UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION, Plaintiff,	Case No. 07C 1739
v.	Judge JUDGE LEINENWEBER
NICOR, INC. AND JEFFREY L. METZ Defendants.	Magistrate Judge MAGISTRATE JUDGE NOLAN

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (the "Commission"), alleges the following:

INTRODUCTION

1. Between 1999 and 2002, defendant Nicor, Inc. ("Nicor") engaged in improper transactions, made material misrepresentations and failed to disclose material information regarding its gas inventory layers in order to meet earnings targets and to increase its revenues under a performance-based rate plan administered by the Illinois Commerce Commission. This conduct violated the antifraud and reporting provisions of the federal securities laws. During this time, Jeffrey L. Metz ("Metz") was Assistant Vice President and Controller of Nicor and violated and/or aided and abetted Nicor's violations of these same federal securities laws.

2. Nicor is a gas utility holding company. Its principal business, representing approximately 90 percent of its consolidated operating income in a typical year, is gas distribution. Under its traditional regulatory framework, Nicor was not permitted to make a return on the sale of natural gas. Accordingly, Nicor had no incentive to access the value (approximately $170-$500 million) of its low-cost LIFO (last-in-first-out) gas inventory.

3. During the relevant period, Nicor filed the following periodic reports with the Commission pursuant to Section 13(a) of the Exchange Act and the rules and regulations promulgated thereunder, each of which contained the consolidated financial statements of Nicor:

Period	Date Filed	Form
Quarter ended March 31, 2000	5/12/00	10-Q
Quarter ended June 30, 2000	8/8/00	10-Q
Quarter ended Sept. 30, 2000	11/7/00	10-Q
Year ended Dec. 31, 2000	3/12/01	10-K
Quarter ended March 31, 2001	5/9/01	10-Q
Quarter ended June 30, 2001	8/1/01	10-Q
Quarter ended Sept. 30, 2001	10/31/01	10-Q
Year ended Dec. 31, 2001	3/8/02	10-K

Period	Date Filed	Form
Quarter ended March 31, 2002	4/25/02	10-Q
Quarter ended June 30, 2002	8/14/02	10-Q

4. In 1999, Nicor, acting through Metz and senior officers, devised a method by which it could profit by accessing its low-cost LIFO layers of inventory. As a result, from 1999 through 2001, Nicor, with the assistance of Metz and senior officers, entered into a series of improper transactions designed to shift inventory off of its books in order to create the appearance that Nicor had sold a substantial portion of its low-cost LIFO layers of inventory. These transactions allowed Nicor to ensure that it met its earnings targets. By entering into these transactions, Nicor inflated its reported income for the years ending 2000 and 2001, and for each of the quarters within those years ("Reports") and the financial statements filed with those Reports.

5. Additionally, Nicor through Metz failed to disclose, in either its Management's Discussion & Analysis section of its Reports, or in its financial statements filed with those Reports, that it had recorded material credits to income resulting from LIFO liquidations.

6. Nicor and Metz, directly or indirectly, have engaged in, and unless restrained and enjoined by this Court will continue to engage in, transactions, acts, practices, and courses of business, which violate Sections 17(a)(1), 17(a)(2) and 17(a)(3) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§77q(a)(1), 77q(a)(2), and 77q(a)(3)].

16. During the relevant period, Nicor valued its inventory using the LIFO cost method. Under this method, the inventory consisted of gas layers priced at historical prices from 1954 to 1996. The top (or more recently injected) 30% of Nicor's LIFO layers were priced at close to current market prices as of 1999. The lower cost layers consisted of about 75-100 billion cubic feet (bcf) of gas. At the end of 1999, the difference between the market value and the cost at the time of injection of these lower layers of gas was approximately $170 million. By the end of 2000, skyrocketing gas prices caused this difference to balloon to about $500 million.

17. Under its traditional regulation plan, Nicor had no incentive to tap into these lower layers of gas as it was required to pass its cost of gas directly to customers (i.e., if the lower cost layers of gas were used, customer prices would drop and Nicor would not get increased profit margins). Around early 1998, Metz approached Nicor's then Treasurer to explore Nicor's PBR options and informed him about Nicor's LIFO layers as a potential asset. A short time later, Nicor's then Treasurer, after discussing the issue with other Nicor senior officers, responded to Metz and told him to assemble a team at Nicor to address the issues.

18. In March 1998, Metz along with other Nicor employees met and examined various possible ways that Nicor could capture the value of Nicor's LIFO layers. After discussing the pros and cons of several approaches, the team concluded that implementing a PBR Plan was the best way for Nicor to capture the value from the LIFO layers.

19. The team presented their findings and recommendations to Nicor's senior officers some time in late 1998 to early 1999. Among the reasons highlighted for recommending a PBR Plan was the fact that the benefit Nicor was expecting to reap from the LIFO layers was not

V.

Retain jurisdiction of this action in accordance with the principles of equity and the Federal Rules of Civil Procedure in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant Orders for such further relief as the court may deem appropriate.

Dated: 3-29-07

Respectfully Submitted,

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One of the Attorneys for the Plaintiff
United States Securities and Exchange Commission

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