity for my  
200 Utility sample, which is a simple average of the DCF-derived results (9.25%) and  
201 the updated (published beta) risk premium-derived results (10.60%) for the Utility  
202 sample, or 9.93 %. Second, I adjusted the Utility sample's investor required rate  
203 of return downward 25 basis points to reflect the lower risk of the Company  
204 relative to the Utility sample. A comparison of the Moody's ratios for the  
205 Company<sup>32</sup> and the Utility sample are presented in Schedule 19.06.<sup>33</sup> Thus, the  
206 investor-required rate of return on common equity is 9.68% for Nicor Gas.

207 **Q. Has the Commission traditionally relied upon adjusted betas for use in the**  
208 **CAPM?**

209 A. Yes. The Commission has traditionally relied upon adjusted beta estimates.  
210 Therefore, I have also provided an updated CAPM analysis in which I adjust the  
211 published beta estimates<sup>34</sup> from Reuters, Scottrade, Yahoo!, and Zacks before I  
212 combine them with the beta estimate from Value Line.

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<sup>32</sup> The Company ratios reflect Staff recommendations in rebuttal testimony and the adjustments for pension credit and operating leases.

<sup>33</sup> The downward adjustment was explained in Staff Ex. 6.0 on pages 21-25.

<sup>34</sup> The raw betas are adjusted based on the Merrill Lynch methodology presented on page 18 of ICC Staff Ex. 6.0.

213 **Q. What is the beta estimate for the Utility sample using only adjusted**  
214 **published beta estimates?**

215 A. As shown in Schedule 19.07, the adjusted average monthly published beta  
216 estimate is 0.65. The average of the adjusted average monthly published beta  
217 estimate and the Value Line beta estimate is 0.76.

218 **Q. What required rate of return on common equity does the risk premium**  
219 **model estimate for the Utility sample using only adjusted published beta**  
220 **estimates?**

221 A. The risk premium model estimates a required rate of return on common equity of  
222 11.39% for my Utility sample. The computation of that estimate appears on  
223 Schedule 19.08.

224 **Q. If the Commission prefers to continue to use adjusted betas, what is the**  
225 **Company's cost of common equity?**

226 A. If the Commission continues to use adjusted betas in its CAPM analysis, the  
227 Company's investor-required rate of return on common equity would be 10.07%.  
228 This is obtained by taking a simple average of the DCF-derived results (9.25%)  
229 and the risk premium-derived results based on adjusted, published betas  
230 (11.39%) for the Utility sample, or 10.32%, and adjusting the result downward 25  
231 basis points to reflect the lower risk of the Company relative to the Utility  
232 sample.<sup>35</sup> Therefore, the Company's investor-required rate of return on common  
233 equity equals 10.07% after the 25 basis point adjustment for the difference in risk  
234 of Nicor Gas and the Utility sample.

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<sup>35</sup> The downward adjustment was explained in Staff Ex. 6.0 on pages 21-25. The updated ratio analysis is presented in Schedule 19.06.

235

## Risk Adjustment

236 **Q. Please address Dr. Makholm's comment that average credit rating**  
237 **differences "have no conceptual read-across to any possible equity risk**  
238 **difference" and that your adjustment "has no credible basis from a**  
239 **standpoint of financial theory or practice."<sup>36</sup>**

240 A. The risk/return tradeoff (i.e., investors require higher returns to accept greater  
241 exposure to risk) is a fundamental principle of finance. That concept forms the  
242 basis of my adjustment. While Dr. Makholm is correct that equity investors are  
243 only entitled to the residual value of the firm after its creditors have been paid  
244 and that credit ratings do not equate to equity risks, to therefore conclude that  
245 there is no connection between credit risk and equity risk is incorrect. While the  
246 relationship between credit ratings and equity risk is not perfect, credit ratings  
247 and equity risk are certainly related. Nobel Prize winners Modigliani & Miller  
248 conclude that equity costs are affected by debt leverage.<sup>37</sup> Credit ratings are  
249 also affected by debt leverage. That is, as debt leverage rises, the cost of equity  
250 rises and credit ratings fall and vice versa. Thus, there is an inverse relationship  
251 between credit ratings and equity costs. This is precisely the relationship I am  
252 modeling. As noted above, while there is no way to directly measure that  
253 relationship, to ignore the risk differential between my Utility sample's rating and  
254 Nicor Gas' rating, as Dr. Makholm espouses, would clearly be inappropriate. The  
255 approach I have adopted is consistent with the approach Staff has taken, and the  
256 Commission has accepted, under similar circumstances in previous proceedings.

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<sup>36</sup> Co. Ex. 25.0, pp. 23-24.

<sup>37</sup> Brigham, Gapenski and Ehrhardt, Financial Management Theory and Practice, 9<sup>th</sup> edition, p.626.

257 **Q. Please address Dr. Makholm's claim that you make "no allowance for**  
258 **reasonableness ranges when assessing risk," as the rating agency does.<sup>38</sup>**

259 A. I did not rely on financial ratios to assess the risk of Nicor Gas or my Utility  
260 sample. I relied on the assessment of the overall risk of the company, as  
261 reflected in its credit ratings. As Dr. Makholm notes, those metrics already make  
262 an allowance for reasonableness ranges with regard to the financial ratios  
263 incorporated in those assessments. Thus, there is no additional allowance to be  
264 made.

265 **Effect of Rider Approvals on the Company's Business Risk**

266 **Q. Do you agree with Dr. Makholm that riders do not affect financial risk?**

267 A. Yes.

268 **Q. Do you agree with Dr. Makholm that riders do not affect business risk?**

269 A. No. Reducing the volatility in cash flows of a company reduces business risk.  
270 Since the riders proposed by Nicor Gas reduce volatility in cash flows, they also  
271 reduce the Company's business risk. Further, both Moody's and Standard and  
272 Poor's (S&P) consider rate design mechanisms such as decoupling as favorable  
273 for credit ratings.<sup>39</sup>

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<sup>38</sup> Co. Ex. 25.0, p. 23.

<sup>39</sup> Moody's Investors Service, "Impact of Conservation on Gas Margins and Financial Stability in the Gas LDC Sector," June 2005; and Standard & Poor's RatingsDirect, "Decoupling: The Vehicle For Energy Conservation?," February 19, 2008.

274 **Q. As support for Dr. Makhholm’s argument that a decoupling rider will not**  
275 **affect the cost of capital, Dr. Makhholm quotes a bulletin from S&P on**  
276 **NSTAR. Please comment.**

277 A. Dr. Makhholm’s quote from the bulletin is deceptive. Dr. Makhholm falsely implies  
278 that the S&P bulletin is based on the results of a NSTAR rate case.<sup>40</sup> The bulletin  
279 provides S&P’s opinion of how NSTAR is affected by the “recent Massachusetts  
280 Department of Public Utilities ruling, which orders utilities in the state to pursue  
281 full decoupling in their next base rate case filings.”<sup>41</sup> Dr. Makhholm conveniently  
282 omits a sentence in the middle of his quote that clearly states that NSTAR has  
283 not filed for a base rate case nor does S&P expect NSTAR to file for at least 3  
284 years. Therefore, NSTAR has not had a recent rate case that provides for full  
285 decoupling in Massachusetts. Hence, one would not expect S&P to adjust its  
286 credit rating on NSTAR since the company has not implemented full decoupling.

287 **RESPONSE TO MR. THOMAS**

288 **Q. In his discussion of the proper growth rate to use in a DCF analysis, CUB**  
289 **witness Thomas cites several studies and concludes that “[a]nalysts tend**  
290 **to be optimistic about future growth and produce forecasts that are**  
291 **upwardly biased.”<sup>42</sup> Do you agree with his implication that those studies**  
292 **can be applied to utility growth rates?**

293 A. No. The studies he cites tend to report generalized findings and do not  
294 specifically suggest that growth rates for utilities are overstated relative to

---

<sup>40</sup> Co. Ex. 25.0, p. 26.

<sup>41</sup> Standard & Poor’s RatingsDirect, *Bulletin: Decoupling Order Does Not Affect NSTAR Ratings*, July 21, 2008.

<sup>42</sup> CUB Ex. 1.0, pp. 24-25.

295 achieved growth. In contrast, a study by Chan, Karceski, and Lakonishok  
296 indicates that analyst growth rate estimates for utilities are not overstated. The  
297 authors of that study sorted by growth rate all domestic firms with available IBES  
298 long-term growth rate estimates, forming value-weighted portfolios in each  
299 quintile after each year, and found that the growth rates for portfolios of  
300 companies falling in the highest quintiles (i.e., having the highest growth rates)  
301 tend to be overstated relative to the growth achieved over the five years post  
302 ranking.<sup>43</sup> However, that study also indicates that the growth rates for portfolios  
303 of companies falling in the lowest quintile show no such tendency. That study  
304 further notes that the bottom quintile portfolios predominantly comprise firms in  
305 mature industries, with approximately 25% of those firms being utilities. Thus,  
306 utility growth rates do not appear to be upwardly biased estimators of achieved  
307 growth five years ex post.

308 **Q. Mr. Thomas claims that a paper by Gregory L. Nagel et al. (“the Nagel**  
309 **paper”) “rejects the version of the CAPM traditionally used by the**  
310 **Commission.”<sup>44</sup> Please respond.**

311 A. The Nagel paper did not evaluate and, thus, did not reject the version of the  
312 CAPM traditionally used by the Commission. Specifically, the Nagel paper does  
313 not apply to Staff’s CAPM because it does not evaluate a CAPM that utilizes  
314 adjusted betas. Rather, the Nagel paper found that a CAPM using raw betas  
315 was less accurate in predicting realized rates of return than a naïve model that  
316 assumes the same cost of equity, equal to the risk-free rate plus a risk premium,

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<sup>43</sup> Chan, Karceski, and Lakonishok, “The Level and Persistence of Growth Rates,” *Journal of Finance*, April 2003, pp. 671-676.

<sup>44</sup> CUB Exhibit 1.0, p. 14-15.

317 applies to all stocks (i.e., all betas equal 1.0).<sup>45</sup> Ironically, Mr. Thomas  
318 recommended use of raw betas in the CAPM analysis he presented, despite his  
319 own sources' explicit rejection of such an approach.

320 **Q. Mr. Thomas claims that betas should not be adjusted for reversion to a**  
321 **market mean of 1.0.<sup>46</sup> Please comment.**

322 A. The beta parameter is generally derived from historical data, but, in theory,  
323 should be a forward-looking number. Thus, in my direct I adjusted the raw (i.e.,  
324 historical) betas for the companies in my samples to improve the accuracy of my  
325 beta estimates. The Armitage text Mr. Thomas cites with regard to this argument  
326 notes that studies have shown that such adjustments result in appreciably better  
327 forecasts, finding that the reduction in both bias and inefficiency is greater the  
328 further away from one the beta in question is.<sup>47</sup> Armitage states that the  
329 observed flatness of the Securities Market Line is due to two factors: 1) error in  
330 the estimation of true betas (i.e., the further above (or below) the mean an  
331 observed beta is, the more likely it is that the estimate error is positive (or  
332 negative)), and 2) regression toward the mean (i.e., moderation in risk over  
333 time).<sup>48</sup>

334 **Q. Mr. Thomas claims that the assumption of a mean reversion makes little**  
335 **sense for utilities with betas below 1.0, citing a study by Gombola and**

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<sup>45</sup> Gregory L. Nagle, David R. Peterson, and Robert S. Prati, The Effect of Risk Factors on Cost of Equity Estimation, Quarterly Journal of Business and Economics, Vol. 46 No. 1, p. 67.

<sup>46</sup> CUB Ex. 1.0, pp. 7-16.

<sup>47</sup> Armitage, S., The Cost of Capital: Intermediate Theory, 2005, pp. 284-285.

<sup>48</sup> Armitage, S., The Cost of Capital: Intermediate Theory, 2005, p. 283.

336           **Kahl.<sup>49</sup> Do you agree with Mr. Thomas' conclusion that use of an adjusted**  
337           **beta for utilities with betas below 1.0 is wrong?**

338       A.     Mr. Thomas cites the Gombola and Kahl article and notes that they suggest that  
339           utility betas actually revert to a utility average beta rather than the market mean  
340           of 1.0. However, the derivation of the true industry mean beta is problematic.  
341           Not only is any estimate of the true industry portfolio beta mean dubious, as  
342           betas change over time, but, as noted above, the farther below the market mean  
343           a raw beta is, the more likely its estimate error is to be negative. Thus, the  
344           average of a portfolio of low betas, each of which is likely to be biased  
345           downward, will, itself, likely be biased downward. Regardless, as noted  
346           previously, Mr. Thomas' proposal to ignore beta reversion altogether and use an  
347           unadjusted beta was explicitly rejected in the Nagel paper he cites.

348       **Q.     Does this conclude your rebuttal testimony?**

349       A.     Yes, it does.

---

<sup>49</sup> CUB Ex. 1.0, p. 9.

**VERIFICATION**

I, Sheena Kight-Garlich, being first duly sworn, depose and state that I am a Senior Financial Analyst in the Finance Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Rebuttal Testimony of Sheena Kight-Garlich; that I have personal knowledge of the information stated in the foregoing Rebuttal Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

*Sheena Kight-Garlich*

Sheena Kight-Garlich  
Illinois Commerce Commission

Subscribed and sworn to before me  
this 23th day of October, 2008.

*Lisa Bowman*  
\_\_\_\_\_  
Notary Public



**Northern Illinois Gas Company**

**Ratios**

**Ratio Components**

Before Tax Weighted Average Cost of Capital =  $\frac{\text{Weighted Cost of Short-Term Debt} + \text{Weighted Cost of Long-Term Debt} + [\text{Weighted Cost of Preferred Stock} \div (1 - \text{Composite Tax Rate})] + [\text{Weighted Cost of Equity} \div (1 - \text{Composite Tax Rate})]}{\text{Rate Base}}$

Funds Available to Shareholders =  $(\text{Weighted Cost of Equity} + \text{Weighted Cost of Preferred Stock}) * \text{Rate Base}$

Non-Cash Items =  $\text{Depreciation \& Amortization} + \text{Deferred Taxes and Investment Tax Credits}$

Funds From Operations =  $\text{Funds Available to Shareholders} + \text{Non-Cash Items}$

Cash Dividends =  $\text{Cash Preferred Stock Dividends} + (\text{Funds Available to Shareholders} * \text{Payout ratio})$

Free Cash Flow =  $\text{Funds From Operations} + \text{Changes in Working Capital} - \text{Cash Dividends} - \text{Capital Expenditures}$

Interest =  $(\text{Cost of Short-term Debt} * \text{Short-Term Debt Balance}) + \text{Long-term Debt Interest}$

Total Debt =  $\text{Short-term Debt Balance} + \text{Long-term Debt Balance}$

Adjusted Capitalization =  $\text{Total Capital} + \text{Inventory Adjustment}^1$

**Ratios**

EBIT / Interest Coverage =  $\frac{\text{Before Tax Weighted Average Cost of Capital} * \text{Rate Base} + \text{Pension Credit}^2 + \text{Operating Lease (Rental Interest}^3)}{\text{Interest} + \text{Operating Lease (Rental Interest)}}$

RCF /Debt =  $\frac{\text{Funds From Operations} - \text{Cash Dividends} + \text{Operating Lease (Rental Depreciation}^4)}{\text{Total Debt} + \text{Operating Lease (Rental Debt}^5)}$

Debt/ Capitalization =  $\frac{\text{Total Debt} + \text{Operating Lease (Rental Debt)}}{\text{Adjusted Capitalization} + \text{Operating Lease (Rental Debt)}}$

Free Cash Flow /  
Funds From Operations =  $\frac{\text{Free Cash Flow}}{\text{Funds From Operations}}$

1 The Inventory Adjustment is the 2009 adjustment presented in response to Staff DR JF 8.01 adjusted for taxes.

2 Pension Credit from Company's response to Staff DR SK 7.04.

3 Operating Lease (Rental Interest) is the portion of interest from operating leases for Moody's adjustment to interest expense. Staff has used the amount in Company Ex. 24.6.

4 Operating Lease (Rental Depreciation) is the portion of operating leases for Moody's adjustment to FFO. Staff has used the amount in Company Ex. 24.6.

5 Operating Lease (Rental Debt) is the amount of long-term debt from operating leases for Moody's adjustment to debt. Staff has used the amount in Company Ex. 24.6.

**Components**

$$\text{Before Tax Weighted Average Cost of Capital} = 0.36\% + 2.39\% + (0.007\% \div (1-0.39745)) \\ + (4.95\% \div (1-0.39745)) = 10.97\%$$

$$\text{Funds Available to Shareholders} = (4.95\% + 0.00\%) \times \$1,317,678 = \$65,225$$

$$\text{Non-Cash Items} = \$177,904 + -\$10,055 = \$167,849$$

$$\text{Funds From Operations} = \$65,225 + \$167,849 = \$233,074$$

$$\text{Cash Dividends} = \$67 + (\$65,225 \times 100\%) = \$65,292$$

$$\text{Free Cash Flow} = \$233,074 + \$84,142 - \$65,292 - \$200,666 = \$51,258$$

$$\text{Interest} = (\$235,917 \times 2.09\%) + \$31,485 = \$36,416$$

$$\text{Total Debt} = \$235,917 + \$479,978 = \$715,895$$

$$\text{Adjusted Capitalization} = \$1,368,335 + \$317,381 = \$1,685,716$$

**Ratios**

$$\text{EBIT / Interest Coverage} = (10.97\% \times \$1,317,678 + -\$11,300 + \$367) \div (\$36,416 + \$367) = 3.63X$$

$$\text{RCF / Debt} = (\$233,074 - \$65,292 + \$733) \div (\$715,895 + \$8,800) = 23.25\%$$

$$\text{Debt/ Capitalization} = (\$715,895 + \$8,800) \div (\$1,685,716 + \$8,800) = 42.77\%$$

$$\text{Free Cash Flow / Funds From Operations} = \$51,258 \div (\$233,074 + \$733) = 21.92\%$$

SEC Filings



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MEYER DAVID J filed this Form 4 on 09/15/08

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**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response	0.5

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person* <b>MEYER DAVID J</b>  (Last) (First) (Middle) <b>1411 E MISSION AVE</b>	2. Issuer Name and Ticker or Trading Symbol <b>AVISTA CORP [AVA]</b>  3. Date of Earliest Transaction (Month/Day/Year) <b>09/11/2008</b>	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) Director 10% Owner <input checked="" type="checkbox"/> Officer (give title below) Other (specify below) <b>Vice President</b>
(Street) <b>SPOKANE WA 99202</b>  (City) (State) (Zip)	4. If Amendment, Date of Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person

SEC Filings

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/11/2008		M		14,540 (1)	A	\$ 18.31	16,706	D	
Common Stock	09/11/2008		M		5,460 (1)	A	\$ 18.31	22,166	D	
Common Stock	09/11/2008		S		14,540 (1)	D	\$ 22.0113	7,626	D	
Common Stock	09/11/2008		S		5,460 (1)	D	\$ 22.007	2,166	D	
Common Stock held in 401(k) Investment Plan								9,904	I	by Trustee
Common Stock held in Executive Deferral Plan								8,414	I	by Trustee
Common Stock held in IRA at D.A. Davidson & Co.								5,743	I	by Trustee

SEC Filings

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
 (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Exercise of Stock Option	\$ 18.31	09/11/2008		M			14,540	(2)	09/16/2008	Common Stock	14,540	\$ 22.0113	0 (4)	D	
Exercise of Stock Option	\$ 18.31	09/11/2008		M			5,460	(3)	09/16/2008	Common Stock	5,460	\$ 22.007	0 (4)	D	

**Explanation of Responses:**

- Transaction per Mr. Meyer's 10b5-1 Plan dated March 13, 2008.
- Options vest in four equal annual installments beginning on the first anniversary of the grant date. Mr. Meyer received an option grant of 14,540 shares on 09/16/1998.
- Options vest in four equal annual installments beginning on the first anniversary of the grant date. Mr. Meyer received an option grant of 5,460 shares on 09/16/1998.
- Total reflects the number of derivative securities remaining under this particular option grant.

/s/ David J. Meyer

09/15/2008

\*\* Signature of Reporting Person

Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

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SEC Filings



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**4**

MALQUIST MALYN K filed this Form 4 on 09/10/08

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**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
 Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

<p>1. Name and Address of Reporting Person*</p> <p><b>MALQUIST MALYN K</b></p> <hr/> <p>(Last) (First) (Middle)</p> <p><b>1411 E MISSION AVENUE</b></p> <hr/> <p>(Street)</p> <p><b>SPOKANE WA 99202</b></p> <hr/> <p>(City) (State) (Zip)</p>	<p>2. Issuer Name and Ticker or Trading Symbol</p> <p><b>AVISTA CORP [AVA]</b></p> <hr/> <p>3. Date of Earliest Transaction (Month/Day/Year)</p> <p><b>09/10/2008</b></p> <hr/> <p>4. If Amendment, Date of Original Filed (Month/Day/Year)</p>	<p>5. Relationship of Reporting Person(s) to Issuer (Check all applicable)</p> <p>Director 10% Owner</p> <p><input checked="" type="checkbox"/> Officer (give title below) Other (specify below)</p> <p><b>Executive Vice President &amp; CFO</b></p> <hr/> <p>6. Individual or Joint/Group Filing (Check Applicable Line)</p> <p><input checked="" type="checkbox"/> Form filed by One Reporting Person</p> <p>Form filed by More than One Reporting Person</p>
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SEC Filings

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/10/2008		M		12,500	A	\$ 11.03	52,503	D	
Common Stock	09/10/2008		S		12,500	D	\$ 21.9266	40,003	D	
Common Stock held in 401(k) Investment Plan								2,874	I	by Trustee
Common Stock held in Executive Deferral Plan								9,788	I	by Trustee
Common Stock held by Family Trust								9,500	I	by Family Trust <sup>(1)</sup>

SEC Filings

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
 (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Exercise of Stock Option	\$ 11.03	09/10/2008		M			12,500	(2)	09/30/2012	Common Stock	12,500	\$ 21.9266	37,500 (3)	D	

**Explanation of Responses:**

1. Stock held in The Malquist Family Trust, dated February 5, 1999, with Malyn K. Malquist and Georgia G. Malquist, Trustees
2. Options vest in four equal annual installments beginning on the first anniversary of the grant date. Mr. Malquist received an option grant of 50,000 shares on 09/30/2002.
3. Total reflects the number of derivative securities remaining under this particular option grant.

/s/ Malyn K. Malquist                      09/10/2008  
 \*\* Signature of Reporting Person              Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

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SEC Filings

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned										
1. Title of Security (Instr. 3)	2. Transaction Date (Month/ Day/Year)	2A. Deemed Execution Date, if any (Month/ Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/07/2007		M		13,500	A	\$ 36.34	15,585.488	D	
Common Stock	05/07/2007		S		13,500	D	\$ 51.3	2,085.488	D	
Common Stock	05/04/2007		I		1,369.059	D	\$ 51.13	475.768 (1)	I	By 401(k) Plan

SEC Filings

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)															
1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)				6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Employee Stock Options (right to buy)	\$ 36.34	05/07/2007		M			13,500	03/18/2007	03/18/2014	Common Stock	13,500	\$ 0	0	D	

**Explanation of Responses:**

1. Shares of Nicor common stock acquired under the Nicor 401(k) Plan. Information based upon reporting person's account balance as of May 4, 2007.

Antoinette M. Lambert, 05/08/2007  
Attorney-in-Fact

\*\* Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

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SEC Filings

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)															
1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Employee Stock Option (right to buy)	\$ 40.6875	05/03/2007		M			4,000	04/21/2001	04/21/2008	Common Stock	4,000	\$ 0	0	D	
Employee Stock Option (right to buy)	\$ 38.0625	05/03/2007		M			4,500	03/09/2002	03/09/2009	Common Stock	4,500	\$ 0	0	D	
Employee Stock Option (right to buy)	\$ 45.05	05/03/2007		M			7,900	03/21/2005	03/21/2012	Common Stock	7,900	\$ 0	0	D	
Employee Stock Option (right to buy)	\$ 36.34	05/03/2007		M			14,300	03/18/2007	03/18/2014	Common Stock	14,300	\$ 0	0	D	

**Explanation of Responses:**

1. Shares of Nicor common stock acquired under the Nicor 401(k) Plan. Information based upon reporting person's account balance as of May 3, 2007.

Antoinette M. Lambert -  
Attorney-in-Fact

05/07/2007

\*\* Signature of Reporting Person      Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

SEC Form 4

**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response	0.5

1. Name and Address of Reporting Person * <b>COLALILLO CLAUDIA J</b>			2. Issuer Name and Ticker or Trading Symbol <b>NICOR INC [ GAS ]</b>		5. Relationship of Reporting Person(s) to Issuer (Check all applicable)  <input type="checkbox"/> Director <input checked="" type="checkbox"/> Officer (give title below) <b>Senior Vice President</b> <input type="checkbox"/> 10% Owner <input type="checkbox"/> Other (specify below)
(Last)	(First)	(Middle)	3. Date of Earliest Transaction (Month/Day/Year) <b>11/08/2006</b>		
NICOR INC. 1844 FERRY ROAD			4. If Amendment, Date of Original Filed (Month/Day/Year)		6. Individual or Joint/Group Filing (Check Applicable Line)  <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
(Street)	(City)	(State)	(Zip)		

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed Of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/08/2006		M		4,500	A	\$36.82	11,341.707	D	
Common Stock	11/08/2006		M		5,300	A	\$45.05	16,641.707	D	
Common Stock	11/08/2006		S		9,800	D	\$48.44	6,841.707	D	
Common Stock								235.348 <sup>(1)</sup>	I	By 401 (k) plan

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Securities Underlying Derivative Security (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date						Title
Employee Stock Option (right to buy)	\$36.82	11/08/2006		M		4,500		03/14/2004	03/14/2011	Common Stock	4,500	\$0	0	D	
Employee Stock Option (right to buy)	\$45.05	11/08/2006		M		5,300		03/21/2005	03/21/2012	Common Stock	5,300	\$0	0	D	

**Explanation of Responses:**

1. Between November 3, 2006 and November 8, 2006 the reporting person acquired .007 shares of Nicor Inc. common stock under the Nicor Inc. 401(k) plan. The information in this report is based on the balance in the account as of November 8, 2006.

Antoinette M. Lambert -  
Attorney-in-Fact 11/13/2006

\*\* Signature of Reporting Person Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4 (b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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[Toggle SGML Header \(+\)](#)

**Section 1: 4 (9-22-08 10B5-1 EXERCISE)**

**FORM 4**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue.  
 See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person * DODSON MARK S			2. Issuer Name and Ticker or Trading Symbol NORTHWEST NATURAL GAS CO [NWN]			5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input checked="" type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) Chief Executive Officer		
(Last)	(First)	(Middle)	3. Date of Earliest Transaction (Month/Day/Year) 09/22/2008					
220 NW SECOND AVENUE			4. If Amendment, Date Original Filed (Month/Day/Year)			6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person		
(Street) PORTLAND, OR 97209-3991								
(City)	(State)	(Zip)						

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/22/2008		M		2,500	A	\$31.34	53,357.849 <sup>(1)</sup>	D	
Common Stock	09/22/2008		S		2,500	D	\$52.5946 <sup>(2)</sup>	50,857.849 <sup>(1)</sup>	D	
Common Stock								516.0057 <sup>(3)</sup>	I	See footnote

Document Contents

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
 (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)				6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Employee Stock Option to Buy	\$31.34	09/22/2008		M			2,500	(4)	03/04/2014	Common Stock	2,500	\$ 0	10,000	D	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DODSON MARK S 220 NW SECOND AVENUE PORTLAND, OR 97209-3991	X		Chief Executive Officer	

## Signatures

Shawn M. Filippi, Attorney-in-Fact  
 09/23/2008

\*\*  
Signature of Reporting Person

Date

## Explanation of Responses:

If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) On September 18, 2008 Mr. Dodson gifted 150 shares. This gift of shares will be reported on a Form 5 for the year ending 2008.

The sale of Northwest Natural Gas Company stock took place in 5 separate broker transactions occurring on 09/22/2008.

(2) The price in column 4 represents the weighted average sale price for the transactions reported on this line. The range of prices for these transactions was \$52.36-\$52.78. Northwest Natural Gas Company will provide upon request by the Commission staff or a security holder of Northwest Natural Gas Company full information regarding the number of shares purchased or sold at each separate price.

(3) Shares were held in the reporting person's account under Northwest Natural Gas Company's Retirement K Savings Plan as of August 31, 2008.

(4) Option was granted for 30,000 shares pursuant to Northwest Natural Gas Company's Restated Stock Option Plan. The option fully vested on January 1, 2007.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ([Back To Top](#))

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**Section 1: 4 (9-15-08 10B5-1 EXERCISE)**

**FORM 4**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person * DODSON MARK S	2. Issuer Name and Ticker or Trading Symbol NORTHWEST NATURAL GAS CO [NWN]	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) <input type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input checked="" type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) Chief Executive Officer
(Last) (First) (Middle) 220 NW SECOND AVENUE	3. Date of Earliest Transaction (Month/Day/Year) 09/15/2008	
(Street) PORTLAND, OR 97209-3991	4. If Amendment, Date Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
(City) (State) (Zip)	<b>Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned</b>	

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/15/2008		M		2,500	A	\$31.34	53,507.849	D	
Common Stock	09/15/2008		S		2,500	D	\$48.8202 (1)	51,007.849	D	
Common Stock								516.0057	I	See footnote(2)

Document Contents

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
*(e.g., puts, calls, warrants, options, convertible securities)*

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)				6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Employee Stock Option to Buy	\$31.34	09/15/2008		M			2,500	(3)	03/04/2014	Common Stock	2,500	\$ 0	12,500	D	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DODSON MARK S 220 NW SECOND AVENUE PORTLAND, OR 97209-3991	X		Chief Executive Officer	

## Signatures

Shawn M. Filippi, Attorney-in-Fact

09/16/2008

\*\*  
Signature of Reporting Person

Date

## Explanation of Responses:

If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

- The sale of Northwest Natural Gas Company stock took place in 13 separate broker transactions occurring on 09/15/2008. The price in column 4 represents the weighted average sale price for the transactions reported on this line. The range of
- (1) prices for these transactions was \$48.53-\$49.00. Northwest Natural Gas Company will provide upon request by the Commission staff or a security holder of Northwest Natural Gas Company full information regarding the number of shares purchased or sold at each separate price.
  - (2) Shares were held in the reporting person's account under Northwest Natural Gas Company's Retirement K Savings Plan as of August 31, 2008.
  - (3) Option was granted for 30,000 shares pursuant to Northwest Natural Gas Company's Restated Stock Option Plan. The option fully vested on January 1, 2007.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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**Section 1: 4 (9-11-08 OPTION EXERCISE)**

**FORM 4**

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue.  
 See Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
 Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person * Williams David R	2. Issuer Name <b>and</b> Ticker or Trading Symbol NORTHWEST NATURAL GAS CO [NWN]	5. Relationship of Reporting Person(s) to Issuer (Check all applicable)  <input type="checkbox"/> Director <input type="checkbox"/> 10% Owner <input checked="" type="checkbox"/> Officer (give title below) <input type="checkbox"/> Other (specify below) Vice President
(Last) (First) (Middle) 220 NW SECOND AVENUE	3. Date of Earliest Transaction (Month/Day/Year) 09/11/2008	
(Street) PORTLAND, OR 97209	4. If Amendment, Date Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
(City) (State) (Zip)	<b>Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned</b>	

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction (s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/11/2008		M		2,500	A	\$26.3	3,249.233	D	
Common Stock	09/11/2008		S		2,500	D	\$49.8267 <a href="#">(1)</a>	749.233	D	
Common Stock	09/11/2008		M		3,000	D	\$31.34	3,749.233	D	

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Common Stock	09/11/2008		S		3,000	D	\$49.807 (2)	749.233	D	
Common Stock								1,375.2658	I	See footnote(3)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.** SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**  
 (e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)				6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Employee Stock Option to Buy	\$26.3	09/11/2008		M			2,500	(4)	03/05/2012	Common Stock	2,500	\$ 0	0	D	
Employee Stock Option to Buy	\$31.34	09/11/2008		M			3,000	(5)	03/04/2014	Common Stock	3,000	\$ 0	0	D	

## Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other

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Williams David R 220 NW SECOND AVENUE PORTLAND, OR 97209			Vice President	
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## Signatures

Shawn M. Filippi, Attorney-  
in-Fact

09/12/2008

\*\*Signature of Reporting Person

Date

## Explanation of Responses:

If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The sale of Northwest Natural Gas Company stock took place in two separate transactions occurring on 9/11/2008. The price in column 4 represents the weighted average sale price for the transactions reported on this line. The range of prices for these transactions was \$49.75-\$49.82872. Northwest Natural Gas Company will provide upon request by the Commission staff or a security holder of Northwest Natural Gas Company full information regarding the number of shares purchased or sold at each separate price.

(2) The sale of Northwest Natural Gas Company stock took place in two separate transactions occurring on 9/11/2008. The price in column 4 represents the weighted average sale price for the transactions reported on this line. The range of prices for these transactions was \$49.74-\$49.82872. Northwest Natural Gas Company will provide upon request by the Commission staff or a security holder of Northwest Natural Gas Company full information regarding the number of shares purchased or sold at each separate price.

(3) Shares were held in the reporting person's account under Northwest Natural Gas Company's Retirement K Savings Plan as of August 31, 2008.

(4) Option was granted for 2,500 shares pursuant to Northwest Natural Gas Company's Restated Stock Option Plan. The option fully vested on January 1, 2005.

(5) Option was granted for 3,000 shares pursuant to Northwest Natural Gas Company's Restated Stock Option Plan. The option fully vested on January 1, 2007.

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**SEC Filings**

4

**DICKSON STEPHEN P filed this Form 4 on 05/23/08**

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**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

<p>1. Name and Address of Reporting Person*</p> <p><b>DICKSON STEPHEN P</b></p> <hr/> <p>(Last) (First) (Middle)</p> <p><b>231 WEST MICHIGAN STREET</b></p> <hr/> <p>(Street)</p> <p><b>MILWAUKEE, WI 53203</b></p> <hr/> <p>(City) (State) (Zip)</p>	<p>2. Issuer Name and Ticker or Trading Symbol</p> <p><b>WISCONSIN ENERGY CORP [WEC]</b></p> <hr/> <p>3. Date of Earliest Transaction (Month/Day/Year)</p> <p><b>05/22/2008</b></p> <hr/> <p>4. If Amendment, Date of Original Filed (Month/Day/Year)</p>	<p>5. Relationship of Reporting Person(s) to Issuer (Check all applicable)</p> <p>Director 10% Owner</p> <p><input checked="" type="checkbox"/> Officer (give title below) Other (specify below)</p> <p><b>Vice President and Controller</b></p> <hr/> <p>6. Individual or Joint/Group Filing (Check Applicable Line)</p> <p><input checked="" type="checkbox"/> Form filed by One Reporting Person</p> <p>Form filed by More than One Reporting Person</p>
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WEC - SEC Filings

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

1. Title of Security (Instr. 3)	2. Transaction Date (Month/ Day/Year)	2A. Deemed Execution Date, if any (Month/ Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/22/2008		M		14,392	A	\$ 20.625	24,862.026 <sup>(1)</sup>	D	
Common Stock	05/22/2008		M		4,904	A	\$ 20.39	29,766.026 <sup>(1)</sup>	D	
Common Stock	05/22/2008		F		5,000	D	\$ 48.375	24,766.026 <sup>(1)</sup>	D	
Common Stock								6,539.492 <sup>(2)</sup>	I	ERSP

WEC - SEC Filings

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
 (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Stock Option (right to buy)	\$ 20.625	05/22/2008		M			14,392	06/27/2001	06/27/2010	Common Stock	14,392	\$ 0	0	D	
Stock Option (right to buy)	\$ 20.39	05/22/2008		M			4,904	02/07/2002	02/07/2011	Common Stock	4,904	\$ 0	15,096	D	

**Explanation of Responses:**

- Includes shares acquired pursuant to a dividend reinvestment feature of Wisconsin Energy Corporation's Stock Plus Investment Plan in transactions exempt from Section 16 pursuant to Rule 16a-11.
- Includes shares acquired under Wisconsin Energy Corporation's Employee Retirement Savings Plan (ERSP) in transactions exempt from Section 16(b) pursuant to Rule 16b-3(c) and exempt from reporting pursuant to Rule 16a-3(f)(1)(i)(B). The number of shares in the ERSP attributable to any one participant varies with the price of the Common Stock. The information in this report is based on a plan statement dated as of April 30, 2008.

/s/ Joshua M. Erickson, as Attorney-in-fact      05/23/2008  
 \*\* Signature of Reporting Person      Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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**SEC Filings**

4

**COLE CHARLES R** filed this Form 4 on 08/22/08

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**FORM 4**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	February 28, 2011
Estimated average burden hours per response	0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

1. Name and Address of Reporting Person* <b>COLE CHARLES R</b>	2. Issuer Name and Ticker or Trading Symbol <b>WISCONSIN ENERGY CORP [WEC]</b>	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) Director <span style="float:right">10% Owner</span> <input checked="" type="checkbox"/> Officer (give title below) <span style="float:right">Other (specify below)</span> <b>Senior Vice President</b>
(Last) (First) (Middle) <b>231 WEST MICHIGAN STREET</b>	3. Date of Earliest Transaction (Month/Day/Year) <b>08/21/2008</b>	
(Street) <b>MILWAUKEE, WI 53203</b>	4. If Amendment, Date of Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) <input checked="" type="checkbox"/> Form filed by One Reporting Person <input type="checkbox"/> Form filed by More than One Reporting Person
(City) (State) (Zip)		

WEC - SEC Filings

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned										
1. Title of Security (Instr. 3)	2. Transaction Date (Month/ Day/Year)	2A. Deemed Execution Date, if any (Month/ Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/21/2008		M		4,904	A	\$ 20.39	9,004.8144 <sup>(1)</sup>	D	
Common Stock	08/21/2008		M		28,770	A	\$ 22.655	37,774.8144 <sup>(1)</sup>	D	
Common Stock	08/21/2008		M		28,770	A	\$ 25.41	66,544.8144 <sup>(1)</sup>	D	
Common Stock	08/21/2008		S		62,444	D	\$ 46.24	4,100.8144 <sup>(1)</sup>	D	
Common Stock								1,129.318 <sup>(2)</sup>	I	ERSP

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned  
 (e.g., puts, calls, warrants, options, convertible securities)**

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned Following Reported Transaction (s) (Instr. 4)	10. Ownership Form of Derivative Security: Direct (D) or Indirect (I) (Instr. 4)	11. Nature of Indirect Beneficial Ownership (Instr. 4)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares				
Stock Option (right to buy)	\$ 20.39	08/21/2008		M			4,904	02/07/2005	02/07/2011	Common Stock	4,904	\$ 0	0	D	
Stock Option (right to buy)	\$ 22.655	08/21/2008		M			28,770	12/31/2004	01/02/2012	Common Stock	28,770	\$ 0	0	D	
Stock Option (right to buy)	\$ 25.41	08/21/2008		M			28,770	12/31/2004	01/02/2013	Common Stock	28,770	\$ 0	0	D	

**Explanation of Responses:**

- Includes shares acquired pursuant to a dividend reinvestment feature of Wisconsin Energy Corporation's Stock Plus Investment Plan in transactions exempt from Section 16 pursuant to Rule 16a-11.
- Includes shares acquired under Wisconsin Energy Corporation's Employee Retirement Savings Plan (ERSP) in transactions exempt from Section 16(b) pursuant to rule 16b-3(c) and exempt from reporting pursuant to Rule 16a-3(f)(1)(i)(B). The number of shares in the ERSP attributable to any one participant varies with the price of the Common Stock. The information in this report is based on a plan statement dated as of July 31, 2008.

/s/ Joshua M. Erickson, as Attorney-in-Fact      08/22/2008

\*\* Signature of Reporting Person      Date

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

\* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

\*\* Intentional misstatements or omissions of facts constitute Federal Criminal Violations See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB Number.**

**Northern Illinois Gas Company**

**Risk Premium Analysis with Betas as Published**

Interest Rates as of July 22, 2008

<u>U.S. Treasury Bills</u>		<u>U.S. Treasury Bonds</u>	
<u>Discount Rate</u>	<u>Effective Yield</u>	<u>Equivalent Yield</u>	<u>Effective Yield</u>
1.48%	1.51%	4.67%	4.72%

**Risk Premium Cost of Equity Estimate**

<u>Risk-Free Rate</u>		<u>Beta</u>	*	<u>Risk Premium</u>	=	<u>Cost of Common Equity</u>
4.72%	+	0.67	*	(13.49% - 4.72%)	=	10.60%

**Northern Illinois Gas Company**

**Published Beta Estimates**

Company	Value Line (Weekly)	Reuters (Monthly)	Scottrade (Monthly)	Yahoo (Monthly)	Zacks (Monthly)
1 Avista	0.90	0.64	0.64	0.62	0.72
2 Nicor	0.95	0.52	0.48	0.64	0.53
3 Northwest Natural Gas	0.80	0.46	0.38	0.37	0.44
4 Piedmont	0.85	0.22	0.20	0.09	0.24
5 Southwest Gas	0.90	0.56	0.48	0.57	0.54
6 Vectren Corp	0.90	0.34	0.27	0.25	0.28
7 Wisconsin Energy	0.80	0.60	0.56	0.70	0.67
Average	0.87	0.48	0.43	0.46	0.49
Average Monthly Raw Beta				0.46	
Average Published Beta	0.67				

**Northern Illinois Gas Company**

Moody's Ratios

	Aaa (1)	Aa (3)	A (6)	Baa (9)
<b>Financial Guideline Ratios</b>				
EBIT/Interest	>7X	5.0 - 7.0X	3.0 - 5.0X	2.0 - 3.0X
RCF/Debt	> 26%	21 - 26%	15 - 21%	10 - 15%
Debt/Book Capitalization	< 30%	30 - 40%	40 - 50%	50 - 65%
FCF/FFO	> 10%	10 - (15%)	(15) - (30%)	(30) - (45%)

<b>Staff's Rebuttal Proposal<sup>1</sup></b>				
EBIT/Interest			3.35X	
RCF/Debt		22.89%		
Debt/Book Capitalization			43.57%	
FCF/FFO	21.38%			

<b>Utility sample</b>				
EBIT/Interest			3.21X	
RCF/Debt				14.95%
Debt/Book Capitalization				55.58%
FCF/FFO		-14.57%		

<sup>1</sup> Staff's Rebuttal Proposal is based on a cost of equity of 9.93%, which is the average of the CAPM derived results of 10.60% (using published beta estimates) and the non-constant DCF derived results of 9.25%.

**Northern Illinois Gas Company**

**Beta Estimates Adjusted Using the Merrill Lynch Methodology**

Company	Reuters	Scottrade	Yahoo	Zacks	
1 Avista	0.76	0.76	0.75	0.81	
2 Nicor	0.68	0.66	0.76	0.69	
3 Northwest Natural Gas	0.64	0.59	0.58	0.63	
4 Piedmont	0.48	0.47	0.40	0.50	
5 Southwest Gas	0.71	0.66	0.72	0.70	
6 Vectren Corp	0.56	0.52	0.50	0.52	
7 Wisconsin Energy	0.73	0.71	0.80	0.78	
Average	0.65	0.62	0.64	0.66	
Average of Monthly Sources	<table border="1"><tr><td>0.65</td></tr></table>	0.65			
0.65					

**Northern Illinois Gas Company**

**Risk Premium Analysis with Adjusted Beta**

Interest Rates as of July 22, 2008

<u>U.S. Treasury Bills</u>		<u>U.S. Treasury Bonds</u>	
<u>Discount Rate</u>	<u>Effective Yield</u>	<u>Equivalent Yield</u>	<u>Effective Yield</u>
1.48%	1.51%	4.67%	4.72%

**Risk Premium Cost of Equity Estimate**

<u>Risk-Free Rate</u>		<u>Beta</u>	*	<u>Risk Premium</u>	=	<u>Cost of Common Equity</u>
4.72%	+	0.76	*	(13.49% - 4.72%)	=	11.39%