**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**MEM First Set of Data Requests**

MEM 1.08 Q. Assuming the Commission approves the proposed reorganization, fully explain what changes, if any, would take place in the manner AGL Resources would operate and maintain Nicor Gas' gas transmission system. Provide copies of all memoranda, studies, reports and/or other documentation discussing or analyzing this change.

MEM 1.08 A. Currently, AGL and Nicor are engaged in an integration planning process with the objective to identify best practices and determine the most efficient and cost effective manner to perform a variety of functions following the completion of the proposed merger. While decisions have not yet been made about how best to integrate each specific aspect of operations, AGL has made the commitment to maintain, for a period of three years following the closing of the merger, the number of full time equivalent employees involved in the operation of Nicor Gas' gas distribution business at a level comparable to the current level and has also agreed to establish its newly expanded distribution operations headquarters in Illinois. Further, no integration decisions concerning any specific aspect of utility operations will be made that would impair the ability of Nicor Gas or any of the existing AGL utilities to fulfill their individual obligations to their customers.

As it relates to operation and maintenance of the gas transmission system, there are no current plans to change Nicor Gas' current practice.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**MEM First Set of Data Requests**

MEM 1.09 Q. Assuming the Commission approves the proposed reorganization, fully explain what changes, if any, would take place in the manner AGL Resources would operate and maintain Nicor Gas' gas storage system. Provide copies of all memoranda, studies, reports and/or other documentation discussing or analyzing this change.

MEM 1.09 A. Currently, AGL and Nicor are engaged in an integration planning process with the objective to identify best practices and determine the most efficient and cost effective manner to perform a variety of functions following the completion of the proposed merger. While decisions have not yet been made about how best to integrate each specific aspect of operations, AGL has made the commitment to maintain, for a period of three years following the closing of the merger, the number of full time equivalent employees involved in the operation of Nicor Gas' gas distribution business at a level comparable to the current level and has also agreed to establish its newly expanded distribution operations headquarters in Illinois. Further, no integration decisions concerning any specific aspect of utility operations will be made that would impair the ability of Nicor Gas or any of the existing AGL utilities to fulfill their individual obligations to their customers.

As it relates to operation and maintenance of the gas storage system, there are no current plans to change Nicor Gas' current practice.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**MEM First Set of Data Requests**

MEM 1.10 Q. Assuming the Commission approves the proposed reorganization, fully explain what changes, if any, would take place in Nicor Gas' gas supply and materials procurement methods. Provide copies of all memoranda, studies, reports and/or other documentation discussing or analyzing this change

MEM 1.10 A. Currently, AGL and Nicor are engaged in an integration planning process with the objective to identify best practices and determine the most efficient and cost effective manner to perform a variety of functions following the completion of the proposed merger. While decisions have not yet been made about how best to integrate each specific aspect of operations, AGL has made the commitment to maintain, for a period of three years following the closing of the merger, the number of full time equivalent employees involved in the operation of Nicor Gas' gas distribution business at a level comparable to the current level and has also agreed to establish its newly expanded distribution operations headquarters in Illinois. Further, no integration decisions concerning any specific aspect of utility operations will be made that would impair the ability of Nicor Gas or any of the existing AGL utilities to fulfill their individual obligations to their customers.

As it relates to gas supply and materials procurement methods, there are no current plans to change Nicor Gas' current practice.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**MEM First Set of Data Requests**

MEM 1.12 Q. Have the Applicants conducted any integration studies, reports, etc. to investigate the potential to achieve additional operational efficiency through using the combined utilities' pipeline transportation capacity, leased storage assets, owned storage assets, purchases of gas supply, hedging activities, and other gas supply related functions in conjunction with each other versus operating them separately? If yes, provide a copy of all such studies, reports, etc. If no, explain why not and provide a timeline for when the Applicants believe these activities would be initiated.

MEM 1.12 A. No.

Currently, AGL and Nicor are engaged in an integration planning process with the objective to identify best practices and determine the most efficient and cost effective manner to perform a variety of functions following the completion of the proposed merger. While decisions have not yet been made about how best to integrate each specific aspect of operations, AGL has made the commitment to maintain, for a period of three years following the closing of the merger, the number of full time equivalent employees involved in the operation of Nicor Gas' gas distribution business at a level comparable to the current level and has also agreed to establish its newly expanded distribution operations headquarters in Illinois. Further, no integration decisions concerning any specific aspect of utility operations will be made that would impair the ability of Nicor Gas or any of the existing AGL utilities to fulfill their individual obligations to their customers.

As it relates to pipeline transportation capacity, leased storage assets, owned storage assets, purchases of gas supply, hedging activities, and other gas supply related functions; the applicants have not identified any changes to the assets or manner of gas supply related to the Reorganization at this time.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**MEM First Set of Data Requests**

MEM 1.16 Q. Will Nicor Gas' gas dispatch continue to be located in Illinois, or will it be integrated into AGL Resources' current gas dispatch operations? Provide the time line for any anticipated changes.

MEM 1.16 A. Currently, AGL and Nicor are engaged in an integration planning process with the objective to identify best practices and determine the most efficient and cost effective manner to perform a variety of functions following the completion of the proposed merger. While decisions have not yet been made about how best to integrate each specific aspect of operations, AGL has made the commitment to maintain, for a period of three years following the closing of the merger, the number of full time equivalent employees involved in the operation of Nicor Gas' gas distribution business at a level comparable to the current level and has also agreed to establish its newly expanded distribution operations headquarters in Illinois. Further, no integration decisions concerning any specific aspect of utility operations will be made that would impair the ability of Nicor Gas or any of the existing AGL utilities to fulfill their individual obligations to their customers. Specifically with respect to gas dispatch for Nicor Gas (which Nicor Gas refers to as "Gas Control"), there has been no decision to make any change in the location of these operations but this aspect of the integration planning process has not yet been completed.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RWB First Set of Data Requests**

RWB 1.06 Q. Please state whether the Joint Applicants are seeking Commission approval for a regulatory asset for reorganization costs in this proceeding. If yes, provide all details of the requested regulatory asset. In the response also include an explanation in detail of why or why not the Joint Applicants are requesting or not requesting a regulatory asset.

RWB 1.06 A. The Joint Applicants are not seeking Commission approval to establish a regulatory asset for the reorganization costs in this proceeding.

As discussed in response to RWB 1.03, the Joint Applicants have not identified net savings as an offset to the cost of Reorganization. Consequently, the Joint Applicants are not seeking recovery of those costs in this case, and no regulatory asset is required.

*Witness:* Elizabeth Reese

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RWB Third Set of Data Requests**

RWB 3.01 Q. Referring to the Joint Applicants' response to Staff Data Request RWB-1.01, Exhibit 1, please provide all facts, information, data, analyses and assessments including all requests for proposals, bids, invoices, and other supporting documentation supporting the amounts set forth for each entity and/or category in the attachment.

RWB 3.01 A. Supporting material for 2010 expenses in RWB 1.01 Exhibit 1 is attached in the following exhibits.

Exhibit 1: Transaction Costs (Attachments A, B, and C)

CONFIDENTIAL Exhibit 2: Change in Control Costs

Exhibit 3: Financing Costs (Attachments A, B, C, and D)

Exhibit 4: Legal and Other Professional Costs (Attachments A – Q)

The 2011 expenses as well as Change in Control costs included in RWB 1.01 Exhibit 1 will be updated in a supplemental response due to the Joint Applicants' filing of an updated S-4 with the Securities and Exchange Commission.

<u>SUPPLEMENTAL RESPONSE</u>:

Supporting material for expenses in the first quarter of calendar year 2011 is attached in the following exhibits.

Exhibit 5: Schedule of Fees

Exhibit 6: 2011 Financing Costs (Attachment A)

Exhibit 7: 2011 Legal and Other Professional Costs (Attachments A – I)

*Witness:* Elizabeth Reese

**Estimate of Merger-Related Fees**

(in millions)

| Entity | Description of Service | Actual 2010 Fees | Three Months Actual 2011 Fees | Nine Months Estimated 2011 Fees | Total Estimated 2011 Fees | Total | |
|---|---|---|---|---|---|---|---|
| **Transaction Costs** | | | | | | | |
| JP Morgan | Financial Advisory Services | $ 2.1 | $ - | $ 11.2 | $ 11.2 | $ 13.3 | |
| Goldman Sachs | Financial Advisory Services | 4.0 | - | 12.3 | 12.3 | 16.3 | |
| | | 6.1 | - | 23.5 | 23.5 | 29.6 | |
| **Change in Control Costs** | | 4.0 | - | 42.8 | 42.8 | 46.8 | |
| **Financing Costs** | | | | | | | |
| Goldman Sachs | Bridge Facility | 0.3 | 2.7 | 4.2 | 6.9 | 7.2 | |
| Goldman Sachs | Permanent Loan Fees | - | - | 7.3 | 7.3 | 7.3 | A |
| Various | Other Fees/Expenses | - | - | 2.1 | 2.1 | 2.1 | |
| | | 0.3 | 2.7 | 13.6 | 16.3 | 16.6 | |
| **Separation Costs** | | - | - | 21.0 | 21.0 | 21.0 | |
| **Legal and Other Professional Costs** | | | | | | | |
| Dewey & LeBouf LLP | External Counsel | 1.1 | 0.6 | - | 0.6 | 1.7 | |
| Richard Harper and Associates | Integration Planning and Process | - | 0.5 | 0.5 | 1.0 | 1.0 | |
| Latham & Watkins LLP | External Counsel | 1.3 | 0.7 | 0.3 | 1.0 | 2.3 | |
| Sidley Austin LLP | Director Representation | 0.3 | 0.1 | 0.2 | 0.3 | 0.6 | |
| Rooney Rippie & Ratnaswamy LLP | IL Commerce Commission filing | 0.1 | 0.1 | 0.9 | 1.0 | 1.1 | |
| Hogan Lovells US LLP | CA Public Utilities Commission filing | 0.1 | - | - | - | 0.1 | |
| Bartlit Beck Herman Palenchar & Scott LLP | Class action defense | 0.2 | 0.1 | 0.2 | 0.3 | 0.5 | |
| Deloitte & Touche LLP | Due Diligence, Consent, etc. | 0.1 | - | 0.1 | 0.1 | 0.2 | |
| Nicor Board of Director Fees | Special BOD Meetings | 0.3 | - | - | - | 0.3 | |
| Others | Various (Pay Gov.,Intralinks, etc.) | 0.5 | 1.8 | 0.8 | 2.6 | 3.1 | |
| | | 3.9 | 3.9 | 3.0 | 6.9 | 10.8 | |
| | | $ 14.3 | $ 6.6 | $ 103.9 | $ 110.5 | $ 124.8 | |

A) AGL Resources issued $200M senior notes in anticipation of financing the Nicor transaction. The estimated yearly expense related to the $2.3M of permanent fees will be amortized over the 30 year term resulting in approximately $77K expense each year. An additional $779M in senior notes is estimated to be issued upon completion of the Nicor transaction.

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RWB Fourth Set of Data Requests**

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RWB 4.01 Q. Referring to Joint Applicants' response to Staff DR RWB 1.03, the Joint Applicants present two conditions to which the Joint Applicants would agree:

> …First, the Joint Applicants would agree that in any future base rate request Nicor Gas would not seek to recover the cost of the Reorganization. Second, that if the Commission reviews Nicor Gas' earnings for any reason except a base rate proceeding initiated by Nicor Gas, then Nicor Gas would have the right to offset against any savings that other parties argue may have resulted from the Reorganization through a 5 year amortization of the Reorganization's costs. This proposal effectively creates a dead band of an estimated $20 million based on known and estimable cost at this time (limited to the degree of any actual savings achieved) for a 5 year period following the close of the Reorganization, but does not preclude any party from requesting a review of base rates during that period.

Later, in response to Staff DR RWB 3.07, when asked if the Joint Applicants would agree that the condition above should be expanded to cover all recovery mechanisms, and not only recovery though a base rate proceeding, Ms. Reese states:

> Yes. For clarification the intent of the Joint Applicants' response to RWB 1.03 is to say that the petition as filed contemplates that Nicor Gas would not seek recovery of these costs through any proceeding initiated by Nicor Gas. However, Nicor Gas does reserve the right to argue for recoverability of these costs if a proceeding is brought against Nicor Gas by any other parties where arguments are presented that the revenues of Nicor Gas should be lowered as a result of savings realized as a result of the Reorganization during the 5 year period following the close of the Reorganization. After that period, Nicor Gas would not seek to recover any of those costs in any regulatory proceeding.

Also, referring to Joint Applicants Ex. 8.0, lines 431-443, the Joint Applicants set forth in rebuttal testimony the conditions to Staff witness Bridal's Section 7-204(c)(ii) recommendation previously stated in

RWB 1.03 and RWB 3.07. Specifically, the Joint Applicants' condition states:

> In the event that any party, other than Nicor Gas, causes or requests a review of Nicor Gas' earnings during the five year period following the completion of the Reorganization, Nicor Gas shall be afforded the opportunity to request the Commission consider the inclusion of a test year amortization…in determining revenue requirement in that proceeding.

However, referring to Joint Applicants Ex. 13.0, lines 348-353, Mr. Linginfelter characterizes the condition set forth in Joint Applicants Exhibit 8.0 as follows:

> In my rebuttal testimony, the Joint Applicants accepted Mr. Bridal's proposal subject to one caveat: for a period of five years after closing the Reorganization, in any proceeding initiated to examine or revise Nicor Gas' rates (other than a general rate case filed by Nicor Gas), Nicor Gas would have the opportunity to present facts to allow the Commission to consider whether the cost to achieve the Reorganization should offset any savings achieved as a result of the reorganization. (emphasis added)

Please confirm that in the event that the Commission disagrees with Staff and accepts the Joint Applicants' condition above as articulated in Ex. 13.0, Nicor Gas agrees that the condition above should be expanded to cover all recovery mechanisms and not only recovery though a general rate case.

RWB 4.01 A. Yes. To be clear, the Joint Applicants would not seek recovery of the cost types identified in the Joint Applicants' response to RWB 3.01 Exhibit 5 in any proceeding initiated by the Joint Applicants.

*Witness:* Henry P. Linginfelter

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RP First Set of Data Requests**

RP 1.08 Q. Please provide copies of each of the following reports published by Moody's Investors Service:

A) Credit Opinion, "AGL Resources, Inc.," December 8, 2010;

B) Credit Opinion, "Nicor Inc.," December 8, 2010;

C) Credit Opinion, "Northern Illinois Gas Company," December 8, 2010; and

D) Announcement, "Moody's Affirms AGL Resources at stable," December 7, 2010.

RP 1.08 A. The documents referenced above are attached as RP 1.08 Exhibits 1 through 4.

*Witness:* Stephen Cave

MOODY'S
INVESTORS SERVICE

**Credit Opinion: AGL Resources Inc.**

Global Credit Research - 08 Dec 2010

*Atlanta, Georgia, United States*

## Ratings

| Category | Moody's Rating |
|---|---|
| Outlook | Stable |
| Senior Unsecured Shelf | (P)Baa1 |
| Jr Subordinate | Baa2 |
| Preferred Shelf | (P)Baa3 |
| **AGL Capital Corporation** | |
| Outlook | Stable |
| Senior Unsecured | Baa1 |
| Jr Subordinate | Baa2 |
| Bkd Commercial Paper | P-2 |
| **AGL Capital Trust III** | |
| Outlook | Stable |
| Bkd Preferred Shelf | (P)Baa2 |
| **Atlanta Gas Light Company** | |
| Outlook | Stable |
| Senior Unsecured | A3 |

## Contacts


| Analyst | Phone |
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## Opinion

### Rating Drivers

- Nicor acquisition: seeking shareholder growth, neutral credit impact

- Generally constructive regulatory jurisdictions

- Non-utility businesses facing headwinds

- Stable financial performance while spending cycle continues

### Corporate Profile

Headquartered in Atlanta, Georgia, AGL Resources Inc. (AGL; Baa1 senior unsecured, stable outlook) is an energy services holding company with regulated operations consisting of six local gas distribution companies (LDCs, averaging 68% of AGL's consolidated operating income in the three years ended 2009) in Georgia, New Jersey, Tennessee, Virginia, Florida, and Maryland, which collectively serve approximately 2.3 million retail customers. The largest of these utilities is Atlanta Gas Light Company (A3 senior unsecured, about 40% of AGL's consolidated operating income). AGL's unregulated operations businesses include its retail energy operations (about 20% of operating income, under SouthStar Energy Services LLC, a 85%-owned joint venture with Piedmont Natural Gas), wholesale services (about 10% of operating income, under Sequent Energy Management, L.P.), and energy investments (Pivotal Energy Development).

### Recent Events

In December 2010, Moody's affirmed with stable outlooks the ratings of AGL and its subsidiaries following the announcement that the company had agreed to acquire Nicor Inc.'s outstanding common stock in a part stock, part cash transaction valued at roughly $3 billion enterprise value. The merger is expected to close in the second half of 2011 subject to customary approvals, including notably the approval of the Illinois Commerce Commission (ICC).

AGL plans to finance the cash part of the consideration 60% with equity and 40% with debt. The over $1 billion cash portion of the transaction will be bridge financed with a short-term credit facility until permanent debt financing is undertaken prior to closing.

### SUMMARY RATING RATIONALE

AGL's Baa1 senior unsecured rating reflects the stable cash flow and low business risk profile of the regulated gas utilities that make up the majority of the company, regulatory and market diversity, and solid credit metrics. The rating also reflects the higher business risk of its unregulated operations.

**DETAILED RATING CONSIDERATIONS**

N ICOR ACQUISITION: SEEKING SHAREHOLDER GROWTH, NEUTRAL CREDIT IMPACT

The Nicor acquisition seeks shareholder growth, while being neutral to creditors. The transaction seeks to send AGL to the ranks of the Fortune 500, about double its utility customers, and provide a major geographic step-out into the Midwest.

If AGL acquires Nicor as it contemplates, however, the acquisition debt will almost double AGL's parent-level and consolidated debt. Moody's stable outlook is based on our view that Nicor's stronger credit metrics and stability as a mostly regulated gas utility will help maintain AGL's credit metrics around current levels. Based on AGL and Nicor's reported financial statements as of the last twelve months ended September 2010, Moody's estimates that the transaction would increase AGL's consolidated long-term debt in the 80% range, while raising its cash flow pre-working capital (CF pre-wc) even more by slightly over 100%.

RATE CASES IN GENERALLY CONSTRUCTIVE REGULATORY JURISDICTIONS

LDCs comprise AGL's largest segment, and their rate-regulation lends stability to the company's credit profile. These operations are somewhat diversified, and Moody's considers the company's regulatory environment overall to be above-average from a credit perspective, mostly due to the current regulatory treatment in Georgia (54% of 2009 rate base) and Virginia (18% of rate base). AGL's other jurisdictions are New Jersey (18% of rate base), Florida (6%), Tennessee (4%), and Maryland (under 1%).

AGL's LDCs have limited exposure to commodity price, weather, and volume volatility due to margin-stabilizing rate mechanisms such as decoupling, straight-fixed-variable rates, and weather normalization. While the LDCs may experience some notable, but temporary, shifts in cash flow and debt metrics during a period of rapidly changing gas costs, these costs are recovered in a timely manner under purchased gas adjustment mechanisms. The company also has infrastructure recovery clauses in its three largest jurisdictions.

AGL's ratings are based on its upcoming rate cases also being at least credit-neutral. The most significant rate case on the horizon are Elizabethtown Gas and Virginia Natural Gas which are scheduled to file rate cases in 2011.

NON-UTILITY BUSINESSES FACING HEADWINDS

AGL's non-utility businesses -- Sequent, SouthStar, and prospectively, gas storage - are riskier than its LDCs. Their results vary from arbitrage opportunities created by gas price volatility and from commercial success in highly competitive markets. Although Sequent and SouthStar have credible track records, AGL's non-utility businesses are facing weaker outlooks at least in the near future. Flat basis differentials and low seasonal spreads are weighing on the marketing and storage businesses. AGL's rating is subject to those businesses maintaining sufficient risk management for them to remain a minor but regular contributor to AGL's operating income.

Although AGL's business mix has been consistent, and is expected to remain so if the Nicor transaction is consummated, the risk profiles of AGL's unregulated businesses may be creeping up over time. AGL is capitalized around 50% as a result of its predominant utility operations, but longer term that may become too high at its current Baa1 rating if the operating risks within its wholesale and retail energy services increase.

**Credit Profile of Significant Subsidiaries**

Please refer to a separate credit opinion for Atlanta Gas Light. Moody's also assigns underlying unsecured ratings of A3 to a minor amount of revenue bonds issued by AGL's subsidiary Pivotal Utility Holdings, Inc. (formerly known as NUI Utilities). Pivotal Utility Holdings' rating reflects its stability as a rate-regulated gas distributor in three generally constructive jurisdictions, sound credit metrics, and its participation in AGL's regulated money pool. Pivotal Utility Holdings accounts for only about 10% of AGL's operating income. In terms of rate base, Elizabethtown Gas in New Jersey makes up about 75% of its rate base, Florida City Gas in Florida accounting for most of the rest, with a nominal amount at Elkton Gas in Maryland. Under AGL's ownership since 2005, Pivotal Utility Holdings' credit performance has stabilized at CF pre-w/c to debt in the high teens and CF pre-w/c to interest around 5 times.

**Liquidity Profile**

AGL has an adequate liquidity profile. AGL has a $1 billion commercial paper program, fully backstopped by a credit facility at its guaranteed AGL Capital finance subsidiary. This facility expires in September 2013. The facility includes no requirement to represent and warrant on a MAC clause after closing. AGL maintains ample headroom under the facility's 70% debt/capitalization covenant. AGL's near term call on cash include a debt maturity of $300 million at the parent level on January 14, 2011, which Moody's expects the company to bridge finance as part of interim financing for the Nicor acquisition.

Sequent has a 364-day evergreen $5 million credit facility that is unconditionally guaranteed by AGL. Moody's excludes such uncommitted facilities from its liquidity risk assessment. The SouthStar joint venture has a $75 million credit facility, expiring in November 2011, which is not guaranteed by AGL.

**Rating Outlook**

The rating affirmations are based on AGL financing this $3 billion transaction with at least 55% equity and obtaining low-cost debt financing around the current favorable rates. The rating affirmations are also subject to AGL obtaining reasonable merger approval from the ICC that would allow Nicor's LDC to maintain its credit metrics around its current strong levels.

The stable rating outlook anticipates that, with or without the Nicor merger, AGL will sustain consolidated CF pre-wc plus interest-to-interest coverages in the high 4 times range and debt-to-capitalization under 50% after Moody's standard adjustments.

**What Could Change the Rating - Up**

Over the next few years, Moody's does not foresee upward rating pressure for AGL pending the consummation of the Nicor transaction and the integration of the two companies after the merger.

AGL's utility consolidation strategy as well as its interest in possibly creating a master limited partnership for its storage assets put a negative bias on AGL's long-term rating direction.

**What Could Change the Rating - Down**

The ratings could be downgraded if AGL sustains consolidated CF pre-wc plus interest-to-interest coverages in the mid 4 times range and debt-to-capitalization over 50% after Moody's standard adjustments.

## Rating Factors

**AGL Resources Inc.**

| Regulated Electric and Gas Utilities | Aaa | Aa | A | Baa | Ba | B |
|---|---|---|---|---|---|---|
| **Factor 1: Regulatory Framework (25%)** | | | X | | | |
| **Factor 2: Ability to Recover Costs and Earn Returns (25%)** | | | X | | | |
| **Factor 3: Diversification (10%)** | | | | | | |
| a) Market Position (10%) | | | X | | | |
| b) Generation and Fuel Diversity (0%) | | | | | | |
| **Factor 4: Financial Strength, Liquidity & Financial Metrics (40%)** | | | | | | |
| a) Liquidity (10%) | | | | X | | |
| b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg) | | | X | | | |
| c) CFO pre-WC / Debt (7.5%) (3yr Avg) | | | | X | | |
| d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg) | | | | X | | |
| e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg) | | | | X | | |
| **Rating:** | | | | | | |
| a) Methodology Implied Senior Unsecured Rating | | | | **Baa1** | | |
| b) Actual Senior Unsecured Rating | | | | **Baa1** | | |

MOODY'S
INVESTORS SERVICE

**Credit Opinion: Nicor Inc.**

Global Credit Research - 08 Dec 2010

*Naperville, Illinois, United States*

## Ratings

| Category | Moody's Rating |
|---|---|
| Outlook | Stable |
| Commercial Paper | P-2 |
| **Northern Illinois Gas Company** | |
| Outlook | Negative |
| Issuer Rating | A2 |
| First Mortgage Bonds | Aa3 |
| Senior Secured Shelf | (P)Aa3 |
| Commercial Paper | P-1 |

## Contacts



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## Opinion

### Rating Drivers

- Near-term uncertainty from pending merger with AGL

- Low business risk and credit strength of Nicor Gas

- Minor, steady unregulated operations

### Corporate Profile

Nicor Inc. (Nicor) is an energy holding company based outside Chicago, Illinois. Its primary holding is a regulated local gas distribution company (LDC) Northern Illinois Gas Company (Nicor Gas). It also owns Tropical Shipping (Tropical; typically about 20% of operating income), a small containerized shipping company serving the Caribbean region. Its Other Energy Ventures segment includes minor investments in retail and wholesale energy services and a gas storage development project.

### SUMMARY RATING RATIONALE

Nicor's rating reflects the low business risk of Nicor Gas, stable financial performance, and a relatively conservative management approach. This is offset by a challenging regulatory environment and a mature service territory for Nicor Gas, which accounts for the majority of Nicor.

### Recent Events

In December 2010, Moody's affirmed the rating of Nicor's Prime-2 commercial paper rating with a stable outlook. Moody's also affirmed the ratings of Nicor Gas's ratings (issuer rating at A2) but changed its outlook to negative from stable. These rating actions followed Nicor's announcement that it had agreed to merge with a subsidiary of AGL Resources Inc. (AGL, its senior unsecured shelf rating at (P)Baa1) in which AGL will acquire all of Nicor's outstanding stock in a part stock, part cash transaction.

The definitive merger agreement puts the enterprise value of Nicor at roughly $3 billion. The merger is expected to close in the second half of 2011 subject to customary approvals, including a majority vote by both sets of shareholders, the approval of the Illinois Commerce Commission (ICC), and clearance under the Hart-Scott-Rodino Act.

### DETAILED RATING CONSIDERATIONS

NEAR-TERM UNCERTAINTY FROM PENDING MERGER WITH AGL

The negative outlook is based on the expectation of that the merger will combine Nicor with AGL resulting in a more leveraged entity which will look to utilize the strong cash flow of Nicor Gas to help service the additional debt to be taken on to consummate this acquisition. While Nicor has no long-term debt obligations at the parent level, AGL is expected to fund the roughly $1 billion cash portion of the consideration with corporate debt, which the Nicor subsidiaries, principally Nicor Gas, will help to service along with the AGL subsidiaries.

Nicor is smaller than AGL (about 70% in terms of assets) but has a much stronger credit profile due to Nicor Gas. This disparity will help AGL absorb Nicor while maintaining its credit metrics. Nicor's leverage in terms of debt-to-capitalization is in the mid 40% range compared to AGL's in the low-50% range. While Nicor has lower debt, it has the capacity to generate at least as much cash flow as AGL. As of the last twelve months ended September 30, 2010, Nicor's reported total debt was about a third of AGL's while its cash flow from operations before working capital (CF pre-w/c) was slightly more than AGL's.

Nicor's consolidated cash flow from operations before working capital (CF pre-w/c) plus interest/interest was 7.0 times in the fiscal year ending December 2009 and CF pre-w/c/debt was 24% at the peak of its short-term borrowings. Using a quarterly average short-term debt, CF pre-w/c/debt could be as much as 10% higher depending on the level of short-term borrowings.

LOW BUSINESS RISK AND STABILITY OF NICOR GAS

Nicor Gas's business risk is low as a rate-regulated natural gas distributor. The utility has a relatively stable financial performance and a strong market position due to its location in the populous Chicago environs and substantial gas storage and transmission-related assets. However, the company's service territory is concentrated in Illinois, which could be a challenging regulatory environment, and provides little customer growth.

MINOR, STEADY UNREGULATED OPERATIONS

Over time, Nicor Gas is expected to account for roughly two-thirds of Nicor's operating income, with Tropical and the Other Energy Ventures contributing about equally for the remainder, depending on some cyclical fluctuations at Tropical. This portfolio of unregulated businesses have been fairly stable and consistently profitable. They are self-financing and currently have no external long-term debt.

Other Energy Ventures mostly involve retail and wholesale energy services that are synergistic with Nicor Gas. The majority of this segment's operating income comes from retail energy services (gas and related services to Nicor Gas's retail choice and transport only customers). Wholesale services include marketing the Chicago Hub (utility-owned storage and transmission assets) for the utility.

Although unrelated to the company's core gas business, Tropical is a long-time holding. On a standalone basis, Tropical would likely be non-investment grade according to Moody's Global Shipping Industry rating methodology, due to its small size, geographic concentration, and the supply and demand cycles inherent in the shipping industry. Although it has performed well in past economic cycles, Tropical was hard hit by the recent recession and has yet to recover. The unit does have modest sustaining capital expenditures that enable it to be self-financing even in an economic downturn. Tropical retains its discretionary cash for tax purposes and generally does not pay a dividend to its parent.

One emerging credit factor is Central Valley, a small greenfield gas storage project Nicor is pursuing in northern California. This is the first time in recent memory that Nicor is developing a storage facility and a new business outside its home turf in Illinois. Central Valley is of manageable size and should not impact Nicor's rating if executed as planned.

Nicor has budgeted about $55 million this year for this 10 billion cubic feet a day facility. Spending is expected to remain high through 2011 until the facility begins full service in 2012. Nicor expects to bridge finance this investment with commercial paper. Market-based gas storage business is riskier than the core utility operations. Moody's notes that the project entails numerous risks, including cost overruns (it has yet to lock in many of its costs) and competition from nearby facilities. The company also has yet to sell most of its planned capacity.

**Liquidity Profile**

Nicor has an adequate liquidity profile. Nicor's credit facilities primarily support temporary seasonal borrowings at Nicor Gas. Typically, short-term debt peaks at the height of the heating season in December and is fully repaid by the end of spring.

Nicor and Nicor Gas are co-borrowers on a $600 million three-year credit facility, expiring on April 23, 2013, that backstops their commercial paper programs. The borrowers' obligations are several and not joint. The borrowers are not required to represent and warrant regarding material adverse effects in financial position, litigation, and environmental compliance, but they are required to make representations regarding certain other customary issues at each borrowing. The agreement restricts mergers or investments that would cause either borrower's rating to fall below Baa2.

The facility contains a single financial covenant, which limits Nicor's consolidated debt/capitalization at 70%. Both borrowers are comfortably in compliance of this covenant.

Nicor Gas supplements the main shared credit facility with its own $400 million 364-day facility that expires on April 22, 2011. Covenants and terms are essentially the same as those in the $600 million credit facility.

Nicor Gas's next scheduled debt maturity is $75 million in February 2011.

**Notching Considerations**

While Nicor has no long-term rating, Nicor Gas's A2 issuer rating implies Nicor's issuer rating to be around A3, which corresponds to the parent's Prime-2 commercial paper rating. Moody's Prime-2 ratings are based on long-term ratings that range generally from A3 to Baa2. Little structural subordination exists, because substantially all, if any short-term debt is temporary seasonal borrowings at the utility. Neither the parent nor the unregulated subsidiaries has any long-term debt.

Nicor Gas is currently subject to some ringfencing provisions by the ICC, which Moody's views as credit-positive but not sufficient to cause a wider disparity between Nicor Gas's issuer rating and Nicor's implied rating. The ICC has issued rules concerning the money pool agreements Nicor Gas has with its non-utility affiliates. These rules allow the utility to commingle funds on an arms'-length basis with highly-rated non-utility affiliates under a number of limitations. The utility is prohibited from making loans to the parent greater than the parent'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. The utility however is allowed to make dividends to the parent, which Nicor Gas has regularly done.

**Off-Balance Sheet Risk**

Nicor Gas has long-standing contingent liabilities relating to alleged improprieties in the utility's performance-based rates (PBR) program that was terminated in 2003. In the ICC's investigation, various parties have sought refunds to customers in a range from $109 to $286 million.

**Rating Outlook**

Stable. Assuming that the merger with AGL is consummated as AGL contemplates, Nicor Gas's A2 issuer rating is likely to be downgraded by one notch to conform with those of AGL's rated operating subsidiaries Atlanta Gas Light Company and Pivotal Utility Holdings, which are rated one notch lower at A3 senior unsecured given Nicor Gas's expected inclusion in AGL's money pool. If Nicor Gas's issuer rating is downgraded to A3, and the historical single-notching is retained between Nicor Gas and Nicor's implied rating, Nicor's implied rating would then be Baa1, which would still be within the range of long-term ratings that map to Prime-2 commercial paper ratings.

**Drivers of Rating Change**

A change in Nicor's ratings either up or down would most likely be due to a change in Nicor Gas's ratings. If the merger with AGL occurs, it is uncertain whether AGL will maintain Nicor Inc. as a funding vehicle.

Over the next few years, Moody's does not foresee upward rating pressure for Nicor pending the consummation of the merger with AGL if it occurs, and the integration of the two companies afterwards.

## Rating Factors

**Nicor Inc.**

| Regulated Electric and Gas Utilities | Aaa | Aa | A | Baa | Ba | B |
|---|---|---|---|---|---|---|
| **Factor 1: Regulatory Framework (25%)** | | | | X | | |
| **Factor 2: Ability to Recover Costs and Earn Returns (25%)** | | | | X | | |
| **Factor 3: Diversification (10%)** | | | | | | |
| a) Market Position (10%) | | | X | | | |
| b) Generation and Fuel Diversity (0%) | | | | | | |
| **Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)** | | | | | | |
| a) Liquidity (10%) | | | | X | | |
| b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg) | | X | | | | |
| c) CFO pre-WC / Debt (7.5%) (3yr Avg) | | | X | | | |
| d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg) | | | | X | | |
| e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg) | | | | X | | |
| **Rating:** | | | | | | |
| a) Methodology Implied Senior Unsecured Rating | | | | **Baa1** | | |
| b) Actual Senior Unsecured Rating | | | | **A3** | | |

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MOODY'S INVESTORS SERVICE

**Credit Opinion: Northern Illinois Gas Company**

**Global Credit Research - 08 Dec 2010**

*United States*

## Ratings

| Category | Moody's Rating |
|---|---|
| Outlook | Negative |
| Issuer Rating | A2 |
| First Mortgage Bonds | Aa3 |
| Senior Secured Shelf | (P)Aa3 |
| Commercial Paper | P-1 |
| **Parent: Nicor Inc.** | |
| Outlook | Stable |
| Commercial Paper | P-2 |

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## Opinion

### Rating Drivers

- Near-term uncertainty from pending merger with AGL

- Exposure to the Illinois regulatory environment

- Exceptional market position in a mature service territory

### Corporate Profile

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

### SUMMARY RATING RATIONALE

Nicor Gas's A2 issuer rating reflects its low business risk as a rate-regulated natural gas distributor, strong financial performance, and its exceptional market position due to its location in the Chicago environs and substantial gas storage and transmission-related assets. Nicor Gas is conservatively managed and financed. However, the company's service territory is concentrated in Illinois, which could be a challenging regulatory environment, and provides little customer growth.

### Recent Events

In December 2010, Moody's affirmed the ratings of Nicor Gas's ratings (issuer rating at A2) and changed its outlook to negative from stable following the announcement that Nicor had agreed to merge with a subsidiary of AGL Resources Inc. (AGL, its senior unsecured shelf rating at (P)Baa1) in which AGL will acquire all of Nicor's outstanding stock in a part stock, part cash transaction.

The definitive merger agreement puts the enterprise value of Nicor at roughly $3 billion. The merger is expected to close in the second half of 2011 subject to customary approvals, including a majority vote by both sets of shareholders, the approval of the Illinois Commerce Commission (ICC), and clearance under the Hart-Scott-Rodino Act.

### DETAILED RATING CONSIDERATIONS

NEAR-TERM UNCERTAINTY FROM PENDING MERGER WITH AGL

The negative outlook is based on the expectation that the merger will combine Nicor with AGL resultiong in a more leveraged entity which will look to utilize the strong cash flow of Nicor Gas to help service the additional debt to be taken on to consummate this acquisition. While Nicor has no long-term debt obligations at the parent level, AGL is expected to fund the roughly $1 billion cash portion of the consideration with corporate debt, which the Nicor subsidiaries, principally Nicor Gas, will help to service along with the AGL subsidiaries.

Due much in part to Nicor Gas, Nicor has distinctively stronger cash flow metrics than AGL. For the fiscal year ended December 2009, Nicor

Gas's cash flow pre working capital (CF pre-w/c) plus interest/interest was 6.9 times. Its CF pre-w/c/debt was 22% at year-end 2009 at the peak of its short-term borrowings. Using a quarterly average short-term debt, CF pre-w/c/debt could be as much as 10% higher depending on the level of short-term borrowings. Its debt-to-capital fluctuates through the year between 40% and 50%. Nicor Gas's short-term debt is more variable than other LDCs' because of its large storage facilities and the cold local climate. The cost of its inventory will depend on natural gas prices, and is recoverable under its purchased gas adjustment mechanism.

EXPOSURE TO THE ILLINOIS REGULATORY ENVIRONMENT

Nicor Gas's service territory is concentrated in Illinois, which has been a challenging regulatory environment for utilities, although most of the political heat has focused on electric utilities. AGL and Nicor's merger application with the ICC brings regulatory issues to the fore, as the ICC's reception will be significant to the implementation of the transaction and the ratings of Nicor Gas.

Nicor Gas's most recent rate order, finalized in October 2009, was reasonably supportive from a credit perspective. The Illinois Commerce Commission (ICC) granted an $80 million increase in the utility's base rates, over half of the amount requested, and a 10.17% return-on-equity in line with its peers'. The ICC denied some of the company's proposals on rate design, though it addressed those issues in other ways. The proposed decoupling mechanism to address volume sensitivity and weather risk was rejected in favor of increasing the proportion of fixed costs recovered in a fixed customer charge to approximately 80% (up from about 60% in the previous order and roughly double the industry average) and a ten-year average weather in base rates.

Some recent regulatory and legislative actions in Illinois have indicated increased openness to some alternative rate designs which are becoming more prevalent among LDCs. As a result of a state law passed in 2009, the ICC earlier this year granted Nicor Gas a bad debt tracker. This tracker will have a one-time $32 million pre-tax benefit in 2010 for unrecovered bad debt expenses from prior years.

EXCEPTIONAL BUSINESS POSITION IN A MATURE SERVICE TERRITORY

Nicor Gas enjoys an exceptional business position due to its strategic location at the crossroads of eight major interstate pipelines and its ownership of a large market-area underground storage system. The utility's seven storage facilities and transmission assets in its Chicago Hub are marketed by its non-regulated affiliate Enerchange at FERC and ICC regulated rates. Nicor Gas has consistently the lowest gas rates in the state due to its excellent access to natural gas supply and profits from the Chicago Hub that are credited against its gas costs. The company's service territory in the Chicago metro area is populous and has a diverse economic base, but it offers little opportunity for organic growth.

**Liquidity Profile**

Nicor Gas has an adequate liquidity profile. Capital requirements are moderate, so that the company has the capacity to be self-funding. The payout rate is high (about 90%), because excess cash flow is upstreamed to essentially support shareholder dividends. Credit facilities primarily support temporary seasonal borrowings. Typically, short-term debt peaks at the height of the heating season in December and is fully repaid by the end of spring.

Nicor and Nicor Gas are co-borrowers on a $600 million three-year credit facility, expiring on April 23, 2013, that backstops their commercial paper programs. The borrowers' obligations are several and not joint. The borrowers are not required to represent and warrant regarding material adverse effects in financial position, litigation, and environmental compliance, but they are required to make representations regarding certain other customary issues at each borrowing. The agreement restricts mergers or investments that would cause either borrower's rating to fall below Baa2.

The facility contains a single financial covenant, which limits Nicor's consolidated debt/capitalization at 70%. Both borrowers are comfortably in compliance of this covenant.

Nicor Gas supplements the main shared credit facility with its own $400 million 364-day facility that expires on April 22, 2011. Covenants and terms are essentially the same as those in the $600 million credit facility.

Nicor Gas's next scheduled debt maturity is $75 million in February 2011.

Nicor Gas is currently subject to the rules of the ICC concerning the money pool agreements that Nicor Gas has with its non-utility affiliates. These rules allow the utility to commingle funds on an arms'-length basis with highly-rated non-utility affiliates under a number of limitations. The utility is prohibited from making loans to the parent greater than the parent'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. The utility however is allowed to make dividends to the parent, which Nicor Gas has regularly done.

**Off-Balance Sheet Risk**

Nicor Gas has long-standing contingent liabilities relating to alleged improprieties in the utility's performance-based rates (PBR) program that was terminated in 2003. In the ICC's investigation, various parties have sought refunds to customers in a range from $109 to $286 million.

**Rating Outlook**

Negative.

**What Could Change the Rating - Down**

Most likely around the consummation of the merger in late 2011, Nicor Gas's long-term ratings are expected to be downgraded by one notch, assuming that AGL finances this acquisition with sufficient equity to maintain AGL's current Baa1 rating. Nicor Gas's A2 issuer rating is likely to be downgraded by one notch to conform with those of AGL's rated operating subsidiaries Atlanta Gas Light and Pivotal Utility Holdings, which are rated one notch lower at A3 senior unsecured given Nicor Gas's expected inclusion in AGL's money pool.

A one-notch downgrade for Nicor Gas is subject to AGL obtaining a reasonable merger approval from the ICC that would not contain any material restrictions with respect to Nicor Gas's ability to upstream dividends to its new parent while continuing to maintain its credit metrics around its current strong levels. Aligning Nicor Gas's post-merger ratings with those of its prospective sister companies assumes that Nicor

Gas will become part of AGL's money pool arrangement in which subsidiary funds are managed centrally. As part of AGL's money pool, AGL's ratings would become a key driver for Nicor Gas's ratings.

Nicor Gas's outlook could be stabilized if the ICC were to place restrictions on the amount of dividends that could be upstreamed or if Nicor Gas were not to be included in AGL's money pool.

Nicor Gas's first mortgage bonds will continue to be rated two notches above its issuer rating in accordance with Moody's notching practice for utility mortgage bonds.

**What Could Change the Rating - Up**

Over the next few years, Moody's does not foresee upward rating pressure for Nicor Gas pending the consummation of the merger with AGL if it occurs, and the integration of the two companies afterwards.

## Rating Factors

**Northern Illinois Gas Company**

| Regulated Electric and Gas Utilities | Aaa | Aa | A | Baa | Ba | B |
|---|---|---|---|---|---|---|
| **Factor 1: Regulatory Framework (25%)** | | | | X | | |
| **Factor 2: Ability to Recover Costs and Earn Returns (25%)** | | | | X | | |
| **Factor 3: Diversification (10%)** | | | | | | |
| a) Market Position (10%) | | | X | | | |
| b) Generation and Fuel Diversity (0%) | | | | | | |
| **Factor 4: Financial Strength, Liquidity and Key Financial Metrics (40%)** | | | | | | |
| a) Liquidity (10%) | | | | X | | |
| b) CFO pre-WC + Interest / Ineterest (7.5%) (3yr Avg) | | X | | | | |
| c) CFO pre-WC / Debt (7.5%) (3yr Avg) | | | | X | | |
| d) CFO pre-WC - Dividends / Debt (7.5%) (3yr Avg) | | | | X | | |
| e) Debt / Capitalization or Debt / RAV (7.5%) (3yr Avg) | | | | X | | |
| **Rating:** | | | | | | |
| a) Methodology Implied Senior Unsecured Rating | | | | **Baa1** | | |
| b) Actual Senior Unsecured Rating | | | | **A2** | | |

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MOODY'S
INVESTORS SERVICE

**Announcement: Moody's affirms AGL Resources at stable**

**Global Credit Research - 07 Dec 2010**

**Approximately $2 billion of AGL debt affected**

New York, December 07, 2010 -- Moody's Investors Service affirmed with stable outlooks the ratings on the debt obligations of AGL Resources Inc. (AGLR, its senior unsecured shelf at (P)Baa1), its guaranteed finance subsidiary AGL Capital Corporation (AGL Capital, its senior unsecured rating at Baa1), its operating subsidiaries Atlanta Gas Light Company (AGLC, its senior unsecured debt at A3), and Pivotal Utility Holdings (PUHI, its unenhanced senior unsecured rating at A3).

RATINGS RATIONALE

These rating actions follow AGLR's announcement of its agreement to acquire all of the outstanding stock of Nicor Inc. (Nicor, Prime-2 commercial paper rating) in a part stock, part cash transaction. Nicor is the parent company of Northern Illinois Gas Company (NI-Gas, A2 issuer rating), a regulated gas utility.

The definitive merger agreement puts the enterprise value of the acquisition at roughly $3 billion. The expected $1 billion cash portion of the transaction will be bridge financed with a $1.25 billion facility, which will be taken out with permanent debt financing prior to closing. The merger is anticipated to close in the second half of 2011 subject to customary approvals, including a majority vote by both sets of shareholders, the approval of the Illinois Commerce Commission (ICC), and clearance under the Hart-Scott-Rodino Act.

"The affirmation of AGLR's ratings is based on AGLR issuing sufficient equity as part of the acquisition financing so that the expected debt issuance will have minimal impact on the combined consolidated credit metrics," says Moody's Vice President Mihoko Manabe.

Nicor's stronger credit metrics and stability as a mostly regulated gas utility also help to sustain AGLR's current ratings. Based on AGL and Nicor's reported financial statements as of the last twelve months ended September 2010, Moody's estimates that the transaction would increase AGL's consolidated long-term debt in the 80% range, while raising its cash flow pre-working capital (CF pre-w/c) by slightly over 100%.

The rating affirmations are based on AGLR financing this $3 billion transaction with about 60% equity and obtaining low-cost debt financing around the current favorable rates. The rating affirmations are also subject to AGLR obtaining reasonable merger approval from the ICC that would not contain any material restrictions with respect to NI-Gas' ability to upstream dividends to its new parent while continuing to maintain its credit metrics around its current strong levels. The stable rating outlook anticipates that, on a combined basis, AGLR will sustain consolidated CF pre-w/c plus interest-to-interest coverages in the high 4 times range and debt-to-capitalization under 50% after Moody's standard adjustments. Over the next few years, Moody's does not foresee upward rating pressure for AGLR pending the consummation of the transaction and the integration of the two companies after the merger.

The ratings could be downgraded if on a combined basis, AGLR sustains consolidated CF pre-wc plus interest-to-interest coverages in the mid 4 times range and debt-to-capitalization over 50% after Moody's standard adjustments.

Moody's most recent rating action on AGLR was on December 1, 2005, when the ratings of AGLR, AGL Capital, AGL Trust, and AGLC were affirmed and PUHI's unenhanced rating was upgraded to A3 from Baa1, and all of their outlooks were changed to stable from negative. The principal methodology in rating AGLR was Moody's Regulated Electric and Gas Utilities rating methodology, published in August 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Headquartered in Atlanta, Georgia, AGL Resources Inc. engages in the distribution, asset management, and marketing of natural gas and gas storage operations.

RATINGS DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service's information.

Moody's considers the quality of the information to be satisfactory.

The credit rating action was based on sufficient historical data.

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**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RP First Set of Data Requests**

RP 1.13 Q. Please provide copies of all presentations any of the Joint Applicants made to S&P, Moody's or Fitch Ratings regarding the proposed reorganization.

RP 1.13 A. A copy of presentation made to the rating agencies is attached as Confidential RP 1.13 Exhibit 1.

*Witness:* Stephen Cave

RP 1.13
Exhibit 1

(Confidential – Redacted)

**Joint Applicants**
**Response to: Illinois Commerce Commission**
**Ill.C.C. Docket No. 11-0046**
**RP Third Set of Data Requests**

RP 3.07 Q. Please provide a cost of capital summary (dollar amount, percentage of total capitalization, cost and weighted cost for short-term debt, long-term debt, preferred stock and common equity, individually) for each of the following entities:

A) Atlanta Gas Light Company (per its most recent rate proceeding);

B) AGL Resources, Inc. (current);

C) AGL Resources, Inc. (post-merger); and

D) Nicor Gas (post-merger).

Please include supporting documentation in the response and describe all underlying financing assumptions used to develop the post-merger cost of capital summaries.

RP 3.07 A.

A) Atlanta Gas Light's weighted average cost of capital was established at 8.10% (pre-tax) in its most recent rate proceeding (Georgia Public Service Commission docket 31647). The Commission further found that cost of long-term debt is 5.67% and cost of short term debt is 2.17% with a capital structure comprised of 51% common equity, 44.63% long term debt and 4.37% short term debt. Cost of equity in the most recent case was set at 10.75%.

B) As of December 31, 2010, AGL Resources' weighted average cost of debt was 4.6% and its debt-to-equity ratio was 60% (debt)/40% (equity). The Company's weighted average cost of long-term debt, including senior notes, gas facility revenue bonds and medium-term notes, was 5.2%, while its weighted average cost of short-term debt was 3.2%. The short-term debt average includes $300 million of current portion long-term debt related to the maturity of $300 million of senior notes in January 2011 (which were issued at a rate of 7.125%). The Company anticipates refinancing these senior notes in 2011, at which time they will be reclassified as long-term debt. The weighted average interest rate for the Company's commercial paper program, which the Company uses to fund working capital requirements, including seasonal working capital needs for filling natural gas storage inventories, was 0.4% in 2010. The

Company's 60%/40% debt/equity ratio reflects the year-end peak borrowing under the commercial paper facility, as a result of the seasonal natural gas storage inventory build. Annual average debt/equity ratio is generally higher in the equity component due to the seasonality of the inventory build referenced above.

C) The current projected weighted average cost of debt for the acquisition financing portfolio is 4.73% (please see RP 3.07 Exhibit 1 for the calculation). The acquisition debt financing portfolio is $1.0 billion, generally expected to include about 25% debt financing of a maturity less than 10 years (most likely 5-year instruments); about 50% 10-year senior notes; and about 25% 30-year senior notes. AGL Resources has not conducted a full cost-of-equity study for the pro forma (post-merger) combined company. In addition, AGL Resources cannot predict the future cost of short term or long term debt markets. As such, AGL Resources will remain subject to market cost of capital as it is in the market for its financing needs.

D) Nicor Gas has not conducted any studies or performed any analysis to estimate its cost of capital post-merger. The Joint Applicants are not proposing a change in Nicor Gas' rates, and consequently Nicor Gas' cost of capital will not change as a result of the proposed merger. Please see RP 3.07 Exhibit 2 for the cost of capital approved by the Illinois Commerce Commission in Nicor Gas' most recent rate case, Docket No. 08-0363.

*Witness:* Stephen Cave

RP 3.07
Exhibit 1

**AGL Resources Inc.**
**Current Estimate for Acquisition Financing Portfolio**
**02/11/11**

| | 5- Yr | 10- Yr | 30- Yr | Portfolio |
|---|---|---|---|---|
| Spot Rate | 2.18% | 3.49% | 4.61% | |
| | | | | |
| Credit Spread | 1.15% | 1.30% | 1.40% | |
| | | | | |
| All In- Rate | 3.33% | 4.79% | 6.01% | |
| | | | | |
| Weight | 25.00% | 50.00% | 25.00% | 4.73% |
| | | | | |

# Northern Illinois Gas Company
## Overall Cost of Capital
For the Test Year Ending December 31, 2009
(In Thousands)

| Line No. | Description | Amount | Percent of Total | Percent of Cost | Weighted Component | Effective Tax Rates (1) | After-Tax Cost of Capital |
|---|---|---|---|---|---|---|---|
| | (a) | (b) | (c) | (d) | (e) | (f) | (g) |
| 1 | PER COMPANY | | | | | | |
| 2 | Short Term Debt | $ - | 0.00% | 0.00% | 0.00% | 39.7450% | 0.0000% |
| 3 | Long Term Debt | 498,452,000 | 43.11% | 6.80% | 2.93% | 39.7450% | 1.7655% |
| 4 | Preferred Stock | 1,401,000 | 0.12% | 4.77% | 0.01% | | 0.0100% |
| 5 | Common Stock | 656,406,000 | 56.77% | 11.15% | 6.33% | | 6.3300% |
| 6 | | - | 0.00% | 0.00% | 0.00% | | 0.0000% |
| 7 | | - | 0.00% | 0.00% | 0.00% | | 0.0000% |
| 8 | Total | $ 1,156,259,000 | 100.00% | | 9.27% | | 8.1055% |
| 9 | | | | | | | |
| 10 | | | | | | | |
| 11 | PER ORDER | | | | | | |
| 12 | Short Term Debt | $ 127,820,041 | 10.02% | 2.50% | 0.25% | 39.7450% | 0.1509% |
| 13 | Long Term Debt | 495,195,694 | 38.80% | 6.80% | 2.64% | 39.7450% | 1.5898% |
| 14 | Preferred Stock | 1,386,144 | 0.11% | 4.77% | 0.01% | | 0.0052% |
| 15 | Common Stock | 651,818,845 | 51.07% | 10.17% | 5.19% | | 5.1942% |
| 16 | | - | 0.00% | 0.00% | 0.00% | | 0.0000% |
| 17 | | - | 0.00% | 0.00% | 0.00% | | 0.0000% |
| 18 | Total | $ 1,276,220,724 | 100.00% | | 8.09% | | 6.9401% |
| 19 | | | | | | | |
| 20 | | | | | | | |
| 21 | EFFECTIVE TAX RATE | | | | | | |
| 22 | State Income Tax Rate | 7.3000% | | | | | |
| 23 | Federal Income Tax Rate | 35.0000% | | | | | |
| 24 | | | | | | | |
| 25 | Effective Tax Rate | 39.7450% [State Rate + ((1- State Rate) x Federal Rate)] | | | | | |