

**The Peoples Gas Light & Coke Company**  
**North Shore Gas Company**

Cost of Equity  
as of May 31, 2009

<b>Discounted Cash Flow (DCF)</b>	<b><math>D_1/P_0</math></b>	<b>+</b>	<b><math>g</math></b>	<b>+</b>	<b><math>lev.</math></b>	<b>=</b>	<b><math>K</math></b>		
Gas Group	4.67%	+	6.00%	+	0.74%	=	11.41%		
<b>Risk Premium (RP)</b>	<b><math>i</math></b>	<b>+</b>	<b><math>RP</math></b>	<b>=</b>	<b><math>K</math></b>				
Gas Group	6.75%	+	5.50%	=	12.25%				
<b>Capital Asset Pricing Model (CAPM)</b>	<b><math>R_f</math></b>	<b>+</b>	<b><math>\beta</math></b>	<b>x (</b>	<b><math>R_m - R_f</math></b>	<b>) +</b>	<b><math>size</math></b>	<b>=</b>	<b><math>K</math></b>
Gas Group	4.25%	+	0.78	x (	8.48%	) +	0.94%	=	11.80%