Docket No. 08-0363
ICC Staff Exhibit 19.0C

CORRECTED 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 30, 2008

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WITNESS IDENTIFICATION

Q. Please state your name and business address.

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

Q. Are you the same Sheena Kight-Garlisch who previously filed testimony in this proceeding?

A. Yes, I am.

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

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

RESPONSE TO MR. RUSCHAU

Q. Mr. Ruschau asserts that your ratios should be "based on the Company's actual forecast of its 2009 expenditures."[2] Do you agree?

A. No. My ratio analysis should be based on Staff's recommendations.[3] The purpose of the ratio analysis I presented in my direct testimony, which I have

[1] 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.
[2] Co. Ex. 24.0, p. 22.
[3] 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.

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

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

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.

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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.

Q. Mr. Ruschau argues that your ratio analysis fails to include adjustments Moody's makes for calculating its ratios.[4] Do you agree with the adjustments Mr. Ruschau made to the calculations?

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

Q. Mr. Ruschau contends that if you include the Moody's adjustments in your ratio calculation, then the Nicor Gas ratios would indicate a much lower financial strength rating.[5] Is he correct?

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

[4] Co. Ex. 24.0, pp. 22-23.
[5] Co. Ex. 24.0, pp. 22-23.
[6] Staff Ex. 6.0, p. 22.

Table 1 – Moody's Guideline Ratios

	Aaa (1)	Aa (3)	A (6)
Financial Guideline Ratios			
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%)
Staff Direct Proposal			
EBIT/Interest			3.97X
RCF/Debt		23.44%	
Debt to Book Capitalization			42.47%
FCF/FFO	21.99%		
Staff Direct Proposal-After Additional Moody's Adjustments			
EBIT/Interest			3.63X
RCF/Debt		23.25%	
Debt to Book Capitalization			42.77%
FCF/FFO	21.92%		

The ratios above demonstrate that including operating leases and pension credits in my ratio calculation has little effect on the ratios and the level of financial strength they indicate for Nicor Gas. When the level of operating risk implied in the Moody's credit ratings of the Utility sample is considered, Nicor's implied credit rating (reflecting both operating risk and financial strength) remains A2, which is the same as Nicor Gas's current Moody's credit rating.[7]

[7] Moody's Investor Services, www.moodys.com.

RESPONSE TO DR. MAKHOLM

Exclusion of MGE Energy

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

A. Yes.

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

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

Use of GDP for Third Stage Growth Rate

Q. Dr. Makholm criticizes the use of Gross Domestic Product ("GDP") as the stage 3 growth rate in your non-constant DCF analysis.[8] Please comment.

A. Dr. Makholm argues that GDP is not a good estimator of sustainable utility growth. He incorrectly asserts that a "company can sustain a growth rate greater than that of the overall economy."[9] Dr. Makholm provided nothing to support his assertion. However, Reilly and Brown note that "no company can grow indefinitely at a rate substantially above normal."[10] Brigham and Houston define normal growth as that which is expected to be similar to the economy as a whole.[11] Brigham and Houston also state that:

> ... dividend growth on average is expected to continue in the foreseeable future at about the same rate as that of the nominal gross domestic product (real GDP plus inflation).[12]

Q. Dr. Makholm argues that utilities are not "below-average growth companies." Is he correct?

A. No. The data Dr. Makholm relied upon suggests that, relative to the overall market, the utility companies composing his sample are, in fact, below average growth companies. Specifically, relative to the overall market, which has a retention ratio of 65.31%,[13] the retention rate for utility companies of 44.32%[14] is well below average. Further, one would expect utilities overall to earn below

[8] Co. Ex. 25.0, pp. 6-14.
[9] Co. Ex. 25.0, p. 7.
[10] Reilly and Brown, Investment Analysis and Portfolio Management, 5th edition, p. 754.
[11] Brigham and Houston, Fundamentals of Financial Management, 8th edition, p.319.
[12] Brigham and Houston, Fundamentals of Financial Management, 8th edition, p.319.
[13] Reuters, www.reuters.com, October 20, 2008.
[14] Co. Ex. 25.4.

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

Q. Dr. Makholm implies "productivity" of utilities supports his assertion that utilities are not "below-average growth companies." Please comment.

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

> The average output produced per worker
> during a specific time period.[16]

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

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[15] Co. Ex. 25.9.
[16] Gwartney, Stroup, Sobel, Economics Private and Public Choice, Ninth Edition

Dr. Makholm's Growth Calculation

Q. Dr. Makholm claims that it is reasonable to assume that the companies in his sample will issue new equity securities for prices prevailing in the market.[17] Please comment.

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

[17] Co. Ex. 25.0, p.15

[18] Schedule 19.03 does not represent a comprehensive review of all the stock issuances of the companies in the Utility sample.

[19] 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.

CAPM Analysis

Q. Dr. Makholm criticizes your CAPM analysis because the betas you used "are not readily visible to the market," recommending, instead, the use of Value Line betas.[20] Please comment.

A. The validity of Staff's beta estimation methodology is not a function of whether investors rely upon Staff's beta estimates. Rather, the validity of the methodology is a function of whether it is generally accepted. The methodology I used to calculate the betas for my sample, which Staff has regularly used and the Commission has consistently approved,[21] employs the same monthly frequency of stock price data as the widely accepted Merrill Lynch methodology. The Value Line methodology is not inherently superior to Staff's methodology. Different beta estimation methodologies can produce different betas whenever those methodologies employ different samples of stock return data.

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

[20] Co. Ex. 25.0, p. 22.
[21] 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.

testimony.[22,23] The beta estimates from the various sources I reviewed are shown in the table below.

Table 1

Source[24]	Published (Raw) Beta[25]	Adjusted Beta
Reuters	.48	.66
Scottrade	.43	.62
Yahoo!	.46	.64
Zacks	.49	.66

Q. Dr. Makholm states "[t]here are objective, disinterested and published sources of betas that investors do examine, and I think it would be wise for the Commission to stick to those as inputs to the cost of capital." Please comment.

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

[22] Using the same upward adjustment applied to the raw regression betas.
[23] Zacks Research Wizard, October 6, 2008; Scottrade, www.scottrade.com, October 6, 2008.
[24] 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.
[25] The published betas provided in Table 1 are available to investors at no charge.
[26] The beta estimate from only published sources is the simple average of the beta estimates from Reuters, Scottrade, Yahoo!, Zacks, and Value Line.
[27] Value Line is only available through a paid subscription. However, many libraries have a Value Line subscription.
[28] Co. Ex. 25.0, p. 22

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

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

A. As shown in Schedule 19.05, the average Value Line beta for the Utility sample is 0.87.[31] The average monthly published beta estimate is 0.46. The average of these two estimates is 0.67.

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

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

[29] 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.

[30] Value Line calculates beta using weekly returns.

[31] The Value Line Investment Survey, "Summary and Index," July 18, 2008, pp. 4-23.

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

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

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

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

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

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

[32] The Company ratios reflect Staff recommendations in rebuttal testimony and the adjustments for pension credit and operating leases.

[33] The downward adjustment was explained in Staff Ex. 6.0 on pages 21-25.

[34] The raw betas are adjusted based on the Merrill Lynch methodology presented on page 18 of ICC Staff Ex. 6.0.

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

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

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

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

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

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

[35] The downward adjustment was explained in Staff Ex. 6.0 on pages 21-25. The updated ratio analysis is presented in Schedule 19.06.

Risk Adjustment

Q. Please address Dr. Makholm's comment that average credit rating differences "have no conceptual read-across to any possible equity risk difference" and that your adjustment "has no credible basis from a standpoint of financial theory or practice."[36]

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

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[36] Co. Ex. 25.0, pp. 23-24.

[37] Brigham, Gapenski and Ehrhardt, Financial Management Theory and Practice, 9th edition, p.626.

Q. Please address Dr. Makholm's claim that you make "no allowance for reasonableness ranges when assessing risk," as the rating agency does.[38]

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

Effect of Rider Approvals on the Company's Business Risk

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

A. Yes.

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

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

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[38] Co. Ex. 25.0, p. 23.

[39] 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.

Q. As support for Dr. Makholm's argument that a decoupling rider will not affect the cost of capital, Dr. Makholm quotes a bulletin from S&P on NSTAR. Please comment.

A. Dr. Makholm's quote from the bulletin is deceptive. Dr. Makholm falsely implies that the S&P bulletin is based on the results of a NSTAR rate case.[40] The bulletin provides S&P's opinion of how NSTAR is affected by the "recent Massachusetts Department of Public Utilities ruling, which orders utilities in the state to pursue full decoupling in their next base rate case filings."[41] Dr. Makholm conveniently omits a sentence in the middle of his quote that clearly states that NSTAR has not filed for a base rate case nor does S&P expect NSTAR to file for at least 3 years. Therefore, NSTAR has not had a recent rate case that provides for full decoupling in Massachusetts. Hence, one would not expect S&P to adjust its credit rating on NSTAR since the company has not implemented full decoupling.

RESPONSE TO MR. THOMAS

Q. In his discussion of the proper growth rate to use in a DCF analysis, CUB witness Thomas cites several studies and concludes that "[a]nalysts tend to be optimistic about future growth and produce forecasts that are upwardly biased."[42] Do you agree with his implication that those studies can be applied to utility growth rates?

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

[40] Co. Ex. 25.0, p. 26.
[41] Standard & Poor's RatingsDirect, *Bulletin: Decoupling Order Does Not Affect NSTAR Ratings*, July 21, 2008.
[42] CUB Ex. 1.0, pp. 24-25.

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

Q. Mr. Thomas claims that a paper by Gregory L. Nagel et al. ("the Nagel paper") "rejects the version of the CAPM traditionally used by the Commission."[44] Please respond.

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

[43] Chan, Karceski, and Lakonishok, "The Level and Persistence of Growth Rates," *Journal of Finance*, April 2003, pp. 671-676.
[44] CUB Exhibit 1.0, p. 14-15.

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

Q. Mr. Thomas claims that betas should not be adjusted for reversion to a market mean of 1.0.[46] Please comment.

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

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

[45] 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.
[46] CUB Ex. 1.0, pp. 7-16.
[47] Armitage, S., The Cost of Capital: Intermediate Theory, 2005, pp. 284-285.
[48] Armitage, S., The Cost of Capital: Intermediate Theory, 2005, p. 283.

Kahl.[49] Do you agree with Mr. Thomas' conclusion that use of an adjusted beta for utilities with betas below 1.0 is wrong?

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

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

[49] CUB Ex. 1.0, p. 9.

VERIFICATION

I, Sheena Kight-Garlisch, 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 Corrected Rebuttal Testimony of Sheena Kight-Garlisch; that I have personal knowledge of the information stated in the foregoing Corrected Rebuttal Testimony; and that such information is true and correct to the best of my knowledge, information and belief.

Sheena Kight-Garlisch

Sheena Kight-Garlisch
Illinois Commerce Commission

Subscribed and sworn to before me
this 30th day of October, 2008.

Lisa Bowman
Notary Public

OFFICIAL SEAL
LISA BOWMAN
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 12-9-2011

Northern Illinois Gas Company

Ratios

Ratio Components

Before Tax Weighted Average Cost of Capital	=	Weighted Cost of Short-Term Debt + Weighted Cost of Long-Term Debt + [Weighted Cost of Preferred Stock ÷ (1 - Composite Tax Rate)] + [Weighted Cost of Equity ÷ (1 - Composite Tax Rate)]
Funds Available to Shareholders	=	(Weighted Cost of Equity + Weighted Cost of Preferred Stock) * Rate Base
Non-Cash Items	=	Depreciation & Amortization + Deferred Taxes and Investment Tax Credits
Funds From Operations	=	Funds Available to Shareholders + Non-Cash Items
Cash Dividends	=	Cash Preferred Stock Dividends + (Funds Available to Shareholders * Payout ratio)
Free Cash Flow	=	Funds From Operations + Changes in Working Capital -Cash Dividends - Capital Expenditures
Interest	=	(Cost of Short-term Debt * Short-Term Debt Balance) + Long-term Debt Interest
Total Debt	=	Short-term Debt Balance + Long-term Debt Balance
Adjusted Capitalization	=	Total Capital + Inventory Adjustment[1]

Ratios

EBIT / Interest Coverage	=	(Before Tax Weighted Average Cost of Capital * Rate Base + Pension Credit[2] + Operating Lease (Rental Interest[3])) ÷ (Interest + Operating Lease (Rental Interest))
RCF /Debt	=	(Funds From Operations - Cash Dividends + Operating Lease (Rental Depreciation[4])) ÷ (Total Debt + Opearating Lease (Rental Debt[5]))
Debt/ Captialization	=	(Total Debt + Operating Lease (Rental Debt)) ÷ (Adjusted Capitalization + Operating Lease (Rental Debt))
Free Cash Flow / Funds From Operations	=	Free Cash Flow ÷ 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

Before Tax Weighted Average Cost of Capital = 0.36% + 2.39% +(0.007% ÷ (1-0.39745)) + (4.95% ÷ (1-0.39745)) = 10.97%

Funds Available to Shareholders = (4.95% + 0.00%) x $1,317,678 = $65,225

Non-Cash Items = $177,904 + -$10,055 = $167,849

Funds From Operations = $65,225 + $167,849 = $233,074

Cash Dividends = $67 + ($65,225 * 100%) = $65,292

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

Interest = ($235,917 * 2.09%) + $31,485 = $36,416

Total Debt = $235,917 + $479,978 = $715,895

Adjusted Capitalization = $1,368,335 + $317,381 = $1,685,716

Ratios

EBIT / Interest Coverage = (10.97% * $1,317,678 + -$11,300 + $367) ÷ ($36,416 +$367) = 3.63X

RCF /Debt = ($233,074 - $65,292 + $733) ÷ ($715,895 + $8,800) = 23.25%

Debt/ Captialization = ($715,895 + $8,800) ÷ ($1,685,716 + $8,800) = 42.77%

Free Cash Flow / Funds From Operations = $51,258 ÷ ($233,074 + $733) = 21.92%

AVISTA Corp. Welcome to Avista, providing energy and energy-related services

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

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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

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

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

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:

1. Transaction per Mr. Meyer's 10b5-1 Plan dated March 13, 2008.

2. 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.

3. 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.

4. 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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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

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

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

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

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 (1)

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. Malqusit 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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nicor
SEC Filings

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DALESSANDRO ROCCO J filed this Form 4 on 05/08/07

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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

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

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*	2. Issuer Name **and** Ticker or Trading Symbol	5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
DALESSANDRO ROCCO J	NICOR INC [GAS]	Director 10% Owner
(Last) (First) (Middle) NICOR INC., 1844 FERRY ROAD	3. Date of Earliest Transaction (Month/Day/Year) 05/04/2007	X Officer (give title below) Other (specify below) EVP - Nicor Gas Company
(Street) NAPERVILLE IL 60563 (City) (State) (Zip)	4. If Amendment, Date of Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) X Form filed by One Reporting Person Form filed by More than One Reporting Person

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

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 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, Attorney-in-Fact — 05/08/2007

** 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).

** 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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DODGE DANIEL R filed this Form 4 on 05/07/07

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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* DODGE DANIEL R (Last) (First) (Middle) NICOR INC., 1844 FERRY ROAD (Street) NAPERVILLE IL 60563 (City) (State) (Zip)	2. Issuer Name **and** Ticker or Trading Symbol NICOR INC [GAS] 3. Date of Earliest Transaction (Month/Day/Year) 05/03/2007 4. If Amendment, Date of Original Filed (Month/Day/Year)	5. Relationship of Reporting Person(s) to Issuer (Check all applicable) Director 10% Owner X Officer (give title below) Other (specify below) Senior Vice President 6. Individual or Joint/Group Filing (Check Applicable Line) X Form filed by One Reporting Person Form filed by More than One Reporting Person

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	05/03/2007		M		4,000	A	$ 40.6875	9,289	D	
Common Stock	05/03/2007		M		4,500	A	$ 38.0625	13,789	D	
Common Stock	05/03/2007		M		7,900	A	$ 45.05	21,689	D	
Common Stock	05/03/2007		M		14,300	A	$ 36.34	35,989	D	
Common Stock	05/03/2007		S		1,200	D	$ 51.13	34,789	D	
Common Stock	05/03/2007		S		200	D	$ 51.12	34,589	D	
Common Stock	05/03/2007		S		3,800	D	$ 51.11	30,789	D	
Common Stock	05/03/2007		S		15,500	D	$ 51.1	15,289	D	
Common Stock	05/03/2007		S		6,900	D	$ 51.09	8,389	D	
Common Stock	05/03/2007		S		100	D	$ 51.07	8,289	D	
Common Stock	05/03/2007		S		3,000	D	$ 51.06	5,289	D	
Common Stock								2,096.298 (1)	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 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*
COLALILLO CLAUDIA J
(Last) (First) (Middle)
NICOR INC.
1844 FERRY ROAD
(Street)
NAPERVILLE IL 60563
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
NICOR INC [GAS]

3. Date of Earliest Transaction (Month/Day/Year)
11/08/2006

4. If Amendment, Date of Original Filed (Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
Director
10% Owner
X Officer (give title below)
Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing (Check Applicable Line)
X Form filed by One Reporting Person
Form filed by More than One Reporting Person

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 (1)	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	Amount or Number of Shares				
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).

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Document Contents

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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	
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(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) X Director ___ 10% Owner X Officer (give title below) ___ Other (specify below) Chief Executive Officer
(Last) (First) (Middle) 220 NW SECOND AVENUE	3. Date of Earliest Transaction (Month/Day/Year) 09/22/2008	
(Street) PORTLAND, OR 97209-3991	4. If Amendment, Date Original Filed (Month/Day/Year)	6. Individual or Joint/Group Filing (Check Applicable Line) X Form filed by One Reporting Person ___ Form filed by More than One Reporting Person
(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 (1)	D	
Common Stock	09/22/2008		S		2,500	D	$52.5946 (2)	50,857.849 (1)	D	
Common Stock								516,005.7 (3)	I	See footnote