08-0363
Staff Group Cross Exhibit 1

JMO 4.01

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JMO Fourth Set of Data Requests

JMO 4.01 Q. Provide actual versus budgeted capital expenditures by functional group for 2005 through 2007 in the same format as the response to Staff's field audit oral data request 13 in the Company's last rate case (Docket No. 04-0779).

JMO 4.01 A. See attached Exhibit 1.

Witness: James M. Gorenz

Northern Illinois Gas Company
d/b/a Nicor Gas Company
Actual vs. Budget Capital Expenditures
(in thousands)

	2007			2006			2005		
Description	Actuals	Budget	%	Actuals	Budget	%	Actuals	Budget	%
Distribution	$ 68,608.3	$ 73,625.5		$ 68,953.3	$ 72,998.9		$ 79,766.1	$ 79,548.5	
Storage	15,388.9	11,672.0		10,500.0	8,560.7		15,534.2	17,425.0	
Transmission	2,328.7	1,676.3		2,810.9	1,945.9		2,496.1	1,969.0	
General Plant	19,247.8	18,869.9		25,916.5	24,251.3		34,854.9	42,718.8	
Overheads	53,412.0	56,360.3		55,072.1	55,599.5		51,729.2	52,766.1	
Revenue Generating & Other	35.9	2,000.0		1,293.1	2,300.0		2,044.1	300.0	
	$ 159,021.6	$ 164,204.0	-3.2%	$ 164,545.9	$ 165,656.3	-0.7%	$ 186,424.6	$ 194,727.4	-4.3%

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Staff Group Cross Exhibit 1

JMO 12.01

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JMO Twelfth Set of Data Requests

JMO 12.01 Q. Does the Company agree that it provided the attached narrative responses and FA Oral 13 Exhibit 1 in response to Staff field audit oral data requests in Docket No. 04-0779?

JMO 12.01 A. Yes. In response to FA Oral data request 13 Exhibit 1, the Company provided its forecast of capital expenditures for 2004 of $181.3 million which consists of three months of actual data and nine months of forecasted data. The Company's budgeted 2004 capital expenditures were $165.2 million as noted on line 283 of the Surrebuttal Testimony of Rocco J. D'Alessandro, Nicor Gas Exhibit 37.0.

Witness: James M. Gorenz

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CLIENT/MATTER NUMBER
459420-0106

February 8, 2005

VIA E-MAIL AND FIRST CLASS MAIL

Carmen L. Fosco
Atty. Office of the General Counsel
Illinois Commerce Commission
160 N. LaSalle St., Suite C-800
Chicago, IL 60601-3104

Re: Nicor Gas Responses to ICC Staff Field Audit Questions

Dear Carmen:

This letter transmits Nicor Gas' responses to oral data requests made by Tom Griffin during Staff's Field Audit from January 25-28, 2005. Please see the attached narrative responses to data requests numbers 1 through 4 and 6 through 13 and accompanying Exhibits. Oral data request number 5 will be provided later this week

Sincerely,

John W. McCaffrey

JWM/kdc

cc: Neil Maloney
Tom Griffin
John Feeley
John Reichart
Carla Scarsella
Cheri Harden

CONFIDENTIAL
Northern Illinois Gas Company
d/b/a Nicor Gas Company
Response to:
Illinois Commerce Commission
Ill.C.C Docket No. 04-0779
Oral Request from Staff

Nicor Gas Capital History (in thousands)

	2004			2003			2002			2001			2000			1999			1998			Total Period		
Description	**Actuals (a)**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**	**Actuals**	**Budget**	**%**
Distribution	78,571.9	77,822.0		77,946.9	59,984.0		70,972.7	69,177.2		69,555.0	67,725.5		60,094.6	61,135.8		59,769.6	51,657.0		48,967.4	56,223.5		465,878.3	443,725.0	
Storage	8,611.9	8,415.0		10,581.3	11,200.0		16,144.3	29,342.4		9,167.0	6,954.0		4,322.4	4,953.9		4,587.5	4,928.0		4,022.5	4,548.0		57,437.0	70,341.3	
Transmission	1,966.7	1,992.0		1,452.8	2,050.0		1,986.8	1,570.6		826.6	1,959.0		1,727.3	1,889.8		2,637.0	1,916.0		2,086.0	1,862.3		12,683.2	13,239.7	
General Plant	37,022.2	39,044.0		29,289.1	31,163.0		29,583.7	40,792.9		31,190.9	39,791.4		23,412.6	37,965.7		24,099.9	44,098.9		26,579.1	48,306.5		201,177.5	281,162.4	
Overheads	49,740.6	48,554.1		48,658.6	47,055.0		43,760.3	32,843.2		33,077.6	24,229.7		32,766.5	23,683.3		33,914.8	25,439.2		30,937.3	25,394.0		272,855.7	227,198.5	
Revenue Generating & Other	(775.5) (b)	5,480.0		4,925.7	8,590.0		7,083.0	7,408.6		5,978.9	1,500.0		2,225.6	5,125.0		2,416.0	1,700.0		0.0	0.0		21,853.7	29,803.6	
	175,137.8	181,307.1	-3.4%	172,854.4	160,042.0	8.0%	169,531.0	181,134.9	-6.4%	149,796.1	142,159.6	5.4%	124,549.1	134,753.5	-7.6%	127,424.8	129,739.1	-1.8%	112,592.3	136,334.4	-17.4%	1,031,885.4	1,065,470.6	-3.2%

(a) Actuals for 2004 are based on Preliminary results.
(b) includes ($3,145.9) accounting adjustment for customer deposits

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Staff Group Cross Exhibit 1

SK 6.05

SK 6.05 Q. For each company in Dr. Makholm's gas sample, please provide the following:

a. identify of all regulatory rate adjustment or expense recovery mechanisms (e.g. tariff mechanisms similar to the Company's proposed VBA, UEA, CUA or QIP, weather normalization rate design, etc.) the sample company has in place;

b. the date each mechanism became effective;

c. the percentage of the sample company's revenue each mechanism composes; and

d. the adjustment to the authorized rate of return on common equity or rate base, as applicable, the regulatory commission imposed for each approved mechanism.

A. a) The following table includes the rate adjustment and expense recovery mechanisms identified in our investigation:

Company	State	Mechanism	Date Effective
Avista Corp.	WA	Decoupling Rate Adjustment	2/1/2008
Piedmont Nat Gas	TN	Weather Normalization	11/1/2003
Vectren Corp.	IN	Gas Cost Adjustment	10/1/2008
Vectren Corp.	IN	Normal Temperature	2/14/2008

b) Refer to the above table for effective dates.

c) We have not performed this analysis as it is beyond the scope of Dr. Makholm's testimony.

d) In reviewing the relevant orders issued by the Commissions in each rate case, we find that no adjustments have been made to any authorized returns on equity that resulted from the approval of the mechanisms listed above.

Witness: Jeff D. Makholm, Ph.D.

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Staff Group Cross Exhibit 1

SK 7.02

SK 7.02 Q. Mathematically demonstrate how faster growth in productivity results in higher growth in earnings. (Nicor Gas Ex. 25.0, p. 12) Further, define all variables used in that mathematical demonstration. Finally, illustrate the mathematical demonstration with a numerical example and specify all assumptions used.

SK 7.02 A. Please see attached Exhibit 1.

Witness: Jeff D. Makholm, Ph.D.

from company efficiency is going to run into problems than cannot be overcome in an objective manner. The DEA/Malmquist procedure cannot possibly control for all the environmental factors that determine a company's performance. Moreover, random shocks ("noise") in these unexplained factors can lead to further downward bias in the "frontier" and hence to a further underestimate of a company's performance.

The X-Factor remains a highly useful part of incentive regulation. The DEA/Malmquist procedure, however, is a devilishly convenient but ultimately unreliable procedure, inconsistent with the principles of incentive regulation. It is based on assumptions of production technologies and not on theory supported by the economic literature or valid empirical work. It has no support in the economic literature on the theory of index numbers and is contrary to the accepted theory regarding the incentives that price caps are supposed to embody. It is also contrary to the use of the DEA/Malmquist procedure in the analysis of nonregulated businesses where in contrast to network operations the inputs are controlled, and it has manifestly clear and unavoidable empirical problems.

Appendix A

The Derivation of the PBR formula:

Assume the price cap plan begins with appropriate prices so that the value of total inputs (including a normal return on capital) equals the value of total output for the company as well as the industry. For the industry, we can write this relationship as

$$\sum_{i=1}^{N} p_i Q_i = \sum_{j=1}^{M} w_j R_j$$

Assumption:
Value of inputs = value of outputs

where the industry has N outputs ($Q_i, i=1,\ldots,N$) and M inputs ($R_j, j=1,\ldots,M$) and where p_i and w_j denote output and input prices, respectively. We want to calculate a productivity target for a company based on industry average productivity growth.

Differentiating this identity with respect to time yields

$$\sum_{i=1}^{N} \dot{p}_i Q_i + \sum_{i=1}^{N} p_i \dot{Q}_i = \sum_{j=1}^{M} \dot{w}_j R_j + \sum_{j=1}^{M} w_j \dot{R}_j$$

All variables are defined as described in the text

where a dot (·) indicates a derivative with respect to time. Dividing both sides of the equation by the value of output ($Rev = \sum_i p_i Q_i$ or $C = \sum_j w_j R_j$), we obtain

$$\Sigma \dot{p}_i \left(\frac{Q_i}{REV}\right) + \Sigma \dot{Q}_i \left(\frac{p_i}{REV}\right) = \Sigma \dot{w}_j \left(\frac{R_j}{C}\right) + \Sigma \dot{R}_j \left(\frac{w_j}{C}\right)$$

where REV and C denote revenue and cost. If rev_i denotes the revenue share of output i, and c_j denotes the cost share of input j, then

$$\sum_i rev_i dp_i = \sum_j c_j dw_j - \left[\sum_i rev_i dQ_i - \sum_j c_j dR_j\right] \tag{1}$$

where d denotes a percentage growth rate: $dpi = \dot{p}_i/p_i$. The first term in equation (1) is the revenue-weighted average of the rates of growth of output prices, and the second is the cost-weighted average of the rates of growth of input prices. The term in brackets is the difference between weighted averages of the rates of growth of outputs and inputs. It thus is a measure of the change in TFP. Rewriting the equation for clarity, we see that

$$dp = dw - dTFP.$$

In other words, the theory underlying the annual price cap adjustment formula implies that the rate of growth of a revenue-weighted output price index is equal to the rate of growth of an expenditure-weighted input price index plus the change in total factor productivity (TFP). This equation shows that TFP is the appropriate foundation for a productivity target in the price cap plan. If the price cap plan begins with revenues that just match costs for a company, and if it attains the same productivity growth as the industry (measured in terms of TFP), then that company's revenues will continue to match its costs.[8]

Applying this rule more generally to admit the possibility of exogenous cost events outside of a regulated company's control, we may write

$$dp^* = dw - dTFP$$

where dp^* represents the annual percentage change in industry output prices inclusive of these exogenous costs, and dw represents the annual percentage change in input prices. To raise or lower industry output prices in order to track exogenous changes in cost, we write

$$dp = dw - dTFP + Z^* \tag{2}$$

To keep total revenue = total cost:

ie: Δ in Revenues = Δ in Costs minus Δ Productivity

ie; the larger the productivity growth, the smaller the growth rate of revenues vis-a-vis costs to have the firm continue to break even

If the company's TFP exceeds the industry's, then without a downward price adjustment vis-a-vis the industry, then its revenues will outstrip its costs in the form of growth in earnings.

	Industry	Firm
Rev Growth	2%	2%
Cost Growth	1%	0%
Earnings Growth	1%	2%
(TFP)	1%	2%

1

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Staff Group Cross Exhibit 1

JF 2.01

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JF First Set of Data Requests

JF 2.01 Q. Regarding the Lead/Lag study discussed in the Direct Testimony of Michael J. Adams, during the time between the date of service rendered by the Company and the date payment is received from customers and such funds are available to the Company, to what accounts do the monetary values of amounts due to the Company get recorded.

JF 2.01 A. Monetary amounts are recorded to prime account 142, customer accounts receivable.

Witness: James M. Gorenz

08-0363
Staff Group Cross Exhibit 1

JF 3.06

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JF Third Set of Data Requests

JF 3.06 Q. Please provide copies of the following reports from Moody's Investment Survey:

1. June 12, 2008 Credit Opinion for Northern Illinois Gas Company
2. June 12, 2008 Credit Opinion for Nicor Inc.
3. May 4, 2007 Liquidity Risk Assessment for Nicor Inc.

In addition, please provide any draft reports and copies of communications between the Companies (i.e., Nicor Inc. and Nicor Gas) and Moody's concerning the reports (or summaries if communications were oral).

JF 3.06 A.

1. See attached Exhibit 1 for the June 12, 2008 Credit Opinion for Northern Illinois Gas Company
2. See attached Exhibit 2 for the June 12, 2008 Credit Opinion for Nicor Inc.
3. See attached Exhibit 3 for the May 4, 2007 Liquidity Risk Assessment for Nicor Inc.

See attached Exhibit 4 for draft reports and copies of communications between the Companies (i.e., Nicor Inc. and Nicor Gas) and Moody's concerning the reports.

Witness: Douglas M. Ruschau

JF 3.06
Exhibit 1
page 1 of 5

Moody's Investors Service

Global Credit Research
Credit Opinion
12 JUN 2008

Credit Opinion: Northern Illinois Gas Company

Northern Illinois Gas Company

United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	A1
Senior Secured Shelf	(P)A1
Commercial Paper	P-1
Parent: Nicor Inc.	
Outlook	Stable
Preferred Stock	Baa2
Commercial Paper	P-2

Contacts

Analyst	Phone
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William L. Hess/New York	212.553.3837

Opinion

Corporate Profile

Northern Illinois Gas Company (Nicor Gas, A2 issuer rating) is a regulated natural gas local distribution company (LDC) subsidiary of Nicor Inc. (Nicor, Prime-2 commercial paper rating). It is the largest LDC in Illinois, serving 2.2 million customers outside of Chicago. Nicor Gas owns and operates eight underground natural gas storage facilities with capacity of 150 billion cubic feet, the largest in Moody's LDC peer group. The utility also operates the Chicago Hub, which provides natural gas storage and transmission-related services to third parties.

Nicor Gas is the flagship subsidiary of Nicor Inc., contributing a little over 60% of its parent's operating income. The remainder is made up by retail and wholesale energy services and Tropical Shipping, a containerized shipping business. Please refer to Moody's Credit Opinion on Nicor Inc. for further discussion.

Recent Events

In April 2008, Nicor Gas filed for a base rate increase of $140 million, about a 30% rise in residential rates. The filing includes proposals for rate mechanisms that adjust with changes in bad debt expense and cost of gas used in operations, a volume balancing rider (a decoupling mechanism), and a main replacement rider. An order is expected around March 2009. The company intends for the rate increase to offset rising operating and maintenance costs due to higher natural gas prices, benefit costs, and system reinvestment.

Rating Rationale

Nicor Gas's rating reflects its low business risk as a rate-regulated natural gas distributor. Nicor Gas's A2 issuer rating (vs. A3 median rating for the LDC peer group and indicated rating according to Moody's LDC rating methodology) is supported by its above-average business position as one of the largest LDCs in the U.S., strategic location at the crossroads of eight major interstate pipelines, and ownership of a large market-area underground gas storage system. Nicor Gas has competitive rates due to its excellent access to gas supply and profits from the

JF 3.06
Exhibit 1
Page 2 of 5

Chicago Hub. The company is conservatively managed. However, Nicor Gas operates in a mature service territory, where top-line margins trends are flat and profitability is under pressure, and where the regulatory environment has been challenging for utilities generally.

Rating Drivers

Moody's rates Nicor Gas according to its rating LDC rating methodology. The key rating factors currently influencing Nicor Gas's rating and stable outlook are:

Factor 1: Sustainable Profitability

Nicor Gas's last rate increase in 2006 helped to arrest declining profitability in 2006, and return-on-equity (ROE) ratios have improved over the past three years. The three-year average (2005-1Q08LTM) ROE was 9.1% (mapping to an A in the Moody's methodology) on a reported basis, 4.6% (mapping to Ba) after Moody's standard adjustments.

The primary difference between the two ratios is Moody's adjustment of inventory recorded on a LIFO cost basis to FIFO value. Adjusting inventory to a FIFO basis results in a significant revaluation of the company's assets and equity (40% over the reported amount), which lowers its adjusted return and leverage ratios. Nicor Gas's LIFO revaluation reserve was $416 million at year-end 2007, reflecting high gas prices and the old vintage of its LIFO layers.

Among Nicor Gas's LDC peers, the company is uniquely affected, given the size of its gas in storage and rising natural gas prices. Nicor Gas recovers the cost of gas through the Purchased Gas Adjustment (PGA) in its rates.

Factor 2: Regulatory Support

Nicor Gas maps to a Baa in this category, as its rate design exposes the company to a degree of gas price volatility and volume declines from weather and energy efficiency.

The Illinois Commerce Commission (ICC) issued a final order on Nicor Gas's last rate case in 3/06. Nicor Gas was granted a $30 million net revenue increase, roughly a third of about $80 million it had requested.

The rates expose Nicor Gas's earnings to the price of natural gas, because certain costs related to company-use gas (mostly related to the operation of its large storage facilities) that used to be passed through in the PGA were shifted into base rates. If gas prices exceed the $7.50/mcf (vs. $7.85 average gas cost per mcf sold between 2005 and 2007) assumed in its rates, those costs will be higher, reducing earnings.

Bad Debt Expense. The most significant of Nicor Gas's gas price-sensitive costs is bad debt expense. Bad debt expense has increased with gas prices and has driven up operating costs in recent years. About $38 million of bad debt expense is incorporated in the current base rates. Actual bad debt expense was $52 million in 2007. If gas prices are sustained above $7.50/mcf assumed in the base rates, the company's bad debt expense may exceed the amounts allowed for in its rates, lowering its earnings. The ICC has rejected bad debt expense trackers in the past, and it remains to be seen whether the Commission will approve Nicor Gas's proposal for one in the next rate order.

Weather Sensitivity. Nicor Gas's operating income has been negatively impacted from weather that has been persistently warmer than normal. The current rates put about 50% of the revenues into fixed customer charges versus volumetric fees. The company's rate filing proposes increasing the fixed charge component to roughly 75%, which would reduce revenue sensitivity to volume declines related to weather.

The ICC has not granted weather normalization clauses for utilities in its jurisdiction. Nicor offsets a portion of the utility's weather-related margin loss through a fixed bill plan offered by Nicor Solutions, a non-utility affiliate. The plan levelizes a customer's bas bill over equal monthly payments, levelizing Nicor's receipts as well.

Volume Erosion. In its rate filing Nicor Gas proposed a volume balance account, a decoupling mechanism that provides for a monthly true-up to volumes implied in base rates. Decoupling mechanisms seek to address the industry-wide problem of margin erosion from declining throughput due to energy efficiencies and consumer conservation.

Factor 3: Ring-Fencing

JF 3.06
Exhibit 1
Page 3 of 5

With an A under this factor, Nicor Gas is subject to regulation and company practices that help to protect the utility's credit quality. The company is subject to the rules of the ICC concerning the money pool agreements the company has with its non-utility affiliates. These rules allow the utility to commingle funds on an arms'-length basis with non-utility affiliates under a number of limitations. The utility is prohibited from making loans to the parent greater than the latter's available external credit capacity, with that rule's intent to prevent the utility from making loans to an over-leveraged affiliate. Nicor Gas is restricted from making loans to the money pool if it has any outstanding short-term borrowings, with the implication that the utility must use its excess liquidity to repay its own debt first before supporting an affiliate. Illinois state law also limits an utility's ability to pay dividends only to the extent of its retained earnings balance.

Nicor's non-utility affiliates have been self-funding, so that the parent has used cash upstreamed from Nicor Gas primarily to support its external shareholder dividends.

Factor 4: Financial Strength & Flexibility

The three-year average key financial metrics of Nicor Gas map to an A overall. EBIT (earnings before interest and taxes)/interest averaged 2.7 times for the three years ended March 2008. RCF (retained cash flow)/debt has climbed consistently over the past three years and averaged 17.5%.

Profitability is the key financial challenge for Nicor. It remains to be seen what, if any, rate relief the company will receive in its ongoing rate case. Without a rate increase, top-line margins (revenue minus pass-through gas costs and revenue taxes) are likely to remain flat due to the volume declines and nominal organic growth. The most significant variable is the price of natural gas, which affects storage related company-use gas costs that are included in operating and maintenance expense. Payroll and benefit costs continue to pressure profitability.

Nicor Gas has much more gas storage capacity than its peers, and this has implications on its leverage and liquidity. The storage injection-withdrawal cycle and the severity of the local winter weather lead to a more pronounced seasonal fluctuation in the cash flow and short-term debt of Nicor Gas compared to most of its peers.

Leverage is not a concern, with year-end debt/capital at about 50% on a reported basis, about 40% on a Moody's adjusted basis (mostly reflecting the LIFO adjustment). Moody's notes that Nicor Gas has a December fiscal year-end when seasonal borrowings are at their peak. Moody's notes that some LDCs have September year-ends, and peers are compared at a consistent timeframe. Nicor Gas's debt metrics are generally several percentage points better at end of September. The company typically has little or no short-term debt at the seasonal low in the June quarter. Short-term debt totaled $369 million at December 31, 2007, but the 2007 quarterly average was $153 million.

Off-Balance Sheet Risk

Nicor Gas has a fully funded pension plan. This implies that cash flow is not diverted to fund shortfalls and entails no adjustment for related debt according to Moody's standard adjustments.

Nicor Gas has long-standing contingent liabilities relating to alleged improprieties in the utility's performance-based rates (PBR) program that was terminated as of 2003. The most significant remaining contingency is the ICC's investigation into the matter, in which various parties have sought refunds to customers in a range from $108 to $190 million.

Liquidity Profile

Nicor Gas has adequate liquidity for its normal near-term needs. Our assessment of the company's liquidity as adequate is subject to its obtaining the supplemental $400 million facility described below.

The company in 2007 generated about $200 million in cash flow from operations. Capital expenditures in this decade have been close to maintenance levels of about $160 million. The company was in a negative free cash flow position after $70 million dividends. Nicor Gas's negative free cash flow will deepen in the coming twelve months due to an increase in capital expenditures ($225 million budgeted in 2008, highest in recent memory) primarily to accelerate the replacement of cast iron and copper mains and investment in storage-related facilities.

Nicor Gas has full access to the $600 million five-year credit facility that it shares with Nicor Inc. The facility expires in 2010 and backstops commercial paper programs at the utility as well as at the parent. The facility has a 70% debt/capital covenant, which both borrowers comfortably meet. Nicor Gas also has a 210-day committed $400 million credit facility in place between October and May that it renews every year, for any additional needs it may

JF 3.06
Exhibit 1
Page 4 of 5

have during the peak winter months.

Upcoming debt maturities should be manageable for the company, with $75 million coming due on August 15, 2008 and $50 million on February 1, 2009.

Rating Outlook

The stable outlook takes into account rising costs and the increased capital program at Nicor Gas over the next 12 to 18 months and any related weakening in the company's credit metrics, as long as it is temporary. Any rate changes from the ongoing rate case will not be fully reflected in Nicor Gas's financial performance until fiscal 2010. The stable outlook assumes a benign outcome in Nicor Gas's rate case and a credit-neutral resolution to the PBR proceedings.

What Could Change the Rating - Up

An upgrade is unlikely in the foreseeable future, based on Nicor Gas's current performance and rate filing. An upgrade would be considered if the utility sustains EBIT/Interest above the 5 times range and RCF/debt above 20%.

What Could Change the Rating - Down

The credit rating would be negatively impacted if Nicor Gas receives an unfavorable rate order and EBIT/Interest is sustained in the low 2 times range and RCF/debt in the low teens. An adverse outcome in the PBR case that impairs Nicor's credit quality may also prompt a downgrade.

Rating Factors

Northern Illinois Gas Company

Local Gas Distribution	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%)					X		
b) Ebit / # of Residential & Commercial Customers (5%)					X		
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship				X			
Factor 3: Ring Fencing (10%)							
a) Ring Fencing Quality			X				
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT / Interest (15%)				X			
b) RCF / Debt (15%)			X				
c) Debt / Book Capitalization (excluding goodwill) (15%)		X					
d) FCF / FFO (15%)		X					
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**A3**				
b) Actual Senior Unsecured Equivalent Rating			**A2**				

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08-0363
Staff Group Cross Exhibit 1

JF 4.04

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JF Fourth Set of Data Requests

JF 4.04 Q. Please provide the monthly balances recorded to prime account 142, Customer Accounts Receivable for each month from 2004 through 2009. Provide the data in Excel format.

JF 4.04 A. Please see attached Exhibit 1.

Witness: James M. Gorenz

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JF Fourth Set of Data Requests

Prime Account 142 - Customer Accounts Receivable
(in thousands)

Year	Actual/ Forecast	January	February	March	April	May	June	July	August	September	October	November	December
2004	Actual	523,158	508,451	382,555	301,263	234,038	200,786	186,339	165,243	153,521	177,653	263,281	433,821
2005	Actual	550,391	519,977	464,287	356,654	286,252	218,765	204,724	176,615	177,156	242,185	404,235	697,119
2006	Actual	657,074	689,969	533,168	422,427	331,591	276,478	252,159	224,432	217,249	243,305	286,837	408,268
2007	Actual	511,779	684,413	583,429	514,808	365,337	276,503	256,259	231,136	222,504	219,595	323,725	466,742
2008	Forecast	640,696	648,945	644,660	438,645	329,588	285,467	252,610	226,802	238,560	255,263	404,142	620,832
2009	Forecast	615,279	622,380	634,638	407,124	277,446	262,339	212,339	185,829	194,544	228,935	295,452	538,607

08-0363
Staff Group Cross Exhibit 1

JF 12.04

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
JF Twelfth Set of Data Requests

JF 12.04 Q. Please provide the current interest rate on short-term debt for July, August, and September 2008.

JF 12.04 A. July - 2.3035%
August - 2.127%
September - 2.509%

Witness: Douglas M. Ruschau

08-0363
Staff Group Cross Exhibit 1

JF 13.03

JF 13.03 Q. Does Mr. Ruschau agree that cash working capital was not included in rate base in the Company's last three rate cases?

JF 13.03 A. Yes.

Witness: Douglas M. Ruschau

08-0363
Staff Group Cross Exhibit 1

DLH 13.02

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill.C.C. Docket No. 08-0363
DLH Thirteenth Set of Data Requests

DLH 13.02 Q.

Referring to the Company's Exhibit 11 of the Company's response to Staff data request DLH-7.08

a) Provide the amount of "ICU Plan" included in Schedules B-1 and C-1, by line and column reference; and

b) If the amount in a) is greater than zero, provide a copy of the ICU Plan and all supporting calculations, workpapers, and assumptions for each amount in a) above.

DLH 13.02 A.

a) The 2009 ICU Plan expense amount of $325,100 is included in Schedule C-1, line 16, columns D, F and H.

b) Please see Exhibit 1 for a copy of the ICU plan and Exhibit 2 for workpapers and assumptions related to the ICU plan.

Witness: Rebecca C. Bacidore

NI-GAS INCENTIVE COMPENSATION PLAN
(As Amended and Restated Effective as of January 1, 1986)

Mayer, Brown & Platt
Chicago

NORTHERN ILLINOIS GAS COMPANY

Certificate

I, Donald W. Lohrentz, Vice President, Secretary & Treasurer of NORTHERN ILLINOIS GAS COMPANY, having in my custody and possession the corporate records and seal of said Corporation, do hereby certify that attached hereto is a true and correct copy of NI-GAS INCENTIVE COMPENSATION PLAN, as currently in effect.

WITNESS my hand and the corporate seal of said Corporation this 1st day of January, 1986.

As Aforesaid

(Seal)

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NI-GAS INCENTIVE COMPENSATION PLAN
(As Amended and Restated Effective as of January 1, 1986)

SECTION 1

General

1.1. History and Purpose. Effective as of April 26, 1968, Northern Illinois Gas Company (the "company") established the Incentive Compensation Plan (the "plan") to give its officers and managerial employes, and the officers and managerial employes of its subsidiaries (as defined below) that adopt the plan, an increased incentive to outstanding performance, to reward such performance, and to attract and retain highly qualified persons as officers and managerial employes. The following provisions constitute an amendment, restatement and continuation of the plan as in effect immediately prior to January 1, 1986, the "effective date" of the plan as set forth herein. On and after the effective date, the plan shall be known as NI-Gas Incentive Compensation Plan.

1.2. Employers, Subsidiaries, Affiliates. For purposes of the plan, the term "subsidiary" means any corporation, 50 percent of the voting stock of which is directly or indirectly owned by the company. The company, and any subsidiary which, with the consent of the company, adopt the plan are sometimes referred to below collectively as the "employers" and individually as an "employer". .For purposes of the plan, the term "affiliate" means NICOR Inc. ("NICOR") and any other corporation, 50 percent of the voting stock of which is directly or indirectly owned by NICOR.

1.3. Plan Administration, Source of Benefit Payments. The authority to control and manage the operation and administration of the plan shall be vested in the Officer Compensation Committee of the Board of Directors of the company (the "committee") whose decisions on all matters regarding the plan shall be final. Notwithstanding any other provision of the Plan, the committee may condition payment of any benefit on the committee's receipt of such information as it determines to be necessary to ascertain eligibility for the payment. The committee, by unanimous action, may employ agents and delegate to them, in writing, such powers as the committee considers desirable. The amount of any benefit payable under the plan shall be paid from the general funds of the employer with respect to whose employe or former employe the benefit is payable. If a participant has been employed by more than one employer, the portion payable by each such employer shall be allocated in a reasonable manner, as determined by the committee in its sole discretion.

1.4. Applicable Law. The plan shall be construed and administered in accordance with the laws of the state of Illinois to the extent that they are not preempted by the laws of the United States of America.

1.5. Gender and Number. Where the context admits, words in any gender shall include any other gender, words in the singular shall include the plural, and words in the plural shall include the singular.

SECTION 2

Participation

2.1. Participants. For any calendar year, an individual who is an officer or management employe of an employer shall be awarded such "share units," if any, as is recommended by the Officer Compensation Committee of the Board of Directors of that employer, and approved by the Board of Directors (excluding directors who are plan participants) of that employer. An individual shall be considered a participant in the plan upon his award of share units.

2.2. Limit on Awards. Notwithstanding the provisions of subsection 2.1, share units shall not be awarded for any calendar year:

(a) to the extent that the dividend equivalents (as defined in Section 3) payable for that year, with respect to all share units awarded for that year, would exceed 1/2 percent of consolidated retained earnings (as defined in subsection 4.1) for that year;

(b) to the extent that the sum of:

(i) the dividend equivalents payable for that year with respect to all share units awarded for that year, and all other share units outstanding at the end of that year; and

(ii) the amount distributed from participants' deferred compensation accounts (as described in subsection 4.1) for the prior calendar year;

would exceed 2-1/2 percent of the consolidated retained earnings for the year for which the award was made; and

(c) to the extent that the dividend equivalents payable for that year with respect to all share units held by any

participant (including outstanding share units awarded prior to that year) would exceed 25 percent of his annual salary for that year from the employers and subsidiaries.

2.3. Cancellation of Share Units. All of a participant's share units shall be cancelled, and shall no longer be considered to be outstanding, on the earlier to occur of:

(a) the date on which the participant engages in any business or activity which is competitive with or has an adverse effect on the business of an employer or affiliate; or

(b) the later to occur of the death of the participant or the death of the participant's spouse.

For purposes of the plan, a participant's spouse is the individual to whom he has been lawfully married for at least one year upon the earlier to occur of the participant's retirement or the participant's death, provided that, for purposes of the plan, an individual shall be considered a participant's spouse only if she was a member of the participant's household on the date of the participant's death.

SECTION 3

Dividend Equivalents

At the time NICOR declares a dividend with respect to its common stock, there shall be paid, with respect to each share unit outstanding on the record date for the dividend, a "dividend equivalent" equal to the amount of such dividend payable with respect to a share of common stock of NICOR. Such dividend equivalents shall be paid as soon as practicable after the applicable dividend has been declared. While a participant is alive, dividend equivalents as to share units awarded to him shall be payable to him and, after his death, shall be payable to his spouse; provided, however, that no dividend equivalents shall be paid to a spouse if she is married on the record date for that dividend. Notwithstanding the foregoing provisions of this Section 3, no dividend equivalents shall be payable with respect to a participant after the participant has incurred a termination date described in paragraph 4.6(c) or (d).

SECTION 4

Deferred Compensation

4.1. Deferred Compensation Account. Subject to the provisions of the plan, the committee (or its delegate) shall maintain a deferred compensation account for the benefit of each participant under the plan. With respect to each participant's deferred compensation account, the committee (or its delegate) shall:

(a) as of the last day of each calendar year, credit to the participant's deferred compensation account an amount equal to the net increase, if any, in the consolidated retained earnings per share for that year, multiplied by the number of share units held by the participant as of the last day of that year, after all awards for that year have been made;

(b) as of the last day of each calendar year, charge to the participant's deferred compensation account an amount equal to the net decrease, if any, in the consolidated retained earnings per share for that year, multiplied by the number of share units held by the participant as of the last day of that year, after all awards for that year have been made;

(c) as of the last day of each calendar year, and immediately prior to any distribution to the participant in accordance with subsection 4.4, credit or charge, as the case may be, to the participant's deferred compensation account, the earnings or losses for the year deemed to be attributable to the investment of the participant's deferred compensation account for that year (as described in subsection 4.2); and

(d) immediately following any distribution to the participant in accordance with subsection 4.4, charge to the participant's deferred compensation account the amount distributed for that year in accordance with that subsection.

No adjustment shall be made to a participant's deferred compensation account for any calendar year in accordance with paragraphs (a) and (b) next above if either: (i) during the year, the participant engages in any business which is competitive with or has an adverse effect on the business of an employer or affiliate; or (ii) the participant is not continuously employed by an employer for the entire year. For purposes of the plan, the net increase or decrease in the consolidated retained

earnings per share for any calendar year shall equal the increase or decrease, respectively, in the consolidated retained earnings per share for that year compared with the consolidated retained earnings per share for the prior calendar year. For purposes of the plan, the consolidated retained earnings per share for any calendar year shall equal the consolidated retained earnings per share of NICOR common stock stated in NICOR's annual report to stockholders for that year. The committee, in its sole discretion, may modify the adjustments described in paragraphs (a) and (b) next above, with respect to any participant, to reflect the relationship of events or transactions to the efforts and performance of the participant.

4.2. Investment of Deferred Compensation Account. A participant (or, in the event of his death, his beneficiary) on whose behalf a deferred compensation account is maintained shall have the right, at such time and in such manner as the committee decides, to elect the phantom investment of the balance of such account. The phantom investments available for selection by the participant may be limited by the committee. The earnings and losses deemed to be attributable to investment of a participant's deferred compensation account for any year shall be the earnings and losses that would have been yielded if the participant's deferred compensation account had been invested in the phantom investments selected by the participant for the year, and if all expenses that would be incurred in connection with such investment had been charged to that account. Nothing in the plan shall require any employer to segregate or invest any assets to reflect the investment election of a participant's deferred compensation account.

4.3. Eligibility for Deferred Compensation Benefits. Eligibility for deferred compensation benefits shall be subject to the following:

(a) If a participant's termination date occurs under paragraph 4.6(a) or (b), his entire deferred compensation account shall be payable to him or, in the event of his death, to his beneficiary (as defined in subsection 4.7), in accordance with subsections 4.4 and 4.5.

(b) If a participant's termination date occurs under paragraph 4.6(c), the portion of the participant's deferred compensation account, if any, attributable to share units credited for the sixth calendar year prior to the calendar year in which the participant's termination date occurs, and attributable to share units credited for calendar years prior to such sixth year, shall be payable to him or, in the event of his death, to his beneficiary, in accordance with

subsections 4.4 and 4.5, and the remaining portion of his deferred compensation account shall be forfeited.

(c) If a participant's termination date occurs under paragraph 4.6(d), the participant's deferred compensation account shall be forfeited.

(d) No unpaid deferred compensation benefits shall be payable to or on account of a participant after the date, if any, on which the participant engages in any business or activity which is competitive with or has an adverse effect on the business of an employer or affiliate, regardless of whether the benefits were otherwise payable before or after such date.

4.4. Time of Payment of Deferred Compensation Benefits. Participant's deferred compensation account shall be paid at such time as the committee, in its sole discretion, after consulting with the recipient, shall decide, subject to the following:

(a) If a participant's termination date occurs under paragraph 4.6(a), payment shall commence not later than the earlier of the tenth anniversary of his termination date or the date on which he attains age 70-1/2 years; provided that if the participant dies after he retires but before payment of his deferred compensation account has commenced, payment shall commence no later than twelve months after the date of the participant's death.

(b) If a participant's termination date occurs under paragraph 4.6(b), payment of his deferred compensation account shall commence no later than twelve months after the date of his death.

(c) If a participant's termination date occurs under paragraph 4.6(c), payment shall commence no later than twelve months after the date the participant attains age 65 years or, if earlier, the date the participant dies.

4.5. Form of Payment. A participant's deferred compensation account shall be paid in one of the following forms, as selected by the committee in its sole discretion, after consulting with the participant:

(a) payment in a lump sum;

(b) payment in ten or fewer annual installments, where the amount of each installment shall be determined by

dividing the balance in the participant's deferred compensation account by the number of years remaining in the installment period; or

(c) distribution of an annuity purchased from an insurance carrier with the participant's deferred compensation account balance.

4.6. Termination Date. A participant's "termination date" is the date on which his employment with the employers and affiliates is terminated because of the first to occur of the following:

(a) Retirement. The participant's retirement, including disability retirement.

(b) Death. The participant's death.

(c) Resignation or Dismissal. The participant resigns, or is dismissed for reasons other than cause, from the employ of the employers and affiliates before retirement in accordance with paragraph (a) next above.

(d) Dismissal for Cause. The participant is dismissed for cause from the employ of the employers and affiliates. Determination of whether a participant's dismissal has been for cause shall be made by the committee in its sole discretion.

4.7. Designation of Beneficiary. Each participant, from time to time, by signing a form furnished by the committee, may designate any legal or natural person or persons (who may be designated contingently or successively) to whom his deferred compensation benefits are to be paid if he dies before he receives all of his benefits. A beneficiary designation form will be effective only when the signed form is filed with the committee while the participant is alive and will cancel all beneficiary designation forms signed earlier. If a deceased participant failed to designate a beneficiary as provided above, or if the designated beneficiary of a deceased participant dies before him or before complete payment of the participant's deferred compensation benefits, the committee, in its discretion, may direct the applicable employer to pay the participant's deferred compensation benefits to either:

(a) one or more of his relatives by blood, adoption or marriage and in such proportions as the committee decides; or

(b) the legal representative or representatives of the estate of the last to die of the participant and his designated beneficiary.

SECTION 5

Miscellaneous

5.1. Changes in Capitalization. In the event of any stock dividend, stock split, combination of shares, reclassification or other similar changes in capitalization of NICOR common stock, or any distribution, other than cash dividends, to holders of NICOR's common stock, the committee shall make such adjustments, in light of the charge or distribution, as it deems equitable to the employers and the participants, in the number of share units outstanding and in the deferred compensation accounts.

5.2. Nonassignability. Plan benefits may not be assigned or transferred to any person, nor may plan benefits be subject to the debts or obligations of any person entitled thereto.

5.3. Effect on Other Plans. Plan benefits are not taken into account in determining, and will not affect, the amount of any benefit under any pension or retirement plan or any welfare plan, including a group life insurance plan of any employer or affiliate.

5.4. Effect of Participation. The plan does not constitute a contract of employment, and participation in the plan will not give any participant the right to be retained in the employ of any employer, nor any right or claim to any benefit under the terms of the plan unless such right or claim has specifically accrued under the terms of the plan. The award of a share unit does not constitute the award of stock, and does not confer any voting right on a participant.

SECTION 6

Amendment and Termination

The Board of Directors of the company shall have the right at any time and from time to time to discontinue and reinstate the plan in whole or in part or amend the plan so long as the effect of such amendment is not to increase materially the cost of the plan to the company.

Northern Illinois Gas Company d/b/a Nicor Gas Company
Response to: Illinois Commerce Commission
Ill. C.C. Docket No. 08-0363
DLH Thirteenth Set of Data Requests

ICU Interest Credited

2009	Prior Qtr. Ending Bal.	Awards*	Qtr. Interest @ 0.0107	Withdrawals	Ending Bal.
1st Qtr. 2009	$ 315,838	0	$ 3,379.46		$ 319,217
2nd Qtr. 2009	$ 319,217	0	$ 3,415.63		$ 322,633
3rd Qtr. 2009	$ 322,633	0	$ 3,452.17		$ 326,085
4th Qtr. 2009	$ 326,085	0	$ 3,489.11	$ 91,433	$ 238,142
			$ 13,736.37		

Incentive Compensation Dividend Equivalents

Date	Units	Per Unit	2009
Feb-09	167,400	0.465	$77,841.00
May-09	167,400	0.465	$77,841.00
Aug-09	167,400	0.465	$77,841.00
Nov-09	167,400	0.465	$77,841.00
			$ 311,364.00

Total Expense for 2009 **$ 325,100.37**

* There are no active employees receiving awards from this plan