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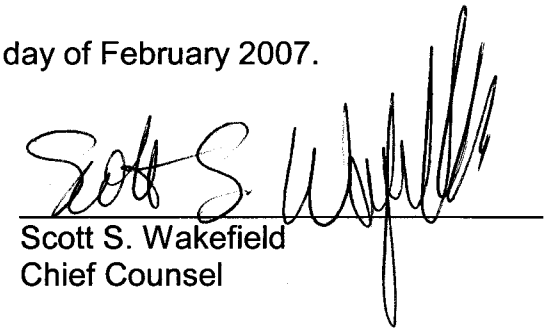
| IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA. | Docket No. G-04204A-06-0463 |
| IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. TO REVIEW AND REVISE ITS PURCHASED GAS ADJUSTOR. | Docket No. G-04204A-06-0013 |
| IN THE MATTER OF THE INQUIRY INTO THE PRUDENCE OF THE GAS PROCUREMENT PRACTICES OF UNS GAS, INC. | Docket No. G-04204A-05-0831 |

## NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimonies of Marylee Diaz Cortez, CPA; William A. Rigsby, CRRA and Rodney L. Moore in the above-referenced matter.

RESPECTFULLY SUBMITTED this 9th day of February 2007.



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# UNS GAS, INC.

# DOCKET NO. G-04204A-06-0463 et al.

# DIRECT TESTIMONY

# OF

# MARYLEE DIAZ CORTEZ, CPA

# ON BEHALF OF

# THE

# RESIDENTIAL UTILITY CONSUMER OFFICE

# FEBRUARY 9, 2007

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APPENDIX I

## INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I am the Chief of Accounting and Rates for the Residential Utility Consumer Office (RUCO) located at 1110 W. Washington, Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix I, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to discuss certain issues pertaining to operating income, rate base, and rate design and to present my recommendations on these issues. RUCO witness Rodney L. Moore also presents recommendations on these same ratemaking elements as well as sponsors RUCO's overall revenue requirement recommendation. RUCO witness William A. Rigsby presents recommendations regarding cost of capital.

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's application as it relates to operating income, rate base, and the Company's overall revenue requirements. Procedures performed included the issuance of seven sets of data requests, review of other parties' data requests, conversations with Company personnel, and the review of prior ACC Decisions pertaining to this Company.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules MDC-1 through MDC-7.

**SUMMARY OF ISSUES**

Q. Please summarize the issues and recommendations you address in your testimony.

A. I address the following issues in my testimony:

Rate Base

Citizens Acquisition Adjustment – This adjustment decreases rate base by $248,887 to restate the accumulated amortization of the acquisition adjustment to reflect the current Commission authorized depreciation rate. The Company has been amortizing the acquisition adjustment utilizing rates that never were approved by the Commission.

Construction Work in Progress - This adjustment decreases rate base by $7,189,230 to remove CWIP balances that are not used and useful in the provision of gas service.

Amortization of Geographic Information System (GIS) – This adjustment removes expenses associated with a GIS from rate base. The Company did not obtain an accounting order from the Commission allowing them to establish a regulatory asset for these expenses.

Working Capital – This adjustment increases working capital by $1,200,152 and is necessary to correct an error the Company has identified as well as to calculate the effect RUCO's recommended level of expense has on cash working capital.

Operating Income

Amortization of GIS Expenses – This adjustment decreases operating income by $299,023 in amortization expense related to a regulatory asset that was never established or approved by the Commission.

Fleet Fuel Expense – This adjustment increases operating income by $67,502 to correct certain errors the Company made in its calculation of normalized fleet fuel expense.

Customer Annualization – This adjustment increases test year revenues by $110,006 to restate the Company revenue annualization using the Commission-accepted methodology of utilizing the test year-end level of customers.

Corporate Cost Allocation – This adjustment increases operating income by $12,765 to remove additional non-recurring merger expenses that the Company failed to include in its adjustment.

Uncollectible Expense – This adjustment increases operating income by $95,583 to exclude the bad debt expense that the Company erroneously included related to Griffith Plant revenue and to reflect RUCO's recommended level of revenue.

CWIP Property Taxes – This adjustment increases operating income by $166,884 to remove the proforma property taxes the Company has computed as attributable to its CWIP balances.

Out-of-Period Expenses – This adjustment increases operating income by $21,120 to remove accounting fees related to periods prior to the test year.

Legal Expenses – This adjustment increases operating income by $311,051 to removes non-recurring legal expenses.

Other Issues

Changes to the PGA – This section discusses the Company's proposed changes to its PGA and sets forth RUCO's recommendations.

Rate Design – This section discusses the Company-proposed rate design modifications and the Company-proposed decoupling mechanism and sets forth RUCO's recommendations.

## BACKGROUND

Q. Please provide some historical background for this case.

A. UniSource Energy acquired the electric and gas operations of Citizens' Utilities in 2003 pursuant to a settlement agreement[1]. The gas operations became known as UNS Gas, which is the subject of the instant case. UNS Gas' current rates and charges were authorized in the 2003 settlement agreement based on a 2001 test year.

## RATE BASE

### Rate Base Adjustment #3 – Citizens' Acquisition Adjustment

Q. Please discuss the Company's treatment of the negative acquisition adjustment it incurred when it acquired the gas properties of Citizens Utilities.

A. The required ratemaking treatment for the negative acquisition adjustment was part of the settlement agreement that was adopted in Decision No. 66028. The agreement required a permanent rate base credit of $30,700,000 for the Gas Company. The agreement also required the Company to allocate the $30.7 million reduction over its FERC plant accounts and to amortize these reductions using the depreciation rate applicable to each account.

[1] Decision No. 66028

Q. Is the Company's treatment of the Citizens' acquisition adjustment in compliance with the requirements of the settlement agreement?

A. No, not entirely. The Company has not utilized its authorized depreciation rates to amortize the acquisition adjustment. As discussed in the testimony of Mr. Moore, the Company has not been depreciating its assets with the Commission-authorized depreciation rates from Decision No. 58664. Likewise, it has used these same wrong depreciation rates to amortize the acquisition adjustment.

Q. Have you made an adjustment to correct this error?

A. Yes. As shown on Schedule MDC-1, I have recomputed the accumulated amortization of the negative acquisition adjustment using the Commission authorized rates. This adjustment decreases rate base by $248,887.

**Rate Base Adjustment #4 – CWIP**

Q. Is UNS Gas requesting the inclusion of its test year-end CWIP balance in rate base?

A. Yes. The Company claims that this extraordinary treatment of CWIP is warranted for it to maintain its financial integrity, to fund its rapid growth, to mitigate regulatory lag, to make up for its large negative acquisition adjustment, and to prolong the period between rate cases.

Q. Is this the accepted ratemaking treatment for CWIP?

A. No. Utility regulation routinely excludes CWIP from rate base because it does not meet the used and useful ratemaking standard, which requires that assets actually be in service and providing a benefit to ratepayers before their inclusion in rates. Utility accounting already allows the accrual of interest, in the form of an Allowance for Funds Used During Construction (AFUDC), on the CWIP balances. These interest accruals are ultimately recovered over the life of the asset once it enters service through depreciation expense. Thus, rate base treatment of CWIP does not change a utility's level of earnings, merely the timing of earnings recovery.

Q. Are you aware of any instances where utility commissions have made an exception to standard ratemaking treatment and included CWIP in rate base?

A. Yes, but only as result of extraordinary circumstances. During the 1970's and 1980's many utility commissions made an exception and allowed CWIP in rate base. In most cases the exception was made due to the drain on cash flow caused by construction of nuclear plants. Due to the large outlays of cash required to build a nuclear plant coupled with the very long lead time before such plants enter service, many utilities became unable to service their debt due to lack of cash flows. The inclusion of CWIP was considered an emergency measure as well as a

temporary measure. It historically has not been a routine ratemaking mechanism.

Q. Do the reasons cited by the Company that warrant rate base treatment of CWIP meet the "extraordinary circumstance" standard just discussed?

A. No. First, the Company's argument that CWIP in rate base is necessary to maintain financial integrity is without merit. Other than in extraordinary circumstances this Commission has never allowed CWIP in rate base and Arizona utilities have not lost their financial integrity as a result. Likewise, the Company's growth argument is without merit as growth has a positive effect on the Company, generating more revenue and cash flow. Regulatory lag always has been a characteristic of rate of return regulation. It does not all of the sudden create a need to put CWIP in rate base. Regulatory lag is a two way street that works both for and against the Company. Types of regulatory lag that benefit the Company are plant retirements, accumulated depreciation, and expired amortizations. In all these instances the Company continues to earn a return on and recovery of assets that have already been recovered. Thus, the notion that we need to mitigate the regulatory lag that does not favor the Company, such as the Company suggests in its CWIP in rate base argument, yet continue to allow the effects of regulatory that do benefit the Company is clearly biased. The Company's argument that CWIP in rate base will lengthen the period between rate cases also has little merit. The Company

currently has no CWIP in rate base and even so it has been five years since its last rate case in 2002. In fact no large Arizona utilities that I am aware of have CWIP in rate base, yet these utilities are not filing back-to-back rate cases. Further, in my experience the Commission has favored, rather than disapproved of, utilities coming in for regular rate reviews. Finally, the Company's argument that the large negative acquisition it agreed to when it acquired Citizens gas properties now justifies the inclusion of CWIP in rate base, is disingenuous at best.

Q. Why do you say this argument is disingenuous at best?

A. At the time of the settlement agreement, the Company touted the negative acquisition as an attractive feature of the agreement that would provide substantial benefits to ratepayers. Company witness, and then-UniSource Vice President Steven Glaser stated the following in his testimony in that proceeding:

> A further benefit of the settlement is that Citizens' gas customers will have use of approximately $30.7 million of facilities and Citizens' electric customers will have use of approximately $93.6 million of facilities that they will never have to pay for because UniSource has agreed not to seek recovery of the negative acquisition adjustments.[2]

It is hardly appropriate to now use the benefit of the negative acquisition adjustment as a reason to increase rates by including CWIP in rate base.

[2] Rebuttal Testimony of Steven Glaser, Docket No. E-01933A-02-0914, page 2.

Q. What adjustment are you recommending?

A. I have decreased rate base by $7,189,231 to remove the Company-requested CWIP balances.

**Rate Base Adjustment #5 – GIS Deferral**

Q. Please discuss the Company-proposed GIS Deferral adjustment.

A. The Company has expended $897,068 on a Global Information System (GIS) project. Under Generally Accepted Accounting Principles (GAAP) such expenditures are consider expenses, and in recognition of the GAAP requirements the Company expensed these costs on its income statement during the test year. However, for ratemaking purposes the Company has deferred these expenses and established a regulatory asset for which it seeks rate base and amortization treatment.

Q. Can a regulated utility establish a regulatory asset of its own volition?

A. No. Pursuant to GAAP accounting SFAS 71 only the regulator of a utility can establish a regulatory asset via the issuance of an accounting order that provides reasonable assurance that the created asset will be recovered.

Q. Has the UNS Gas' regulator established and approved a regulatory asset for the Company's GIS expenses?

A. No. The Company has neither sought nor received approval from the Commission for a regulatory asset related to GIS expenses.

Q. What adjustment are you recommending?

A. In the absence of a Commission-authorized accounting order, the Company is required to expense these expenditures on its income statement and cannot include them its it rate base to earn a return on. As shown on Schedule RLM-3 I have removed the $897,068 in GIS expenses from rate base. I am also recommending a companion adjustment related to the amortization of unapproved regulatory asset that is discussed in the operating income section of my testimony.

**Rate Base Adjustment #6 – Working Capital**

Q. Have you reviewed the Company's working capital calculations?

A. Yes. The Company's working capital request is comprised of a 13-month average balance for its prepayment and material and supplies accounts, and its cash working capital request is based on a lead/lag study.

Q. Do you agree with the Company's methodology?

A. Yes. Further, I have reviewed the Company's individual lag day calculations and find them to be reasonable. The only difference between

the Company's calculation and RUCO's is the different level of expense recommendations and a correction of an error that the Company identified in its test year level of revenue taxes and assessments. These adjustments result in a net increase in cash working capital of $1,200,152, which is primarily attributable to the Company's revenue tax error.

**OPERATING INCOME**

**Operating Adjustment #12 – GIS Expenditures**

Q. Are you recommending an adjustment to remove amortization expense associated with the Company's GIS deferrals?

A. Yes. As discussed previously in the rate base section of my testimony, the Company has neither sought nor received approval for a GIS regulatory asset. Thus, it has no such asset for which it is entitled to amortize. As shown on Schedule RLM-7 I have therefore removed the Company-proposed $299,023 in amortization expense associated with the GIS expenditures.

Q. Did the Company complete the GIS project during the test year?

A. Yes. Thus, these expenditures are unique and will not recur on an annual basis.

Q. Hasn't the Company already recovered its GIS expenditures anyway?

A. Yes. During the test year the Company expensed the GIS expenditures on its income statement. In the test year the Company had net income of over $10.5 million, which means not only did the Company recover all its operating expenses (including the GIS expenditures) it also had money to spare. Amortizing these expenses over three years, as proposed by the Company, would result in a double recovery.

**Operating Adjustment #13 – Fleet Fuel Expense**

Q. Has the Company proposed an adjustment to its test year level of fuel expense for its fleet of vehicles?

A. Yes. The Company has proposed an adjustment to annualize its fuel expense to reflect the additional employees it has included in its payroll annualization adjustment.

Q. Do you agree with this adjustment in concept?

A. Yes. The Company's payroll annualization has the effect of increasing payroll expense to recognize payroll attributable to the year-end level of employees for the entire year. The Company's proposed fleet fuel adjustment recognizes the additional fuel expense attributable to these additional employees as well as annualizes the average cost of gasoline. Thus, conceptually the adjustment is necessary to match these two items of expense.

Q. Do you agree with the Company's calculation of the fleet fuel expense adjustment?

A. No. The Company's calculation was based on the average fuel prices during the first few months of 2006. However, gasoline prices in early 2006 were abnormally high, thus the Company's calculation inflates the annualized level of fuel expenses as a result. Further, the Company has understated the average miles per gallon (mpg) that its fleet gets. As shown on Schedule MDC-3, I have restated the mpg in the Company's calculation to reflect actual test year mpg and utilized the average price of gasoline over the entire test year. My adjustment results in an annualized level of fuel expense that is $67,502 less than the annualized level proposed by the Company.

**Operating Adjustment #14 – Customer Annualization**

Q. Have you reviewed the Company's customer annualization?

A. Yes. The Company performs a calculation that it purports annualizes the test year-end customers. The Company's revenue annualization methodology, which uses growth percentages instead of absolute bill counts, understates the revenue attributable to growth.

Q. What is the proper methodology for a customer annualization adjustment?

A. The Commission's accepted method is to compare the customer counts in each month of the test year to the December 31, 2005 test year-end level

of customers, and then multiply the additional customers attributable to each month by the average revenue for each month, to quantify the additional revenue attributable to the additional customers. As shown on Schedule MDC-4, my calculations using this methodology result in an $110,006 increase in revenue attributable to customer growth.

**Operating Adjustment #15 – Weather Normalization**

Q. Have you reviewed the Company's weather normalization adjustment?

A. Yes. The results of the Company's weather normalization adjustment are reasonable and RUCO accepts this adjustment to increase test year therms based on warmer-than-normal weather. I am also proposing an additional adjustment of $900, which is the weather adjustment related to the additional customers I recognized in Operating Adjustment #14.

**Operating Adjustment #16 – Corporate Cost Allocations**

Q. Have you reviewed the Company's proposed Corporate Cost Allocation adjustment?

A. Yes. As part of this adjustment the Company has removed $130,471 in test year expenses related to the attempted merger with KKR. I agree with the Company that these test year expenses should be removed because they are non-recurring in nature. However, pursuant to my audit in this case I reviewed the Company's accounting records of its test year Corporate allocated expenses and identified a total of $149,094 in test

year merger-related expenses. I have therefore decreased operating expenses by $12,765 ($149,094 - $130,471) to remove the additional test year merger-related expenses that the Company's adjustment does not recognize.

**Operating Adjustment #17 – Bad Debts – Uncollectibles**

Q. Has the Company proposed an adjustment to reflect the level of proforma bad debt expense attributable to its test year revenues?

A. Yes. The Company has computed its two-year average bad debt-to-revenue ratio and applied that ratio to its adjusted test year revenue.

Q. Do you agree with this adjustment?

A. Yes and no. Conceptually it is appropriate to normalize the bad debt ratio and to apply that to the test year adjusted revenues. However, the Company's calculation is erroneous in that it applies the normalized bad debt ratio to a level of revenue that is only partially adjusted.

Q. What do you mean only partially adjusted?

A. The Company's calculation begins with its actual test year revenue and adds to that its customer annualization adjustment revenue and its weather normalized adjustment revenue. From this amount the Company backs out revenue attributable to a prior period. However, the Company's

test year adjusted revenue is comprised of more than these three adjustments.

Q. What other revenue adjustments has the Company failed to recognize in its bad debt calculation?

A. The Company's bad debt calculation fails to recognize the adjustments it has made to decrease revenue for the Griffith plant revenue and the Negotiated Sales Program (NSP) revenue. Since the Company has not recognized these revenues for ratemaking purposes it would be inappropriate to recognize bad debt expense associated with this revenue. As shown on Schedule MDC-5, I have recalculated a normalized level of bad debt expense based on RUCO's fully adjusted test year revenue. This adjustment corrects the Company's error.

**Operating Adjustment #18 – CWIP Property Taxes**

Q. Has the Company proposed an adjustment for property taxes related to its CWIP balances?

A. Yes. The Company proposes to increase test year expenses for both depreciation on its CWIP balances and property tax on its CWIP balances. I will not discuss the CWIP deprecation portion of this adjustment because it is addressed by Mr. Moore in his testimony. The property tax portion of this adjustment represents only the adjustment attributable to CWIP and the Company has proposed a separate property tax adjustment for its

overall plant. This separate property tax adjustment, related to the overall plant, is also addressed in the testimony of Mr. Moore.

Q. Do you agree with the property tax portion of the Company's CWIP expense adjustment?

A. No. As discussed previously in the rate base section of my testimony, CWIP is not used and useful and as such historically has not been afforded rate base recognition. Likewise, the property tax attributable to CWIP balances should not be included in test year operating expense. My adjustment removes the Company's proforma CWIP property taxes of $166,884 from test year expenses.

**Operating Adjustment #19 – Out-of-Period Expenses**

Q. Has the Company made an adjustment to remove certain expenses from the test year that relate to other accounting periods?

A. Yes. The Company had made an adjustment to remove three specific expenses from the test year that relate to other accounting periods.

Q. Do you agree with this adjustment?

A. Yes. Rates should be set based only on costs in the test year and it is appropriate to remove any costs related to prior or subsequent periods. Pursuant to my rate case audit, however, I uncovered other out-of-period expenses that the Company has failed to remove.

Q. What adjustment are you recommending?

A. As shown on Schedule MDC-6, I have identified three Price Waterhouse invoices that are related to services performed at the end of 2004. These expenses relate to a period prior to the test year and accordingly must be removed from test year expenses. This adjustment decreases test year expenses by $21,120, which is the portion of these out-of-period expenses that was allocated to UNS Gas.

**Operating Adjustment #20 – Legal Expenses**

Q. As part of your rate case audit did you review the Company's test year legal expenses?

A. Yes. I reviewed the Company's test year legal expenses to ensure that only those legal expenses necessary and beneficial to ratepayers were included for rate recovery. I also sought to ensure that no non-recurring or extraordinary legal expense were included for rate recovery.

Q. Did you identify any legal expenses that met this criterion?

A. Yes. There were a number of extraordinary, non-recurring legal expenses present in the test year, all of which were incurred for the negotiation of a settlement with El Paso Gas.

Q. Why do you say the El Paso settlement negotiation costs are extraordinary and non-recurring?

A. These costs are extraordinary in that they represent the largest portion of total test year legal expense and non-recurring in that a settlement has now been reached in the El Paso Gas case that is pending FERC approval. Thus, on a going forward basis there will not be any legal fees associated with negotiating an El Paso Gas settlement.

Q. What adjustment are you recommending?

A. I have decreased test year operating expenses by $311,051 to remove the test year cost of negotiating the El Paso Gas settlement. These costs have already been recovered in the test year and will not be incurred on a going forward basis.

**CHANGES IN THE PURCHASED GAS ADJUSTOR (PGA)**

Q. Has the Company requested any changes to the characteristics of its PGA?

A. Yes. The Company is requesting the following changes to its PGA:

1) No gas costs included in base rates. All gas costs would be recovered through the PGA;

2) Elimination of the bandwidth or alternatively increased to $0.25 from $0.10 and then eliminated.

3) Interest earnings to be based on LIBOR plus 1.5%, except when the PGA balance exceeds two times the threshold and then the rate should be the Company's weighted cost of capital;

4) Change the threshold for requesting a surcredit for over-collected balances to $6,240,000;

5) Long-term debt used to finance PGA balances would not be reflected in the capital structure for purposes of ratemaking; and

6) Surcharges should eliminate PGA balances in a timely manner.

Q. Please discuss the first of the Company proposed changes.

A. The Company requests that all of its gas costs be recovered through the PGA. This compares with the status quo where a portion of the Company's gas costs is recovered through base rates and a portion from the PGA.

Q. Does RUCO support this proposed change?

A. Yes. RUCO supported this same change in the Southwest Gas rate case and the Commission adopted the change. RUCO believes having one tariff for the recovery of gas costs is more understandable to customers and better provides the necessary information to enable customers to better manage their gas bills.

Q. Please discuss the second of the Company-proposed changes.

A. This proposed change would eliminate the $0.10 annual band on the PGA adjustor. The Company argues that the purpose of the PGA is to allow UNS Gas to recover its gas costs in a reasonably timely manner. In light of recent significant increases in the cost of gas, the Company further argues that because of the small bandwidth the PGA mechanism is no longer capable of ensuring reasonably timely recovery of its gas costs. In support of this argument the Company cites the high level of unrecovered PGA balances that have accumulated in the PGA account over the past five years or so.

Q. Do you support elimination of the band?

A. No. However, RUCO does believe that escalating gas prices and Company's need to have timely recovery of its costs in order to remain financially healthy warrant an increase in the width of the band. RUCO recommends doubling the annual bandwidth to $0.20. This will have the effect of reducing what otherwise would have been the bank balance for 2007 by half. RUCO does not believe it is in the best interest of the Company, or its customers, to continue mounting up a large liability.

Q. Please discuss the third proposed change.

A. This proposed change is comprised of two elements. First, the Company proposes to change the interest rate applicable to the PGA bank balance

from the three-month commercial financial paper rate to LIBOR plus 1.5%, which is the rate it pays on its line of credit. The Company argues that it should be entitled to be made whole for the cost of financing its PGA liability.

Q. Do you agree with this change?

A. Yes. RUCO believes the Company is entitled to be made whole for the cost of financing its unrecovered prudently incurred gas costs. Therefore, RUCO supports changing the interest on the PGA balance for UNS Gas to LIBOR plus 1.5%.

Q. Please discuss the second aspect of the proposed interest rate change.

A. The second element the Company proposes is authority to apply its authorized weighted cost of capital to its unrecovered PGA balance when that balance exceeds two times its threshold level of $6.24 million. The Company argues that when the PGA bank balance becomes that large it no longer represents a short-term investment, but rather a long-term investment and should be afforded the same level of return as the long-term assets in its rate base.

Q. Do you agree that the Commission should authorize this second aspect of the proposed interest rate change?

A. No. While in the past UNS Gas may have had to carry large bank balances over long periods of time, this is not what should be happening. Given RUCO's recommendation to double the bandwidth and its recommendation pursuant to the sixth proposed change (discussed below) UNS Gas will no longer be burdened with large carry-forward PGA balances and there will be no need for this proposed change. RUCO believes that timely recovery of prudently incurred fuel costs results in a healthy utility and protects ratepayers from a growing liability and high interest costs.

Q. Please discuss the fourth proposed change.

A. The Company proposes that the threshold level for requesting a surcredit for over-collected PGA balances be increased to $6.24 million so it is symmetrical with the under- collected balance threshold.

Q. Does RUCO agree with this proposed change?

A. Yes. RUCO believes it is fair and reasonable to treat the over-collected balances in the same manner as the under-collected balances.

Q. Please discuss the fifth proposed change.

A. The Company seeks commitment from the Commission that any debt it incurs solely to support under-collected PGA balances would not be recognized in the Company's capital structure for purposes of setting rates. The Company argues that since the PGA balances are not included in rate base the debt associated with such balances should not serve to lower its authorized rate of return.

Q. Do you agree that this is a commitment the Commission needs to make?

A. No. The Commission generally does not predetermine outside of a rate case the ratemaking treatment it will afford a company's assets, liabilities, revenues, and expenses. Further, based on RUCO's recommendation to increase the bandwidth and for timely recognition of mounting PGA liabilities, large balances should not accrue as they have in the past, reducing the likelihood of debt issuances for the sole purpose of financing under-collected PGA balances. Certainly, it would appear reasonable to exclude debt associated with non-rate based liabilities from the Company's capital structure, however, the appropriate time and place for such a request is in a rate case.

Q. Please discuss the sixth proposed change.

A. The Company requests that the Commission grant timely and adequate PGA surcharges so it can eliminate these balances over a reasonable time period.

Q. Does RUCO agree?

A. Yes. As discussed earlier, it is neither in the Company's nor ratepayers' best interest have a large mounting liability accruing. This jeopardizes the financial health of the utility and creates rate shock for ratepayers when the liability is eventually flowed into rates. Thus, RUCO supports addressing growing PGA balances in a timely and adequate manner.

**RATE DESIGN**

Q. Is UNS Gas proposing any material changes in its rate design?

A. Yes. The Company is proposing several material changes to its current rate design, which when taken in aggregate will create rate shock for some customers, result in perverted price signals, and stifle conservation.

Q. Please discuss the Company's proposed changes.

A. The rate design changes proposed by the Company are as follows:

1) Shift revenue recovery from the commodity charge to the fixed monthly charge;

2) Create a separate monthly charge for the winter months from the summer months. Winter rates would be effective for four months of the year and summer rates for eight months of the year. Summer monthly charges would be nearly double the winter monthly charges;

3) Create a decoupling mechanism called the Throughput Adjustment Mechanism (TAM) that would guarantee UNS Gas recovery of its authorized margin regardless of its therm sales.

Q. Please discuss the proposed shift in commodity revenues to the fixed monthly charge.

A. Currently the Company recovers approximately 26% of its revenue from the fixed monthly charge. The remainder is recovered through its commodity rates. The Company's proposed rate design would recover approximately 51% of its revenue from the fixed monthly charge. The Company argues that such a shift is necessary so that it can recover its authorized margin in spite of weather, conservation, and declining sales.

Q. What effect does such a drastic shift have on customer bills?

A. There are several ways customer bills will be affected by this drastic shift in revenue recovery. First the lowest users will receive the greatest percentage bill increase. The highest users will receive bill decreases. The price signal on all customer bills will be diluted since so much more of

the bill will no longer driven by consumption. Such a drastic shift in price signals is undesirable and at odds with the clearly-expressed Commission intent to encourage conservation.

Q. Why does the Company-proposed rate design result in such perverse price signals?

A. The Company has shifted more revenue to its fixed charge than it is asking for as a rate increase in this rate case. Thus, to achieve a 51% recovery from the fixed monthly charge, the Company has had to *decrease* its commodity rate from the current $0.30 per therm to $0.18 per therm. As a result, higher users will see their bills decrease under this proposed design and low users will have the highest percentage increases in their bills. This is a very perverse price signal that would all but halt any incentive for conservation.

Q. Please discuss the second aspect of the Company-proposed rate design.

A. The Company is proposing a fixed charge for the winter months (December – March) of $11 and a fixed monthly charge of $20 for the summer months (April – November). This aspect of the Company-proposed rate design further exacerbates the perverse price signal that results from nearly doubling the percentage fixed revenue and decreasing the commodity charge, as just discussed. The higher summer fixed charges will further flatten any price signal possible from the Company's

rate design by equalizing summer and winter bills. UNS Gas already offers a levelized billing program and RUCO believes the choice of whether a customer prefers a levelized bill should be left with the customer and UNS Gas should concentrate greater efforts to ensure that customers are aware of the availability and advantages of the levelized bill option.

Q. Please discuss the Company's proposed decoupling mechanism.

A. The Company claims that while its proposed rate structure would mitigate some of its perceived revenue recovery problems, the continued use of *any* volumetric charge creates uncertainty of revenue recovery. UNS Gas proposes to remove this uncertainty with what it calls a Throughput Adjustment Mechanism (TAM).

Q. How would the TAM work?

A. The TAM would true-up customer usage to match the billing determinants authorized in this rate case. In other words, customers would pay for a fixed amount of consumption regardless of how much they actually consumed. The Company claims it needs this mechanism to "mitigate" the risk of revenue recovery.

Q. Would this mechanism "mitigate" the risk of revenue recovery?

A. No. This mechanism would *entirely remove* any risk associated with revenue recovery, not just merely mitigate it. In combination with the proposed fixed charge shift, and the biased summer/winter rate proposal, it would also send a perverse price signal that tells customers they will pay the same whether they use large quantities of gas or no gas at all. It also would guarantee UNS Gas' revenue recovery.

Q. Is it appropriate for the regulator of a monopoly public service company to guarantee revenues?

A. No. Regulation is required to provide a public service company the opportunity to recover its revenue requirement. As a public utility UNS Gas already has an exclusive service territory and a captive customer base, which places the Company at low business risk. The rate of return that the Commission grants the Company is comprised of a risk element that compensates the Company for business and financial risk. If the regulator were to remove all risk to UNS Gas via the TAM, which RUCO does not recommend, it would need to lower the authorized rate of return to reflect the absence of any risk element.

Q. Has the Company's cost of capital witness made an adjustment to his recommended rate of return to recognize the lack of risk under a TAM?

A. No.

Q. What other arguments does the Company make regarding the TAM?

A. The Company argues that the TAM would minimize the impact of weather on customer bills, and characterizes that as a "benefit" of the TAM. Further, the Company argues that the TAM "will allow" the Company to implement, fund, and actively promote energy efficiency programs for its customers.

Q. Do you agree with these arguments?

A No. First, the effect of "minimizing the impact of weather on customers bills" is not necessarily a desirable feature for a gas rate design. Under such a rate design, customers would receive no price signal reflecting their consumption, therefore removing any incentive to conserve. Second, the Company does not need a TAM to "allow" it to promote energy efficiency programs. In fact, UNS Gas currently has some energy efficiency programs in effect and the Commission has been very supportive of utilities' efforts in this regard.

Q. Has the Commission rejected decoupling proposals in the past?

A. Yes. Southwest Gas, in its last rate case proposed a decoupling mechanism (the CMT) very similar to that being proposed in this case. In Decision No. 68487 the Commission denied the proposed decoupling mechanism and stated the following:

> Further, as RUCO points out, the likely effect of adopting the proposed CMT is that residential customers will be required to pay for gas that they have not used in prior years, a phenomenon that could result in disincentives for such customers to undertake conservation efforts. We are also concerned with the dramatic impact that could be experienced by customers faced with a surcharge for not using "enough" gas the prior year. The Company is requesting that customers provide a guaranteed method of recovering authorized revenues, thereby virtually eliminating the Company's attendant risk. Neither the law nor sound public policy requires such a result and we decline to adopt the Company's CMT in this case.

Thus, the Commission fully recognized the perverse incentives such a mechanism could have, and accordingly denied the request. RUCO recommends that the Commission take the same action here.

Q. Please summarize RUCO's position on the Company-proposed rate design.

A. The three salient features of the Company-proposed rate design when viewed independently are extreme and when reviewed in aggregate result in perverse price signals that will only serve to incent are the wrong behaviors. Customers that aggressively consume would be rewarded

under the Company-proposed rate design and customers who conserve would be penalized. RUCO recommends the Commission reject the biased winter/summer rates, the doubling of the revenue allocated to the fix charge, and the TAM.

Q. Please discuss RUCO's proposed rate design.

A. RUCO's proposal is for a rate design that removes the perverse price signals inherent in the Company's proposal, while at the same time addresses some of the Company's fixed cost and risk of revenue recovery concerns. First, I have maintained the existing allocation of rate recovery between the customer classes. Thus, my proposed rate design does not shift rate recovery between customer classes. Second, the Company's existing rate design recovers 26% of it revenue from the fixed monthly charge. RUCO's proposed rate design increases this percentage to 36%, which addresses the Company's risk of recovery concerns without flattening out the rate so much that it discourages conservation. Third, I have applied the same fixed charge in both the winter and summer. This aspect of my rate design allows for a price signal from weather. Customers who do not want this price signal are still able to opt into UNS Gas' levelized billing plan. RUCO's proposed rate design leaves this choice with the individual customer as opposed to the Company's proposal which would levelize all bills, whether the customer wanted it or not. Finally, RUCO's proposed rate design will not result in customers

having to pay for therms they did not use and adheres to the Commission's findings in Decision No. 68487 regarding the undesirability of the proposed decoupling mechanism. RUCO's recommended rates and charges are shown on Schedule RLM-15 and RLM-16 presents an average residential bill analysis at different usage levels.

**RULES AND REGULATIONS OF SERVICE**

Q. Is the Company proposing any changes to its rules and regulations of service?

A. Yes. The Company has proposed to several changes to its rules and regulations of service. RUCO takes issue with one of the proposed changes.

Q. Which proposed change does RUCO take issue with.

A. The Company proposes to shorten the period of time customers have to pay their gas bills before a late fee is assessed from 15 days to 10 days and to short the time customers have to pay a past due bill prior to notice of shut-off from 30 days to 15 days.

Q. Why does RUCO take issue with these proposed changes?

A. The proposed changes are unreasonable. The proposed payment due dates are so short that a UNS Gas customer on vacation could foreseeably come home and find their gas shut-off. Since gas is a vital

service to many, a more flexible payment schedule should prevail. As a regulated utility UNS Gas already receives a working capital allowance to bridge differences between receipt of revenues and payment of expenses, and should not have to impose unreasonable payment terms on its customers. RUCO recommends the Commission deny the proposed changes in payment due dates.

Q. Does this conclude your direct testimony?

A. Yes.

# APPENDIX I

## APPENDIX I

Qualifications of Marylee Diaz Cortez

**EDUCATION:** University of Michigan, Dearborn
B.S.A., Accounting 1989

**CERTIFICATION:** Certified Public Accountant - Michigan
Certified Public Accountant - Arizona

**EXPERIENCE:** Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85007
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION

| Utility Company | Docket No. | Client |
|---|---|---|
| Potomac Electric Power Co. | Formal Case No. 889 | Peoples Counsel of District of Columbia |
| Puget Sound Power & Light Co. | Cause No. U-89-2688-T | U.S. Department of Defense - Navy |
| Northwestern Bell-Minnesota | P-421/EI-89-860 | Minnesota Department of Public Service |
| Florida Power & Light Co. | 890319-EI | Florida Office of Public Counsel |
| Gulf Power Company | 890324-EI | Florida Office of Public Counsel |
| Consumers Power Company | Case No. U-9372 | Michigan Coalition Against Unfair Utility Practices |
| Equitable Gas Company | R-911966 | Pennsylvania Public Utilities Commission |
| Gulf Power Company | 891345-EI | Florida Office of Public Counsel |

| | | |
|---|---|---|
| Jersey Central Power & Light | ER881109RJ | New Jersey Department of Public Advocate Division of Rate Counsel |
| Green Mountain Power Corp. | 5428 | Vermont Department of Public Service |
| Systems Energy Resources | ER89-678-000 & EL90-16-000 | Mississippi Public Service Commission |
| El Paso Electric Company | 9165 | City of El Paso |
| Long Island Lighting Co. | 90-E-1185 | New York Consumer Protection Board |
| Pennsylvania Gas & Water Co. | R-911966 | Pennsylvania Office of Consumer Advocate |
| Southern States Utilities | 900329-WS | Florida Office of Public Counsel |
| Central Vermont Public Service Co. | 5491 | Vermont Department of Public Service |
| Detroit Edison Company | Case No. U-9499 | City of Novi |
| Systems Energy Resources | FA-89-28-000 | Mississippi Public Service Commission |
| Green Mountain Power Corp. | 5532 | Vermont Department of Public Service |
| United Cities Gas Company | 176-717-U | Kansas Corporation Commission |

| | | |
|---|---|---|
| General Development Utilities | 911030-WS & 911067-WS | Florida Office of Public Counsel |
| Hawaiian Electric Company | 6998 | U.S. Department of Defense - Navy |
| Indiana Gas Company | Cause No. 39353 | Indiana Office of Consumer Counselor |
| Pennsylvania American Water Co. | R-00922428 | Pennsylvania Office of Consumer Advocate |
| Wheeling Power Co. | Case No. 90-243-E-42T | West Virginia Public Service Commission Consumer Advocate Division |
| Jersey Central Power & Light Co. | EM89110888 | New Jersey Department of Public Advocate Division of Rate Counsel |
| Golden Shores Water Co. | U-1815-92-200 | Residential Utility Consumer Office |
| Consolidated Water Utilities | E-1009-92-135 | Residential Utility Consumer Office |
| Sulphur Springs Valley Electric Cooperative | U-1575-92-220 | Residential Utility Consumer Office |
| North Mohave Valley Corporation | U-2259-92-318 | Residential Utility Consumer Office |
| Graham County Electric Cooperative | U-1749-92-298 | Residential Utility Consumer Office |
| Graham County Utilities | U-2527-92-303 | Residential Utility Consumer Office |

| | | |
|---|---|---|
| Consolidated Water Utilities | E-1009-93-110 | Residential Utility Consumer Office |
| Litchfield Park Service Co. | U-1427-93-156 & U-1428-93-156 | Residential Utility Consumer Office |
| Pima Utility Company | U-2199-93-221 & U-2199-93-222 | Residential Utility Consumer Office |
| Arizona Public Service Co. | U-1345-94-306 | Residential Utility Consumer Office |
| Paradise Valley Water | U-1303-94-182 | Residential Utility Consumer Office |
| Paradise Valley Water | U-1303-94-310 & U-1303-94-401 | Residential Utility Consumer Office |
| Pima Utility Company | U-2199-94-439 | Residential Utility Consumer Office |
| SaddleBrooke Development Co. | U-2492-94-448 | Residential Utility Consumer Office |
| Boulders Carefree Sewer Corp. | U-2361-95-007 | Residential Utility Consumer Office |
| Rio Rico Utilities | U-2676-95-262 | Residential Utility Consumer Office |
| Rancho Vistoso Water | U-2342-95-334 | Residential Utility Consumer Office |
| Arizona Public Service Co. | U-1345-95-491 | Residential Utility Consumer Office |
| Citizens Utilities Co. | E-1032-95-473 | Residential Utility Consumer Office |
| Citizens Utilities Co. | E-1032-95-417 et al. | Residential Utility Consumer Office |
| Paradise Valley Water | U-1303-96-283 & U-1303-95-493 | Residential Utility Consumer Office |
| Far West Water | U-2073-96-531 | Residential Utility Consumer Office |

| | | |
|---|---|---|
| Southwest Gas Corporation | U-1551-96-596 | Residential Utility Consumer Office |
| Arizona Telephone Company | T-2063A-97-329 | Residential Utility Consumer Office |
| Far West Water Rehearing | W-0273A-96-0531 | Residential Utility Consumer Office |
| SaddleBrooke Utility Company | W-02849A-97-0383 | Residential Utility Consumer Office |
| Vail Water Company | W-01651A-97-0539 & W-01651B-97-0676 | Residential Utility Consumer Office |
| Black Mountain Gas Company<br>Northern States Power Company | G-01970A-98-0017<br>G-03493A-98-0017 | Residential Utility Consumer Office |
| Paradise Valley Water Company<br>Mummy Mountain Water Company | W-01303A-98-0678<br>W-01342A-98-0678 | Residential Utility Consumer Office |
| Bermuda Water Company | W-01812A-98-0390 | Residential Utility Consumer Office |
| Bella Vista Water Company<br>Nicksville Water Company | W-02465A-98-0458<br>W-01602A-98-0458 | Residential Utility Consumer Office |
| Paradise Valley Water Company | W-01303A-98-0507 | Residential Utility Consumer Office |
| Pima Utility Company | SW-02199A-98-0578 | Residential Utility Consumer Office |
| Far West Water & Sewer Company | WS-03478A-99-0144 Interim Rates | Residential Utility Consumer Office |
| Vail Water Company | W-01651B-99-0355 Interim Rates | Residential Utility Consumer Office |
| Far West Water & Sewer Company | WS-03478A-99-0144 | Residential Utility Consumer Office |
| Sun City Water and Sun City West | W-01656A-98-0577 & SW-02334A-98-0577 | Residential Utility Consumer Office |

| | | |
|---|---|---|
| Southwest Gas Corporation<br>ONEOK, Inc. | G-01551A-99-0112<br>G-03713A-99-0112 | Residential Utility Consumer Office |
| Table Top Telephone | T-02724A-99-0595 | Residential Utility Consumer Office |
| U S West Communications<br>Citizens Utilities Company | T-01051B-99-0737<br>T-01954B-99-0737 | Residential Utility Consumer Office |
| Citizens Utilities Company | E-01032C-98-0474 | Residential Utility Consumer Office |
| Southwest Gas Corporation | G-01551A-00-0309 &<br>G-01551A-00-0127 | Residential Utility Consumer Office |
| Southwestern Telephone Company | T-01072B-00-0379 | Residential Utility Consumer Office |
| Arizona Water Company | W-01445A-00-0962 | Residential Utility Consumer Office |
| Litchfield Park Service Company | W-01427A-01-0487 &<br>SW-01428A-01-0487 | Residential Utility Consumer Office |
| Bella Vista Water Co., Inc. | W-02465A-01-0776 | Residential Utility Consumer Office |
| Generic Proceedings Concerning Electric Restructuring Issues | E-00000A-02-0051 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-02-0707 | Residential Utility Consumer Office |
| Qwest Corporation | RT-00000F-02-0271 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-02-0403 | Residential Utility Consumer Office |
| Citizens/UniSource | G-01032A-02-0598<br>E-01032C-00-0751<br>E-01933A-02-0914<br>E-01302C-02-0914<br>G-01302C-02-0914 | Residential Utility Consumer Office |

| | | |
|---|---|---|
| Arizona-American Water Company | WS-01303A-02-0867 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-03-0437 | Residential Utility Consumer Office |
| UniSource | E-04230A-03-0933 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-04-0407 | Residential Utility Consumer Office |
| Qwest Corporation | T-01051B-03-0454 & T-00000D-00-0672 | Residential Utility Consumer Office |
| Tucson Electric Power Company | E-01933A-04-0408 | Residential Utility Consumer Office |
| Arizona-American Water Company | W-1303A-05-0280 | Residential Utility Consumer Office |
| Southwest Gas Corporation | G-01551A-04-0876 | Residential Utility Consumer Office |
| Arizona-American Water Company | W-1303A-05-0405 | Residential Utility Consumer Office |
| Arizona-American Water Company | W-1303A-05-0718 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-06-0009 | Residential Utility Consumer Office |
| Black Mountain Sewer Corporation | SW-02361A-05-0657 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-05-0816 | Residential Utility Consumer Office |
| Arizona-American Water Company | WS-1303A-06-0014 | Residential Utility Consumer Office |
| Tucson Electric Power Company | E-01933A-05-0650 | Residential Utility Consumer Office |

# SCHEDULES

# MDC-1 THROUGH MDC-7

UNS GAS, INC.
TEST YEAR ENDED DECEMEMBER 31, 2005
RATE BASE ADJ #3 - ACCUMULATED AMORTIZATION
OF ACQUISITION ADJUSTMENT

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-1

| FERC ACCT | FERC ACCOUNT DESCRIPTION | (A) | (B) | (C) |
|---|---|---|---|---|
| 114 (302) | Franchises & Consents - Citizens Acquisition Discount | 44,743 | 4.00% | 4,178 |
| 114 (303) | Miscellaneous Intangible Plant - Citizens Acquisition Discount | 44,346 | 4.00% | 4,141 |
| 114 (365) | Land and Land Rights - Citizens Acquisition Discount | 18,927 | | 0 |
| 114 (366) | Structures & Improvements - Citizens Acquisition Discount | 2,886 | | 0 |
| 114 (367) | Mains - Citizens Acquisition Discount | 1,968,939 | 2.57% | 118,115 |
| 114 (369) | Measuring and Reg. Station Equipment - Citizens Acquisition Discount | 520,801 | 3.32% | 40,360 |
| 114 (371) | Other Equipment - Citizens Acquisition Discount | 29,679 | | 0 |
| 114 (374) | Land and Land Rights - Citizens Acquisition Discount | 47,590 | | 0 |
| 114 (375) | Structures & Improvements - Citizens Acquisition Discount | 303 | 3.35% | 24 |
| 114 (376) | Mains - Citizens Acquisition Discount | 21,622,117 | 2.22% | 1,120,442 |
| 114 (378) | Meas. and Reg. Station Equipment - General - Citizens Acquisition Discount | 231,298 | 5.73% | 30,936 |
| 114 (379) | Meas. and Reg. Station Equipment - City Gate - Citizens Acquisition Discount | 293,957 | 5.52% | 37,876 |
| 114 (380) | Services - Citizens Acquisition Discount | 8,147,940 | 4.75% | 903,399 |
| 114 (381) | Meters - Citizens Acquisition Discount | 1,424,561 | 2.86% | 95,101 |
| 114 (382) | Meter Installations - Citizens Acquisition Discount | 913,884 | 2.86% | 61,009 |
| 114 (383) | House Regulators - Citizens Acquisition Discount | 219,269 | 3.77% | 19,296 |
| 114 (384) | House Regulatory Installations - Citizens Acquisition Discount | 100,939 | 3.77% | 8,883 |
| 114 (385) | Industrial Meas. & Reg. Station Equipment - Citizens Acquisition Discount | 130,614 | 3.82% | 11,646 |
| 114 (387) | Other Equipment - Citizens Acquisition Discount | 179,204 | 3.64% | 15,226 |
| 114 (389) | Land and Rights - Citizens Acquisition Discount | 60,370 | | 0 |
| 114 (390) | Structures & Improvements - Citizens Acquisition Discount | 150,945 | 3.10% | 10,922 |
| 114 (391) | Office Furniture and Equipment - Citizens Acquisition Discount | 790,019 | 4.82% | 88,884 |
| 114 (392) | Transportation Equipment - Citizens Acquisition Discount | 104,867 | | 0 |
| 114 (393) | Stores Equipment - Citizens Acquisition Discount | 21,810 | 2.27% | 1,156 |
| 114 (394) | Tools, Shop and Garage Equipment - Citizens Acquisition Discount | 283,074 | 5.76% | 38,059 |
| 114 (395) | Laboratory Equipment - Citizens Acquisition Discount | 96,782 | 5.76% | 13,012 |
| 114 (396) | Power Operated Equipment - Citizens Acquisition Discount | 6,761 | 24.60% | 3,882 |
| 114 (397) | Communication Equipment - Citizens Acquisition Discount | 188,597 | 4.93% | 21,703 |
| 114 (398) | Miscellaneous Equipment - Citizens Acquisition Discount | 36,333 | 5.43% | 4,605 |
| Total Accumulated Amortization | | | | $2,652,853 |
| Per Company | | | | $2,403,966 |
| Adjustment | | | | $248,887 |

References
Col. (A): Company w/p
Col. (B): Authorized Depreciation Rates per Dec. # 58664
Col. (C): Col. (A) x Col. (B) x 2.3342 years

UNS GAS CORPORATION
TEST YEAR ENDED DECEMBER 31, 2005
RATE BASE ADJUSTMENT # 6 - WORKING CAPITAL

DOCKET NO. G-004204A-06-0463
SCHEDULE MDC-2
PAGE 1 OF 2

| LINE NO. | DESCRIPTION | AMOUNT | REFERENCE |
|---|---|---|---|
| 1 | MATERIALS & SUPPLIES PER UNS | $2,039,798 | SCH. B-5, PG. 1 |
| 2 | MATERIALS & SUPPLIES PER RUCO | 2,039,798 | SCH. B-5, PG. 1 |
| 3 | ADJUSTMENT | 0 | LINE 2 - LINE 1 |
| 4 | PREPAYMENTS PER UNS | 195,942 | SCH. B-5, PG. 1 |
| 5 | PREPAYMENTS PER RUCO | 195,942 | SCH. B-5, PG. 1 |
| 6 | ADJUSTMENT | 0 | LINE 5 - LINE 4 |
| 7 | CASH WORKING CAPITAL PER UNS | (3,280,886) | SCH. B-5, PG. 2 |
| 8 | CASH WORKING CAPITAL PER RUCO | (2,080,734) | SCHEDULE MDC- |
| 9 | ADJUSTMENT | 1,200,152 | LINE 8 - LINE 7 |
| 10 | TOTAL ADJUSTMENT (See RLM-3, Column (G)) | $1,200,152 | SUM LINES 3, 6 & 9 |

UNS GAS CORPORATION
TEST YEAR ENDED DECEMBER 31, 2005
RATE BASE ADJUSTMENT # 6 - WORKING CAPITAL

DOCKET NO. G-004204A-06-0463
SCHEDULE MDC-2


## LEAD/LAG DAY SUMMARY

| LINE NO. | DESCRIPTION | (A) COMPANY EXPENSES AS FILED | (B) RUCO ADJUSTM'TS | (C) RUCO EXPENSES AS ADJUSTED | (D) (LEAD)/LAG DAYS | (E) DOLLAR DAYS |
|---|---|---|---|---|---|---|
| | Operating Expenses: | | | | | |
| | Non-Cash Expenses | | | | | |
| 1 | Bad Debts Expense | $ 722,634 | $ - | $ - | 0 | $ - |
| 2 | Depreciation | 7,950,183 | - | - | 0 | - |
| 3 | Amortization | (729,791) | - | - | 0 | - |
| 4 | Deferred Income Taxes | 3,178,719 | - | - | 0 | - |
| 5 | Total Non-Cash Expenses | $ 11,121,745 | $ - | $ - | | $ - |
| | Other Operating Expenses: | | | | | |
| 6 | Salaries & Wages (UNS Dir.Emp's) | $ 7,287,745 | $ - | $ 7,287,745 | 24.50 | $ 178,549,753 |
| 7 | Incentive Pay (UNS Dir. Emp's) | 257,895 | (257,895) | - | 267.00 | - |
| 8 | Purchased Gas | 78,101,248 | - | 78,101,248 | 30.97 | 2,418,795,651 |
| 9 | Office Supplies and Expenses | 1,365,974 | (156,063) | 1,209,911 | 20.72 | 25,069,354 |
| 10 | Injuries and Damages | 574,128 | (34,234) | 539,894 | 64.75 | 34,958,114 |
| 11 | Pensions and Benefits | 2,452,071 | (93,075) | 2,358,996 | 54.66 | 128,942,703 |
| 12 | Support Services - TEP(Dir. Labor) | 4,570,692 | - | 4,570,692 | 44.91 | 205,269,778 |
| 13 | Property Taxes | 4,103,376 | (476,193) | 3,627,183 | 213.00 | 772,590,038 |
| 14 | Payroll Taxes | 537,877 | (20,853) | 517,024 | 19.30 | 9,978,563 |
| 15 | Current Income Taxes | (1,203,222) | 5,594,736 | 4,391,514 | 41.42 | 181,896,507 |
| 16 | Interest on Customer Deposits | 170,459 | - | 170,459 | 182.50 | 31,108,848 |
| 17 | Other Operations and Maintenance | 7,501,807 | (1,023,893) | 6,477,914 | 53.10 | 343,977,225 |
| 18 | Total Other Operating Expenses | $105,720,050 | $ 3,532,530 | $109,252,580 | | $ 4,331,136,533 |
| 19 | Total Operating Expenses | $116,841,794 | $ 3,532,530 | $109,252,580 | | $ 4,331,136,533 |
| | Other Cash Working Capital Elements: | | | | | |
| 20 | Interest on Long-Term Debt | $ 5,334,825 | $ (828,037) | $ 4,506,788 | 91.62 | $ 412,911,927 |
| 21 | Revenue Taxes and Assessments | 18,788,535 | (6,822,129) | 11,966,406 | 76.25 | 912,438,458 |
| 22 | Total Other Cash Working Capital | $ 24,123,360 | $ (7,650,166) | $ 16,473,194 | | $ 1,325,350,385 |
| 23 | TOTAL | | | $125,725,774 | | $ 5,656,486,918 |

| | | | |
|---|---|---|---|
| 24 | Expense Lag | Line 23, Col. (E) / (D) | 44.99 |
| 25 | Revenue Lag | Company Workpapers | 38.95 |
| 26 | Net Lag | Line 25 - Line 24 | (6.04) |
| 27 | RUCO Adjusted Expenses | Col. (C), Line 23 | $125,725,774 |
| 28 | Cash Working Capital | Line 26 X Line27 / 365 Days | (2,080,734) |
| 29 | Company As Filed | Co. Schedule B-5, Page 1 | (3,280,886) |
| 30 | ADJUSTMENT (See MDC-2, Pg 1, L 9) | Line 28 - Line 29 | 1,200,152 |

References:
- Column (A): - Company Schedule B-5, Page 3
- Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
- Column (C): Column (B) - (A)
- Column (D): Company Schedule B-5, Page 3
- Column (E): Column (C) X Column (D)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #13 - FLEET FUEL EXPENSE

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-3

| LINE NO. | DESCRIPTION | AMOUNT | REFERENCE |
|---|---|---|---|
| 1 | AVERAGE MILEAGE PER CONSTRUCTION FTE | $15,016 | COMPANY W/P |
| 2 | 2006 FTE'S | 158 | COMPANY W/P |
| 3 | 2006 PROFORMA MILEAGE | 2,372,528 | LINE 1 x LINE 2 |
| 4 | 2005 MILES PER GALLON | 10.28 | T/Y MILES/T/Y GALLONS |
| 5 | PROFORMA GALLONS PURCHASED | 230,746 | LINE 4/LINE 4 |
| 6 | COST PER GALLON 2005 | 2.43 | COMPANY W/P |
| 7 | FUEL COSTS | 560,714 | LINE 5 x LINE 6 |
| 8 | PRO CARD PURCHASES | 37,491 | COMPANY W/P |
| 9 | TOTAL PROFORMA FUEL EXPENSE | 598,205 | LINE 7 + LINE 8 |
| 10 | PER COMPANY | 665,707 | COMPANY W/P |
| 11 | ADJUSTMENT | (67,502) | LINE 9 - LINE 10 |
| 12 | O&M ALLOCATION FACTOR | 73.4% | COMPANY W/P |
| 13 | O&M ADJUSTMENT | ($49,547) | LINE 11 x LINE 12 |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-4


| LINE NO. | DESCRIPTION | RUCO ANNUALIZED REVENUE | REFERENCE |
|---|---|---|---|
| 1 | RESIDENTIAL RATE 10 | $620,694 | SCH. MDC-4, PG. 2 |
| 2 | RESIDENTIAL RATE 12 | 84,010 | SCH. MDC-4, PG. 3 |
| 3 | COMMERCIAL RATE 20 | 107,350 | SCH. MDC-4, PG. 4 |
| 4 | COMMERCIAL RATE 22 | 15,418 | SCH. MDC-4, PG. 5 |
| 5 | INDUSTRIAL RATE 30 | (6,885) | SCH. MDC-4, PG. 6 |
| 6 | PUBLIC AUTH. RATE 40 | 16,423 | SCH. MDC-4, PG. 7 |
| 7 | PUBLIC AUTH. RATE 42 | (1,321) | SCH. MDC-4, PG. 8 |
| 8 | TOTAL | 835,688 | SUM LINES 1 THROUGH 7 |
| 9 | PER COMPANY | 725,682 | COMPANY W/P |
| 10 | ADJUSTMENT | $110,006 | LINE 8 - LINE 9 |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | RESIDENTIAL RATE 10 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 | 121,125 |
| 2 | T/Y MONTHLY CUSTOMERS | 117,503 | 117,602 | 118,507 | 118,170 | 118,064 | 118,566 | 118,318 | 118,974 | 119,000 | 119,735 | 120,289 | 121,125 |
| 3 | INCREASE IN CUSTOMERS | 3,622 | 3,523 | 2,618 | 2,955 | 3,061 | 2,559 | 2,807 | 2,151 | 2,125 | 1,390 | 836 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| 5 | REVENUE FROM MINIMUM | 25,354 | 24,661 | 18,326 | 20,685 | 21,427 | 17,913 | 19,649 | 15,057 | 14,875 | 9,730 | 5,852 | 0 |
| 6 | MARGIN RATE | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 |
| 7 | THERMS PER CUSTOMER | 107 | 89 | 78 | 65 | 38 | 21 | 15 | 13 | 15 | 18 | 33 | 75 |
| 8 | REVENUE FROM MARGIN | $116,421 | $94,190 | $61,343 | $57,699 | $34,942 | $16,143 | $12,648 | $8,400 | $9,575 | $7,516 | $8,287 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | 620,694 | | | | | | | | | | | |
| 10 | PER COMPANY | 540,499 | | | | | | | | | | | |
| 11 | ADJUSTMENT | $80,195 | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | RESIDENTIAL RATE 12 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 | 5,556 |
| 2 | T/Y MONTHLY CUSTOMERS | 4,798 | 4,905 | 5,045 | 5,161 | 5,295 | 5,358 | 5,407 | 5,443 | 5,377 | 5,341 | 5,484 | 5,556 |
| 3 | INCREASE IN CUSTOMERS | 758 | 651 | 511 | 395 | 261 | 198 | 149 | 113 | 179 | 215 | 72 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| 5 | REVENUE FROM MINIMUM | 5,306 | 4,557 | 3,577 | 2,765 | 1,827 | 1,386 | 1,043 | 791 | 1,253 | 1,505 | 504 | 0 |
| 6 | MARGIN RATE | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 | 0.3004 |
| 7 | THERMS PER CUSTOMER | 92 | 76 | 66 | 55 | 32 | 18 | 14 | 12 | 14 | 16 | 29 | 66 |
| 8 | REVENUE FROM MARGIN | $20,949 | $14,863 | $10,131 | $6,526 | $2,509 | $1,071 | $627 | $407 | $753 | $1,033 | $627 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | 84,010 | | | | | | | | | | | |
| 10 | PER COMPANY | 105,047 | | | | | | | | | | | |
| 11 | ADJUSTMENT | ($21,037) | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | COMMERCIAL RATE 20 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 | 11,017 |
| 2 | T/Y MONTHLY CUSTOMERS | 10,877 | 10,891 | 10,974 | 10,960 | 10,902 | 10,816 | 10,772 | 10,730 | 10,701 | 10,728 | 10,821 | 11,017 |
| 3 | INCREASE IN CUSTOMERS | 140 | 126 | 43 | 57 | 115 | 201 | 245 | 287 | 316 | 289 | 196 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| 5 | REVENUE FROM MINIMUM | 1,540 | 1,386 | 473 | 627 | 1,265 | 2,211 | 2,695 | 3,157 | 3,476 | 3,179 | 2,156 | 0 |
| 6 | MARGIN RATE | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 | 0.2420 |
| 7 | THERMS PER CUSTOMER | 404 | 340 | 301 | 269 | 183 | 140 | 124 | 114 | 121 | 134 | 179 | 318 |
| 8 | REVENUE FROM MARGIN | $13,688 | $10,367 | $3,132 | $3,711 | $5,093 | $6,810 | $7,352 | $7,918 | $9,253 | $9,372 | $8,490 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | 107,350 | | | | | | | | | | | |
| 10 | PER COMPANY | 60,672 | | | | | | | | | | | |
| 11 | ADJUSTMENT | $46,678 | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | COMMERCIAL RATE 22 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| 2 | T/Y MONTHLY CUSTOMERS | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 11 | 11 | 11 |
| 3 | INCREASE IN CUSTOMERS | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 |
| 5 | REVENUE FROM MINIMUM | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 0 | 0 | 0 |
| 6 | MARGIN RATE | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 | 0.1551 |
| 7 | THERMS PER CUSTOMER | 17,420 | 14,475 | 13,507 | 13,143 | 10,212 | 7,636 | 6,936 | 5,073 | 6,073 | 6,961 | 7,857 | 10,200 |
| 8 | REVENUE FROM MARGIN | $2,702 | $2,245 | $2,095 | $2,038 | $1,584 | $1,184 | $1,076 | $787 | $942 | $0 | $0 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | 15,418 | | | | | | | | | | | |
| 10 | PER COMPANY | 11,350 | | | | | | | | | | | |
| 11 | ADJUSTMENT | $4,068 | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION

| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | INDUSTRIAL RATE 30 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| 2 | T/Y MONTHLY CUSTOMERS | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 13 | 12 | 12 |
| 3 | INCREASE IN CUSTOMERS | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 0 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| 5 | REVENUE FROM MINIMUM | (11) | (11) | (11) | (11) | (11) | (11) | (11) | (11) | (11) | (11) | 0 | 0 |
| 6 | MARGIN RATE | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 | 0.2122 |
| 7 | THERMS PER CUSTOMER | 4,068 | 3,758 | 3,254 | 3,258 | 2,276 | 6,206 | 1,869 | 2,167 | 2,925 | 2,148 | 2,206 | 5,653 |
| 8 | REVENUE FROM MARGIN | ($863) | ($797) | ($690) | ($691) | ($483) | ($1,317) | ($397) | ($460) | ($621) | ($456) | $0 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | (6,885) | | | | | | | | | | | |
| 10 | PER COMPANY | 0 | | | | | | | | | | | |
| 11 | ADJUSTMENT | ($6,885) | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | PUBLIC AUTH. RATE 40 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 | 1,051 |
| 2 | T/Y MONTHLY CUSTOMERS | 1,027 | 1,033 | 1,039 | 1,044 | 1,044 | 1,043 | 1,041 | 1,046 | 1,042 | 1,039 | 1,050 | 1,051 |
| 3 | INCREASE IN CUSTOMERS | 24 | 18 | 12 | 7 | 7 | 8 | 10 | 5 | 9 | 12 | 1 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 |
| 5 | REVENUE FROM MINIMUM | 264 | 198 | 132 | 77 | 77 | 88 | 110 | 55 | 99 | 132 | 11 | 0 |
| 6 | MARGIN RATE | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 | 0.2354 |
| 7 | THERMS PER CUSTOMER | 1,109 | 896 | 759 | 633 | 333 | 161 | 98 | 101 | 109 | 150 | 316 | 761 |
| 8 | REVENUE FROM MARGIN | $6,265 | $3,797 | $2,144 | $1,043 | $549 | $303 | $231 | $119 | $231 | $424 | $74 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | 16,423 | | | | | | | | | | | |
| 10 | PER COMPANY | 21,325 | | | | | | | | | | | |
| 11 | ADJUSTMENT | ($4,902) | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION



| LINE NO. | DESCRIPTION | JAN | FEB | MARCH | APRIL | MAY | JUNE | JULY | AUG | SEPT | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | PUBLIC AUTH. RATE 42 | | | | | | | | | | | | |
| 1 | T/Y END CUSTOMERS | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| 2 | T/Y MONTHLY CUSTOMERS | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 5 | 5 |
| 3 | INCREASE IN CUSTOMERS | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 0 | 0 |
| 4 | MONTHLY MINIMUM CHRG. | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 | 85 |
| 5 | REVENUE FROM MINIMUM | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | (85) | 0 | 0 |
| 6 | MARGIN RATE | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 | 0.1084 |
| 7 | THERMS PER CUSTOMER | 1,109 | 896 | 759 | 633 | 333 | 161 | 98 | 101 | 109 | 150 | 316 | 761 |
| 8 | REVENUE FROM MARGIN | ($120) | ($97) | ($82) | ($69) | ($36) | ($17) | ($11) | ($11) | ($12) | ($16) | $0 | $0 |
| 9 | TOTAL INCREASE IN REVENUE | (1,321) | | | | | | | | | | | |
| 10 | PER COMPANY | (13,212) | | | | | | | | | | | |
| 11 | ADJUSTMENT | $11,891 | | | | | | | | | | | |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #17 - UNCOLLECTIBLES EXPENSE

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-5

| LINE NO. | DESCRIPTION | AMOUNT | REFERENCE |
|---|---|---|---|
| 1 | RUCO T/Y ADJUSTED REVENUE | $47,280,434 | SCHEDULE RLM-6 |
| 2 | T/Y GAS REVENUES | 75,545,465 | SCHEDULE C-2, PAGE 1 |
| 3 | TOTAL T/Y ADJUSTED REVENUES | 122,825,899 | LINE 1 + LINE 2 |
| 4 | UNCOLLECTIBLES RATE | 0.51052% | COMPANY W/P |
| 5 | UNCOLLECTIBLES EXPENSE | 627,051 | LINE 3 x LINE 4 |
| 6 | UNCOLLECTIBLES PER COMPANY | 722,634 | COMPANY W/P |
| 7 | ADJUSTMENT | ($95,583) | LINE 5 - LINE 6 |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #19 - OUT OF PERIOD EXPENSES

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-6

| LINE NO. | DESCRIPTION | AMOUNT | REFERENCE |
|---|---|---|---|
| 1 | PRICE WATER HOUSE - NOV-DEC 2004 | $172,607 | RUCO DR 2.22, UNSG0463/00101 |
| 2 | PRICE WATER HOUSE - NOV-DEC 2004 | 9,058 | RUCO DR 2.22, UNSG0463/00108 |
| 3 | PRICE WATER HOUSE DEC 1-DEC 31 2004 | 58,335 | RUCO DR 2.22, UNSG0463/00098 |
| 4 | TOTAL | 240,000 | SUM LINES 1 - 3 |
| 5 | ALLOCATION FACTOR | 8.80% | RUCO DR 7.3 |
| 6 | ADJUSTMENT | $21,120 | LINE 4 x LINE 5 |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #20 - LEGAL FEES

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-7

| LINE NO. | DATE | DESCRIPTION | AMOUNT |
|---|---|---|---|
| 1 | 5-May | FLEISCHMAN & WALSH LLP | $87,269 |
| 2 | 5-Aug | FLEISCHMAN & WALSH LLP | 28,463 |
| 3 | 5-Sep | FLEISCHMAN & WALSH LLP | 56,612 |
| 4 | 5-Oct | FLEISCHMAN & WALSH LLP | 32,331 |
| 5 | 5-Nov | FLEISCHMAN & WALSH LLP | 28,712 |
| 6 | 5-Dec | FLEISCHMAN & WALSH LLP | 39,129 |
| 7 | 5-Dec | FLEISCHMAN & WALSH LLP | 38,535 |
| 8 | | TOTAL | $311,051 |

# UNS GAS, INC.

# DOCKET NO. G-04204A-06-0463 et al.

# DIRECT TESTIMONY

# OF

# WILLIAM A. RIGSBY, CRRA

# ON BEHALF OF

# THE

# RESIDENTIAL UTILITY CONSUMER OFFICE

# FEBRUARY 9, 2007

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## INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have also been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to this testimony, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of UNS Gas, Inc.'s ("UNS" or "Company") application for a permanent rate increase ("Application") for the Company's natural gas distribution operations in northern Arizona and Santa Cruz County in southern Arizona. UNS filed the Application with the ACC on July 13, 2006. The Company has chosen the fiscal year ended December 31, 2005 for the test year in this proceeding.

Q. Briefly describe UNS.

A. UNS is a wholly owned subsidiary of UniSource Energy Services, which is owned by UniSource Energy Corporation ("UniSource" or "Parent"), an Arizona corporation, based in Tucson, that is publicly traded on the New York Stock Exchange ("NYSE")[1]. UniSource is also the parent company of Tucson Electric Power, the second largest investor owned electric utility in the state. In addition to natural gas distribution, UniSource also provides electric service through its other subsidiary UNS Electric, Inc., to customers in Mohave and Santa Cruz Counties.

Q. Please explain your role in RUCO's analysis of UNS' Application.

A. I reviewed UNS' Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In

[1] NYSE ticker symbol UNS.

addition to my recommended capital structure, my direct testimony will present my recommended costs of common equity and my recommended cost of debt (the Company has no preferred stock). The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Application and from market-based research that I conducted during my analysis.

Q. Is this your first case involving UNS?

A. No. In 2003 I was involved with UniSource's acquisition of UniSource Energy Corporation's gas and electric assets from Citizens' Utilities Company. The UNS entity was the result of that acquisition and the Company's present rates were established in that proceeding.

Q. Were you also responsible for conducting an analysis on the Company's proposed revenue level, rate base and rate design?

A. No. RUCO witnesses Marylee Diaz Cortez, CPA, and Rodney L. Moore handled those aspects of the Company's Application.

Q. What areas will you address in your testimony?

A. I will address the cost of capital issues associated with the case.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

**SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into seven sections. First, the introduction I have just presented and second, the summary of my testimony that I am about to give. Third, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of returns for utilities that operate in the Arizona jurisdiction. In this second section I will also provide a brief overview of the current economic climate that UNS is operating in. Fourth, I will discuss my recommended cost of debt. Fifth, I will compare my recommended capital structure with the Company-proposed capital structure. Sixth, I will explain my weighted cost of capital recommendation and seventh, I will comment on UNS' cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis of UNS, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.64 percent cost of equity capital. This 9.64 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies.

Cost of Debt – I am recommending 6.23 percent cost of debt. This is based on my review of the costs associated with UNS' various debt instruments.

Capital Structure – I am recommending that the Company-proposed capital structure, which is comprised of 50 percent debt and 50 percent common equity, be adopted by the Commission.

Cost of Capital – Based on the results of my recommended capital structure, cost of common equity, and debt analyses, I am recommending a 7.93 percent cost of capital for UNS. This figure represents the weighted cost of my recommended cost of common equity and my recommended cost of debt.

Q. Why do you believe that your recommended 7.93 percent cost of capital is an appropriate rate of return for UNS to earn on its invested capital?

A. The 7.93 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case *guarantees* a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as UNS, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

**COST OF EQUITY CAPITAL**

Q. What is your recommended cost of equity capital for UNS?

A. Based on the results of my DCF and CAPM analyses, which ranged from 8.74 percent to 11.36 percent for a sample of local distribution companies ("LDC"), I am recommending a 9.64 percent cost of equity capital for UNS. My recommended 9.64 percent figure represents an average of the results of my DCF and CAPM analyses, which utilized a sample of publicly traded natural gas local distribution companies ("LDC").

...

**Discounted Cash Flow (DCF) Method**

Q. Please explain the DCF method that you used to estimate UNS' cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the

stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

$$k = ( D_1 \div P_0 ) + g$$

where: $k$ = the required return (cost of equity, equity capitalization rate),

$D_1 \div P_0$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

$g$ = the expected rate of future dividend growth.

This formula is the basis for the standard growth valuation model that I used to determine UNS' cost of equity capital. It is similar to one of the models used by the Company.

Q. In determining the rate of future dividend growth for UNS, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's

earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as g = b x r.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[2]

Table I

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Growth |
|---|---|---|---|---|---|---|
| Book Value | $10.00 | $10.40 | $10.82 | $11.25 | $11.70 | 4.00% |
| Equity Return | 10% | 10% | 10% | 10% | 10% | N/A |
| Earnings/Sh. | $1.00 | $1.04 | $1.082 | $1.125 | $1.170 | 4.00% |
| Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| Dividend/Sh | $0.60 | $0.624 | $0.649 | $0.675 | $0.702 | 4.00% |

[2] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity, and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

...

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Growth |
|---|---|---|---|---|---|---|
| Book Value | $10.00 | $10.40 | $10.82 | $11.47 | $12.158 | 5.00% |
| Equity Return | 10% | 10% | 15% | 15% | 15% | 10.67% |
| Earnings/Sh | $1.00 | $1.04 | $1.623 | $1.720 | $1.824 | 16.20% |
| Payout Ratio | 0.60 | 0.60 | 0.60 | 0.60 | 0.60 | N/A |
| Dividend/Sh | $0.60 | $0.624 | $0.974 | $1.032 | $1.094 | 16.20% |

In the example displayed in Table II, a sustainable growth rate of four percent[3] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.[4] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be

[3] [ ( Year 2 Earnings/Sh – Year 1 Earnings/Sh ) ÷ Year 1 Earnings/Sh ] = [ ( $1.04 - $1.00 ) ÷ $1.00 ] = [ $0.04 ÷ $1.00 ] = 4.00%

[4] [ ( 1 – Payout Ratio ) x Rate of Return ] = [ ( 1 - 0.60 ) x 15.00% ] = 0.40 x 15.00% = 6.00%

expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change only in the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on

their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will

have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[5] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

where: $g$ = DCF expected growth rate,

$b$ = the earnings retention ratio,

$r$ = the return on common equity,

$s$ = the fraction of new common stock sold that accrues to a current shareholder, and

$v$ = funds raised from the sale of stock as a fraction of existing equity.

and $v = 1 - [(BV) \div (MP)]$

[5] Gordon, M.J., The Cost of Capital to a Public Utility, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

where: BV = book value per share of common stock, and

MP = the market price per share of common stock.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

...

Q. Has the Commission ever adopted a cost of capital estimate that included this assumption?

A. Yes. In the most recent Southwest Gas Corporation rate case[6], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on a natural gas proxy group consisting of ten LDC's that have similar operating characteristics to UNS.

Q. Why did you use a proxy group methodology as opposed to a direct analysis of UNS?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with UNS itself. Although shares of UNS' parent company, UniSource, are traded on the NYSE, there is no financial data available on dividends paid on *publicly held* shares of UNS. Consequently it was

[6] Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

necessary to create a proxy by analyzing publicly traded water companies with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

Q. What criteria did you use in selecting the companies that make up your proxy for UNS?

A. All of the LDC's in my sample are publicly traded on the NYSE and are followed by The Value Line Investment Survey's ("Value Line") natural gas (distribution) industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment A of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your proxy?

A. The ten natural gas LDC's included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL").

Q. Briefly describe the regions of the U.S. served by the seven natural gas LDC's that make up your sample proxy.

A. The ten LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. NJI which serves portions of northern New Jersey, SJI which serves southern New Jersey and WGL which serves the Washington D.C. metro area), the Southeast and South Central portions of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the Atlanta, Georgia area and PNY which serves customers in North Carolina, South Carolina and Tennessee), the South, deep South and Midwest (i.e. ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas, Colorado and Kansas, GAS which provides service to northern and western Illinois, and LG which serves the St. Louis area), and the Pacific Northwest (i.e. NWN which serves Washington state and Oregon). Portions of Arizona, Nevada and California are served by SWX.

Q. Did the Company's witness also perform a similar analysis using natural gas LDC's?

A. Yes, the Company's witness, Kentton C. Grant performed a similar analysis of publicly traded LDC's.

Q. Does your sample of LDC's include all of the same companies that Dr. Grant included in his sample?

A. No. My sample includes ten of the eleven LDC's that Mr. Grant included in his sample. Mr. Grant's sample included Cascade Natural Gas Corporation, which presently serves customers in Oregon and Washington in the Pacific Northwest region of the U.S.

Q. Why did you exclude Cascade Natural Gas Corporation from your sample?

A. On July 8, 2006, MDU Resources Group, Inc. (NYSE symbol MDU) entered into a definitive merger agreement to acquire Cascade Natural Gas Corp. (NYSE symbol CGC). Because the value of CGC's stock is now being driven by MDU's acquisition offering price, it is no longer suitable for my sample. As a result of this, I excluded CGC from my sample.

...

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the historical observation period 2001 to 2005. Schedule WAR-5 also includes Value Line's projected 2006, 2007 and 2009-11 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for the LDC's in my sample.

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use AGL Resources, Inc., (NYSE symbol ATG) as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on pages 9 and 10) to multiply ATG's earned return on common equity by its earnings retention ratio for each year in the 2001 to 2005 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5,

Page 1, ATG's sustainable internal growth rate ranged from 3.44% in 2001 to 6.53% in 2003. The company's growth rates experienced an up and down pattern during the observation period, which resulted in a 5.49% average over the 2001 to 2005 time frame. Value Line's analysts are forecasting further declines through 2007 before growth reaches a level of 4.76% during the 2009-11 period. Value Line believes that earnings and dividend growth projections will remain steady at 4.00% and 6.50% respectively. Value Line, however, has increased its book value growth projection upward from 6.00% to 6.50%. Based on these estimates I believe a 4.25% rate of internal sustainable growth is reasonable for ATG.

Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that ATG's share growth averaged 8.97% over the observation period. However, Value Line expects future outstanding shares to increase slightly from 77.90 million in 2006 to 78.30 million by the end of 2011. Taking this data into consideration, I am estimating a 0.13 rate of share growth for ATG. My final dividend growth rate estimate for AWR is 4.31 percent (4.25 percent internal + 0.06 percent external) and is shown on Page 1 of Schedule WAR-4.

...

Q. What is your average dividend growth rate estimate using the DCF model for the sample natural gas utilities?

A. Based on the DCF model, my average dividend growth rate estimate is 5.28 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How do your average dividend growth rate estimates compare with the growth rate data published by Value Line and other analysts?

A. My 5.28 percent estimate is 30 basis points higher than the consensus projections published by Zacks, and 49 basis points higher than Value Line's 4.79 percent projected estimates. As can also be seen on Schedule WAR-6, the 5.28 percent estimate that I have calculated is 52 basis points higher than the 4.76 percent average of the 5-year EPS means of 4.98 percent for Zacks, the 4.79 percent projection by Value Line (which is an average of EPS, DPS and BVPS) and the 4.61 percent five-year historical average of Value Line data (on EPS, DPS and BVPS). In fact, my 5.28 percent estimate is 83 basis points higher than the 4.45 percent Value Line 5-year compound history also displayed on Schedule WAR-6. This indicates that investors are expecting increased performance from natural gas distribution companies in the future. Based on the information presented in Schedule WAR-6, I would say that my 5.28 percent estimate, which exceeds both Zack's Value Line's projections, is a fair representation of the growth projections presented by securities analysts at this point in time.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's December 15, 2006 Ratings and Reports natural gas (Distribution) update. I then divided those figures by the eight-week average price per share of the appropriate utility's common stock. The eight-week average price is based on the daily closing stock prices for each of the companies in my proxies for the period November 27, 2006 to January 19, 2007.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the LDC's included in your sample?

A. As shown in Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 8.74 percent.

**Capital Asset Pricing Model (CAPM) Method**

Q. Please explain the theory behind the capital asset pricing model ("CAPM") and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[7], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for

[7] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[8] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

[8] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

where: $k$ = cost of capital of a given security,

$r_f$ = risk-free rate of return,

$ß$ = beta coefficient, a statistical measurement of a security's systematic risk,

$r_m$ = average market return (e.g. S&P 500), and

$r_m - r_f$ = market risk premium.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used a six-week average on a 91-day Treasury Bill ("T-Bill") rate.[9] This resulted in a risk-free ($r_f$) rate of return of 5.05 percent.

Q. Why did you use the short-term T-Bill rate as opposed to the yield on an intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

A. Because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have

[9] A six-week average was computed for the current rate using 91-day T-Bill quotes listed in Value Line's Selection and Opinion newsletter from December 22, 2006 to January 26, 2007.

slightly higher yields. Treasury yields are comprised of two separate components,[10] a true rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the true rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor. Since a 91-day T-Bill presents the lowest possible total risk to an investor, it more closely meets the definition of a risk-free rate of return and is the more appropriate instrument to use in a CAPM analysis.

...

[10] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical returns on the S&P 500 index from 1926 to 2005 as the proxy for the market rate of return ($r_m$). The information was obtained from Ibbotson Associates' SBBI Yearbook, which publishes historical data on stock returns, U.S. Treasury yields and rates of inflation. The risk premium ($r_m$ - $r_f$) that results by using the geometric mean calculation for $r_m$ is equal to 5.35 percent (10.40% - 5.05% = 5.35%). The risk premium that results by using the arithmetic mean calculation for $r_m$ is 7.25 percent (12.30% - 5.05% = 7.25%).

Q. How did you select the beta coefficients that were used in your CAPM model?

A. The beta coefficients (ß), for the LDC's used in my proxy, were calculated by Value Line and were current as of December 15, 2006. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients for the LDC's included in my sample ranged from 0.70 to 1.30 with an average beta of 0.87.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean for $r_m$ results in an average expected return of 9.70 percent. My calculation using an arithmetic mean results in an average expected return of 11.36 percent.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

| METHOD | RESULTS |
|---|---|
| DCF | 8.74% |
| CAPM | 9.70% – 11.36% |

Based on these results, my best estimate of an appropriate range for a cost of common equity for UNS is 8.74 percent to 11.36 percent. My final recommendation for UNS is 9.64 percent.

Q How did you arrive at your recommended 9.64 percent cost of common equity?

A. My recommended 9.64 percent cost of common equity is the average of my DCF and CAPM results. The calculation can be seen on Page 3 of Schedule WAR-1.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 11.00 percent cost of equity capital proposed by the Company is 136 basis points higher than the 9.64 percent cost of equity capital that I am recommending.

**Current Economic Environment**

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are investing in non-regulated entities also.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a brief review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board ("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[11] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate

[11] The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

Q. Did the Federal Reserve achieve its goals during this period?

A. Yes. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1992. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of 1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who believed that technology stocks and Internet company start-ups (with little or no history of earnings) had high growth potential, purchased these types of issues with enthusiasm. These types of investors, who exhibited what former Chairman Greenspan described as "irrational exuberance," pushed stock prices and market indexes to all time highs from 1997 to 2000.

...

Q. What has been the state of the economy since 2001?

A. The U.S. economy entered into a recession near the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990's, had already run its course sometime during the third quarter of 2000. Economic data released since the beginning of 2001 had already been disappointing during the months preceding the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon. Slower growth figures, rising layoffs in the high technology manufacturing sector, and falling equity prices (due to lower earnings expectations) prompted the Fed to begin cutting interest rates as it had done in the early 1990's. The now infamous terrorist attacks on New York City and Washington D.C. marked a defining point in this economic slump and prompted the Federal Reserve to continue its rate cutting actions through December 2001. Prior to the 9/11 attacks, commentators, reporting in both the mainstream financial press and various economic publications including Value Line, believed that the Federal Reserve was cutting rates in the hope of avoiding the recession that the U.S. now appears to have recovered from from.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates, moves which indicated that the worst may be over and that the current recession might have bottomed out during the last quarter of 2001, a lackluster economy persisted. The continuing economic malaise and even fears of

possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in 45 years.

Even though some signs of economic strength, that were mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.[12]"

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent.

[12] Wolk, Martin, "Fed leaves short-term rates unchanged," MSNBC, January 28, 2004.

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief. As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to its current level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

Q. What has been the reaction in the financial community to the Fed's decision not to raise interest rates?

A. As in the past, banks followed the Fed's lead once again and held the prime rate to a level of 8.25 percent, or 300 basis points higher than the existing federal funds rate of 5.25 percent, where it has stood since June 29, 2006.

...

Q. How have analysts viewed the Fed's actions over the last five years?

A. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy.[13] In other words, the Fed was trying to head off inflation *before* it became a problem. During the period following the August 8, 2006 FOMC meeting, the Fed's decisions not to raise rates were viewed as a gamble that a slower U.S. economy would help to cap growing inflationary pressures.[14]

Q. Was the Fed attempting to engineer another "soft landing", as it did in the mid-nineties, by holding interest rates steady?

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings, like the one that the Fed managed to pull off during the 1994 – 1995 time frame, in which a recession or a bear market were avoided rarely happen[15]. Since it began increasing the federal funds rate in June 2004, the Fed has assured investors that it would increase rates at a "measured" pace. Many analysts

[13] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

[14] Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

[15] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.

and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[16]. According to Mr. Browning, the hope, at the time that his article was published, was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

Q. Has the Fed's attempt to engineer a soft landing been successful to date?

A. It would appear so. Recent articles published in the mainstream financial press have been generally upbeat on the current economy. An example of this is an article written by Nell Henderson that appeared in the January 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a year into [Fed Chairman] Bernanke's tenure, the [economic] picture has turned considerably brighter. Inflation is falling; unemployment is low; wages are rising; and the economy, despite continued problems in housing, is growing at a brisk clip."[17]

[16] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.
[17] Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

Q. Putting this all into perspective, how have the Fed's actions since 2001 affected benchmark rates?

A. Despite the increases by the FOMC, interest rates and yields on U.S. Treasury instruments are for the most part still at historically low levels. The Fed's actions have also had the overall effect of reducing the cost of many types of business and consumer loans. As can be seen in Schedule WAR-8, with the exception of the federal discount rate (the rate charged to member banks), which has increased to 6.25 percent from 5.73 percent in 2000, the other key interest rates (i.e. the prime rate and the federal funds rate) are still below their year-end 2000 levels.

Q. What has been the trend in other leading interest rates over the last year?

A. As of January 26, 2007, all of the leading interest rates have moved up. The prime rate has increased from 7.25 percent a year ago to its current level of 8.25 percent. The benchmark federal funds rate, just discussed, has increased from 4.25 percent, in January 2006, to its current level of 5.25 percent (the result of the seventeen quarter point increases noted earlier). The yields on all maturities of U.S. Treasury instruments have increased over the past year. A previous trend, described by former Chairman Greenspan as a "conundrum"[18], in which long-term rates fell as short-term rates increased, thus creating the inverted yield curve that currently exists (Attachment B), appears to have ended. The 91-day T-bill

[18] Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

rate, used in my CAPM analysis, increased from 4.35 percent, in January 2006, to 5.10 percent as of January 26, 2007. The 1-Year Treasury Constant Maturity rate also increased from 4.42 percent over the past year to 5.06 percent. Again, for the most part, these current yields are 73 to 285 basis points lower than corresponding yields that existed during the early nineties (as can be seen on Schedule WAR-8).

Q. What is the current outlook for interest rates, inflation, and the economy?

A. Stability is the word that best sums up analyst's expectations for the majority of 2007 according to an article by Peter A. McKay that appeared in the January 29, 2007 issue of The Wall Street Journal[19]. Mr. McKay reported on Fed watchers that have revised their expectations for a spring rate cut and who now believe that the Fed will keep rates at their current levels through the end of 2007. As expected, the Fed continued to hold pat on interest rates during the FOMC meetings held on January 30 and 31, 2007, fulfilling the 98 percent expectancy by futures contracts that track the likelihood of a Fed move (as noted in the McKay article).

The recent views of Value Line analysts, who anticipate lower rates of inflation in the coming months, support the aforementioned outlook for stable rates. In their Economic and Stock Market Commentary that appeared in the February 2, 2007 edition of Value Line's Selection and Opinion publication, Value Line's analyst's stated the following:

[19] McKay, Peter A., "A Long Stretch of Steady Rates" The Wall Street Journal, January 29, 2007

> "Inflation is likely to start trending lower over the next few quarters, in part because the modest rate of GDP growth should cap the the increases in demand for labor and raw materials. Moreover, recent declines in oil prices will keep costs down for products that are oil-based and for companies that are heavy users of electricity."

Q. Please summarize how the economic data just presented relates to UNS.

A. If Federal Reserve Chairman Bernanke continues to keep inflation in check, and keep it contained within his preferred range of 1 to 2 percent[20], UNS could look forward to relatively stable and even possibly declining prices for goods and services, which in turn means that the Company can expect its present operating expenses to either remain stable or possibly decline in the coming years. Lower interest rates would also benefit UNS in regard to any short or long-term borrowing needs that the Company may have. Despite the recent slowdown in the housing market noted earlier, lower interest rates would further help to accelerate growth in new construction projects and home developments in the Company's service territories, and may result in new revenue streams to UNS.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.64 percent cost of equity capital that you have estimated is reasonable for UNS?

A. I believe that my recommended 9.64 percent cost of equity will provide UNS with a reasonable rate of return on the Company's invested capital

[20] Ip, Greg, "Fed Minutes Indicate Inflation Still a Worry for Some Officials, " The Wall Street Journal, February 22, 2006.

when economic data on interest rates (that are still low by historical standards), a rebound in growth in new housing construction (attributed to historically low interest rates), and a low and stable outlook for inflation are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my DCF analysis has produced such a return.

**COST OF DEBT**

Q. Have you reviewed UNS' testimony on the Company-proposed cost of debt?

A. Yes, I have reviewed the testimony prepared by Mr. Grant.

Q. Briefly explain how UNS calculated the Company-proposed 6.60 percent cost of debt.

A. The Company-proposed 6.60 percent cost of debt is comprised of $6,230,000 in annual interest on UNS' Series A and B bonds, $201,000 in amortized debt discount and expenses and losses attributed to reacquired debt, and $90,000 attributed to credit facility fees.

Q. Do you agree with Mr. Grant's inclusion of the amortized debt discount and expenses and losses attributed to reacquired debt and the credit facility fees to arrive at his final cost of debt figure of 6.60 percent?

A. No. I believe that these costs should have been expensed as opposed to being included in the cost of debt. For this reason I am recommending that the Commission adopt the 6.23 percent cost attributed to the annual interest expense on the Company's Series A and B bonds as UNS' cost of debt.

**CAPITAL STRUCTURE**

Q. Have you reviewed UNS' testimony regarding the Company's proposed capital structure?

A. Yes, I have reviewed the direct testimony of Company witness Grant, who testified on UNS' proposed capital structure, cost of debt and cost of common equity.

Q. Please describe the Company's proposed capital structure.

A. The Company is proposing a hypothetical capital structure comprised of 50 percent debt and 50 percent common equity.

Q. What capital structure are you proposing for UNS?

A. I am also recommending a hypothetical capital structure comprised of 50 percent debt and 50 percent equity.

Q. Is UNS' actual capital structure in line with industry averages?

A. No. UNS' actual test year capital structure, comprised of approximately 55 percent debt and 45 percent common equity, is somewhat heavier in debt than the capital structures of the LDC's included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged approximately 48 percent for debt and 52 percent for equity (51.2 percent common equity + 0.8 percent preferred equity).

Q. In terms of risk, how does UNS' actual capital structure compare to the LDC's in your sample?

A. The LDC's in my sample would be considered as having a lower level of financial risk (i.e. the risk associated with debt repayment) because of their lower levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are not as leveraged and, theoretically speaking, not as risky than a utility with a level of debt similar to UNS'. In the case of a publicly traded company, such as those included in my proxy, a company with UNS' level of debt would be perceived as having a higher level of financial risk and would therefore also have a higher expected return on common equity.

Q. Have you made an adjustment to your cost of equity estimate based on this perception of higher financial risk?

A. No. Because I am recommending a capital structure that contains more equity than what the Company actually had during the test year, I have decided not to make an upward adjustment on my recommended 9.64 percent cost of common equity. The hypothetical capital structure of 50 percent debt and 50 percent common equity that I am recommending provides the Company with a weighted cost of capital of 7.93 percent, which is 18 basis points higher than the 7.75 percent that would result from the Company's actual test year capital structure of approximately 55 percent debt and 45 percent common equity.

**WEIGHTED COST OF CAPITAL**

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. The Company has proposed a weighted cost of capital of 8.80 percent. This composite figure is the result of a weighted average of UNS' proposed 6.60 percent cost of debt and 11.00 percent cost of common equity. The Company-proposed 8.80 percent weighted cost of capital is 87 basis points higher than the 7.93 percent weighted cost that I am recommending which is the weighted cost of my recommended 6.23 percent cost of debt and my recommended 9.64 percent cost of common equity.

**COMMENTS ON UNS' COST OF EQUITY CAPITAL TESTIMONY**

Q. What methods did Mr. Grant use to arrive at his cost of common equity for UNS?

A. Mr. Grant used a DCF methodology and a CAPM methodology to estimate UNS' cost of common equity.

Q. Can you provide a comparison of the results derived from Mr. Grant's models and yours?

A. Yes.

**DCF Comparison**

Q. Were there any differences in the way that you conducted your DCF analysis and the way that Mr. Grant conducted his?

A. Yes, Mr. Grant relied on the results of a multi-stage DCF model, using the proxy of eleven LDC's that I described earlier in my testimony, as opposed to the single-stage constant growth model that I relied on using all but one of the LDC's in Mr. Grant's proxy group. Mr. Grant stated that his decision to rely solely on the multi-stage model was based on his belief that the single-stage constant growth model cannot be applied to companies having expected near-term growth rates that are significantly higher or lower than their long-term growth potential.

...

Q. Do you agree with Mr. Grant's rationale for not relying on the single-stage DCF model?

A. No. The long-term growth rate that Mr. Grant is referring to is the 6.00 percent long-term projection of inflation-adjusted GDP, which is an inflation adjusted-projection of the growth rate of the entire U.S. economy as opposed to the regulated LDC's in his sample proxy. This is the long-term growth rate that he uses in the second step of his multi-stage DCF model. The use of such a growth estimate assumes that the long-term growth rate for the LDC's in his sample will be the same growth rate of all goods and services produced by labor and property in the U.S. A good argument can be made that regulated utilities' long-term growth rates may not actually mirror national GDP growth.

Q. Why didn't you conduct a multi-stage DCF analysis like the one conducted by Mr. Grant?

A. Primarily because the growth rate component that I estimated for my single-stage model already takes into consideration near-term and long-term growth rate projections that are specific to the LDC's included in my proxy.

...

Q. What is the difference between Mr. Grant's DCF estimate and your DCF estimate?

A. Mr. Grant's DCF high and low estimates, derived from his multi-stage model, of 10.50 percent and 9.10 percent are 172 to 36 basis points higher than the 8.74 percent cost of common equity derived from my DCF analysis which is a mean average of the DCF estimates of the ten LDC's in my proxy. A better comparison between his DCF estimates and mine is a 9.80 percent mean average of his estimates that excludes Cascade Natural Gas Corporation (whose price is now being driven by a merger with MDU Resources Group, Inc.). This comparison produces a 106 basis point difference between his estimate and mine.

Q. Does Mr. Grant provide an estimate that is based on the single-stage model that you employed?

A. Not directly, however the exhibits contained in his testimony contain inputs and estimates used in his multi-stage model that can also be used in the single-stage model. Using the inputs and estimates that appear in Mr. Grant's exhibits, a single-stage model (that excludes Cascade Natural Gas Corporation) would produce a mean average estimate of 8.21 percent or 53 basis points lower than my 8.74 percent estimate.

...

Q. Have there been any changes in closing stock prices since Mr. Grant filed his direct testimony?

A. Yes. The stock prices for the LDC's used in our proxies have increased since Mr. Grant filed his direct testimony, thus producing lower dividend yields. The difference between the average closing stock prices used in my analysis and Mr. Grant's analysis are as follows:

| | Rigsby | Grant | Difference |
|---|---|---|---|
| ATG | $39.04 | $35.29 | $3.75 |
| ATO | $31.98 | $26.47 | $5.51 |
| LG | $35.45 | $33.86 | $1.59 |
| NJR | $49.52 | $44.84 | $4.68 |
| GAS | $47.56 | $39.71 | $7.85 |
| NWN | $41.59 | $34.42 | $7.17 |
| PNY | $27.21 | $24.28 | $2.93 |
| SJI | $33.08 | $26.58 | $6.50 |
| SWX | $38.14 | $26.58 | $11.56 |
| WGL | $32.56 | $29.43 | $3.13 |

The differences in our respective dividend yields are as follows:

...

| | Rigsby | Grant | Difference |
|---|---|---|---|
| ATG | 3.79% | 4.28% | -0.49% |
| ATO | 4.00% | 4.85% | -0.85% |
| LG | 4.01% | 4.23% | -0.22% |
| NJR | 2.91% | 3.28% | -0.37% |
| GAS | 3.91% | 4.68% | -0.77% |
| NWN | 3.41% | 4.17% | -0.76% |
| PNY | 3.53% | 4.00% | -0.47% |
| SJI | 2.72% | 3.52% | -0.80% |
| SWX | 2.15% | 2.96% | -0.81% |
| WGL | 4.15% | 4.63% | -0.48% |

When Mr. Grant's first year dividend estimates (i.e. the $D_1$ component of the DCF model) are divided by my more recent closing stock prices (i.e. the $P_0$ component of the DCF model) the resulting average dividend yield is 3.50 percent, which is only slightly higher than my 3.46 percent result exhibited in schedule WAR-3. The addition of a mean average of Mr. Grant's lower 5-year growth (i.e. g) estimate of 4.15 percent for his sample LDC's (again excluding Cascade Natural Gas Corporation) produces a single-stage estimate of 7.65 percent, which is 56 basis points lower than the 8.21 percent single-stage model figure that I noted earlier.

Based on this information it is fair to say that a single stage model using updated stock prices, while holding Mr. Grant's other DCF component

estimates (with the exception of Cascade Natural Gas Corporation) constant, would produce a lower single-stage DCF estimate than the one that I have calculated.

**CAPM Comparison**

Q. Please describe the differences in the way that you conducted your CAPM analysis and the way that Mr. Grant conducted his?

A. The main difference between Mr. Grant's CAPM analysis and mine is that he relied solely on an arithmetic mean of the historical returns on the S&P 500 index from 1926 to 2005 as the proxy for the market rate of return (i.e. $r_m$) in order to arrive at his market risk premium (i.e. $r_m$ - $r_f$) in his CAPM model.

Q. What financial instrument did Mr. Grant use as a proxy for the risk free (i.e. $r_f$) rate in his CAPM model?

A. Mr. Grant used the yield to maturity on a 20-year U.S. Treasury bond, which was 5.30 percent as of April 28, 2006.

Q. What is the current yield on a 20-year U.S. Treasury bond?

A. As of January 30, 2007 the yield on a 20-year U.S. Treasury bond had fallen to 5.07 percent.

Q. Did Mr. Grant use the same Value Line betas that you used in your CAPM analysis?

A. Yes. However Value Line's beta's for the LDC's in our proxies have increased since Mr. Grant filed his direct testimony. The mean average of the Value Line betas used by Mr. Grant (excluding Cascade Natural Gas Corporation) is 0.81 as opposed to my average beta of 0.87, which was current as of December 15, 2006.

Q. What is the difference between Mr. Grant's CAPM estimate and your CAPM estimate?

A. Mr. Grant's CAPM high and low estimates, derived from his arithmetic mean model, of 9.9 percent and 11.70 percent are 146 basis points lower to 34 basis points higher than the 11.36 percent cost of common equity derived from my arithmetic mean CAPM analysis which is a mean average of the ten LDC's in my proxy. Mr. Grant's CAPM high and low estimates of 9.9 percent and 11.70 percent are 20 to 200 basis points higher than the 9.70 percent cost of common equity derived from my geometric mean CAPM analysis. Again, as with the DCF model, a better comparison between his CAPM estimates and mine is an 11.02 percent mean average of his estimates that excludes Cascade Natural Gas Corporation. This comparison produces a difference of 132 basis points higher to 34 basis points lower than the results produced by my geometric and arithmetic mean CAPM models respectively.

**Final Cost of Equity Estimate**

Q. How did Mr. Grant arrive at his final estimate of 11.00 percent for UNS?

A. Mr. Grant's final 11.00 percent recommendation is based on his belief that UNS should be awarded a return on equity that is at the upper range of his estimates given a number of factors that include UNS' size, the level of customer growth the Company faces, historical test-year concept, the fact that many of the LDC's in his proxy have decoupling mechanisms, and the lower credit rating of UNS.

Q. Do you believe that UNS should be awarded a higher return on equity based on the factors cited by Mr. Grant?

A. No. The Commission in prior cases has rejected many of the factors cited by Mr. Grant. This includes such issues such as company size, customer growth, and the historic test year concept. In regard to the decoupling mechanism cited by Mr. Grant, it is interesting that he has not recognized the fact that the implementation of such a mechanism, which the Company has requested in this case, would certainly merit a lower return on common equity for UNS given the fact that it would remove the risk associated with operating income volatility.

...

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Mr. Grant or any other witness for UNS constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on UNS?

A. Yes, it does.

# APPENDIX 1

**Appendix 1**

# Qualifications of William A. Rigsby, CRRA

**EDUCATION:**

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

**EXPERIENCE:**

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

**Appendix 1**

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION

| Utility Company | Docket No. | Type of Proceeding |
|---|---|---|
| ICR Water Users Association | U-2824-94-389 | Original CC&N |
| Rincon Water Company | U-1723-95-122 | Rate Increase |
| Ash Fork Development Association, Inc. | E-1004-95-124 | Rate Increase |
| Parker Lakeview Estates Homeowners Association, Inc. | U-1853-95-328 | Rate Increase |
| Mirabell Water Company, Inc. | U-2368-95-449 | Rate Increase |
| Bonita Creek Land and Homeowner's Association | U-2195-95-494 | Rate Increase |
| Pineview Land & Water Company | U-1676-96-161 | Rate Increase |
| Pineview Land & Water Company | U-1676-96-352 | Financing |
| Montezuma Estates Property Owners Association | U-2064-96-465 | Rate Increase |
| Houghland Water Company | U-2338-96-603 et al | Rate Increase |
| Sunrise Vistas Utilities Company – Water Division | U-2625-97-074 | Rate Increase |
| Sunrise Vistas Utilities Company – Sewer Division | U-2625-97-075 | Rate Increase |
| Holiday Enterprises, Inc. dba Holiday Water Company | U-1896-97-302 | Rate Increase |
| Gardener Water Company | U-2373-97-499 | Rate Increase |
| Cienega Water Company | W-2034-97-473 | Rate Increase |
| Rincon Water Company | W-1723-97-414 | Financing/Auth. To Issue Stock |
| Vail Water Company | W-01651A-97-0539 et al | Rate Increase |
| Bermuda Water Company, Inc. | W-01812A-98-0390 | Rate Increase |
| Bella Vista Water Company | W-02465A-98-0458 | Rate Increase |
| Pima Utility Company | SW-02199A-98-0578 | Rate Increase |

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| Utility Company | Docket No. | Type of Proceeding |
|---|---|---|
| Pineview Water Company | W-01676A-99-0261 | WIFA Financing |
| I.M. Water Company, Inc. | W-02191A-99-0415 | Financing |
| Marana Water Service, Inc. | W-01493A-99-0398 | WIFA Financing |
| Tonto Hills Utility Company | W-02483A-99-0558 | WIFA Financing |
| New Life Trust, Inc. dba Dateland Utilities | W-03537A-99-0530 | Financing |
| GTE California, Inc. | T-01954B-99-0511 | Sale of Assets |
| Citizens Utilities Rural Company, Inc. | T-01846B-99-0511 | Sale of Assets |
| MCO Properties, Inc. | W-02113A-00-0233 | Reorganization |
| American States Water Company | W-02113A-00-0233 | Reorganization |
| Arizona-American Water Company | W-01303A-00-0327 | Financing |
| Arizona Electric Power Cooperative | E-01773A-00-0227 | Financing |
| 360networks (USA) Inc. | T-03777A-00-0575 | Financing |
| Beardsley Water Company, Inc. | W-02074A-00-0482 | WIFA Financing |
| Mirabell Water Company | W-02368A-00-0461 | WIFA Financing |
| Rio Verde Utilities, Inc. | WS-02156A-00-0321 et al | Rate Increase/ Financing |
| Arizona Water Company | W-01445A-00-0749 | Financing |
| Loma Linda Estates, Inc. | W-02211A-00-0975 | Rate Increase |
| Arizona Water Company | W-01445A-00-0962 | Rate Increase |
| Mountain Pass Utility Company | SW-03841A-01-0166 | Financing |
| Picacho Sewer Company | SW-03709A-01-0165 | Financing |
| Picacho Water Company | W-03528A-01-0169 | Financing |
| Ridgeview Utility Company | W-03861A-01-0167 | Financing |
| Green Valley Water Company | W-02025A-01-0559 | Rate Increase |
| Bella Vista Water Company | W-02465A-01-0776 | Rate Increase |
| Arizona Water Company | W-01445A-02-0619 | Rate Increase |

## RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

| Utility Company | Docket No. | Type of Proceeding |
|---|---|---|
| Arizona-American Water Company | W-01303A-02-0867 et al. | Rate Increase |
| Arizona Public Service Company | E-01345A-03-0437 | Rate Increase |
| Rio Rico Utilities, Inc. | WS-02676A-03-0434 | Rate Increase |
| Qwest Corporation | T-01051B-03-0454 | Renewed Price Cap |
| Chaparral City Water Company | W-02113A-04-0616 | Rate Increase |
| Arizona Water Company | W-01445A-04-0650 | Rate Increase |
| Tucson Electric Power | E-01933A-04-0408 | Rate Review |
| Southwest Gas Corporation | G-01551A-04-0876 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0405 | Rate Increase |
| Black Mountain Sewer Corporation | SW-02361A-05-0657 | Rate Increase |
| Far West Water & Sewer Company | WS-03478A-05-0801 | Rate Increase |
| Gold Canyon Sewer Company | SW-02519A-06-0015 | Rate Increase |
| Arizona Public Service Company | E-01345A-05-0816 | Rate Increase |
| Arizona-American Water Company | W-01303A-06-0014 | Rate Increase |
| Arizona-American Water Company | W-01303A-05-0718 | Transaction Approval |

# ATTACHMENT A

**Natural Gas (Distribution) companies have entered their most profitable time of the year as the winter heating season is upon us. Utilities earn most of their profits during the December and March quarters. To reduce the volatility of earnings that may arise due to warmer-than-normal temperatures, many companies have applied for, and been granted, regulatory programs that not only protect against warmer weather, but also reduced gas consumption (discussed below). Some key features of owning gas utilities include their Safety ranks and better-than-average dividend yields, rather than price performance or appreciation potential.**

### Natural Gas Distribution

The distribution operations of gas utilities are regulated by state agencies, which set the allowed rates of return these companies are permitted to earn. They are considered natural monopolies since it is more cost-effective to build one pipeline system to serve a region, versus multiple distributors competing over the same location. As a result, utilities typically generate steady earnings that rise with population growth over time. In the event that profits fall below their allowed return-on-equity utilities can petition their state regulatory authority for rate relief, although there is a time lag before new rates are put in place, if approved.

### New Rate Plans

Over the past year, there have been numerous gas distributors that have received decoupling mechanisms in various forms that protect against both warmer-than-normal temperatures and reduced consumption by customers due to conservation. This enables utilities to promote conservation and efficiency, while also protecting financial performance. The New Jersey Board of Public Utilities recently approved conservation incentive plans for both *New Jersey Resources* and *South Jersey Industries*. *WGL Holdings* has a revenue normalization clause in place to protect against these issues in its Maryland service territory. The company is seeking to implement a similar plan in its Virginia service territory and plans to file a rate case this upcoming spring to recover costs associated with the Prince George's County rehabilitation project. At *SEMCO Energy*, the company

**INDUSTRY TIMELINESS: 88 (of 97)**

received a rate increase of $8.5 million based on a return on equity of 10.15%-11.15%. However this is below the $18.1 million increase on a return on common equity of 11.9% that had been requested. Management plans to file a rebuttal shortly. Lastly, *Southern Union* has filed for a $41.7 million rate increase in its Missouri service territory, and is seeking additional relief in its Massachusetts service area.

### Nonutility Operations

Industry deregulation has allowed gas utilities to expand their businesses beyond their normal distribution operations. This includes retail energy marketing, energy trading, and oil and gas exploration and production. In fact, most companies in this industry have at least a small percentage of their profits derived from these activities, with many looking to expand their presence further. One benefit is that there is no cap on the allowed return on equity as compared to the regulated operations. However, some drawbacks include regulatory agencies being less inclined to approve rate increases, along with corporate boards possibly reducing the rate of dividend increases to use the funds for other growth investments.

*South Jersey Industries*, through its Marina Energy subsidiary, is poised for growth out to late decade. The company is in the second phase of its expansion at the Borgata Hotel Casino & Spa, which is scheduled to be completed next year. In addition, Marina remains one of the finalists to co-own and operate a thermal facility to provide all the energy needs for a Las Vegas casino project.

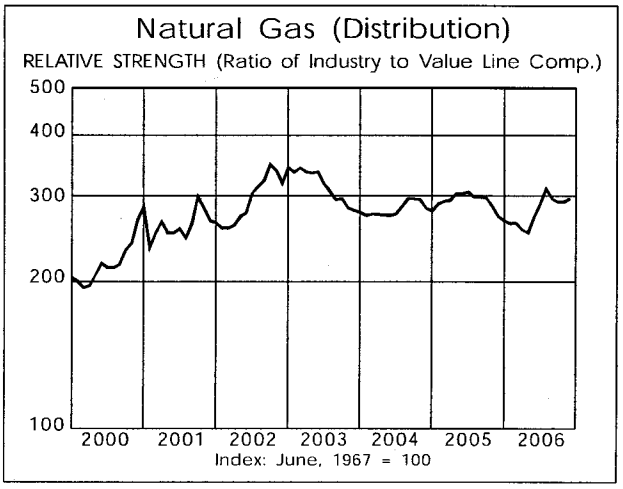
### Investment Advice

This industry caters to risk-averse investors, who look for an above-average dividend yield when choosing a stock. It should be noted that as the percentage of earnings derived from nonregulated operations grows, risk increases. Therefore, it is worthwhile for investors to decide whether or not they are willing to take on the additional risk. Note, however, that especially high dividend yields for stocks in this sector can mean that growth opportunities are constrained.

*Evan I. Blatter*

Composite Statistics: Natural Gas (Distribution)

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|
| 22947 | 29981 | 33220 | 41399 | ***44500*** | ***49000*** | Revenues ($mill) | ***58000*** |
| 1231.5 | 1395.3 | 1517.2 | 1788.8 | ***2000*** | ***2200*** | Net Profit ($mill) | ***2800*** |
| 35.3% | 37.4% | 35.7% | 35.8% | ***36.0%*** | ***36.0%*** | Income Tax Rate | ***36.0%*** |
| 5.4% | 4.7% | 4.6% | 4.3% | ***4.5%*** | ***4.5%*** | Net Profit Margin | ***4.8%*** |
| 57.8% | 55.9% | 53.2% | 50.7% | ***52.0%*** | ***52.0%*** | Long-Term Debt Ratio | ***52.0%*** |
| 41.4% | 43.7% | 45.7% | 48.3% | ***46.0%*** | ***46.0%*** | Common Equity Ratio | ***46.0%*** |
| 24907 | 28436 | 31268 | 33911 | ***35400*** | ***36750*** | Total Capital ($mill) | ***42000*** |
| 25590 | 31732 | 32053 | 35030 | ***37000*** | ***39000*** | Net Plant ($mill) | ***45000*** |
| 6.6% | 6.4% | 6.4% | 6.9% | ***7.0%*** | ***7.0%*** | Return on Total Cap'l | ***7.5%*** |
| 11.7% | 11.1% | 10.4% | 10.7% | ***11.0%*** | ***11.5%*** | Return on Shr. Equity | ***12.0%*** |
| 11.8% | 11.2% | 10.5% | 10.8% | ***11.0%*** | ***11.5%*** | Return on Com Equity | ***12.0%*** |
| 3.9% | 4.1% | 4.0% | 4.4% | ***5.0%*** | ***5.2%*** | Retained to Com Eq | ***5.5%*** |
| 68% | 64% | 63% | 59% | ***61%*** | ***60%*** | All Div'ds to Net Prof | ***60%*** |
| 14.8 | 14.1 | 15.6 | 16.2 | ***Bold figures are Value Line estimates*** | | Avg Ann'l P/E Ratio | ***13.0*** |
| .81 | .80 | .82 | .87 | | | Relative P/E Ratio | ***.85*** |
| 4.5% | 4.5% | 4.0% | 3.6% | | | Avg Ann'l Div'd Yield | ***4.6%*** |
| 281% | 314% | 308% | 331% | ***315%*** | ***330%*** | Fixed Charge Coverage | ***355%*** |

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# AGL RESOURCES NYSE-ATG

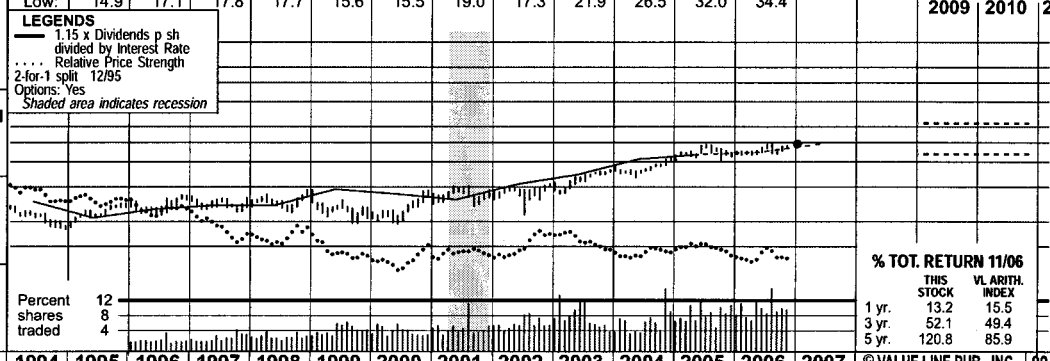
| RECENT PRICE | P/E RATIO | | RELATIVE P/E RATIO | DIV'D YLD | |
|---|---|---|---|---|---|
| 39.50 | 14.8 | (Trailing: 13.3 Median: 14.0) | 0.80 | 4.0% | VALUE LINE |

**TIMELINESS** 4 Lowered 8/11/06
**SAFETY** 2 New 7/27/90
**TECHNICAL** 2 Raised 12/1/06
**BETA** .95 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 20.0 | 22.0 | 21.6 | 23.4 | 23.4 | 23.2 | 24.5 | 25.0 | 29.3 | 33.7 | 39.3 | 40.0 |
| Low: | 14.9 | 17.1 | 17.8 | 17.7 | 15.6 | 15.5 | 19.0 | 17.3 | 21.9 | 26.5 | 32.0 | 34.4 |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.15 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 12/95
Options: Yes
*Shaded area indicates recession*



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 50 | (+25%) | 9% |
| Low | 35 | (-10%) | 1% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 |
| to Sell | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 109 | 110 | 95 |
| to Sell | 88 | 83 | 102 |
| Hld's(000) | 49186 | 45106 | 49525 |

Percent shares traded 12 8 4

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 13.2 | 15.5 |
| 3 yr. | 52.1 | 49.4 |
| 5 yr. | 120.8 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 22.58 | 20.26 | 20.43 | 22.73 | 23.59 | 19.32 | 21.91 | 22.75 | 23.36 | 18.71 | 11.25 | 19.04 | 15.32 | 15.25 | 23.89 | 34.98 | *35.55* | *36.10* | Revenues per sh A | *38.30* |
| 2.04 | 2.07 | 2.31 | 2.25 | 2.24 | 2.33 | 2.49 | 2.42 | 2.65 | 2.29 | 2.86 | 3.31 | 3.39 | 3.47 | 3.29 | 4.20 | *4.40* | *4.50* | "Cash Flow" per sh | *4.85* |
| 1.01 | 1.04 | 1.13 | 1.08 | 1.17 | 1.33 | 1.37 | 1.37 | 1.41 | .91 | 1.29 | 1.50 | 1.82 | 2.08 | 2.28 | 2.48 | *2.65* | *2.70* | Earnings per sh A B | *2.90* |
| .98 | 1.02 | 1.03 | 1.04 | 1.04 | 1.04 | 1.06 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.11 | 1.15 | 1.30 | *1.50* | *1.58* | Div'ds Decl'd per sh C■ | *1.75* |
| 2.73 | 2.95 | 2.74 | 2.49 | 2.37 | 2.17 | 2.37 | 2.59 | 2.05 | 2.51 | 2.92 | 2.83 | 3.30 | 2.46 | 3.44 | 3.44 | *3.20* | *3.10* | Cap'l Spending per sh | *2.25* |
| 8.97 | 9.42 | 9.70 | 9.90 | 10.19 | 10.12 | 10.56 | 10.99 | 11.42 | 11.59 | 11.50 | 12.19 | 12.52 | 14.66 | 18.06 | 19.29 | *20.40* | *21.50* | Book Value per sh D | *25.10* |
| 44.32 | 47.57 | 48.69 | 49.72 | 50.86 | 55.02 | 55.70 | 56.60 | 57.30 | 57.10 | 54.00 | 55.10 | 56.70 | 64.50 | 76.70 | 77.70 | *77.90* | *78.00* | Common Shs Outst'g E | *78.30* |
| 14.2 | 15.3 | 15.5 | 17.9 | 15.1 | 12.6 | 13.8 | 14.7 | 13.9 | 21.4 | 13.6 | 14.6 | 12.5 | 12.5 | 13.1 | 14.3 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.0* |
| 1.05 | .98 | .94 | 1.06 | .99 | .84 | .86 | .85 | .72 | 1.22 | .88 | .75 | .68 | .71 | .69 | .76 | *Value Line* | | Relative P/E Ratio | *1.00* |
| 6.8% | 6.4% | 5.9% | 5.4% | 5.9% | 6.2% | 5.6% | 5.4% | 5.5% | 5.5% | 6.2% | 4.9% | 4.7% | 4.3% | 3.9% | 3.7% | *estimates* | | Avg Ann'l Div'd Yield | *4.0%* |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** 2075.0 mill. **Due in 5 Yrs** $530.0 mill.
**LT Debt** $1634.0 mill. **LT Interest** $100.0 mill.

(Total interest coverage: 4.4x)
**Leases, Uncapitalized** Annual rentals $27.0 mill.

**Pension Assets-12/05** $371.0 mill. **Oblig.** $464.0 mill.

**Pfd Stock** None
**Common Stock** 77,696,090 shs. as of 10/20/06

**MARKET CAP: $3.1 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|
| 1220.2 | 1287.6 | 1338.6 | 1068.6 | 607.4 | 1049.3 | 868.9 | 983.7 | 1832.0 | 2718.0 | *2770* | *2815* | Revenues ($mill) A | *3000* |
| 75.6 | 76.6 | 80.6 | 52.1 | 71.1 | 82.3 | 103.0 | 132.4 | 153.0 | 193.0 | *205* | *210* | Net Profit ($mill) | *230* |
| 38.6% | 37.9% | 32.5% | 33.1% | 34.3% | 40.7% | 36.0% | 35.9% | 37.0% | 37.7% | *38.0%* | *38.0%* | Income Tax Rate | *38.0%* |
| 6.2% | 5.9% | 6.0% | 4.9% | 11.7% | 7.8% | 11.9% | 13.5% | 8.4% | 7.1% | *7.5%* | *7.5%* | Net Profit Margin | *7.7%* |
| 46.2% | 48.7% | 47.5% | 45.3% | 45.9% | 61.3% | 58.3% | 50.3% | 54.0% | 51.9% | *51.0%* | *50.0%* | Long-Term Debt Ratio | *48.5%* |
| 48.9% | 45.9% | 47.1% | 49.2% | 48.3% | 38.7% | 41.7% | 49.7% | 46.0% | 48.1% | *49.0%* | *50.0%* | Common Equity Ratio | *51.5%* |
| 1201.3 | 1356.4 | 1388.4 | 1345.8 | 1286.2 | 1736.3 | 1704.3 | 1901.4 | 3008.0 | 3114.0 | *3225* | *3310* | Total Capital ($mill) | *3775* |
| 1415.4 | 1496.6 | 1534.0 | 1598.9 | 1637.5 | 2058.9 | 2194.2 | 2352.4 | 3178.0 | 3271.0 | *3350* | *3450* | Net Plant ($mill) | *3750* |
| 8.0% | 7.3% | 7.6% | 5.7% | 7.4% | 6.5% | 8.1% | 8.9% | 6.3% | 7.9% | *8.0%* | *8.0%* | Return on Total Cap'l | *7.5%* |
| 11.7% | 11.0% | 11.1% | 7.1% | 10.2% | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | *13.0%* | *12.5%* | Return on Shr. Equity | *12.0%* |
| 12.1% | 11.3% | 12.3% | 7.9% | 11.5% | 12.3% | 14.5% | 14.0% | 11.0% | 12.9% | *13.0%* | *12.5%* | Return on Com Equity | *12.0%* |
| 3.8% | 3.2% | 4.4% | NMF | 3.2% | 4.2% | 7.0% | 6.6% | 5.6% | 6.2% | *5.5%* | *5.5%* | Retained to Com Eq | *5.0%* |
| 71% | 74% | 64% | 101% | 72% | 65% | 52% | 53% | 49% | 52% | *57%* | *58%* | All Div'ds to Net Prof | *59%* |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 49.0 | 30.0 | 14.0 |
| Other | 1408.0 | 2002.0 | 1498.0 |
| Current Assets | 1457.0 | 2032.0 | 1512.0 |
| Accts Payable | 207.0 | 264.0 | 540.0 |
| Debt Due | 334.0 | 522.0 | 441.0 |
| Other | 936.0 | 1153.0 | 335.0 |
| Current Liab. | 1477.0 | 1939.0 | 1316.0 |
| Fix. Chg. Cov. | 510% | 442% | 470% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 1.0% | 7.0% | *7.5%* |
| "Cash Flow" | 5.0% | 7.0% | *5.0%* |
| Earnings | 6.5% | 13.5% | *4.0%* |
| Dividends | 1.5% | 2.0% | *6.5%* |
| Book Value | 5.5% | 8.5% | *6.5%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 352.5 | 186.6 | 166.3 | 278.3 | 983.7 |
| 2004 | 651.0 | 294.0 | 262.0 | 625.0 | 1832.0 |
| 2005 | 908.0 | 430.0 | 387.0 | 993.0 | 2718.0 |
| 2006 | 1047.0 | 436.0 | 434.0 | *853* | *2770* |
| 2007 | *970* | *480* | *465* | *900* | *2815* |

| Cal-endar | EARNINGS PER SHARE A B Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | .98 | .29 | .27 | .54 | 2.08 |
| 2004 | 1.00 | .33 | .31 | .64 | 2.28 |
| 2005 | 1.14 | .30 | .19 | .85 | 2.48 |
| 2006 | 1.41 | .25 | .46 | *.53* | *2.65* |
| 2007 | *1.30* | *.37* | *.29* | *.74* | *2.70* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .27 | .27 | .27 | .27 | 1.08 |
| 2003 | .27 | .28 | .28 | .28 | 1.11 |
| 2004 | .28 | .29 | .29 | .29 | 1.15 |
| 2005 | .31 | .31 | .31 | .37 | 1.30 |
| 2006 | .37 | .37 | .37 | .37 | |

**BUSINESS:** AGL Resources, Inc. is a public utility holding company. Its distribution subsidiaries are Atlanta Gas Light, Chattanooga Gas, and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia (primarily Atlanta), Virginia, and in southern Tennessee. Also engaged in nonregulated natural gas marketing and other, allied services. Also wholesales and retails propane. Nonregulated subsidiaries: Georgia Natural Gas Services markets natural gas at retail. Acq. Virginia Natural Gas, 10/00. Sold Utilipro, 3/01. Off./dir. own less than 1.0% of common; Goldman Sachs, 5.5%; JPMorgan, 5.9% (3/06 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: 10 Peachtree Place N.E., Atlanta, GA 30309. Tel.: 404-584-4000. Internet: www.aglresources.com.

**AGL Resources is on track to register solid earnings gains in 2006.** The company reported earnings of $0.46 a share in the third quarter, significantly ahead of the prior year. Most of the gains can be attributed to a strong performance at the company's Wholesale Services segment. The unit benefited from mark-to-market gains following the decline in NYMEX gas prices. This resulted in the recognition of $38 million in gains compared to the loss of $46 million last year when gas prices increased significantly. Since gas prices typically fluctuate over time, quarterly earnings should remain volatile at this unit.

**The company is looking to reduce costs about 2%–3% at its distribution segment.** Over the past few years, operating and maintenance costs per customer have decreased significantly thanks to numerous efficiency programs put in place. As another way to improve results, the company is looking to reduce customer attrition. Management believes it can achieve 0.8% growth this year and push the rate higher in the coming years.

**No progress has been made on the Jefferson Island storage facility dispute since our last report.** In August, the Louisiana Department of Natural Resources terminated the company's mineral lease. AGL Resources responded by filing suit in September against the state of Louisiana to maintain its lease and complete the project. Management is optimistic that a resolution can be reached, though the third cavern will likely not become operational until 2009 as a result of delays. In addition,

**The company has signed an option to develop a salt dome in east Texas near the Gulf Coast.** It has an estimated 12 billion cubic feet of working capacity. The location also provides the ability to connect to other pipelines in the area, along with potential LNG facilities that may come into the region. The first cavern, which would be about six bcf and similar in size to the Jefferson Island cavern, has the potential to be in operation by 2010.

**Though untimely, this stock offers a good dividend yield.** ATG shares offer only limited appreciation potential, but further expansion in nonregulated activities may well improve these prospects.

*Evan I. Blatter* *December 15, 2006*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07). Next earnings report due late Jan.
(C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available.
(D) Includes intangibles. In 2005: $422 million, $5.43/share.
(E) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 95 |
| Price Growth Persistence | 70 |
| Earnings Predictability | 75 |

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# ATMOS ENERGY CORP. NYSE-ATO

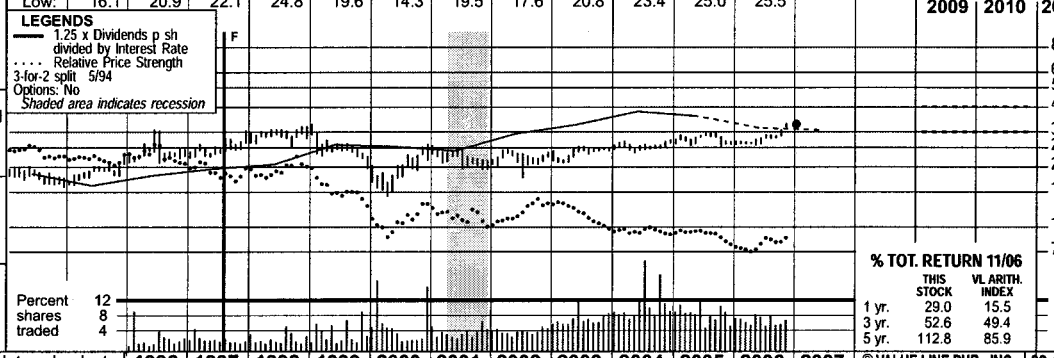
| RECENT PRICE | 32.82 | P/E RATIO | 14.1 (Trailing: 17.9 / Median: 16.0) | RELATIVE P/E RATIO | 0.77 | DIV'D YLD | 3.9% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 3 Raised 7/28/06
**SAFETY** 2 Raised 12/16/05
**TECHNICAL** 2 Raised 11/17/06
**BETA** .80 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 23.0 | 31.0 | 30.5 | 32.3 | 33.0 | 26.3 | 25.8 | 24.5 | 25.5 | 27.6 | 30.0 | 33.1 |
| Low: | 16.1 | 20.9 | 22.1 | 24.8 | 19.6 | 14.3 | 19.5 | 17.6 | 20.8 | 23.4 | 25.0 | 25.5 |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 5/94
Options: No
*Shaded area indicates recession*



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+20%) | 8% |
| Low | 30 | (-10%) | 2% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 93 | 89 | 102 |
| to Sell | 91 | 84 | 67 |
| Hld's(000) | 43022 | 46004 | 46293 |

Percent shares traded 12 8 4

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 29.0 | 15.5 |
| 3 yr. | 52.6 | 49.4 |
| 5 yr. | 112.8 | 85.9 |

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 30.19 | 30.59 | 27.90 | 22.09 | 26.61 | 35.36 | 22.82 | 54.39 | 46.50 | 61.75 | *75.05* | *73.80* | Revenues per sh A | *100.00* |
| 2.80 | 2.85 | 3.38 | 2.62 | 3.01 | 3.03 | 3.39 | 3.23 | 2.91 | 3.90 | *4.25* | *4.30* | "Cash Flow" per sh | *4.85* |
| 1.51 | 1.34 | 1.84 | .81 | 1.03 | 1.47 | 1.45 | 1.71 | 1.58 | 1.72 | 2.00 | *1.95* | Earnings per sh A B | *2.45* |
| .96 | 1.01 | 1.06 | 1.10 | 1.14 | 1.16 | 1.18 | 1.20 | 1.22 | 1.24 | 1.26 | *1.28* | Div'ds Decl'd per sh C■ | *1.35* |
| 4.84 | 4.13 | 4.44 | 3.53 | 2.36 | 2.77 | 3.17 | 3.10 | 3.03 | 4.14 | *5.20* | *5.15* | Cap'l Spending per sh | *7.10* |
| 10.75 | 11.04 | 12.21 | 12.09 | 12.28 | 14.31 | 13.75 | 16.66 | 18.05 | 19.90 | *20.10* | *20.20* | Book Value per sh | *22.95* |
| 16.02 | 29.64 | 30.40 | 31.25 | 31.95 | 40.79 | 41.68 | 51.48 | 62.80 | 80.54 | *82.00* | *84.00* | Common Shs Outst'g D | *100.00* |
| 15.1 | 17.9 | 15.4 | 33.0 | 18.9 | 15.6 | 15.2 | 13.4 | 15.9 | 16.1 | 13.5 | | Avg Ann'l P/E Ratio | *14.0* |
| .95 | 1.03 | .80 | 1.88 | 1.23 | .80 | .83 | .76 | .84 | .84 | .72 | | Relative P/E Ratio | *.95* |
| 4.2% | 4.2% | 3.7% | 4.1% | 5.9% | 5.1% | 5.4% | 5.2% | 4.9% | 4.5% | 4.7% | | Avg Ann'l Div'd Yield | *3.9%* |
| 483.7 | 906.8 | 848.2 | 690.2 | 850.2 | 1442.3 | 950.8 | 2799.9 | 2920.0 | 4973.3 | 6152.4 | *6200* | Revenues ($mill) A | *10000* |
| 23.9 | 39.2 | 55.3 | 25.0 | 32.2 | 56.1 | 59.7 | 79.5 | 86.2 | 135.8 | 162.3 | *165* | Net Profit ($mill) | *250* |
| 35.7% | 37.5% | 36.5% | 35.0% | 36.1% | 37.3% | 37.1% | 37.1% | 37.4% | 37.7% | 37.6% | *37.5%* | Income Tax Rate | *38.0%* |
| 5.0% | 4.3% | 6.5% | 3.6% | 3.8% | 3.9% | 6.3% | 2.8% | 3.0% | 2.7% | 2.6% | *2.7%* | Net Profit Margin | *2.5%* |
| 41.5% | 48.1% | 51.8% | 50.0% | 48.1% | 54.3% | 53.9% | 50.2% | 43.2% | 57.7% | *57.0%* | *57.0%* | Long-Term Debt Ratio | *55.0%* |
| 58.5% | 51.9% | 48.2% | 50.0% | 51.9% | 45.7% | 46.1% | 49.8% | 56.8% | 42.3% | *43.0%* | *43.0%* | Common Equity Ratio | *45.0%* |
| 294.6 | 630.2 | 769.7 | 755.1 | 755.7 | 1276.3 | 1243.7 | 1721.4 | 1994.8 | 3785.5 | *3830* | *3950* | Total Capital ($mill) | *5100* |
| 413.6 | 849.1 | 917.9 | 965.8 | 982.3 | 1335.4 | 1300.3 | 1516.0 | 1722.5 | 3374.4 | *3630* | *3900* | Net Plant ($mill) | *5000* |
| 10.6% | 8.3% | 9.0% | 5.1% | 6.5% | 5.9% | 6.8% | 6.2% | 5.8% | 5.3% | *6.0%* | *6.0%* | Return on Total Cap'l | *6.5%* |
| 13.9% | 12.0% | 14.9% | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | *10.0%* | *9.5%* | Return on Shr. Equity | *11.0%* |
| 13.9% | 12.0% | 14.9% | 6.6% | 8.2% | 9.6% | 10.4% | 9.3% | 7.6% | 8.5% | *10.0%* | *9.5%* | Return on Com Equity | *11.0%* |
| 5.1% | 3.9% | 6.3% | NMF | NMF | 2.1% | 1.9% | 2.8% | 1.7% | 2.3% | *3.5%* | *3.5%* | Retained to Com Eq | *5.0%* |
| 64% | 67% | 58% | NMF | 112% | 79% | 82% | 70% | 77% | 73% | *64%* | *65%* | All Div'ds to Net Prof | *54%* |

**CAPITAL STRUCTURE as of 6/30/06**
**Total Debt** $2481.2 mill. **Due in 5 Yrs** $860.0 mill.
**LT Debt** $2180.8 mill. **LT Interest** $135.0 mill.
(LT interest earned: 2.7x; total interest coverage: 2.6x)
**Leases, Uncapitalized** Annual rentals $15.3 mill.
**Pfd Stock** None
**Pension Assets-9/05** $355.9 mill. **Oblig.** $359.9 mill.
**Common Stock** 81,595,723 shs. as of 7/31/06
**MARKET CAP: $2.7 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 6/30/06 |
|---|---|---|---|
| Cash Assets | 201.9 | 40.1 | 26.8 |
| Other | 475.2 | 1224.3 | 1023.4 |
| Current Assets | 677.1 | 1264.4 | 1050.2 |
| Accts Payable | 185.3 | 461.3 | 306.8 |
| Debt Due | 5.9 | 148.1 | 300.4 |
| Other | 223.3 | 503.4 | 407.6 |
| Current Liab. | 414.5 | 1112.8 | 1014.8 |
| Fix. Chg. Cov. | 384% | 395% | 400% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 6.0% | 16.5% | *10.5%* |
| "Cash Flow" | 3.5% | 2.0% | *6.5%* |
| Earnings | 4.0% | 6.5% | *6.5%* |
| Dividends | 3.0% | 2.0% | *2.0%* |
| Book Value | 6.5% | 8.5% | *4.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 680.4 | 1194.1 | 488.5 | 436.9 | 2799.9 |
| 2004 | 763.6 | 1117.5 | 546.1 | 492.8 | 2920.0 |
| 2005 | 1371.0 | 1687.8 | 909.9 | 1004.6 | 4973.3 |
| 2006 | 2283.8 | 2033.8 | 863.2 | 971.6 | 6152.4 |
| 2007 | *1550* | *1550* | *1550* | *1550* | *6200* |

| Fiscal Year Ends | EARNINGS PER SHARE A B E Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | .60 | 1.24 | -- | d.05 | 1.71 |
| 2004 | .57 | 1.12 | .09 | d.11 | 1.58 |
| 2005 | .79 | 1.11 | .06 | d.21 | 1.72 |
| 2006 | .88 | 1.10 | d.22 | .25 | 2.00 |
| 2007 | *.85* | *1.15* | *.08* | *d.13* | *1.95* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .295 | .295 | .295 | .30 | 1.19 |
| 2003 | .30 | .30 | .30 | .305 | 1.21 |
| 2004 | .305 | .305 | .305 | .31 | 1.23 |
| 2005 | .31 | .31 | .31 | .315 | 1.25 |
| 2006 | .315 | .315 | .315 | .32 | |

**BUSINESS:** Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via seven regulated natural gas utility operations: Louisiana Division, Mid-States Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky Division. Combined 2005 gas volumes: 296 MMcf. Breakdown: 55%, residential; 31%, commercial; 10%, industrial; and 4% other. 2005 depreciation rate 3.7%. Has around 4,330 employees. Officers and directors own approximately 2.6% of common stock (12/05 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

**We believe that Atmos Energy's bottom line will be flat in fiscal 2007**, which began on October 1st. This is attributable largely to the difficult comparison, reflecting a record performance from the non-utility marketing segment, which was able to capture highly favorable arbitrage spreads created by natural gas volatility. Note, too, that our figure for the fourth quarter of fiscal 2006 does not include an $0.18-a-share charge for the impairment of irrigation properties in the West Texas Division.

**But the company ought to be aided by certain factors.** Weather-normalized rates are now in effect for the Mid-Tex operation and Louisiana unit, presently accounting for almost 60% of the customer base, combined. Consequently, around 90% of the utility's margins are protected by these mechanisms, compared to about 33% previously. Also, this fiscal year's results should be absent the $0.10-a-share reduction from the impact of Hurricane Katrina.

**Atmos is one of the more aggressively managed natural gas utilities in the *Value Line* universe**, as it has completed a string of major acquisitions over the past 20 years (the last one being TXU Gas Company in 2004). The TXU purchase brought a substantial pipeline business into the fold. The company is now one of the largest operators in Texas, with room for expansion. Management will undoubtedly continue to implement its strategy of purchasing less-efficient utilities and shoring up their profitability through expense-reduction initiatives, rate relief, and aggressive marketing efforts.

**These good-quality shares have exhibited strength since our last report in September**, arising partly, we think, from the possibility that natural gas costs will decline this winter, in view of weather forecasts and supply levels.

**Income-oriented accounts may be drawn to the dividend yield.** And it seems that more increases in the payout are plausible. Earnings coverage should remain adequate.

**But long-term total-return possibilities are limited**, given the stock's price move. Also, the Timeliness rank is just 3 (Average).

*Frederick L. Harris, III December 15, 2006*

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '97, d53¢; '99, d23¢; '00, 12¢; '03, d17¢; Q4 '06, d18¢. Next egs. rpt. due early Feb. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions, adjusted for stock splits. (E) Qtrs may not add due to change in shrs outstanding. (F) ATO completed United Cities merger 7/97.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 30 |
| Earnings Predictability | 70 |

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# LACLEDE GROUP NYSE-LG

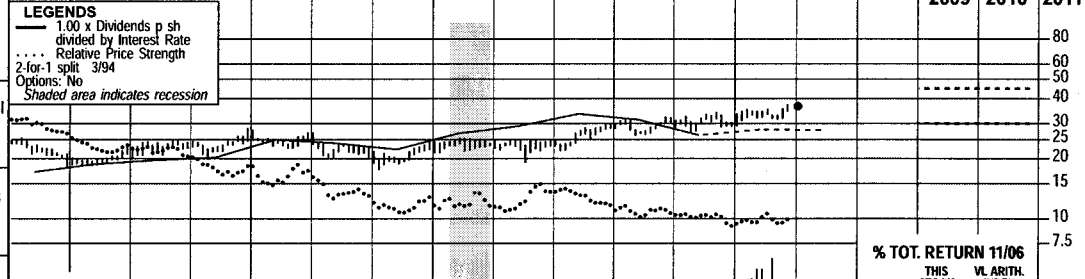
RECENT PRICE 36.70 | P/E RATIO 15.2 (Trailing: 15.5 Median: 15.0) | RELATIVE P/E RATIO 0.83 | DIV'D YLD 4.0% | VALUE LINE

TIMELINESS 4 Raised 9/8/06
SAFETY 2 Raised 6/20/03
TECHNICAL 3 Lowered 9/15/06
BETA .90 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 23.1 | 24.9 | 28.6 | 27.9 | 27.0 | 24.8 | 25.5 | 25.0 | 30.0 | 32.5 | 34.3 | 37.5 |
| Low: | 18.4 | 20.0 | 20.3 | 22.4 | 20.0 | 17.5 | 21.3 | 19.0 | 21.8 | 26.0 | 26.9 | 29.1 |

Target Price Range 2009 | 2010 | 2011

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 3/94
Options: No
Shaded area indicates recession



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+25%) | 9% |
| Low | 30 | (-20%) | Nil |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| to Sell | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 50 | 67 | 60 |
| to Sell | 37 | 30 | 47 |
| Hld's(000) | 8521 | 9470 | 10115 |

Percent shares traded 7.5 5 2.5

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 27.7 | 15.5 |
| 3 yr. | 43.3 | 49.4 |
| 5 yr. | 97.3 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 30.21 | 28.10 | 26.83 | 32.33 | 33.43 | 24.79 | 31.03 | 34.33 | 31.04 | 26.04 | 29.99 | 53.08 | 39.84 | 54.95 | 59.59 | 75.43 | 92.90 | 88.35 | Revenues per sh | 116.65 |
| 2.13 | 2.37 | 2.32 | 2.81 | 2.65 | 2.55 | 3.29 | 3.32 | 3.02 | 2.56 | 2.68 | 3.00 | 2.56 | 3.15 | 2.79 | 2.98 | 3.95 | 4.00 | "Cash Flow" per sh | 4.70 |
| 1.08 | 1.28 | 1.17 | 1.61 | 1.42 | 1.27 | 1.87 | 1.84 | 1.58 | 1.47 | 1.37 | 1.61 | 1.18 | 1.82 | 1.82 | 1.90 | 2.37 | 2.15 | Earnings per sh A B | 2.50 |
| 1.18 | 1.20 | 1.20 | 1.22 | 1.22 | 1.24 | 1.26 | 1.30 | 1.32 | 1.34 | 1.34 | 1.34 | 1.34 | 1.34 | 1.35 | 1.37 | 1.40 | 1.45 | Div'ds Decl'd per sh C■ | 1.55 |
| 1.87 | 2.46 | 2.87 | 2.62 | 2.50 | 2.63 | 2.35 | 2.44 | 2.68 | 2.58 | 2.77 | 2.51 | 2.80 | 2.67 | 2.45 | 2.84 | 2.95 | 3.05 | Cap'l Spending per sh | 4.35 |
| 11.75 | 11.83 | 11.79 | 12.19 | 12.44 | 13.05 | 13.72 | 14.26 | 14.57 | 14.96 | 14.99 | 15.26 | 15.07 | 15.65 | 16.96 | 17.31 | 18.85 | 20.65 | Book Value per sh D | 26.00 |
| 15.59 | 15.59 | 15.59 | 15.59 | 15.67 | 17.42 | 17.56 | 17.56 | 17.63 | 18.88 | 18.88 | 18.88 | 18.96 | 19.11 | 20.98 | 21.17 | 21.50 | 21.50 | Common Shs Outst'g E | 24.00 |
| 14.6 | 12.5 | 15.8 | 13.5 | 16.4 | 15.5 | 11.9 | 12.5 | 15.5 | 15.8 | 14.9 | 14.5 | 20.0 | 13.6 | 15.7 | 16.2 | 13.6 | | Avg Ann'l P/E Ratio | 15.0 |
| 1.08 | .80 | .96 | .80 | 1.08 | 1.04 | .75 | .72 | .81 | .90 | .97 | .74 | 1.09 | .78 | .83 | .86 | .73 | | Relative P/E Ratio | 1.00 |
| 7.5% | 7.5% | 6.5% | 5.6% | 5.3% | 6.3% | 5.6% | 5.6% | 5.4% | 5.8% | 6.6% | 5.7% | 5.7% | 5.4% | 4.7% | 4.4% | 4.3% | | Avg Ann'l Div'd Yield | 4.1% |

**CAPITAL STRUCTURE as of 6/30/06**
**Total Debt** $518.8 mill. **Due in 5 Yrs** $175.0 mill.
**LT Debt** $395.4 mill. **LT Interest** $25.0 mill.
(Total interest coverage: 3.0x)

**Leases, Uncapitalized** Annual rentals $1.7 mill.
**Pension Assets-9/05** $272.8 mill. **Oblig.** $327.2 mill.
**Pfd Stock** $.8 mill. **Pfd Div'd** $.05 mill.
**Common Stock** 21,357,009 shs. as of 7/28/06

**MARKET CAP: $775 million (Small Cap)**

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 544.8 | 602.8 | 547.2 | 491.6 | 566.1 | 1002.1 | 755.2 | 1050.3 | 1250.3 | 1597.0 | 1997.5 | 1900 | Revenues ($mill) A | 2800 |
| 32.8 | 32.5 | 27.9 | 26.9 | 26.0 | 30.5 | 22.4 | 34.6 | 36.1 | 40.1 | 50.5 | 46.0 | Net Profit ($mill) | 60.0 |
| 35.9% | 36.1% | 35.6% | 35.5% | 35.2% | 32.7% | 35.4% | 35.0% | 34.8% | 34.1% | 32.5% | 33.5% | Income Tax Rate | 35.0% |
| 6.0% | 5.4% | 5.1% | 5.5% | 4.6% | 3.0% | 3.0% | 3.3% | 2.9% | 2.5% | 2.5% | 2.4% | Net Profit Margin | 2.1% |
| 42.5% | 38.0% | 40.9% | 41.8% | 45.2% | 49.5% | 47.5% | 50.4% | 51.6% | 48.1% | 49.5% | 49.0% | Long-Term Debt Ratio | 48.0% |
| 57.1% | 61.6% | 58.6% | 57.8% | 54.5% | 50.2% | 52.3% | 49.4% | 48.3% | 51.8% | 50.5% | 51.0% | Common Equity Ratio | 52.0% |
| 422.2 | 406.8 | 438.0 | 488.6 | 519.2 | 574.1 | 546.6 | 605.0 | 737.4 | 707.9 | 800 | 870 | Total Capital ($mill) | 1200 |
| 452.2 | 467.6 | 490.6 | 519.4 | 575.4 | 602.5 | 594.4 | 621.2 | 646.9 | 679.5 | 765 | 805 | Net Plant ($mill) | 1030 |
| 9.4% | 9.7% | 8.1% | 7.1% | 6.7% | 6.9% | 6.0% | 7.4% | 6.6% | 7.7% | 8.0% | 7.0% | Return on Total Cap'l | 6.5% |
| 13.5% | 12.9% | 10.8% | 9.5% | 9.1% | 10.5% | 7.8% | 11.5% | 10.1% | 10.9% | 12.5% | 10.5% | Return on Shr. Equity | 9.5% |
| 13.6% | 12.9% | 10.8% | 9.5% | 9.1% | 10.5% | 7.8% | 11.6% | 10.1% | 10.9% | 12.5% | 10.5% | Return on Com Equity | 9.5% |
| 4.5% | 3.9% | 1.8% | 1.0% | .2% | 1.8% | NMF | 3.1% | 2.7% | 3.1% | 5.0% | 3.5% | Retained to Com Eq | 4.0% |
| 67% | 70% | 83% | 89% | 98% | 83% | 113% | 74% | 73% | 72% | 60% | 68% | All Div'ds to Net Prof | 60% |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 6/30/06 |
|---|---|---|---|
| Cash Assets | 13.9 | 6.0 | 31.9 |
| Other | 323.7 | 418.1 | 319.1 |
| Current Assets | 337.6 | 424.1 | 351.0 |
| Accts Payable | 68.4 | 138.4 | 118.2 |
| Debt Due | 96.5 | 110.7 | 123.4 |
| Other | 97.7 | 116.5 | 62.9 |
| Current Liab. | 262.6 | 365.6 | 304.5 |
| Fix. Chg. Cov. | 279% | 293% | 290% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 7.5% | 17.0% | 10.5% |
| "Cash Flow" | 1.0% | 1.5% | 8.0% |
| Earnings | 2.5% | 4.5% | 5.0% |
| Dividends | 1.0% | .5% | 2.5% |
| Book Value | 3.0% | 2.5% | 7.5% |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.)A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 280.1 | 422.2 | 186.6 | 161.4 | 1050.3 |
| 2004 | 332.6 | 475.0 | 245.1 | 197.6 | 1250.3 |
| 2005 | 442.5 | 576.5 | 311.3 | 266.7 | 1597.0 |
| 2006 | 689.2 | 708.8 | 330.5 | 269.0 | 1997.5 |
| 2007 | 475 | 475 | 475 | 475 | 1900 |

| Fiscal Year Ends | EARNINGS PER SHARE A B F Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | .80 | 1.14 | .11 | d.21 | 1.82 |
| 2004 | .87 | 1.12 | .19 | d.28 | 1.82 |
| 2005 | .79 | 1.06 | .29 | d.24 | 1.90 |
| 2006 | 1.23 | 1.05 | .13 | d.04 | 2.37 |
| 2007 | 1.15 | 1.05 | .25 | d.30 | 2.15 |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .335 | .335 | .335 | .335 | 1.34 |
| 2003 | .335 | .335 | .335 | .335 | 1.34 |
| 2004 | .335 | .34 | .34 | .34 | 1.36 |
| 2005 | .34 | .345 | .345 | .345 | 1.38 |
| 2006 | .345 | .355 | .355 | .355 | |

**BUSINESS:** Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 8 other counties. Has roughly 631,000 customers. Purchased SM&P for $43 million (1/02). Therms sold and transported in fiscal 2005: 1.12 mill. Revenue mix for regulated operations: residential, 60%; commercial and industrial, 23%; transportation, 2%; other, 15%. Has around 3,815 employees. Officers and directors own approximately 6.0% of common shares (1/06 Proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.lacledegas.com.

**We don't expect Laclede Group's bottom line in fiscal 2007 (began October 1st) to reach last year's level.** This can be attributed primarily to the tough comparison, reflecting an exceptional showing from Laclede Energy Resources (LER). Indeed, that division was aided by supply/demand imbalances resulting from the 2005 Gulf Coast hurricanes (one of the busiest storm seasons on record), plus a surge in volumes (due to higher interstate pipeline wholesale transactions). A repeat of that scenario seems unlikely anytime soon, though. Also, results for Laclede Gas Company, the core subsidiary, may continue to be dampened by rising operating costs and lackluster volumes within the service area (stemming from conservation efforts). But SM&P Utility Resources could begin to experience the benefits of initiatives directed toward the startup of new business in existing markets. The recent purchase of Reliant Services, which provides services that are similar to SM&P, ought to help performance here, too. Nonetheless, consolidated share net could decrease about 9%, to $2.15, in fiscal 2007. We think a bottom line rebound is plausible in fiscal 2008, partly assuming an easier comparison.

**The company stands to post unspectacular earnings over the 3- to 5-year period.** Customer increases for the natural gas unit have been sluggish because the service territory is mature. As such, internal growth here should remain moderate, at best. The non-regulated units hold promising prospects, although they have contributed a small portion to profits historically (with the exception of LER's performance in fiscal 2006). Major acquisitions could offset this, but it appears that management has no such plans in the works at this juncture. That said, annual share-net gains may only be in the mid-single-digit range out to 2009-2011.

**These shares are trading at relatively high levels**, coming off Laclede's excellent results in fiscal 2006. A record-breaking equity market has also helped matters.

**But total-return possibilities are limited**, given the stock's price movement and assuming continued modest hikes in the payout. Moreover, the Timeliness rank is 4 (Below Average).

*Frederick L. Harris, III December 15, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: Q2 '06, 7¢. Next earnings report due late Jan.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Incl. deferred charges. In '05: $203.8 mill., $9.63/sh.
(E) In millions. Adjusted for stock split.
(F) Qtly. egs. may not sum due to change in shares outstanding.

| | |
|---|---|
| Company's Financial Strength | B+ |
| Stock's Price Stability | 95 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 65 |

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# NEW JERSEY RES. NYSE-NJR

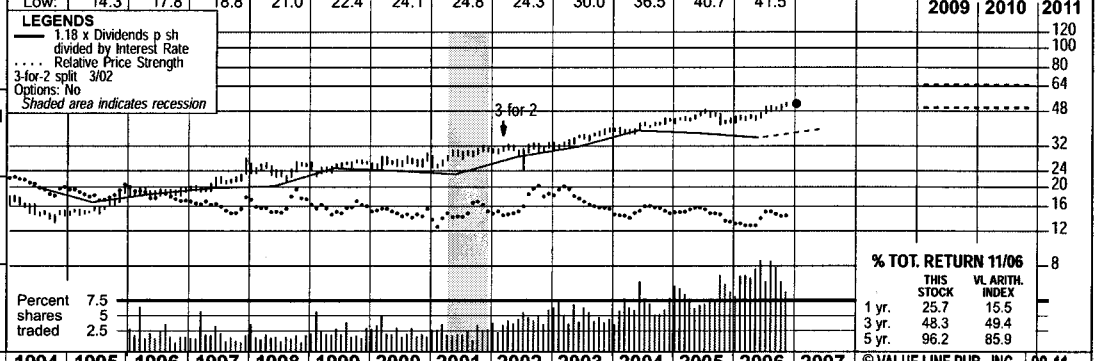
| RECENT PRICE | 52.26 | P/E RATIO | 18.9 (Trailing: 18.7 / Median: 15.0) | RELATIVE P/E RATIO | 1.03 | DIV'D YLD | 2.9% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 5 Lowered 12/15/06
**SAFETY** 1 Raised 9/15/06
**TECHNICAL** 3 Lowered 11/24/06
**BETA** .80 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 20.3 | 19.9 | 28.0 | 26.8 | 27.4 | 29.8 | 32.5 | 33.6 | 39.5 | 44.6 | 49.3 | 53.2 |
| Low: | 14.3 | 17.8 | 18.8 | 21.0 | 22.4 | 24.1 | 24.8 | 24.3 | 30.0 | 36.5 | 40.7 | 41.5 |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.18 x Dividends p sh divided by Interest Rate
..... Relative Price Strength
3-for-2 split 3/02
Options: No
*Shaded area indicates recession*




**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 65 | (+25%) | 9% |
| Low | 50 | (-5%) | 2% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 5 | 0 | 0 | 2 | 0 | 0 | 4 | 0 |
| to Sell | 0 | 4 | 0 | 0 | 2 | 0 | 0 | 4 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 64 | 71 | 73 |
| to Sell | 60 | 52 | 60 |
| Hld's(000) | 13455 | 14778 | 16255 |

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 25.7 | 15.5 |
| 3 yr. | 48.3 | 49.4 |
| 5 yr. | 96.2 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 16.01 | 15.99 | 16.88 | 18.02 | 19.22 | 17.03 | 20.22 | 25.97 | 26.59 | 33.98 | 44.13 | 76.82 | 66.17 | 93.43 | 91.33 | 114.29 | 119.44 | *121.45* | Revenues per sh A | *129.80* |
| 1.54 | 1.58 | 1.95 | 2.14 | 2.31 | 2.13 | 2.22 | 2.45 | 2.60 | 2.79 | 2.99 | 3.18 | 3.21 | 3.58 | 3.75 | 3.92 | 4.10 | *4.20* | "Cash Flow" per sh | *4.75* |
| .65 | .55 | 1.09 | 1.15 | 1.26 | 1.29 | 1.37 | 1.48 | 1.55 | 1.66 | 1.79 | 1.95 | 2.09 | 2.38 | 2.55 | 2.65 | 2.80 | *2.90* | Earnings per sh B | *3.35* |
| .96 | 1.00 | 1.01 | 1.01 | 1.01 | 1.01 | 1.03 | 1.07 | 1.09 | 1.12 | 1.15 | 1.17 | 1.20 | 1.24 | 1.30 | 1.36 | 1.44 | *1.52* | Div'ds Decl'd per sh C■ | *1.70* |
| 4.37 | 2.91 | 1.99 | 2.31 | 2.10 | 1.77 | 1.78 | 1.72 | 1.60 | 1.81 | 1.85 | 1.66 | 1.53 | 1.71 | 2.17 | 1.92 | 1.92 | *1.95* | Cap'l Spending per sh | *2.10* |
| 8.85 | 8.57 | 9.44 | 9.81 | 9.64 | 9.70 | 10.10 | 10.38 | 10.88 | 11.35 | 12.43 | 13.20 | 13.06 | 15.38 | 16.87 | 15.90 | 22.50 | *23.60* | Book Value per sh | *27.85* |
| 20.28 | 20.95 | 24.43 | 25.23 | 25.95 | 26.69 | 27.13 | 26.82 | 26.72 | 26.61 | 26.39 | 26.66 | 27.67 | 27.23 | 27.74 | 27.55 | 27.63 | *28.00* | Common Shs Outst'g D | *28.50* |
| 24.0 | 22.3 | 12.4 | 15.1 | 13.0 | 11.7 | 13.6 | 13.5 | 15.3 | 15.2 | 14.7 | 14.2 | 14.7 | 14.0 | 15.3 | 16.8 | 16.1 | | Avg Ann'l P/E Ratio | *17.0* |
| 1.78 | 1.42 | .75 | .89 | .85 | .78 | .85 | .78 | .80 | .87 | .96 | .73 | .80 | .80 | .81 | .89 | .86 | | Relative P/E Ratio | *1.15* |
| 6.2% | 8.1% | 7.5% | 5.8% | 6.2% | 6.7% | 5.6% | 5.3% | 4.6% | 4.5% | 4.4% | 4.2% | 3.9% | 3.7% | 3.3% | 3.1% | 3.2% | | Avg Ann'l Div'd Yield | *3.0%* |
| | | | | | | 548.5 | 696.5 | 710.3 | 904.3 | 1164.5 | 2048.4 | 1830.8 | 2544.4 | 2533.6 | 3148.3 | 3299.6 | *3400* | Revenues ($mill) A | *3700* |
| | | | | | | 38.7 | 41.5 | 43.3 | 44.9 | 47.9 | 52.3 | 56.8 | 65.4 | 71.6 | 74.4 | 78.5 | *82.0* | Net Profit ($mill) | *95.0* |
| | | | | | | 32.6% | 33.3% | 30.4% | 36.2% | 37.8% | 38.0% | 38.7% | 39.4% | 39.1% | 39.1% | 38.9% | *39.0%* | Income Tax Rate | *40.0%* |
| | | | | | | 7.1% | 6.0% | 6.1% | 5.0% | 4.1% | 2.6% | 3.1% | 2.6% | 2.8% | 2.4% | 2.4% | *2.4%* | Net Profit Margin | *2.5%* |
| | | | | | | 50.7% | 49.3% | 51.2% | 48.7% | 47.0% | 50.1% | 50.6% | 38.1% | 40.3% | 42.0% | 34.8% | *34.0%* | Long-Term Debt Ratio | *32.5%* |
| | | | | | | 45.8% | 47.1% | 45.6% | 51.2% | 52.9% | 49.9% | 49.4% | 61.9% | 59.7% | 58.0% | 65.2% | *66.0%* | Common Equity Ratio | *67.5%* |
| | | | | | | 598.2 | 590.6 | 638.2 | 590.4 | 620.1 | 706.2 | 732.4 | 676.8 | 783.8 | 755.3 | 954.0 | *1000* | Total Capital ($mill) | *1170* |
| | | | | | | 655.2 | 659.4 | 680.0 | 705.4 | 730.6 | 743.9 | 756.4 | 852.6 | 880.4 | 905.1 | 934.9 | *970* | Net Plant ($mill) | *1120* |
| | | | | | | 8.1% | 8.6% | 8.1% | 9.0% | 9.0% | 8.5% | 8.7% | 10.7% | 10.1% | 11.2% | 9.6% | *9.5%* | Return on Total Cap'l | *9.5%* |
| | | | | | | 13.1% | 13.9% | 13.9% | 14.8% | 14.6% | 14.8% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | *12.5%* | Return on Shr. Equity | *12.0%* |
| | | | | | | 13.5% | 14.3% | 14.4% | 14.8% | 14.6% | 14.9% | 15.7% | 15.6% | 15.3% | 17.0% | 12.6% | *12.5%* | Return on Com Equity | *12.0%* |
| | | | | | | 3.4% | 4.0% | 4.4% | 5.0% | 5.4% | 6.1% | 6.9% | 7.7% | 7.8% | 8.5% | 6.3% | *6.0%* | Retained to Com Eq | *6.0%* |
| | | | | | | 76% | 73% | 71% | 67% | 63% | 59% | 56% | 51% | 49% | 50% | 50% | *52%* | All Div'ds to Net Prof | *51%* |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** $616.8 mill. **Due in 5 Yrs** $300.0 mill.
**LT Debt** $332.4 mill. **LT Interest** $25.0 mill.
Incl. $7.4 mill. capitalized leases.
(total interest coverage: 6.0x)
**Pension Assets-9/06** $95.8 mill.
**Oblig.** $103.7 mill.
**Pfd Stock** None

**Common Stock** 27,678,310 shs.
**as of 11/20/06**
**MARKET CAP: $1.5 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 5.0 | 25.0 | 5.0 |
| Other | 681.0 | 927.8 | 960.5 |
| Current Assets | 686.0 | 952.8 | 965.5 |
| Accts Payable | 42.9 | 54.7 | 46.8 |
| Debt Due | 287.4 | 177.4 | 284.4 |
| Other | 357.4 | 744.2 | 566.0 |
| Current Liab. | 687.7 | 976.3 | 897.2 |
| Fix. Chg. Cov. | 826% | 660% | 571% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '04-'06 to '09-'11 |
|---|---|---|---|
| Revenues | 19.0% | 16.0% | *3.5%* |
| "Cash Flow" | 6.0% | 5.5% | *4.0%* |
| Earnings | 7.5% | 8.0% | *4.5%* |
| Dividends | 3.0% | 3.5% | *4.5%* |
| Book Value | 6.5% | 8.5% | *8.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 668.8 | 1152 | 369.7 | 353.1 | 2544.4 |
| 2004 | 643.0 | 1037 | 438.5 | 414.4 | 2533.6 |
| 2005 | 854.0 | 1065 | 544.3 | 684.9 | 3148.3 |
| 2006 | 1164 | 1064 | 536.1 | 534.5 | 3299.6 |
| 2007 | *1085* | *1150* | *610* | *555* | *3400* |

| Fiscal Year Ends | EARNINGS PER SHARE A B Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | .85 | 1.50 | .16 | d.13 | 2.38 |
| 2004 | .87 | 1.82 | .06 | d.20 | 2.55 |
| 2005 | .91 | 1.84 | .07 | d.17 | 2.65 |
| 2006 | 1.23 | 2.14 | d.14 | d.43 | 2.80 |
| 2007 | *1.18* | *1.95* | *.07* | *d.30* | *2.90* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .30 | .30 | .30 | .30 | 1.20 |
| 2003 | .31 | .31 | .31 | .31 | 1.24 |
| 2004 | .325 | .325 | .325 | .325 | 1.30 |
| 2005 | .34 | .34 | .34 | .34 | 1.36 |
| 2006 | .36 | .36 | .36 | .36 | 1.44 |

**BUSINESS:** New Jersey Resources Corp. is a holding company providing retail and Wholesale energy svcs. to customers in New Jersey, in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas has about 471,000 customers at 9/30/06 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2006 volume: 102.8 bill. cu. ft. (56% firm, 7% interruptible industrial and electric utility, 37% off-system and capacity release). N.J. Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy svcs. 2006 dep. rate: 2.7%. Has 766 employ. Off./dir. own about 3% of common (12/05 Proxy). Chrmn. and CEO: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1000. Web: www.njliving.com.

**We think New Jersey Resources' share earnings will advance only moderately in fiscal 2007 (year ends September 30th).** Results at the company's main subsidiary, New Jersey Natural Gas (NJNG), should be helped by the approval of a conservation incentive plan (CIP) in October by the New Jersey Board of Public Utilities. The CIP is a three-year pilot program that protects against both warmer-than-normal temperatures and conservation by customers, unlike the previous weather normalization clause that only protected against warmer temperatures. This will enable NJNG to promote conservation and efficiency, while protecting its financial performance. Customer growth remains strong. The company added about 10,160 customers in 2006 (to a total of around 470,000), with almost 35% converting from other fuels, and we look for similar levels of growth this year.

**The company's results were once again led by the Energy subsidiaries good performance.** For the year, the division reported earnings of $28 million, more than 70% above the year-ago period. The strong performance helped offset results at NJNG, where earnings were hurt by reduced customer usage. The increase in earnings at the Energy unit was primarily due to favorable spreads on its storage asset positions. This can be attributable to the fact that the company's holding facilities become more valuable when prices change between areas and/or time periods. In addition, results from this segment are typically better during the winter months, since the fixed costs of these assets are spread throughout the entire year.

**Though untimely, this good-quality stock generates consistent results.** The board recently raised the quarterly dividend by 5.6%, to $0.38 a share. We look for further modest increases over the next few years. However, the yield is below that of its utility counterparts, partly owing to good customer growth prospects. The lower yield is also due to funds being used for nonutility investments. For 2007, these activities may comprise 25%–30% of total earnings. However, investors should be aware that these activities are more risky than regulated operations.

*Evan I. Blatter* *December 15, 2006*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Next earnings report due late Jan.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) In millions, adjusted for split.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 85 |
| Earnings Predictability | 100 |

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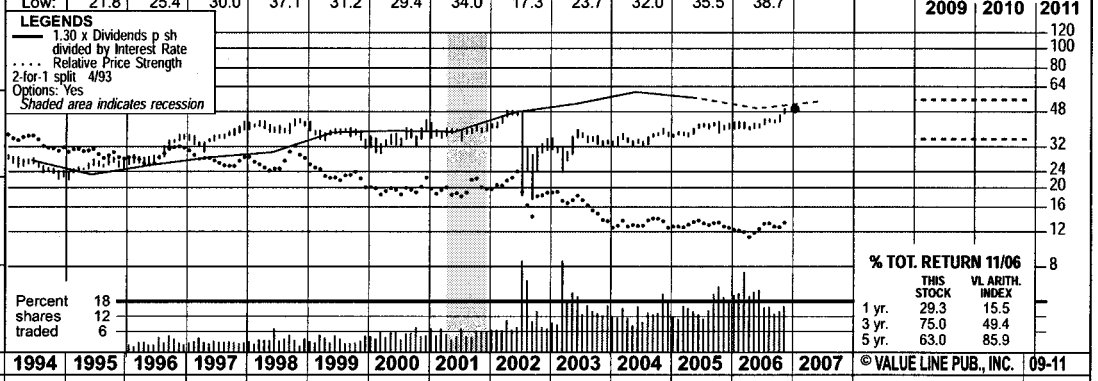
# NICOR, INC. NYSE-GAS

| RECENT PRICE | P/E RATIO | | RELATIVE P/E RATIO | DIV'D YLD | |
|---|---|---|---|---|---|
| 49.59 | 18.1 | (Trailing: 18.0 Median: 14.0) | 0.98 | 3.8% | VALUE LINE |

**TIMELINESS** 2 Raised 11/10/06
**SAFETY** 3 Lowered 6/17/05
**TECHNICAL** 2 Raised 11/3/06
**BETA** 1.30 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 28.5 | 37.1 | 42.9 | 44.4 | 42.9 | 43.9 | 42.4 | 49.0 | 39.3 | 39.7 | 43.0 | 49.9 |
| Low: | 21.8 | 25.4 | 30.0 | 37.1 | 31.2 | 29.4 | 34.0 | 17.3 | 23.7 | 32.0 | 35.5 | 38.7 |

**LEGENDS**
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 4/93
Options: Yes
*Shaded area indicates recession*



**Target Price Range**
2009 | 2010 | 2011

**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 55 | (+10%) | 6% |
| Low | 35 | (-30%) | -4% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 1 | 0 | 0 | 1 | 0 | 0 | 1 | 1 | 3 |
| Options | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 2 | 0 |
| to Sell | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 117 | 112 | 98 |
| to Sell | 97 | 94 | 110 |
| Hld's(000) | 30966 | 32581 | 32450 |

Percent shares traded 18 12 6

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 29.3 | 15.5 |
| 3 yr. | 75.0 | 49.4 |
| 5 yr. | 63.0 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 26.52 | 26.46 | 28.90 | 31.02 | 31.23 | 29.42 | 37.39 | 41.33 | 30.84 | 34.45 | 50.52 | 57.30 | 43.11 | 60.46 | 62.12 | 76.00 | *71.90* | *72.30* | Revenues per sh | *71.25* |
| 3.86 | 3.92 | 4.14 | 3.80 | 4.11 | 4.19 | 4.97 | 5.29 | 5.21 | 5.59 | 6.16 | 6.41 | 6.03 | 5.37 | 6.00 | 6.19 | *5.95* | *6.10* | "Cash Flow" per sh | *6.15* |
| 1.93 | 1.86 | 1.92 | 1.97 | 2.07 | 1.96 | 2.42 | 2.55 | 2.31 | 2.57 | 2.94 | 3.01 | 2.88 | 2.11 | 2.22 | 2.27 | *2.70* | *2.72* | Earnings per sh A | *2.80* |
| 1.06 | 1.12 | 1.18 | 1.22 | 1.25 | 1.28 | 1.32 | 1.40 | 1.48 | 1.54 | 1.66 | 1.76 | 1.84 | 1.86 | 1.86 | 1.86 | *1.86* | *1.90* | Div'ds Decl'd per sh B ■ | *2.00* |
| 3.00 | 3.65 | 3.12 | 2.62 | 3.34 | 3.12 | 2.42 | 2.34 | 2.87 | 3.28 | 3.48 | 4.18 | 4.37 | 4.12 | 4.32 | 4.57 | *4.50* | *4.50* | Cap'l Spending per sh | *4.45* |
| 11.67 | 12.28 | 12.76 | 13.05 | 13.26 | 13.67 | 14.74 | 15.43 | 15.97 | 16.80 | 15.56 | 16.39 | 16.55 | 17.13 | 16.99 | 18.36 | *19.35* | *20.20* | Book Value per sh | *22.80* |
| 57.93 | 57.30 | 55.77 | 53.96 | 51.54 | 50.30 | 49.49 | 48.22 | 47.51 | 46.89 | 45.49 | 44.40 | 44.01 | 44.04 | 44.10 | 44.18 | *44.50* | *44.60* | Common Shs Outst'g C | *44.90* |
| 10.7 | 11.5 | 11.6 | 14.1 | 12.5 | 13.1 | 12.5 | 14.2 | 17.6 | 14.6 | 11.9 | 12.8 | 13.1 | 15.8 | 15.9 | 17.3 | *Bold figures are* | | Avg Ann'l P/E Ratio | *16.0* |
| .79 | .73 | .70 | .83 | .82 | .88 | .78 | .82 | .92 | .83 | .77 | .66 | .72 | .90 | .84 | .91 | *Value Line* | | Relative P/E Ratio | *1.05* |
| 5.1% | 5.2% | 5.3% | 4.4% | 4.8% | 5.0% | 4.4% | 3.9% | 3.6% | 4.1% | 4.7% | 4.6% | 4.9% | 5.6% | 5.3% | 4.7% | *estimates* | | Avg Ann'l Div'd Yield | *4.5%* |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** $660.4 mill. **Due in 5 Yrs** $215.0 mill.
**LT Debt** $459.4 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 4.0x)

**Pension Assets-12/05** $424.0 mill. **Oblig.** $284.4 mill.

**Pfd Stock** $.6 mill. **Pfd Div'd** $2.2 mill.
(11,681 shares of 4.48% mandatorily redeemable preferred stock)
**Common Stock** 44,709,976 shares
**as of 10/27/06**
**MARKET CAP: $2.2 billion (Mid Cap)**

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1850.7 | 1992.6 | 1465.1 | 1615.2 | 2298.1 | 2544.1 | 1897.4 | 2662.7 | 2739.7 | 3357.8 | *3200* | *3225* | Revenues ($mill) | *3200* |
| 121.2 | 124.3 | 111.1 | 121.9 | 136.4 | 136.3 | 128.0 | 93.1 | 98.1 | 101.1 | *120* | *120* | Net Profit ($mill) | *125* |
| 35.8% | 35.0% | 34.4% | 34.7% | 34.8% | 33.5% | 31.0% | 35.2% | 31.8% | 28.3% | *27.0%* | *30.0%* | Income Tax Rate | *32.0%* |
| 6.5% | 6.2% | 7.6% | 7.5% | 5.9% | 5.4% | 6.7% | 3.5% | 3.6% | 3.0% | *3.8%* | *3.8%* | Net Profit Margin | *3.9%* |
| 41.3% | 42.3% | 42.1% | 35.5% | 32.7% | 37.8% | 35.1% | 39.6% | 39.8% | 37.4% | *34.0%* | *33.0%* | Long-Term Debt Ratio | *31.0%* |
| 58.1% | 57.2% | 57.4% | 64.0% | 66.7% | 61.7% | 64.5% | 60.3% | 60.1% | 62.5% | *66.0%* | *67.0%* | Common Equity Ratio | *69.0%* |
| 1255.1 | 1300.6 | 1322.6 | 1230.1 | 1061.2 | 1180.1 | 1128.9 | 1251.5 | 1246.0 | 1297.7 | *1310* | *1350* | Total Capital ($mill) | *1475* |
| 1771.9 | 1735.8 | 1731.8 | 1735.2 | 1729.6 | 1768.6 | 1796.8 | 2484.2 | 2549.8 | 2659.1 | *2760* | *2860* | Net Plant ($mill) | *3160* |
| 11.1% | 11.1% | 9.9% | 10.9% | 13.7% | 12.3% | 12.2% | 8.3% | 8.8% | 9.4% | *10.9%* | *10.6%* | Return on Total Cap'l | *10.0%* |
| 16.4% | 16.6% | 14.5% | 15.4% | 19.1% | 18.6% | 17.5% | 12.3% | 13.1% | 12.5% | *14.0%* | *13.5%* | Return on Shr. Equity | *12.0%* |
| 16.6% | 16.7% | 14.6% | 15.4% | 19.2% | 18.7% | 17.5% | 12.3% | 13.1% | 12.5% | *14.0%* | *13.0%* | Return on Com Equity | *12.0%* |
| 7.6% | 7.6% | 5.4% | 6.2% | 8.5% | 7.9% | 6.5% | 1.5% | 2.1% | 2.3% | *4.5%* | *4.0%* | Retained to Com Eq | *3.5%* |
| 54% | 55% | 63% | 60% | 56% | 58% | 63% | 88% | 84% | 81% | *68%* | *70%* | All Div'ds to Net Prof | *72%* |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 83.2 | 126.9 | 54.4 |
| Other | 937.7 | 1218.8 | 628.2 |
| Current Assets | 1020.9 | 1345.7 | 682.6 |
| Accts Payable | 502.9 | 658.2 | 519.4 |
| Debt Due | 490.2 | 636.0 | 201.0 |
| Other | 178.3 | 328.7 | 263.0 |
| Current Liab. | 1171.4 | 1622.9 | 983.4 |
| Fix. Chg. Cov. | 428% | 367% | NMF |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 8.0% | 11.5% | *1.0%* |
| "Cash Flow" | 4.0% | 0.5% | *1.0%* |
| Earnings | 1.0% | -3.5% | *4.0%* |
| Dividends | 4.0% | 3.5% | *1.0%* |
| Book Value | 3.0% | 1.5% | *4.5%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 1171.3 | 452.8 | 294.8 | 743.8 | 2662.7 |
| 2004 | 1115.7 | 429.5 | 299.9 | 894.6 | 2739.7 |
| 2005 | 1179.9 | 484.4 | 336.0 | 1357.5 | 3357.8 |
| 2006 | 1319.4 | 451.3 | 351.1 | *1078.2* | *3200* |
| 2007 | *1250* | *500* | *350* | *1125* | *3225* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 1.11 | .21 | .01 | .78 | 2.11 |
| 2004 | .96 | .44 | d.26 | 1.08 | 2.22 |
| 2005 | .98 | .35 | d.06 | 1.02 | 2.27 |
| 2006 | .94 | .41 | .39 | *.96* | *2.70* |
| 2007 | *1.02* | *.37* | *.28* | *1.05* | *2.72* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .46 | .46 | .46 | .46 | 1.84 |
| 2003 | .46 | .465 | .465 | .465 | 1.86 |
| 2004 | .465 | .465 | .465 | .465 | 1.86 |
| 2005 | .465 | .465 | .465 | .465 | 1.86 |
| 2006 | .465 | .465 | .465 | .465 | |

**BUSINESS:** Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2005 gas delivered: 470.6 Bcf, incl. 219.4 Bcf from transportation. 2005 gas sales (251.2 bcf): residential, 80%; commercial, 18%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,700 employees Off./dir. own about 2.8% of common stock. (3/06 proxy). Chairman and CEO: Russ Strobel. Inc.: Illinois Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

**Nicor reported strong results for its September period.** Indeed, the company registered a share-net gain of $0.39, which exceeded the popular consensus and topped last year's number at a loss of $0.06 a share. All operating segments produced solid results. However, volumes were particularly strong in the gas distribution segment.

**As the unseasonably warm weather passes, the company will likely benefit from an increase in the usage of natural gas over the balance of the year.** The industry suffered through a tough first half due to warm conditions, but now as we near 2007, gas deliveries are increasing. As gas consumption returns to normal levels, Nicor's bottom line should push forward, beginning in 2007.

**Base rates will likely remain unchanged.** Late in 2005, the Illinois Commerce Commission approved an increase in rates, which will likely continue to help the company's top and bottom lines in 2007. For the near term, Nicor seems to be content to move forward operating in the current conditions. Still, it has not fully utilized strategies that would protect its business through various mechanisms, which would help limit the variability of earnings. Thus, we anticipate similar volatility for these shares in the future.

**Nicor's other business segments should continue to be solid.** Particularly, the Tropical Shipping division has continued to generate high revenues, which ought to continue going into 2007, as demand for the service remains robust. The company's energy ventures ought to also add some consistent volume to Nicor's top line over the next year.

**This issue is ranked to outperform the market in the year ahead.** All told, the company has taken steps to improve its business across all of its segments and has benefited from the latest rate increase. However, much of this issue's long-term appreciation potential has been realized, as this stock is already trading within its Target Price Range.

**These shares may be of interest to income-oriented investors.** Although Nicor offers a yield that is slightly below the industry mean at 3.8%, it's still is above the *Value Line* average.

*Richard Gallagher* *December 15, 2006*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '89, 7¢; '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Quarterly earnings may not sum to total due to rounding. Next egs. report due early March. (B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 55 |
| Price Growth Persistence | 35 |
| Earnings Predictability | 80 |

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# N.W. NAT'L GAS NYSE-NWN

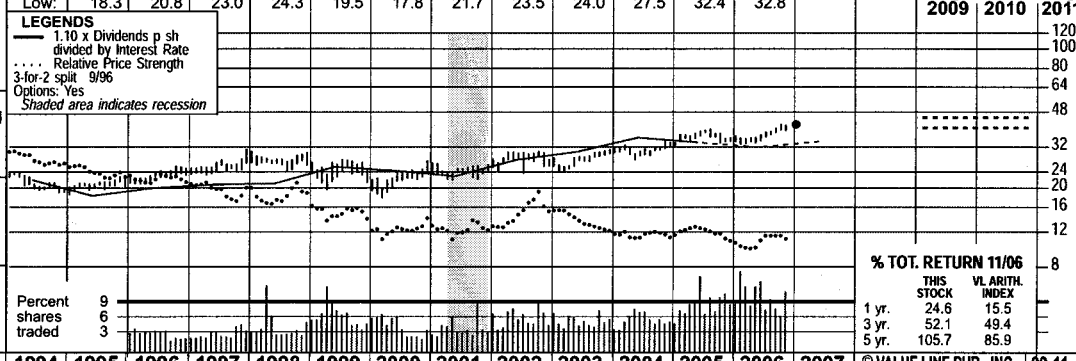
RECENT PRICE **41.62** | P/E RATIO **17.9** (Trailing: 19.5 Median: 15.0) | RELATIVE P/E RATIO **0.97** | DIV'D YLD **3.4%** | VALUE LINE

**TIMELINESS** 4 Lowered 12/8/06
**SAFETY** 1 Raised 3/18/05
**TECHNICAL** 2 Raised 12/8/06
**BETA** .75 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 22.8 | 25.9 | 31.4 | 30.8 | 27.9 | 27.5 | 26.8 | 30.7 | 31.3 | 34.1 | 39.6 | 41.9 |
| Low: | 18.3 | 20.8 | 23.0 | 24.3 | 19.5 | 17.8 | 21.7 | 23.5 | 24.0 | 27.5 | 32.4 | 32.8 |

**Target Price Range** 2009 | 2010 | 2011

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
*Shaded area indicates recession*



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 45 | (+10%) | 5% |
| Low | 40 | (-5%) | 3% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| to Sell | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 59 | 62 | 77 |
| to Sell | 54 | 59 | 59 |
| Hld's(000) | 12922 | 13095 | 14328 |

Percent shares traded 9 6 3

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 24.6 | 15.5 |
| 3 yr. | 52.1 | 49.4 |
| 5 yr. | 105.7 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 17.02 | 16.74 | 14.10 | 18.15 | 18.30 | 16.02 | 16.86 | 15.82 | 16.77 | 18.17 | 21.09 | 25.78 | 25.07 | 23.57 | 25.69 | 33.01 | *36.35* | *36.85* | Revenues per sh | *51.80* |
| 3.22 | 2.57 | 3.25 | 3.74 | 3.50 | 3.41 | 3.86 | 3.72 | 3.24 | 3.72 | 3.68 | 3.86 | 3.65 | 3.85 | 3.92 | 4.34 | *4.65* | *4.75* | "Cash Flow" per sh | *5.10* |
| 1.62 | .67 | .74 | 1.74 | 1.63 | 1.61 | 1.97 | 1.76 | 1.02 | 1.70 | 1.79 | 1.88 | 1.62 | 1.76 | 1.86 | 2.11 | *2.25* | *2.40* | Earnings per sh A | *2.85* |
| 1.10 | 1.13 | 1.15 | 1.17 | 1.17 | 1.18 | 1.20 | 1.21 | 1.22 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.30 | 1.32 | *1.39* | *1.43* | Div'ds Decl'd per sh B■ | *1.70* |
| 3.85 | 3.58 | 3.73 | 3.61 | 4.23 | 3.02 | 3.70 | 5.07 | 4.02 | 4.78 | 3.46 | 3.23 | 3.11 | 4.90 | 5.52 | 3.48 | *3.65* | *3.30* | Cap'l Spending per sh | *3.35* |
| 12.61 | 12.23 | 12.41 | 13.08 | 13.63 | 14.55 | 15.37 | 16.02 | 16.59 | 17.12 | 17.93 | 18.56 | 18.88 | 19.52 | 20.64 | 21.28 | *22.10* | *22.95* | Book Value per sh | *25.55* |
| 17.41 | 17.68 | 19.46 | 19.77 | 20.13 | 22.24 | 22.56 | 22.86 | 24.85 | 25.09 | 25.23 | 25.23 | 25.59 | 25.94 | 27.55 | 27.58 | *27.50* | *27.80* | Common Shs Outst'g C | *28.00* |
| 10.2 | 28.1 | 27.0 | 12.9 | 13.0 | 12.9 | 11.7 | 14.4 | 26.7 | 14.5 | 12.4 | 12.9 | 17.2 | 15.8 | 16.7 | 17.0 | *Bold figures are* | | Avg Ann'l P/E Ratio | *15.0* |
| .76 | 1.79 | 1.64 | .76 | .85 | .86 | .73 | .83 | 1.39 | .83 | .81 | .66 | .94 | .90 | .88 | .91 | *Value Line* | | Relative P/E Ratio | *1.00* |
| 6.7% | 5.9% | 5.7% | 5.2% | 5.5% | 5.7% | 5.2% | 4.8% | 4.5% | 5.0% | 5.6% | 5.1% | 4.5% | 4.6% | 4.2% | 3.7% | *estimates* | | Avg Ann'l Div'd Yield | *4.0%* |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** $624.8 mill. **Due in 5 Yrs** $251.7 mill.
**LT Debt** $492.0 mill. **LT Interest** $31.0 mill.

(Total interest coverage: 3.4x)

**Pension Assets-12/05** $218.6 mill.
**Oblig.** $267.9 mill.
**Pfd Stock** None

**Common Stock** 27,504,896 shs.
**as of 10/31/06**
**MARKET CAP $1.1 billion (Mid Cap)**

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 380.3 | 361.8 | 416.7 | 455.8 | 532.1 | 650.3 | 641.4 | 611.3 | 707.6 | 910.5 | *1000* | *1025* | Revenues ($mill) | *1350* |
| 46.8 | 43.1 | 27.3 | 44.9 | 47.8 | 50.2 | 43.8 | 46.0 | 50.6 | 58.1 | *62.0* | *66.5* | Net Profit ($mill) | *80.0* |
| 36.9% | 32.9% | 31.0% | 35.4% | 35.9% | 35.4% | 34.9% | 33.7% | 34.4% | 36.0% | *36.0%* | *36.0%* | Income Tax Rate | *36.0%* |
| 12.3% | 11.9% | 6.6% | 9.9% | 9.0% | 7.7% | 6.8% | 7.5% | 7.1% | 6.4% | *6.2%* | *6.5%* | Net Profit Margin | *5.9%* |
| 41.4% | 46.0% | 45.0% | 46.0% | 45.1% | 43.0% | 47.6% | 49.7% | 46.0% | 47.0% | *47.0%* | *47.0%* | Long-Term Debt Ratio | *47%* |
| 52.8% | 49.0% | 50.6% | 49.9% | 50.9% | 53.2% | 51.5% | 50.3% | 54.0% | 53.0% | *53.0%* | *53.0%* | Common Equity Ratio | *53%* |
| 657.4 | 748.0 | 815.6 | 861.5 | 887.8 | 880.5 | 937.3 | 1006.6 | 1052.5 | 1108.4 | *1125* | *1175* | Total Capital ($mill) | *1350* |
| 745.3 | 827.5 | 894.7 | 895.9 | 934.0 | 965.0 | 995.6 | 1205.9 | 1318.4 | 1373.4 | *1425* | *1475* | Net Plant ($mill) | *1700* |
| 8.9% | 7.4% | 5.0% | 6.8% | 6.7% | 6.9% | 5.9% | 5.7% | 5.9% | 6.5% | *7.0%* | *7.0%* | Return on Total Cap'l | *7.0%* |
| 12.1% | 10.7% | 6.1% | 9.7% | 9.8% | 10.0% | 8.9% | 9.1% | 8.9% | 9.9% | *10.0%* | *10.5%* | Return on Shr. Equity | *10.5%* |
| 12.7% | 11.0% | 6.0% | 9.9% | 10.0% | 10.2% | 8.5% | 9.0% | 8.9% | 9.9% | *10.0%* | *10.5%* | Return on Com Equity | *10.5%* |
| 5.0% | 3.6% | NMF | 2.8% | 3.1% | 3.5% | 1.9% | 2.6% | 2.7% | 3.7% | *3.7%* | *3.7%* | Retained to Com Eq | *3.8%* |
| 63% | 70% | 118% | 74% | 70% | 67% | 79% | 72% | 69% | 63% | *62%* | *59%* | All Div'ds to Net Prof | *60%* |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 5.2 | 7.1 | 5.7 |
| Other | 231.9 | 316.6 | 209.7 |
| Current Assets | 237.1 | 323.7 | 215.4 |
| Accts Payable | 102.5 | 135.3 | 64.5 |
| Debt Due | 117.5 | 134.7 | 132.8 |
| Other | 47.3 | 56.6 | 58.6 |
| Current Liab. | 267.3 | 326.6 | 255.9 |
| Fx. Chg. Cov. | 316% | 340% | NMF |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 4.5% | 8.0% | *11.0%* |
| "Cash Flow" | 1.5% | 2.5% | *4.5%* |
| Earnings | 1.5% | 5.0% | *7.0%* |
| Dividends | 1.0% | 1.0% | *4.0%* |
| Book Value | 4.0% | 3.5% | *3.5%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 206.5 | 117.5 | 69.5 | 217.8 | 611.3 |
| 2004 | 254.5 | 109.7 | 81.4 | 262.0 | 707.6 |
| 2005 | 308.7 | 153.7 | 106.7 | 341.4 | 910.5 |
| 2006 | 390.4 | 171.0 | 114.9 | *323.7* | *1000* |
| 2007 | *370* | *180* | *135* | *340* | *1025* |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 1.01 | .17 | d.25 | .83 | 1.76 |
| 2004 | 1.24 | d.03 | d.30 | .95 | 1.86 |
| 2005 | 1.44 | .04 | d.31 | .94 | 2.11 |
| 2006 | 1.48 | .07 | d.35 | *1.05* | *2.25* |
| 2007 | *1.56* | *.06* | *d.33* | *1.11* | *2.40* |

| Cal-endar | QUARTERLY DIVIDENDS PAID B■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .315 | .315 | .315 | .315 | 1.26 |
| 2003 | .315 | .315 | .315 | .325 | 1.27 |
| 2004 | .325 | .325 | .325 | .325 | 1.30 |
| 2005 | .325 | .325 | .325 | .345 | 1.32 |
| 2006 | .345 | .345 | .345 | .355 | |

**BUSINESS:** Northwest Natural Gas Co. distributes natural gas at retail to 90 communities, 624,000 customers, in Oregon (90% of custs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: residential, 53%; commercial, 27%; industrial, gas transportation, and other, 20%. Employs 1,305. Barclays owns 6.2% of shares; insiders, 1% (4/06 proxy). CEO: Mark S. Dodson. Inc.: OR. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.

**Northwest reported a seasonal loss in the third quarter.** The increased loss was due largely to the effects of the company's weather adjustment clause, which cost about $0.02 in the September period, and to the fact that some industrial customers switched to lower rate schedules. Meanwhile, customer growth for the last 12 months was strong, at 3.4%.

**We look for a solid earnings gain in the fourth quarter due in part to the absence of an unusual expense.** In the final period of 2005, unusual litigation costs reduced earnings by $0.05 a share, which Northwest will not incur this year. Customer growth should add a few cents a share. Moreover, changes in the company's weather adjustment clause have moved the effective date back to October 1st, which give Northwest protection against warm weather in October and November for the first time. The first severance costs of the company's new operations streamlining plan will occur in the December period, but they should be offset by gains coming from sales of some non-core assets.

**Continued customer growth and cost cutting will likely produce decent earnings growth in 2007.** The pace of new single-home construction is likely to slow, but growth from new apartment houses in Portland will offset much of that. And conversions from oil will probably grow, if, as we believe likely, OPEC keeps the price of oil over $55 a barrel. Too, Northwest's program to pare costs to equal the top quartile of all gas utilities should begin to pay off next year.

**Earnings growth at an above-industry pace looks likely out to 2009-2011.** A zoning change east of Portland should lead to substantial growth in residential customers by the end of our time horizon. It is likely that the growing demand for natural gas will bring at least one new liquefied natural gas plant to Northwest's territory. Moreover, a new pipeline connection could boost gas supplies. Still,

**These untimely, but top-quality, shares, have below-average total return potential.** Earnings and dividends will probably grow faster than the industry averages, but the likelihood of higher interest rates limits capital appreciation potential.

*Sigourney B. Romaine* *December 15, 2006*

(A) Diluted earnings per share. Excludes nonrecurring gain: '98, $0.15; '00, $0.11. Next earnings report due early February.
(B) Dividends historically paid in mid-February, mid-May, mid-August, and mid-November.
■ Div'd reinvestment plan available.
(C) In millions, adjusted for stock split.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 55 |
| Earnings Predictability | 75 |

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# PIEDMONT NAT'L. NYSE-PNY

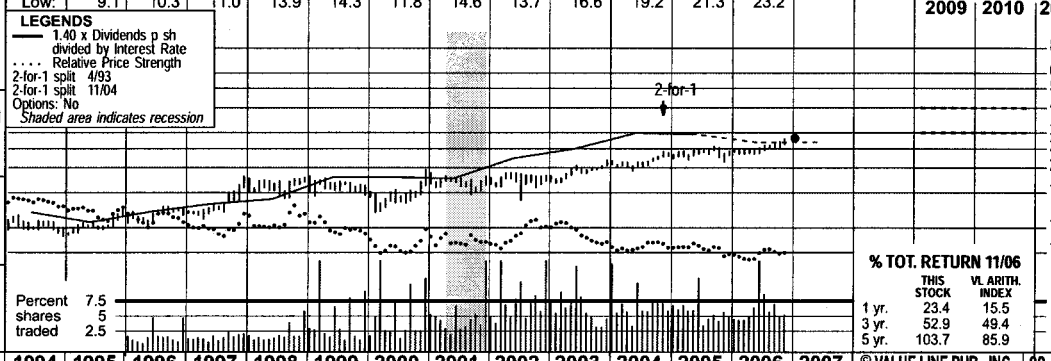
| RECENT PRICE | P/E RATIO | | RELATIVE P/E RATIO | DIV'D YLD | |
|---|---|---|---|---|---|
| 28.21 | 19.6 | (Trailing: 21.9 / Median: 17.0) | 1.07 | 3.4% | VALUE LINE |

**TIMELINESS** 4 Raised 12/23/05
**SAFETY** 2 New 7/27/90
**TECHNICAL** 3 Lowered 12/8/06
**BETA** .80 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 12.4 | 12.9 | 18.2 | 18.1 | 18.3 | 19.7 | 19.0 | 19.0 | 22.0 | 24.3 | 25.8 | 28.3 |
| Low: | 9.1 | 10.3 | 11.0 | 13.9 | 14.3 | 11.8 | 14.6 | 13.7 | 16.6 | 19.2 | 21.3 | 23.2 |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 4/93
2-for-1 split 11/04
Options: No
*Shaded area indicates recession*




**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 40 | (+40%) | 12% |
| Low | 30 | (+5%) | 5% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 10 | 9 | 9 | 9 | 9 | 9 | 10 | 1 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 1 | 1 | 1 | 0 | 1 | 2 | 0 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 76 | 66 | 85 |
| to Sell | 77 | 71 | 61 |
| Hld's(000) | 30419 | 31060 | 32936 |

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 23.4 | 15.5 |
| 3 yr. | 52.9 | 49.4 |
| 5 yr. | 103.7 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 9.42 | 8.32 | 8.91 | 10.57 | 10.82 | 8.76 | 11.59 | 12.84 | 12.45 | 10.97 | 13.01 | 17.06 | 12.57 | 18.14 | 19.95 | 22.96 | *26.00* | *28.20* | Revenues per sh A | *33.10* |
| .97 | .78 | 1.07 | 1.14 | 1.13 | 1.25 | 1.49 | 1.62 | 1.72 | 1.70 | 1.77 | 1.81 | 1.81 | 2.04 | 2.31 | 2.43 | *2.50* | *2.65* | "Cash Flow" per sh | *3.20* |
| .61 | .44 | .70 | .73 | .68 | .73 | .84 | .93 | .98 | .93 | 1.01 | 1.01 | .95 | 1.11 | 1.27 | 1.32 | *1.30* | *1.40* | Earnings per sh B | *1.75* |
| .42 | .44 | .46 | .48 | .51 | .54 | .57 | .61 | .64 | .68 | .72 | .76 | .80 | .82 | .85 | .91 | *.96* | *1.00* | Div'ds Decl'd per sh C■ | *1.17* |
| 1.62 | 1.37 | 1.41 | 1.58 | 1.95 | 1.72 | 1.64 | 1.52 | 1.48 | 1.58 | 1.65 | 1.29 | 1.21 | 1.16 | 1.85 | 2.50 | *2.65* | *2.40* | Cap'l Spending per sh | *2.20* |
| 4.58 | 4.83 | 5.13 | 5.45 | 5.68 | 6.16 | 6.53 | 6.95 | 7.45 | 7.86 | 8.26 | 8.63 | 8.91 | 9.36 | 11.15 | 11.53 | *11.90* | *12.40* | Book Value per sh D | *13.85* |
| 42.87 | 49.46 | 51.59 | 52.30 | 53.15 | 57.67 | 59.10 | 60.39 | 61.48 | 62.59 | 63.83 | 64.93 | 66.18 | 67.31 | 76.67 | 76.70 | *75.00* | *74.50* | Common Shs Outst'g E | *72.50* |
| 11.3 | 16.3 | 12.3 | 15.4 | 15.7 | 13.8 | 13.9 | 13.6 | 16.3 | 17.7 | 14.3 | 16.7 | 18.4 | 16.7 | 16.6 | 17.9 | *Bold figures are* | | Avg Ann'l P/E Ratio | *19.0* |
| .84 | 1.04 | .75 | .91 | 1.03 | .92 | .87 | .78 | .85 | 1.01 | .93 | .86 | 1.01 | .95 | .88 | .95 | *Value Line* | | Relative P/E Ratio | *1.25* |
| 6.0% | 6.0% | 5.3% | 4.3% | 4.8% | 5.4% | 4.9% | 4.8% | 4.0% | 4.1% | 5.0% | 4.5% | 4.6% | 4.4% | 4.1% | 3.8% | *estimates* | | Avg Ann'l Div'd Yield | *3.5%* |
| | | | | | | 685.1 | 775.5 | 765.3 | 686.5 | 830.4 | 1107.9 | 832.0 | 1220.8 | 1529.7 | 1761.1 | *1950* | *2100* | Revenues ($mill) A | *2400* |
| | | | | | | 48.6 | 55.2 | 60.3 | 58.2 | 64.0 | 65.5 | 62.2 | 74.4 | 95.2 | 101.3 | *100* | *105* | Net Profit ($mill) | *130* |
| | | | | | | 38.9% | 39.1% | 39.2% | 39.7% | 34.7% | 34.6% | 33.1% | 34.8% | 35.1% | 33.7% | *35.0%* | *36.0%* | Income Tax Rate | *36.0%* |
| | | | | | | 7.1% | 7.1% | 7.9% | 8.5% | 7.7% | 5.9% | 7.5% | 6.1% | 6.2% | 5.8% | *5.1%* | *5.1%* | Net Profit Margin | *5.3%* |
| | | | | | | 50.3% | 47.6% | 44.7% | 46.2% | 46.1% | 47.6% | 43.9% | 42.2% | 43.6% | 41.4% | *48.0%* | *47.0%* | Long-Term Debt Ratio | *45.0%* |
| | | | | | | 49.7% | 52.4% | 55.3% | 53.8% | 53.9% | 52.4% | 56.1% | 57.8% | 56.4% | 58.6% | *52.0%* | *53.0%* | Common Equity Ratio | *55.0%* |
| | | | | | | 777.1 | 800.8 | 829.3 | 914.7 | 978.4 | 1069.4 | 1051.6 | 1090.2 | 1514.9 | 1509.2 | *1715* | *1750* | Total Capital ($mill) | *1830* |
| | | | | | | 862.0 | 941.7 | 990.6 | 1047.0 | 1072.0 | 1114.7 | 1158.5 | 1812.3 | 1849.8 | 1939.1 | *2035* | *2170* | Net Plant ($mill) | *2400* |
| | | | | | | 8.2% | 8.9% | 9.2% | 8.1% | 8.3% | 7.9% | 7.8% | 8.6% | 7.8% | 8.2% | *7.0%* | *7.5%* | Return on Total Cap'l | *8.0%* |
| | | | | | | 12.6% | 13.1% | 13.2% | 11.8% | 12.1% | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | *11.0%* | *11.5%* | Return on Shr. Equity | *12.5%* |
| | | | | | | 12.6% | 13.1% | 13.2% | 11.8% | 12.1% | 11.7% | 10.6% | 11.8% | 11.1% | 11.5% | *11.0%* | *11.5%* | Return on Com Equity | *12.5%* |
| | | | | | | 3.9% | 4.6% | 4.7% | 3.3% | 3.5% | 3.0% | 1.7% | 3.1% | 3.7% | 3.6% | *3.0%* | *3.5%* | Retained to Com Eq | *4.5%* |
| | | | | | | 69% | 65% | 65% | 72% | 71% | 75% | 83% | 74% | 66% | 68% | *72%* | *70%* | All Div'ds to Net Prof | *67%* |

**CAPITAL STRUCTURE as of 7/31/06**
**Total Debt** $927.5 mill. **Due in 5 Yrs** $325.0 mill.
**LT Debt** $825.0 mill. **LT Interest** $40.0 mill.
(LT interest earned: 4.5x; total interest coverage: 4.5x)

**Pension Assets-10/05** $199.2 mill. **Oblig.** $236.6 mill.

**Pfd Stock** None

**Common Stock** 75,327,139 shs. as of 9/1/06
**MARKET CAP: $2.1 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 7/31/06 |
|---|---|---|---|
| Cash Assets | 5.7 | 7.1 | 8.5 |
| Other | 329.5 | 497.8 | 399.1 |
| Current Assets | 335.2 | 504.9 | 407.6 |
| Accts Payable | 99.6 | 182.8 | 64.9 |
| Debt Due | 109.5 | 193.5 | 102.5 |
| Other | 97.1 | 152.3 | 122.7 |
| Current Liab. | 306.2 | 528.6 | 290.1 |
| Fix. Chg. Cov. | 378% | 400% | 390% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 7.5% | 11.0% | *8.5%* |
| "Cash Flow" | 7.0% | 5.5% | *6.0%* |
| Earnings | 5.5% | 5.0% | *6.0%* |
| Dividends | 5.5% | 5.0% | *5.5%* |
| Book Value | 6.5% | 6.5% | *3.0%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 493.5 | 407.8 | 140.1 | 179.4 | 1220.8 |
| 2004 | 618.8 | 482.4 | 214.7 | 213.8 | 1529.7 |
| 2005 | 680.6 | 508.0 | 232.9 | 339.6 | 1761.1 |
| 2006 | 921.4 | 483.2 | 237.9 | *307.5* | *1950* |
| 2007 | *875* | *565* | *315* | *345* | *2100* |

| Fiscal Year Ends | EARNINGS PER SHARE A B F Jan.31 | Apr.30 | Jul.31 | Oct.31 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | .87 | .47 | d.15 | d.08 | 1.11 |
| 2004 | 1.03 | .54 | d.11 | d.21 | 1.27 |
| 2005 | .93 | .52 | d.06 | d.07 | 1.32 |
| 2006 | .94 | .57 | d.16 | *d.05* | *1.30* |
| 2007 | *.98* | *.57* | *d.06* | *d.09* | *1.40* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .193 | .20 | .20 | .20 | .79 |
| 2003 | .20 | .208 | .208 | .208 | .82 |
| 2004 | .208 | .215 | .215 | .215 | .85 |
| 2005 | .215 | .23 | .23 | .23 | .91 |
| 2006 | .23 | .24 | .24 | .24 | |

**BUSINESS:** Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 990,000 customers in North Carolina, South Carolina, and Tennessee. 2005 revenue mix: residential (39%), commercial (24%), industrial (13%), other (24%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 71.6% of revenues. '05 deprec. rate: 3.3%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 2,125 employees. Officers & directors own less than 1% of common stock (1/06 proxy). CEO & President: Thomas E. Skains. Inc.: NC. Addr.: 1915 Rexford Road, P.O. Box 33068 Charlotte, NC 28233. Telephone: 704-364-3120. Internet: www.piedmontng.com.

**Fiscal 2006 (began November 1st) will likely be a better year for Piedmont Natural Gas.** Last year's results were impacted by a number of factors. The company benefited from increased margins due to growth in its residential and commercial customer base, along with the impact of changes in rates at two of its jurisdictions. However, this was offset by decreased customer consumption due to conservation, which probably contributed to the expected year-over-year earnings decline. This year, we look for earnings to advance about 5%–10%, driven by customer growth that should remain above the industry average, along with increased margins owing to the rate stabilization act in South Carolina that will result in a $6.5 million increase in revenue. Also, the company's restructuring efforts from last year should contribute $7 million to $7.5 million in annual cost savings.

**The company is expanding its presence in nonregulated activities.** During the first nine months of fiscal 2006, these activities contributed almost $28 million to earnings, 14% above last year. This includes its operations through SouthStar Energy, Pine Needle LNG, Cardinal Pipeline Company, and Hardy Storage Company. In addition, we look for Piedmont to continue to pursue investments in storage or pipeline assets to broaden its earnings stream.

**Piedmont is diversifying its natural gas supply portfolio.** Currently, the majority of the company's supply is derived from the Gulf Coast region. To reduce risk in the event of a shutdown, Piedmont has a firm transportation contract pending with Midwestern Gas Transmission Company for 128,000 dekatherms per day of additional capacity that will provide it access to the Canadian and Rocky mountain gas suppliers via the Chicago hub. Also, it has an agreement with Hardy Storage Company for storage capacity in its West Virginia region, which is scheduled to be in service in April, 2007.

**Though untimely, this equity provides a good dividend yield.** Risk is also limited, thanks to the stock's Above-Average Safety rank. Looking ahead, total-return potential is above that of the average utility stock covered by *Value Line.*

*Evan I. Blatter* *December 15, 2006*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Feb.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. At 10/31/05: $4.0 million, 5¢/share.
(E) In millions, adjusted for stock splits.
(F) Quarters may not add to total due to change in shares outstanding.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 75 |
| Earnings Predictability | 80 |

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# SOUTH JERSEY INDS. NYSE-SJI

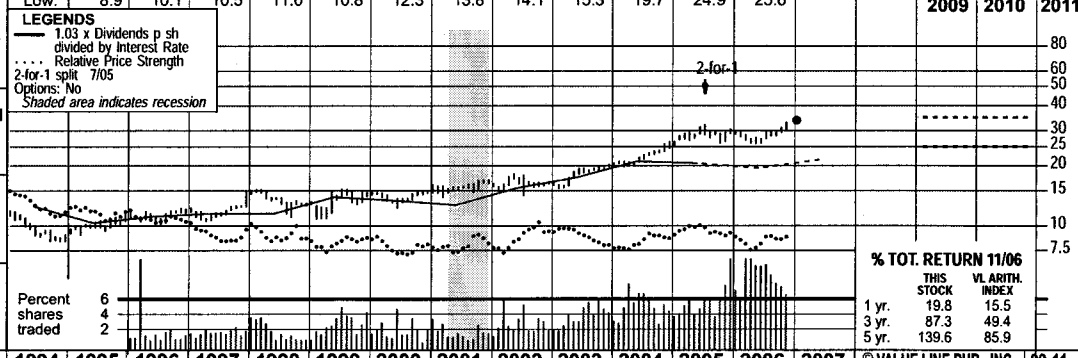
RECENT PRICE **33.89** | P/E RATIO **17.7** (Trailing: 20.3 / Median: 14.0) | RELATIVE P/E RATIO **0.96** | DIV'D YLD **2.9%** | VALUE LINE

**TIMELINESS** 4 Raised 10/6/06
**SAFETY** 2 Lowered 1/4/91
**TECHNICAL** 2 Raised 11/10/06
**BETA** .70 (1.00 = Market)

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 11.8 | 12.3 | 15.3 | 15.4 | 15.4 | 15.1 | 17.0 | 18.3 | 20.3 | 26.5 | 32.4 | 34.0 | |
| Low: | 8.9 | 10.1 | 10.5 | 11.0 | 10.8 | 12.3 | 13.8 | 14.1 | 15.3 | 19.7 | 24.9 | 25.6 | |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.03 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: No
*Shaded area indicates recession*




**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+5%) | 4% |
| Low | 25 | (-25%) | -3% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| to Sell | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 63 | 59 | 64 |
| to Sell | 49 | 52 | 46 |
| Hld's(000) | 14085 | 14260 | 15700 |

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 19.8 | 15.5 |
| 3 yr. | 87.3 | 49.4 |
| 5 yr. | 139.6 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 14.40 | 15.10 | 16.67 | 17.03 | 17.45 | 16.50 | 16.52 | 16.18 | 20.89 | 17.60 | 22.43 | 35.30 | 20.69 | 26.34 | 29.51 | 31.78 | **32.25** | **33.80** | Revenues per sh | **37.75** |
| 1.34 | 1.37 | 1.56 | 1.54 | 1.35 | 1.65 | 1.54 | 1.60 | 1.44 | 1.84 | 1.95 | 1.90 | 2.12 | 2.24 | 2.44 | 2.51 | **2.80** | **2.95** | "Cash Flow" per sh | **3.45** |
| .67 | .64 | .81 | .78 | .61 | .83 | .85 | .86 | .64 | 1.01 | 1.08 | 1.15 | 1.22 | 1.37 | 1.58 | 1.71 | **1.85** | **1.95** | Earnings per sh A | **2.30** |
| .70 | .71 | .71 | .72 | .72 | .72 | .72 | .72 | .72 | .72 | .73 | .74 | .75 | .78 | .82 | .86 | **.92** | **.98** | Div'ds Decl'd per sh B ■ | **1.15** |
| 2.11 | 2.17 | 1.69 | 1.87 | 1.93 | 2.08 | 2.01 | 2.30 | 3.06 | 2.19 | 2.21 | 2.82 | 3.47 | 2.36 | 2.67 | 3.21 | **3.60** | **3.70** | Cap'l Spending per sh | **4.05** |
| 6.79 | 6.77 | 6.95 | 7.17 | 7.23 | 7.34 | 8.03 | 6.43 | 6.23 | 6.74 | 7.25 | 7.81 | 9.67 | 11.26 | 12.41 | 13.50 | **14.25** | **15.05** | Book Value per sh C | **17.45** |
| 18.06 | 18.48 | 19.00 | 19.61 | 21.43 | 21.44 | 21.51 | 21.54 | 21.56 | 22.30 | 23.00 | 23.72 | 24.41 | 26.46 | 27.76 | 28.98 | **29.30** | **29.60** | Common Shs Outst'g D | **31.00** |
| 13.6 | 14.5 | 13.2 | 15.8 | 16.1 | 12.2 | 13.3 | 13.8 | 21.2 | 13.3 | 13.0 | 13.6 | 13.5 | 13.3 | 14.1 | 16.6 | *Bold figures are* | | Avg Ann'l P/E Ratio | **14.0** |
| 1.01 | .93 | .80 | .93 | 1.06 | .82 | .83 | .80 | 1.10 | .76 | .85 | .70 | .74 | .76 | .74 | .88 | *Value Line* | | Relative P/E Ratio | **.95** |
| 7.7% | 7.6% | 6.6% | 5.9% | 7.4% | 7.2% | 6.4% | 6.1% | 5.3% | 5.4% | 5.2% | 4.7% | 4.6% | 4.3% | 3.7% | 3.0% | *estimates* | | Avg Ann'l Div'd Yield | **3.5%** |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** $505.1 mill. **Due in 5 Yrs** $175.0 mill.
**LT Debt** $358.1 mill. **LT Interest** $20.0 mill.
(Total interest coverage: 4.8x)

**Pension Assets-12/05** $108.5 mill. **Oblig.** $126.7 mill.

**Pfd Stock** none

**Common Stock** 29,279,288 common shs. as of 11/1/06

**MARKET CAP: $1.0 billion (Mid Cap)**

| 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|
| 355.5 | 348.6 | 450.2 | 392.5 | 515.9 | 837.3 | 505.1 | 696.8 | 819.1 | 921.0 | **945** | **1000** | Revenues ($mill) | **1170** |
| 18.5 | 18.4 | 13.8 | 22.0 | 24.7 | 26.8 | 29.4 | 34.6 | 43.0 | 48.6 | **55.0** | **60.0** | Net Profit ($mill) | **70.0** |
| 35.5% | 36.8% | 46.2% | 42.8% | 43.1% | 42.2% | 41.4% | 40.6% | 40.9% | 41.5% | **40.5%** | **40.5%** | Income Tax Rate | **40.5%** |
| 5.2% | 5.3% | 3.1% | 5.6% | 4.8% | 3.2% | 5.8% | 5.0% | 5.2% | 5.3% | **5.7%** | **5.6%** | Net Profit Margin | **6.0%** |
| 46.1% | 54.6% | 57.3% | 53.8% | 54.1% | 57.0% | 53.6% | 50.8% | 48.7% | 44.9% | **46.0%** | **45.5%** | Long-Term Debt Ratio | **42.0%** |
| 53.2% | 35.8% | 33.5% | 37.0% | 37.6% | 35.9% | 46.1% | 49.0% | 51.0% | 55.1% | **54.0%** | **54.5%** | Common Equity Ratio | **58.0%** |
| 324.8 | 387.1 | 401.1 | 405.9 | 443.5 | 516.2 | 512.5 | 608.4 | 675.0 | 710.3 | **780** | **820** | Total Capital ($mill) | **935** |
| 423.9 | 456.5 | 504.3 | 533.3 | 562.2 | 607.0 | 666.6 | 748.3 | 799.9 | 877.3 | **940** | **1010** | Net Plant ($mill) | **1200** |
| 7.9% | 6.7% | 5.3% | 7.4% | 7.4% | 6.9% | 7.6% | 7.3% | 7.9% | 8.3% | **8.5%** | **8.0%** | Return on Total Cap'l | **8.5%** |
| 10.5% | 10.5% | 8.1% | 11.7% | 12.1% | 12.1% | 12.4% | 11.5% | 12.4% | 12.4% | **13.0%** | **12.5%** | Return on Shr. Equity | **13.0%** |
| 10.6% | 13.3% | 10.3% | 14.6% | 14.8% | 12.8% | 12.5% | 11.6% | 12.5% | 12.4% | **13.0%** | **12.5%** | Return on Com Equity | **13.0%** |
| 1.6% | 2.1% | NMF | 4.2% | 4.8% | 3.5% | 4.7% | 5.0% | 5.9% | 6.2% | **6.5%** | **6.5%** | Retained to Com Eq | **6.0%** |
| 85% | 84% | 112% | 72% | 67% | 76% | 62% | 57% | 52% | 50% | **50%** | **51%** | All Div'ds to Net Prof | **53%** |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 10.6 | 4.9 | 5.0 |
| Other | 273.3 | 352.6 | 310.7 |
| Current Assets | 283.9 | 357.5 | 315.7 |
| Accts Payable | 118.8 | 179.0 | 52.3 |
| Debt Due | 97.6 | 149.7 | 177.9 |
| Other | 68.9 | 74.4 | 140.5 |
| Current Liab. | 285.3 | 403.1 | 370.7 |
| Fix. Chg. Cov. | 426% | 486% | 445% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 5.5% | 7.5% | 4.5% |
| "Cash Flow" | 4.5% | 6.5% | 6.5% |
| Earnings | 8.0% | 11.5% | 7.0% |
| Dividends | 1.5% | 2.5% | 6.0% |
| Book Value | 5.5% | 13.0% | 6.0% |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 279.9 | 106.2 | 90.1 | 220.6 | 696.8 |
| 2004 | 307.6 | 136.5 | 129.5 | 245.5 | 819.1 |
| 2005 | 328.6 | 154.0 | 157.0 | 281.4 | 921.0 |
| 2006 | 365.0 | 155.5 | 133.1 | **291.4** | **945** |
| 2007 | **375** | **175** | **160** | **290** | **1000** |

| Cal-endar | EARNINGS PER SHARE A Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | .92 | .08 | d.07 | .44 | 1.37 |
| 2004 | .91 | .15 | .02 | .50 | 1.58 |
| 2005 | .96 | .27 | .09 | .39 | 1.71 |
| 2006 | .93 | .25 | .09 | **.58** | **1.85** |
| 2007 | **.97** | **.28** | **.10** | **.60** | **1.95** |

| Cal-endar | QUARTERLY DIVIDENDS PAID B ■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .185 | .188 | .188 | .38 | .94 |
| 2003 | -- | .193 | .193 | .395 | .78 |
| 2004 | -- | .202 | .202 | .415 | .82 |
| 2005 | -- | .213 | .213 | .438 | .86 |
| 2006 | -- | .225 | .225 | .225 | |

**BUSINESS:** South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 322,424 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '05: residential, 45%; commercial, 23%; cogeneration and electric generation 4%; Industrial, 23%. Non-utility operations include: South Jersey Energy, South Jersey Resource Group, Marina Energy, and South Jersey Energy Services Plus. Has 636 employees. Off./dir. cntrl. 1.5% of com. shares; Dimensional Fund Advisors, 7.9%; Barclays, 5.3% (3/06 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

**South Jersey Industries is on pace to close out 2006 on a strong note.** We look for the company to report earnings of $0.58 a share in the fourth quarter, almost 50% above last year's figure. This can be attributed to a new Conservation Incentive Program (CIP) at South Jersey Gas, along with better performance from its nonutility operations (discussed below). The company continues to add customers at a nice rate, a trend that should continue in the coming years, driven by the strength of the local economy and steady demand for new housing in south New Jersey.

**Earnings at South Jersey Gas, the company's main subsidiary, should become less volatile in the coming years.** This is due to the approval in October of the CIP by the New Jersey Board of Public Utilities. It is a three-year pilot program that will allow the company to promote energy conservation, without earnings being impacted. The primary benefit of the program is that it protects SJG from margin variations related to both changes in weather and customer usage, versus just weather under the prior plan.

**Nonutility business is positioned to grow over the 2009–2011 period.** The company's Marina Energy subsidiary is in the second phase of its expansion of the Borgata Hotel Casino & Spa, which includes a 40-story hotel tower that is scheduled to be completed late next year. Marina is also pursuing a similar project with the Borgata in Las Vegas, and remains one of the finalists to co-own and operate a thermal facility to provide all the energy needs for this Las Vegas casino project. The winning bid is expected to be announced shortly, and if South Jersey gets the nod, the deal would be a meaningful contributor to earnings toward the latter part of the decade.

**Good-quality South Jersey Industries shares have benefited from good news.** Due to an improved outlook, the board now intends to raise the dividend payout about 6%-7% annually, up from 3%–6%. Even so, this untimely equity has risen about 15% since our last report, and is now trading at a lofty P/E ratio compared to historical levels. Looking ahead, total return potential is limited, despite the likelihood of dividend increases.

*Evan I. Blatter* *December 15, 2006*

(A) Based on avg. shs. Excl. nonrecur. gain: '01, $0.13. Excl gain (losses) from discont. ops.: '96, $1.14; '97, ($0.24); '98, ($0.26); '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02). Excl. gains due to acct'g change: '93, $0.04; '01, $0.14. Next egs. report due late January.
(B) Dividends paid early Apr., Jul., Oct, and late Dec. ■ Div. reinvest. plan avail. (2% disc.).
(C) Incl. regulatory assets ($121.5 mill.): at 12/31/05, $4.19 per shr.
(D) In millions, adjusted for split.

| | |
|---|---|
| Company's Financial Strength | B++ |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 95 |
| Earnings Predictability | 90 |

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# SOUTHWEST GAS NYSE-SWX

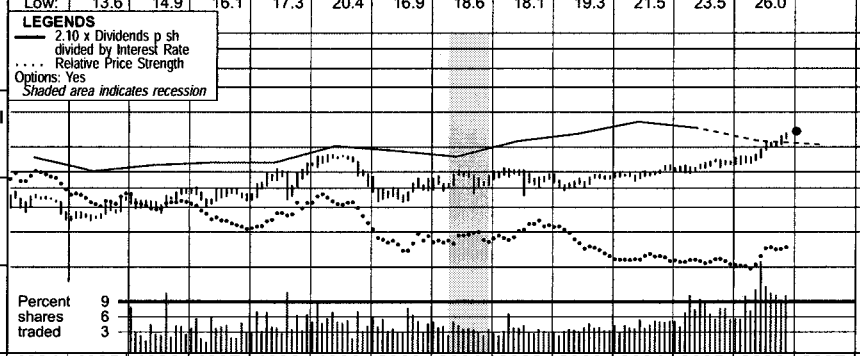
RECENT PRICE **38.47** | P/E RATIO **19.0** (Trailing: 22.1 / Median: 20.0) | RELATIVE P/E RATIO **1.03** | DIV'D YLD **2.1%** | VALUE LINE

**TIMELINESS** 3 Raised 5/12/06
**SAFETY** 3 Lowered 1/4/91
**TECHNICAL** 2 Raised 9/29/06
**BETA** .85 (1.00 = Market)

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 18.4 | 19.9 | 20.3 | 26.9 | 29.5 | 23.0 | 24.7 | 25.3 | 23.6 | 26.2 | 28.1 | 38.4 |
| Low: | 13.6 | 14.9 | 16.1 | 17.3 | 20.4 | 16.9 | 18.6 | 18.1 | 19.3 | 21.5 | 23.5 | 26.0 |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 2.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
*Shaded area indicates recession*



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 50 | (+30%) | 8% |
| Low | 35 | (-10%) | Nil |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 3 | 0 | 0 | 0 | 1 | 0 |
| Options | 1 | 0 | 5 | 1 | 5 | 5 | 2 | 5 | 2 |
| to Sell | 1 | 0 | 5 | 1 | 6 | 6 | 2 | 5 | 2 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 62 | 69 | 82 |
| to Sell | 53 | 53 | 46 |
| Hld's(000) | 25543 | 26476 | 29036 |

Percent shares traded 9 6 3

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 44.5 | 15.5 |
| 3 yr. | 82.6 | 49.4 |
| 5 yr. | 115.3 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 25.90 | 24.99 | 25.93 | 25.68 | 28.16 | 23.03 | 24.09 | 26.73 | 30.17 | 30.24 | 32.61 | 42.98 | 39.68 | 35.96 | 40.14 | 43.59 | *47.15* | *47.90* | Revenues per sh A | *51.10* |
| 3.96 | 1.53 | 3.34 | 3.24 | 5.09 | 2.65 | 3.00 | 3.85 | 4.48 | 4.45 | 4.57 | 4.79 | 5.07 | 5.11 | 5.57 | 5.20 | *6.05* | *6.05* | "Cash Flow" per sh | *6.60* |
| 1.81 | d.76 | .81 | .63 | 1.22 | .10 | .25 | .77 | 1.65 | 1.27 | 1.21 | 1.15 | 1.16 | 1.13 | 1.66 | 1.25 | *1.95* | *2.00* | Earnings per sh A B | *2.35* |
| 1.40 | .88 | .70 | .74 | .80 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | .82 | *.82* | *.82* | Div'ds Decl'd per sh C■ | *.82* |
| 5.06 | 3.76 | 5.02 | 5.43 | 6.64 | 6.79 | 8.19 | 6.19 | 6.40 | 7.41 | 7.04 | 8.17 | 8.50 | 7.03 | 8.23 | 7.49 | *7.40* | *7.45* | Cap'l Spending per sh | *7.80* |
| 17.63 | 15.88 | 15.99 | 15.96 | 16.38 | 14.55 | 14.20 | 14.09 | 15.67 | 16.31 | 16.82 | 17.27 | 17.91 | 18.42 | 19.18 | 19.10 | *19.50* | *20.60* | Book Value per sh | *24.55* |
| 20.04 | 20.60 | 20.60 | 21.00 | 21.28 | 24.47 | 26.73 | 27.39 | 30.41 | 30.99 | 31.71 | 32.49 | 33.29 | 34.23 | 36.79 | 39.33 | *42.00* | *43.00* | Common Shs Outst'g D | *45.00* |
| 8.7 | -- | 16.6 | 26.5 | 14.0 | NMF | NMF | 24.1 | 13.2 | 21.1 | 16.0 | 19.0 | 19.9 | 19.2 | 14.3 | 20.6 | *Bold figures are* | | Avg Ann'l P/E Ratio | *18.0* |
| .65 | -- | 1.01 | 1.57 | .92 | NMF | NMF | 1.40 | .69 | 1.20 | 1.04 | .97 | 1.09 | 1.09 | .76 | 1.10 | *Value Line* | | Relative P/E Ratio | *1.20* |
| 8.9% | 7.0% | 5.2% | 4.4% | 4.7% | 5.4% | 4.7% | 4.4% | 3.8% | 3.1% | 4.2% | 3.8% | 3.6% | 3.8% | 3.5% | 3.2% | *estimates* | | Avg Ann'l Div'd Yield | *1.9%* |

**CAPITAL STRUCTURE as of 9/30/06**

**Total Debt** $1393.4 mill. **Due in 5 Yrs** $379.5 mill.
**LT Debt** $1366.1 mill. **LT Interest** $88.0 mill.
(Total interest coverage: 2.1x)

**Pension Assets-12/05** $359.6 mill. **Oblig.** $511.0 mill.

**Pfd Stock** None

**Common Stock** 41,464,506 shs. as of 11/2/06

**MARKET CAP: $1.6 billion (Mid Cap)**

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 644.1 | 732.0 | 917.3 | 936.9 | 1034.1 | 1396.7 | 1320.9 | 1231.0 | 1477.1 | 1714.3 | *1980* | *2060* | Revenues ($mill) A | *2300* |
| 6.6 | 20.8 | 47.5 | 39.3 | 38.3 | 37.2 | 38.6 | 38.5 | 58.9 | 48.1 | *85.0* | *85.0* | Net Profit ($mill) | *105* |
| 37.1% | 29.2% | 43.4% | 35.5% | 26.2% | 34.5% | 32.8% | 30.5% | 34.8% | 29.7% | *34.0%* | *35.0%* | Income Tax Rate | *35.0%* |
| 1.0% | 2.8% | 5.2% | 4.2% | 3.7% | 2.7% | 2.9% | 3.1% | 4.0% | 2.8% | *4.2%* | *4.2%* | Net Profit Margin | *4.6%* |
| 60.2% | 63.6% | 60.2% | 60.3% | 60.2% | 56.2% | 62.5% | 66.0% | 64.2% | 63.8% | *61.3%* | *60.4%* | Long-Term Debt Ratio | *56.8%* |
| 34.4% | 31.5% | 35.3% | 35.5% | 35.8% | 39.6% | 34.1% | 34.0% | 35.8% | 36.2% | *38.7%* | *39.6%* | Common Equity Ratio | *43.2%* |
| 1104.8 | 1224.7 | 1349.3 | 1424.7 | 1489.9 | 1417.6 | 1748.3 | 1851.6 | 1968.6 | 2076.0 | *2120* | *2235* | Total Capital ($mill) | *2550* |
| 1278.5 | 1360.3 | 1459.4 | 1581.1 | 1686.1 | 1825.6 | 1979.5 | 2175.7 | 2336.0 | 2489.1 | *2600* | *2750* | Net Plant ($mill) | *3200* |
| 2.8% | 3.9% | 5.8% | 4.8% | 4.6% | 5.1% | 4.3% | 4.2% | 5.0% | 4.3% | *6.0%* | *5.5%* | Return on Total Cap'l | *6.0%* |
| 1.5% | 4.7% | 8.9% | 7.0% | 6.5% | 6.0% | 5.9% | 6.1% | 8.3% | 6.4% | *10.5%* | *9.5%* | Return on Shr. Equity | *9.5%* |
| 1.7% | 5.4% | 10.0% | 7.8% | 7.2% | 6.6% | 6.5% | 6.1% | 8.3% | 6.4% | *10.5%* | *9.5%* | Return on Com Equity | *9.5%* |
| NMF | NMF | 5.0% | 2.8% | 2.4% | 1.9% | 1.9% | 1.7% | 4.3% | 2.2% | *6.5%* | *5.5%* | Retained to Com Eq | *6.0%* |
| NMF | 107% | 50% | 64% | 67% | 71% | 70% | 72% | 49% | 65% | *39%* | *41%* | All Div'ds to Net Prof | *35%* |

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 13.6 | 29.6 | 31.6 |
| Other | 418.4 | 513.1 | 281.3 |
| Current Assets | 432.0 | 542.7 | 312.9 |
| Accts Payable | 165.9 | 259.5 | 102.4 |
| Debt Due | 129.8 | 107.2 | 27.3 |
| Other | 187.3 | 254.3 | 202.0 |
| Current Liab. | 483.0 | 621.0 | 331.7 |
| Fix. Chg. Cov. | 166% | 167% | 197% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 4.5% | 5.0% | *3.5%* |
| "Cash Flow" | 4.0% | 3.5% | *3.5%* |
| Earnings | 7.5% | -0.5% | *9.0%* |
| Dividends | 0.5% | -- | *Nil* |
| Book Value | 2.0% | 3.0% | *4.5%* |

| Cal-endar | QUARTERLY REVENUES ($ mill.) Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | 403.3 | 255.8 | 220.2 | 351.7 | 1231.0 |
| 2004 | 473.4 | 278.7 | 264.5 | 460.5 | 1477.1 |
| 2005 | 542.9 | 361.1 | 313.3 | 497.0 | 1714.3 |
| 2006 | 676.9 | 430.9 | 351.8 | *520.4* | *1980* |
| 2007 | *690* | *450* | *370* | *550* | *2060* |

| Cal-endar | EARNINGS PER SHARE B Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2003 | .76 | d.12 | d.51 | 1.00 | 1.13 |
| 2004 | 1.18 | d.24 | d.51 | 1.23 | 1.66 |
| 2005 | .88 | d.07 | d.43 | .87 | 1.25 |
| 2006 | 1.11 | .02 | d.26 | *1.08* | *1.95* |
| 2007 | *1.15* | *.05* | *d.30* | *1.10* | *2.00* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .205 | .205 | .205 | .205 | .82 |
| 2003 | .205 | .205 | .205 | .205 | .82 |
| 2004 | .205 | .205 | .205 | .205 | .82 |
| 2005 | .205 | .205 | .205 | .205 | .82 |
| 2006 | .205 | .205 | .205 | .205 | |

**BUSINESS:** Southwest Gas Corporation is a regulated gas distributor serving approx. 1.7 million customers in sections of Arizona, Nevada, and California. '05 margin mix: resid. and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Annual volume: 2.2 billion therms. Principal suppliers: El Paso Natural Gas Co. and Northwest Pipeline Corp. Acquired gas utility assets from Arizona Public Service in 1984. Sold PriMerit Bank (acq. in '86) in 7/96. Has about 4,940 employees. Officers & Directors own 2.3% of common stock (3/06 Proxy). Chairman: LeRoy Hanneman. Chief Executive Officer: Jeffrey W. Shaw. Incorporated: California. Address: 5241 Spring Mountain Rd., Las Vegas, Nevada 89193. Telephone: 702-876-7011. Internet: www.swgas.com.

**Southwest Gas reported improving results in the third quarter.** Revenues came in at $351.8 million, a 12% increase. The company reported a share-net loss of $0.26, compared to a loss of $0.43 in the prior year's period. Due to the seasonal nature of its operations (natural gas sales peak in the winter), losses during the second and third quarters are not uncommon. We find the recent period's improvement encouraging. Rate relief (primarily in Arizona) added roughly $10 million to operating income. Moderating operations and maintenance expenses also benefited the company. Growth in the customer base (discussed below) contributed, as well. For full-year 2006, we look for revenues and share earnings to advance by roughly 15% and 56%, respectively. We have increased our earnings-per-share estimate by a dime, to $1.95, as we expect strong performance during the fourth quarter.

**During the past 12 months, the company built its customer base by over 4%.** The pace of growth has been impressive in recent times. We expect this pattern to continue. However, as SWX continues to expand, it is likely to incur upfront costs and increased operating expenses. Improvements in technology may offset these costs, somewhat.

**We are mildly optimistic about growth prospects for the coming years.** We anticipate modest advances in both the top and bottom line figures from 2007 to the end of the decade, as demographic trends favor Arizona and Nevada. The net profit margin should improve, as well. But, in addition to customer growth, continued strength depends upon such variables as favorable weather temperatures and the company's ability to obtain sufficient rate relief. Its increased focus in this area is encouraging.

**These shares are not a standout for the coming year.** Moreover, appreciation potential is below average for the pull to late decade, as the shares are trading within our projected range. The dividend yield of 2.1% is lower than that of most utility stocks, and income-oriented accounts should note that the company has not increased its payout in roughly a decade. Investors could likely find better choices elsewhere.

*Michael F. Napoli* *December 15, 2006*

(A) Incl. income for PriMerit Bank on the equity basis through 1994.
(B) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Next egs. report due in March.
(C) Dividends historically paid early March, June, September, December.
■ Div'd reinvest. plan avail.
(D) In millions.

| | |
|---|---|
| Company's Financial Strength | B |
| Stock's Price Stability | 95 |
| Price Growth Persistence | 60 |
| Earnings Predictability | 65 |

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# WGL HOLDINGS NYSE-WGL

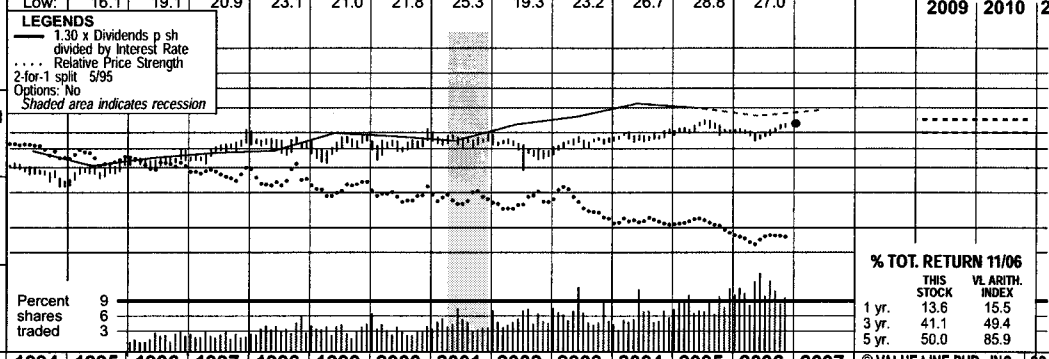
| RECENT PRICE | 33.41 | P/E RATIO | 17.4 (Trailing: 19.0 / Median: 15.0) | RELATIVE P/E RATIO | 0.95 | DIV'D YLD | 4.1% | VALUE LINE |
|---|---|---|---|---|---|---|---|---|

**TIMELINESS** 4 Raised 8/4/06
**SAFETY** 1 Raised 4/2/93
**TECHNICAL** 2 Raised 11/17/06
**BETA** .85 (1.00 = Market)

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| High: | 22.4 | 25.0 | 31.4 | 30.8 | 29.4 | 31.5 | 30.5 | 29.5 | 28.8 | 31.4 | 34.8 | 33.4 | |
| Low: | 16.1 | 19.1 | 20.9 | 23.1 | 21.0 | 21.8 | 25.3 | 19.3 | 23.2 | 26.7 | 28.8 | 27.0 | |

**Target Price Range** 2009 | 2010 | 2011

**LEGENDS**
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 5/95
Options: No
*Shaded area indicates recession*



**2009-11 PROJECTIONS**

| | Price | Gain | Ann'l Total Return |
|---|---|---|---|
| High | 35 | (+5%) | 6% |
| Low | 30 | (-10%) | 2% |

**Insider Decisions**

| | J | F | M | A | M | J | J | A | S |
|---|---|---|---|---|---|---|---|---|---|
| to Buy | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Options | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 6 | 0 |
| to Sell | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 7 | 0 |

**Institutional Decisions**

| | 4Q2005 | 1Q2006 | 2Q2006 |
|---|---|---|---|
| to Buy | 88 | 70 | 73 |
| to Sell | 67 | 77 | 78 |
| Hld's(000) | 27959 | 27311 | 29760 |

Percent shares traded 9 6 3

**% TOT. RETURN 11/06**

| | THIS STOCK | VL ARITH. INDEX |
|---|---|---|
| 1 yr. | 13.6 | 15.5 |
| 3 yr. | 41.1 | 49.4 |
| 5 yr. | 50.0 | 85.9 |

| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | © VALUE LINE PUB., INC. | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 18.75 | 17.50 | 18.37 | 21.55 | 21.69 | 19.30 | 22.19 | 24.16 | 23.74 | 20.92 | 22.19 | 29.80 | 32.63 | 42.45 | 42.93 | 44.94 | 53.94 | *55.10* | Revenues per sh A | *60.60* |
| 2.17 | 2.04 | 2.17 | 2.25 | 2.43 | 2.51 | 2.93 | 3.02 | 2.79 | 2.74 | 3.20 | 3.24 | 2.63 | 4.00 | 3.87 | 3.97 | 3.68 | *3.85* | "Cash Flow" per sh | *4.45* |
| 1.26 | 1.14 | 1.27 | 1.31 | 1.42 | 1.45 | 1.85 | 1.85 | 1.54 | 1.47 | 1.79 | 1.88 | 1.14 | 2.30 | 1.98 | 2.11 | 1.90 | *1.90* | Earnings per sh B | *2.35* |
| 1.01 | 1.05 | 1.07 | 1.09 | 1.11 | 1.12 | 1.14 | 1.17 | 1.20 | 1.22 | 1.24 | 1.26 | 1.27 | 1.28 | 1.30 | 1.32 | 1.35 | *1.38* | Div'ds Decl'd per sh C■ | *1.48* |
| 2.38 | 2.05 | 2.17 | 2.43 | 2.84 | 2.63 | 2.85 | 3.20 | 3.62 | 3.42 | 2.67 | 2.68 | 3.34 | 2.65 | 2.33 | 2.32 | *3.40* | *3.30* | Cap'l Spending per sh | *3.95* |
| 10.17 | 9.63 | 10.66 | 11.04 | 11.51 | 11.95 | 12.79 | 13.48 | 13.86 | 14.72 | 15.31 | 16.24 | 15.78 | 16.25 | 16.95 | 17.80 | *18.25* | *18.90* | Book Value per sh D | *21.15* |
| 39.23 | 39.89 | 40.62 | 41.50 | 42.19 | 42.93 | 43.70 | 43.70 | 43.84 | 46.47 | 46.47 | 48.54 | 48.56 | 48.63 | 48.67 | 48.65 | 48.88 | *49.00* | Common Shs Outst'g E | *49.50* |
| 11.7 | 12.8 | 13.6 | 15.6 | 14.0 | 12.7 | 11.5 | 12.7 | 17.2 | 17.3 | 14.6 | 14.7 | 23.1 | 11.1 | 14.2 | 14.7 | 15.8 | | Avg Ann'l P/E Ratio | *14.0* |
| .87 | .82 | .82 | .92 | .92 | .85 | .72 | .73 | .89 | .99 | .95 | .75 | 1.26 | .63 | .75 | .78 | .85 | | Relative P/E Ratio | *.90* |
| 6.9% | 7.2% | 6.2% | 5.3% | 5.6% | 6.1% | 5.4% | 5.0% | 4.5% | 4.8% | 4.8% | 4.6% | 4.8% | 5.0% | 4.6% | 4.2% | 4.5% | | Avg Ann'l Div'd Yield | *4.3%* |

| 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | | 09-11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 969.8 | 1055.8 | 1040.6 | 972.1 | 1031.1 | 1446.5 | 1584.8 | 2064.2 | 2089.6 | 2186.3 | 2636.7 | *2700* | Revenues ($mill) A | *3000* |
| 81.6 | 82.0 | 68.6 | 68.8 | 84.6 | 89.9 | 55.7 | 112.3 | 98.0 | 104.8 | 87.3 | *95.0* | Net Profit ($mill) | *110* |
| 37.7% | 36.9% | 35.6% | 36.0% | 36.1% | 39.6% | 34.0% | 38.0% | 38.2% | 37.4% | *40.0%* | *38.0%* | Income Tax Rate | *38.0%* |
| 8.4% | 7.8% | 6.6% | 7.1% | 8.2% | 6.2% | 3.5% | 5.4% | 4.7% | 4.8% | 3.3% | *3.4%* | Net Profit Margin | *3.8%* |
| 37.6% | 41.1% | 40.3% | 41.5% | 43.1% | 41.7% | 45.7% | 43.8% | 40.9% | 39.5% | *38.0%* | *37.5%* | Long-Term Debt Ratio | *37.0%* |
| 59.4% | 56.2% | 57.1% | 56.1% | 54.8% | 56.3% | 52.4% | 54.3% | 57.2% | 58.6% | *60.0%* | *60.5%* | Common Equity Ratio | *61.0%* |
| 941.1 | 1049.0 | 1064.8 | 1218.5 | 1299.2 | 1400.8 | 1462.5 | 1454.9 | 1443.6 | 1478.1 | 1496.4 | *1570* | Total Capital ($mill) | *1760* |
| 1130.6 | 1217.1 | 1319.5 | 1402.7 | 1460.3 | 1519.7 | 1606.8 | 1874.9 | 1915.6 | 1969.7 | 2067.9 | *2270* | Net Plant ($mill) | *2550* |
| 10.1% | 9.3% | 8.0% | 7.1% | 7.9% | 7.9% | 5.3% | 9.1% | 8.2% | 8.5% | *6.0%* | *6.0%* | Return on Total Cap'l | *6.5%* |
| 13.9% | 13.3% | 10.8% | 9.7% | 11.4% | 11.0% | 7.0% | 13.7% | 11.5% | 11.7% | *9.0%* | *9.5%* | Return on Shr. Equity | *10.5%* |
| 14.4% | 13.7% | 11.1% | 9.9% | 11.7% | 11.2% | 7.2% | 14.0% | 11.7% | 12.0% | *9.5%* | *10.0%* | Return on Com Equity | *11.0%* |
| 5.6% | 5.1% | 2.5% | 1.8% | 3.7% | 3.8% | NMF | 6.2% | 4.1% | 4.6% | *2.5%* | *2.5%* | Retained to Com Eq | *4.0%* |
| 62% | 63% | 78% | 82% | 69% | 67% | 112% | 56% | 65% | 62% | *74%* | *74%* | All Div'ds to Net Prof | *65%* |

**CAPITAL STRUCTURE as of 9/30/06**
**Total Debt** $814.5 mill. **Due in 5 Yrs** $520.0 mill.
**LT Debt** $576.1 mill. **LT Interest** $40.0 mill.
(LT interest earned: 4.6x; total interest coverage: 4.2x)
**Pension Assets-9/05** $691.7 mill.
**Oblig.** $691.2 mill.
**Preferred Stock** $28.2 mill. **Pfd Div'd** $1.3 mill.

**Common Stock** 48,878,000 shs.

**MARKET CAP: $1.6 billion (Mid Cap)**

| CURRENT POSITION ($MILL.) | 2004 | 2005 | 9/30/06 |
|---|---|---|---|
| Cash Assets | 6.6 | 4.8 | 4.4 |
| Other | 426.3 | 476.2 | 556.9 |
| Current Assets | 432.9 | 481.0 | 561.3 |
| Accts Payable | 179.0 | 204.9 | 208.5 |
| Debt Due | 156.3 | 91.0 | 238.4 |
| Other | 77.6 | 115.5 | 113.9 |
| Current Liab. | 412.9 | 411.4 | 560.8 |
| Fix. Chg. Cov. | 449% | 460% | 450% |

| ANNUAL RATES of change (per sh) | Past 10 Yrs. | Past 5 Yrs. | Est'd '03-'05 to '09-'11 |
|---|---|---|---|
| Revenues | 7.5% | 14.5% | *5.5%* |
| "Cash Flow" | 5.0% | 6.5% | *2.0%* |
| Earnings | 4.5% | 6.0% | *1.5%* |
| Dividends | 1.5% | 1.5% | *2.0%* |
| Book Value | 4.0% | 3.0% | *3.5%* |

| Fiscal Year Ends | QUARTERLY REVENUES ($ mill.) A Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 560.0 | 851.1 | 373.2 | 279.9 | 2064.2 |
| 2004 | 585.3 | 862.2 | 356.9 | 285.2 | 2089.6 |
| 2005 | 623.4 | 929.8 | 349.0 | 284.1 | 2186.3 |
| 2006 | N/A | N/A | N/A | 322.5 | F2636.7 |
| 2007 | *960* | *1010* | *380* | *350* | *2700* |

| Fiscal Year Ends | EARNINGS PER SHARE A B Dec.31 | Mar.31 | Jun.30 | Sep.30 | Full Fiscal Year |
|---|---|---|---|---|---|
| 2003 | 1.10 | 1.61 | d.05 | d.36 | 2.30 |
| 2004 | .81 | 1.62 | d.08 | d.37 | 1.98 |
| 2005 | .88 | 1.63 | d.17 | d.23 | 2.11 |
| 2006 | .93 | 1.16 | d.01 | d.18 | 1.90 |
| 2007 | *.91* | *1.29* | *d.10* | *d.20* | *1.90* |

| Cal-endar | QUARTERLY DIVIDENDS PAID C■ Mar.31 | Jun.30 | Sep.30 | Dec.31 | Full Year |
|---|---|---|---|---|---|
| 2002 | .315 | .318 | .318 | .318 | 1.27 |
| 2002 | .318 | .32 | .32 | .32 | 1.28 |
| 2003 | .32 | .325 | .325 | .325 | 1.30 |
| 2004 | .325 | .333 | .333 | .333 | 1.32 |
| 2005 | .333 | .338 | .338 | .338 | |

**BUSINESS:** WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA. and MD. to resident'l and comm'l users (1,032,198 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 9.3% of common stock; Off./dir. less than 1% (1/06 proxy). Chrmn. & CEO: J.H. DeGraffenreidt. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

**Fiscal 2006 (ended September 30th) was not the best of years for WGL Holdings.** Results were impacted by a decline in natural gas deliveries due to customer conservation, along with higher operation and maintenance expenses, and results that were below last year's level at the company's nonutility segment. For 2007, we look for earnings to remain flat. This includes about $1.60 from the main utility segment, and $0.30 from nonutility operations. The company expects to add 20,000 new customers this year, slightly below previous years' additions. However, indicators point to a rebound in home construction in 2008.

**Washington Gas Light aims to improve the consistency of its earnings through new rate designs.** In 2006, the company was able to fully neutralize the effect of warmer-than-normal temperatures in the District of Columbia and Virginia. However, in Maryland the company is able to protect against both warmer weather and customer conservation through its revenue normalization adjustment plan. Due to the success of this plan, the company filed in September a similar rate case in Virginia, which also includes a performance-based rate plan that would put new rates in place by February if approved. The company also intends to file a rate case in the spring of 2007 to recover the costs associated with the Prince George's county rehabilitation program. We think the company is likely to receive most, if not all, of these costs.

**The company is looking to improve its nonregulated operations.** In September, WGL sold its interest in American Combustion Industries, which had been underperforming. This should permit management to focus on growth businesses. The company initiated a partnership with select heating, ventilating, and air conditioning contractors to increase market penetration through residential conversions. WGL expects the conversion rate, which is currently 7%, to increase to 14% for new residential businesses in 2007.

**These shares are best suited for conservative investors.** The dividend is well covered, and the yield is above its distribution counterparts. But investors should note the limited capital gains prospects.

*Evan I. Blatter* *December 15, 2006*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); discontinued operations: '06, (14¢). Next earnings report due early Feb. (C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '05: $150.0 million, $3.08/sh.
(E) In millions, adjusted for stock split.
(F) Quarterly revenues will be adjusted following 10k release.

| | |
|---|---|
| Company's Financial Strength | A |
| Stock's Price Stability | 100 |
| Price Growth Persistence | 70 |
| Earnings Predictability | 60 |

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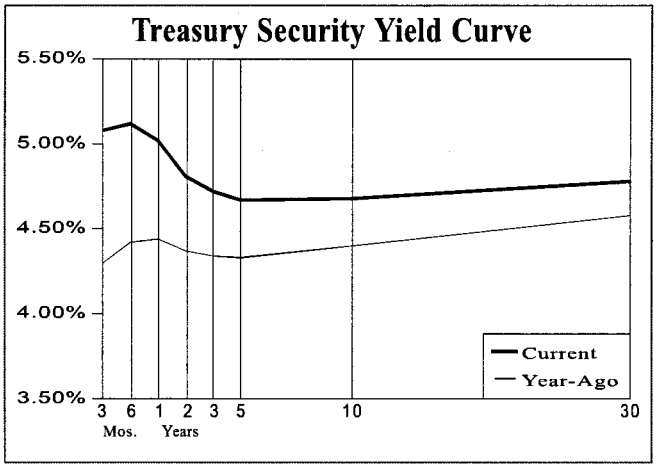
# ATTACHMENT B

# Selected Yields

| | Recent (1/10/07) | 3 Months Ago (10/11/06) | Year Ago (1/12/06) |
|---|---|---|---|
| **TAXABLE** | | | |
| **Market Rates** | | | |
| Discount Rate | 6.25 | 6.25 | 5.25 |
| Federal Funds | 5.25 | 5.25 | 4.25 |
| Prime Rate | 8.25 | 8.25 | 7.25 |
| 30-day CP (A1/P1) | 5.24 | 5.24 | 4.34 |
| 3-month LIBOR | 5.36 | 5.37 | 4.60 |
| **Bank CDs** | | | |
| 6-month | 3.30 | 3.34 | 2.85 |
| 1-year | 3.85 | 3.88 | 3.42 |
| 5-year | 3.91 | 4.04 | 3.98 |
| **U.S. Treasury Securities** | | | |
| 3-month | 5.08 | 5.01 | 4.30 |
| 6-month | 5.12 | 5.09 | 4.42 |
| 1-year | 5.02 | 5.00 | 4.44 |
| 5-year | 4.67 | 4.74 | 4.33 |
| 10-year | 4.68 | 4.78 | 4.40 |
| 10-year (inflation-protected) | 2.42 | 2.47 | 2.02 |
| 30-year | 4.78 | 4.91 | 4.58 |
| 30-year Zero | 4.72 | 4.87 | 4.53 |

| | Recent (1/10/07) | 3 Months Ago (10/11/06) | Year Ago (1/12/06) |
|---|---|---|---|
| **Mortgage-Backed Securities** | | | |
| GNMA 6.5% | 5.61 | 5.80 | 5.25 |
| FHLMC 6.5% (Gold) | 5.73 | 6.03 | 5.76 |
| FNMA 6.5% | 5.64 | 5.96 | 5.58 |
| FNMA ARM | 5.58 | 5.53 | 4.36 |
| **Corporate Bonds** | | | |
| Financial (10-year) A | 5.53 | 5.67 | 5.35 |
| Industrial (25/30-year) A | 5.74 | 5.83 | 5.61 |
| Utility (25/30-year) A | 5.76 | 5.95 | 5.62 |
| Utility (25/30-year) Baa/BBB | 6.06 | 6.30 | 5.99 |
| **Foreign Bonds (10-Year)** | | | |
| Canada | 4.08 | 4.13 | 4.03 |
| Germany | 4.02 | 3.81 | 3.28 |
| Japan | 1.76 | 1.74 | 1.45 |
| United Kingdom | 4.81 | 4.61 | 4.08 |
| **Preferred Stocks** | | | |
| Utility A | 7.17 | 7.19 | 7.09 |
| Financial A | 6.33 | 6.31 | 6.22 |
| Financial Adjustable A | 5.49 | 5.49 | 5.49 |




| | Recent (1/10/07) | 3 Months Ago (10/11/06) | Year Ago (1/12/06) |
|---|---|---|---|
| **TAX-EXEMPT** | | | |
| **Bond Buyer Indexes** | | | |
| 20-Bond Index (GOs) | 4.15 | 4.25 | 4.37 |
| 25-Bond Index (Revs) | 4.50 | 4.77 | 5.11 |
| **General Obligation Bonds (GOs)** | | | |
| 1-year Aaa | 3.50 | 3.45 | 3.20 |
| 1-year A | 3.60 | 3.58 | 3.32 |
| 5-year Aaa | 3.54 | 3.48 | 3.37 |
| 5-year A | 3.82 | 3.77 | 3.65 |
| 10-year Aaa | 3.72 | 3.79 | 3.75 |
| 10-year A | 4.12 | 4.09 | 4.07 |
| 25/30-year Aaa | 4.06 | 4.17 | 4.39 |
| 25/30-year A | 4.38 | 4.44 | 4.66 |
| **Revenue Bonds (Revs) (25/30-Year)** | | | |
| Education AA | 4.41 | 4.45 | 4.42 |
| Electric AA | 4.39 | 4.46 | 4.56 |
| Housing AA | 4.50 | 4.50 | 4.75 |
| Hospital AA | 4.53 | 4.70 | 4.88 |
| Toll Road Aaa | 4.47 | 4.53 | 4.76 |

# Federal Reserve Data

**BANK RESERVES**

*(Two-Week Period; in Millions, Not Seasonally Adjusted)*

| | Recent Levels | | | Average Levels Over the Last... | | |
|---|---|---|---|---|---|---|
| | 1/3/07 | 12/20/06 | Change | 12 Wks. | 26 Wks. | 52 Wks. |
| Excess Reserves | 2103 | 1441 | 662 | 1756 | 1690 | 1694 |
| Borrowed Reserves | 191 | 210 | -19 | 197 | 283 | 223 |
| Net Free/Borrowed Reserves | 1912 | 1231 | 681 | 1560 | 1407 | 1471 |

**MONEY SUPPLY**

*(One-Week Period; in Billions, Seasonally Adjusted)*

| | Recent Levels | | | Growth Rates Over the Last... | | |
|---|---|---|---|---|---|---|
| | 12/25/06 | 12/18/06 | Change | 3 Mos. | 6 Mos. | 12 Mos. |
| M1 (Currency+demand deposits) | 1371.0 | 1343.3 | 27.7 | 3.2% | -0.5% | -0.4% |
| M2 (M1+savings+small time deposits) | 7042.1 | 7011.3 | 30.8 | 9.1% | 6.1% | 5.4% |

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**UNS GAS, INC.**
**DOCKET NO. G-04204A-06-0463**
**TABLE OF CONTENTS TO SCHEDULES WAR**


| SCHEDULE # | |
|---|---|
| WAR - 1 | COST OF CAPITAL SUMMARY |
| WAR - 2 | DCF COST OF EQUITY CAPITAL |
| WAR - 3 | DIVIDEND YIELD CALCULATION |
| WAR - 4 | DIVIDEND GROWTH RATE CALCULATION |
| WAR - 5 | DIVIDEND GROWTH COMPONENTS |
| WAR - 6 | GROWTH RATE COMPARISON |
| WAR - 7 | CAPM COST OF EQUITY CAPITAL |
| WAR - 8 | ECONOMIC INDICATORS - 1990 TO PRESENT |
| WAR - 9 | CAPITAL STRUCTURES OF SAMPLE COMPANIES |

## WEIGHTED COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) CAPITALIZATION PER COMPANY | (B) RUCO ADJUSTMENTS | (C) RUCO ADJUSTED CAPITALIZATION | (D) CAPITAL RATIO | (E) COST | (F) WEIGHTED COST |
|---|---|---|---|---|---|---|---|
| 1 | DEBT | $ 98,859 | $ - | $ 98,859 | 50.00% | 6.23% | 3.12% |
| 2 | PREFERRED STOCK | - | - | - | 0.00% | 0.00% | 0.00% |
| 3 | COMMON EQUITY | 98,859 | - | 98,859 | 50.00% | 9.64% | 4.82% |
| 4 | TOTAL CAPITALIZATION | $ 197,718 | $ - | $ 197,718 | 100.00% | | |
| 5 | **WEIGHTED COST OF CAPITAL** | | | | | | 7.93% |

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 4
COLUMN (E): LINE 1 - SCHEDULE WAR-1, PAGE 2; LINE 3 - SCHEDULE WAR-1, PAGE 3
COLUMN (F): COLUMN (D) x COLUMN (E)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
COST OF CAPITAL SUMMARY

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 1


## WEIGHTED COST OF DEBT

| LINE NO. | (A) DESCRIPTION | (B) BALANCE | (C) ANNUAL INTEREST | (D) INTEREST RATE | (E) BALANCE RATIOS | (F) WEIGHTED COST OF DEBT |
|---|---|---|---|---|---|---|
| 1 | UNS GAS SERIES A BONDS | $ 50,000 | $ 3,115 | 6.230% | 50.00% | 3.115% |
| 2 | UNS GAS SERIES B BONDS | 50,000 | 3,115 | 6.230% | 50.00% | 3.115% |
| 3 | TOTALS | $ 100,000 | $ 6,230 | | 100.00% | |
| 4 | **WEIGHTED COST OF DEBT** | | | | | 6.23% |

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (B): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (C): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (D): COLUMN (C) ÷ COLUMN (D)
COLUMN (E): COLUMN (A) LINES 1 AND 2 ÷ LINE 3
COLUMN (F): COLUMN (D) x COLUMN (E)

## COST OF COMMON EQUITY CALCULATION

| LINE NO. | | | |
|---|---|---|---|
| 1 | **DCF METHODOLOGY** | | |
| 2 | DCF - SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE | 8.74% | SCHEDULE WAR-2, COLUMN (C), LINE 11 |
| 3 | **CAPM METHODOLOGY** | | |
| 4 | CAPM - GEOMETRIC MEAN ESTIMATE | 9.70% | SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 11 |
| 5 | CAPM - ARITHMETIC MEAN ESTIMATE | 11.36% | SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 11 |
| 6 | AVERAGE OF CAPM ESTIMATES | 10.53% | ( LINE 4 + LINE 5 ) ÷ 2 |
| 7 | **AVERAGE** | 9.64% | ( LINE 2 + LINE 6 ) ÷ 2 |

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DCF COST OF EQUITY CAPITAL

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 2

| LINE NO. | STOCK SYMBOL | COMPANY | (A) DIVIDEND YIELD | + | (B) GROWTH RATE (g) | = | (C) DCF COST OF EQUITY CAPITAL |
|---|---|---|---|---|---|---|---|
| 1 | ATG | AGL RESOURCES, INC. | 3.79% | + | 4.31% | = | 8.10% |
| 2 | ATO | ATMOS ENERGY CORPORATION | 4.00% | + | 5.39% | = | 9.39% |
| 3 | LG | LACLEDE GROUP, INC. | 4.01% | + | 4.88% | = | 8.89% |
| 4 | NJR | NEW JERSEY RESOURCES CORP. | 2.91% | + | 6.23% | = | 9.14% |
| 5 | GAS | NICOR, INC. | 3.91% | + | 4.26% | = | 8.17% |
| 6 | NWN | NORTHWEST NATURAL GAS CO. | 3.41% | + | 4.22% | = | 7.63% |
| 7 | PNY | PIEDMONT NATURAL GAS COMPANY | 3.53% | + | 4.16% | = | 7.69% |
| 8 | SJI | SOUTH JERSEY INDUSTIES, INC. | 2.72% | + | 7.08% | = | 9.80% |
| 9 | SWX | SOUTHWEST GAS CORP. | 2.15% | + | 8.17% | = | 10.32% |
| 10 | WGL | WGL HOLDINGS, INC. | 4.15% | + | 4.14% | = | 8.29% |
| 11 | **NATURAL GAS LDC AVERAGE** | | | | | | 8.74% |

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

**UNS GAS, INC.**
**TEST YEAR ENDED DECEMBER 31, 2005**
**DIVIDEND YIELD CALCULATION**

**DOCKET NO. G-04204A-06-0463**
**SCHEDULE WAR - 3**

| LINE NO. | STOCK SYMBOL | COMPANY | (A) ESTIMATED DIVIDEND (PER SHARE) | ÷ | (B) AVERAGE STOCK PRICE (PER SHARE) | = | (C) DIVIDEND YIELD |
|---|---|---|---|---|---|---|---|
| 1 | ATG | AGL RESOURCES, INC. | $1.48 | ÷ | $39.04 | = | 3.79% |
| 2 | ATO | ATMOS ENERGY CORPORATION | 1.28 | ÷ | 31.98 | = | 4.00% |
| 3 | LG | LACLEDE GROUP, INC. | 1.42 | ÷ | 35.45 | = | 4.01% |
| 4 | NJR | NEW JERSEY RESOURCES CORP. | 1.44 | ÷ | 49.52 | = | 2.91% |
| 5 | GAS | NICOR, INC. | 1.86 | ÷ | 47.56 | = | 3.91% |
| 6 | NWN | NORTHWEST NATURAL GAS CO. | 1.42 | ÷ | 41.59 | = | 3.41% |
| 7 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.96 | ÷ | 27.21 | = | 3.53% |
| 8 | SJI | SOUTH JERSEY INDUSTIES, INC. | 0.90 | ÷ | 33.08 | = | 2.72% |
| 9 | SWX | SOUTHWEST GAS CORP. | 0.82 | ÷ | 38.14 | = | 2.15% |
| 10 | WGL | WGL HOLDINGS, INC. | 1.35 | ÷ | 32.56 | = | 4.15% |
| 11 | **NATURAL GAS LDC AVERAGE** | | | | | | 3.46% |

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006.
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 11/27/2006 TO 01/19/2007
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

**UNS GAS, INC.**
**TEST YEAR ENDED DECEMBER 31, 2005**
**DIVIDEND GROWTH RATE CALCULATION**



| LINE NO. | STOCK SYMBOL | COMPANY | (A) INTERNAL GROWTH ( br ) | + | (B) EXTERNAL GROWTH (sv) | = | (C) DIVIDEND GROWTH (g) |
|---|---|---|---|---|---|---|---|
| 1 | ATG | AGL RESOURCES, INC. | 4.25% | + | 0.06% | = | 4.31% |
| 2 | ATO | ATMOS ENERGY CORPORATION | 4.50% | + | 0.89% | = | 5.39% |
| 3 | LG | LACLEDE GROUP, INC. | 4.00% | + | 0.88% | = | 4.88% |
| 4 | NJR | NEW JERSEY RESOURCES CORP. | 5.75% | + | 0.48% | = | 6.23% |
| 5 | GAS | NICOR, INC. | 3.75% | + | 0.51% | = | 4.26% |
| 6 | NWN | NORTHWEST NATURAL GAS CO. | 4.00% | + | 0.22% | = | 4.22% |
| 7 | PNY | PIEDMONT NATURAL GAS COMPANY | 4.00% | + | 0.16% | = | 4.16% |
| 8 | SJI | SOUTH JERSEY INDUSTIES, INC. | 6.25% | + | 0.83% | = | 7.08% |
| 9 | SWX | SOUTHWEST GAS CORP. | 6.50% | + | 1.67% | = | 8.17% |
| 10 | WGL | WGL HOLDINGS, INC. | 4.00% | + | 0.14% | = | 4.14% |
| 11 | **NATURAL GAS LDC AVERAGE** | | | | | | 5.28% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

**UNS GAS, INC.**
**TEST YEAR ENDED DECEMBER 31, 2005**
**DIVIDEND GROWTH RATE CALCULATION**



| LINE NO. | STOCK SYMBOL | COMPANY | (A) SHARE GROWTH | x | (B) { [ ( ( M ÷ B ) + 1 ) ÷ 2 ] - 1 } | = | (C) EXTERNAL GROWTH ( sv ) |
|---|---|---|---|---|---|---|---|
| 1 | ATG | AGL RESOURCES, INC. | 0.13% | x | { [ ( ( 1.91 ) + 1 ) ÷ 2 ] - 1 } | = | 0.06% |
| 2 | ATO | ATMOS ENERGY CORPORATION | 3.00% | x | { [ ( ( 1.59 ) + 1 ) ÷ 2 ] - 1 } | = | 0.89% |
| 3 | LG | LACLEDE GROUP, INC. | 2.00% | x | { [ ( ( 1.88 ) + 1 ) ÷ 2 ] - 1 } | = | 0.88% |
| 4 | NJR | NEW JERSEY RESOURCES CORP. | 0.80% | x | { [ ( ( 2.20 ) + 1 ) ÷ 2 ] - 1 } | = | 0.48% |
| 5 | GAS | NICOR, INC. | 0.70% | x | { [ ( ( 2.46 ) + 1 ) ÷ 2 ] - 1 } | = | 0.51% |
| 6 | NWN | NORTHWEST NATURAL GAS CO. | 0.50% | x | { [ ( ( 1.88 ) + 1 ) ÷ 2 ] - 1 } | = | 0.22% |
| 7 | PNY | PIEDMONT NATURAL GAS COMPANY | 0.25% | x | { [ ( ( 2.29 ) + 1 ) ÷ 2 ] - 1 } | = | 0.16% |
| 8 | SJI | SOUTH JERSEY INDUSTIES, INC. | 1.25% | x | { [ ( ( 2.32 ) + 1 ) ÷ 2 ] - 1 } | = | 0.83% |
| 9 | SWX | SOUTHWEST GAS CORP. | 3.50% | x | { [ ( ( 1.96 ) + 1 ) ÷ 2 ] - 1 } | = | 1.67% |
| 10 | WGL | WGL HOLDINGS, INC. | 0.35% | x | { [ ( ( 1.78 ) + 1 ) ÷ 2 ] - 1 } | = | 0.14% |
| 11 | **NATURAL GAS LDC AVERAGE** | | | | | | 0.58% |

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 5


| LINE NO. | STOCK SYMBOL | LOCAL DISTRIBUTION COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ATG | AGL RESOURCES, INC. | 2001 | 0.2800 | | 12.30% | | 3.44% | 12.19 | 55.10 | |
| 2 | | | 2002 | 0.4066 | | 14.50% | | 5.90% | 12.52 | 56.70 | |
| 3 | | | 2003 | 0.4663 | | 14.00% | | 6.53% | 14.66 | 64.50 | |
| 4 | | | 2004 | 0.4956 | | 11.00% | | 5.45% | 18.06 | 76.70 | |
| 5 | | | 2005 | 0.4758 | | 12.90% | | 6.14% | 19.29 | 77.70 | |
| 6 | | | GROWTH 2001 - 2005 | | | | | 5.49% | 8.50% | | 8.97% |
| 7 | | | 2006 | 0.4340 | | 13.00% | | 5.64% | | 77.90 | 0.26% |
| 8 | | | 2007 | 0.4148 | | 12.50% | | 5.19% | | 78.00 | 0.19% |
| 9 | | | 2009-11 | 0.3966 | | 12.00% | | 4.76% | 6.50% | 78.30 | 0.15% |
| 10 | | | | | | | | | | | |
| 11 | ATO | ATMOS ENERGY CORPORATION | 2001 | 0.2109 | | 9.60% | | 2.02% | 14.31 | 40.79 | |
| 12 | | | 2002 | 0.1862 | | 10.40% | | 1.94% | 13.75 | 41.68 | |
| 13 | | | 2003 | 0.2982 | | 9.30% | | 2.77% | 16.66 | 51.48 | |
| 14 | | | 2004 | 0.2278 | | 7.60% | | 1.73% | 18.05 | 62.80 | |
| 15 | | | 2005 | 0.2791 | | 8.50% | | 2.37% | 19.90 | 80.54 | |
| 16 | | | GROWTH 2001 - 2005 | | | | | 2.17% | 8.50% | | 18.54% |
| 17 | | | 2006 | 0.3700 | | 10.00% | | 3.70% | | 82.00 | 1.81% |
| 18 | | | 2007 | 0.3436 | | 9.50% | | 3.26% | | 84.00 | 2.13% |
| 19 | | | 2009-11 | 0.4490 | | 11.00% | | 4.94% | 4.00% | 100.00 | 4.42% |
| 20 | | | | | | | | | | | |
| 21 | LG | LACLEDE GROUP, INC. | 2001 | 0.1677 | | 10.50% | | 1.76% | 15.26 | 18.88 | |
| 22 | | | 2002 | -0.1356 | | 7.80% | | NMF | 15.07 | 18.96 | |
| 23 | | | 2003 | 0.2637 | | 11.60% | | 3.06% | 15.65 | 19.11 | |
| 24 | | | 2004 | 0.2582 | | 10.10% | | 2.61% | 16.96 | 20.98 | |
| 25 | | | 2005 | 0.2789 | | 10.90% | | 3.04% | 17.31 | 21.17 | |
| 26 | | | GROWTH 2001 - 2005 | | | | | 2.62% | 2.50% | | 2.90% |
| 27 | | | 2006 | 0.4093 | | 12.50% | | 5.12% | | 21.50 | 1.56% |
| 28 | | | 2007 | 0.3256 | | 10.50% | | 3.42% | | 21.50 | 0.78% |
| 29 | | | 2009-11 | 0.3800 | | 9.50% | | 3.61% | 7.50% | 24.00 | 2.54% |
| 30 | | | | | | | | | | | |
| 31 | NJR | NEW JERSEY RESOURCES CORP. | 2001 | 0.4000 | | 14.90% | | 5.96% | 13.20 | 26.66 | |
| 32 | | | 2002 | 0.4258 | | 15.70% | | 6.69% | 13.06 | 27.67 | |
| 33 | | | 2003 | 0.4790 | | 15.60% | | 7.47% | 15.38 | 27.23 | |
| 34 | | | 2004 | 0.4902 | | 15.30% | | 7.50% | 16.87 | 27.74 | |
| 35 | | | 2005 | 0.4868 | | 17.00% | | 8.28% | 15.90 | 27.55 | |
| 36 | | | GROWTH 2001 - 2005 | | | | | 7.18% | 8.50% | | 0.82% |
| 37 | | | 2006 | 0.4857 | | 12.60% | | 6.12% | | 27.63 | 0.29% |
| 38 | | | 2007 | 0.4759 | | 12.50% | | 5.95% | | 28.00 | 0.81% |
| 39 | | | 2009-11 | 0.4925 | | 12.00% | | 5.91% | 8.50% | 28.50 | 0.68% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 5
PAGE 2 OF 3

| LINE NO. | STOCK SYMBOL | LOCAL DISTRIBUTION COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | GAS | NICOR, INC. | 2001 | 0.4153 | | 18.70% | | 7.77% | 16.39 | 44.40 | |
| 2 | | | 2002 | 0.3611 | | 17.50% | | 6.32% | 16.55 | 44.01 | |
| 3 | | | 2003 | 0.1185 | | 12.30% | | 1.46% | 17.13 | 44.04 | |
| 4 | | | 2004 | 0.1622 | | 13.10% | | 2.12% | 16.99 | 44.10 | |
| 5 | | | 2005 | 0.1806 | | 12.50% | | 2.26% | 18.36 | 44.18 | |
| 6 | | | GROWTH 2001 - 2005 | | | | | 3.98% | 1.50% | | -0.12% |
| 7 | | | 2006 | 0.3111 | | 14.00% | | 4.36% | | 44.50 | 0.72% |
| 8 | | | 2007 | 0.3015 | | 13.00% | | 3.92% | | 44.60 | 0.47% |
| 9 | | | 2009-11 | 0.2857 | | 12.00% | | 3.43% | 4.50% | 44.90 | 0.32% |
| 10 | | | | | | | | | | | |
| 11 | NWN | NORTHWEST NATURAL GAS CO. | 2001 | 0.3351 | | 10.20% | | 3.42% | 18.56 | 25.23 | |
| 12 | | | 2002 | 0.2222 | | 8.50% | | 1.89% | 18.88 | 25.59 | |
| 13 | | | 2003 | 0.2784 | | 9.00% | | 2.51% | 19.52 | 25.94 | |
| 14 | | | 2004 | 0.3011 | | 8.90% | | 2.68% | 20.64 | 27.55 | |
| 15 | | | 2005 | 0.3744 | | 9.90% | | 3.71% | 21.28 | 27.58 | |
| 16 | | | GROWTH 2001 - 2005 | | | | | 2.84% | 3.50% | | 2.25% |
| 17 | | | 2006 | 0.3822 | | 10.00% | | 3.82% | | 27.50 | -0.29% |
| 18 | | | 2007 | 0.4042 | | 10.50% | | 4.24% | | 27.80 | 0.40% |
| 19 | | | 2009-11 | 0.4035 | | 10.50% | | 4.24% | 3.50% | 28.00 | 0.30% |
| 20 | | | | | | | | | | | |
| 21 | PNY | PIEDMONT NATURAL GAS COMPANY | 2001 | 0.2475 | | 11.70% | | 2.90% | 8.63 | 64.93 | |
| 22 | | | 2002 | 0.1579 | | 10.60% | | 1.67% | 8.91 | 66.18 | |
| 23 | | | 2003 | 0.2613 | | 11.80% | | 3.08% | 9.36 | 67.31 | |
| 24 | | | 2004 | 0.3307 | | 11.10% | | 3.67% | 11.15 | 76.67 | |
| 25 | | | 2005 | 0.3106 | | 11.50% | | 3.57% | 11.53 | 76.70 | |
| 26 | | | GROWTH 2001 - 2005 | | | | | 2.98% | 6.50% | | 4.25% |
| 27 | | | 2006 | 0.2615 | | 11.00% | | 2.88% | | 75.00 | -2.22% |
| 28 | | | 2007 | 0.2857 | | 11.50% | | 3.29% | | 74.50 | -1.44% |
| 29 | | | 2009-11 | 0.3314 | | 12.50% | | 4.14% | 3.00% | 72.50 | -1.12% |
| 30 | | | | | | | | | | | |
| 31 | SJI | SOUTH JERSEY INDUSTIES, INC. | 2001 | 0.3565 | | 12.80% | | 4.56% | 7.81 | 23.72 | |
| 32 | | | 2002 | 0.3852 | | 12.50% | | 4.82% | 9.67 | 24.41 | |
| 33 | | | 2003 | 0.4307 | | 11.60% | | 5.00% | 11.26 | 26.46 | |
| 34 | | | 2004 | 0.4810 | | 12.50% | | 6.01% | 12.41 | 27.76 | |
| 35 | | | 2005 | 0.4971 | | 12.40% | | 6.16% | 13.50 | 28.98 | |
| 36 | | | GROWTH 2001 - 2005 | | | | | 5.31% | 13.00% | | 5.13% |
| 37 | | | 2006 | 0.5027 | | 13.00% | | 6.54% | | 29.30 | 1.10% |
| 38 | | | 2007 | 0.4974 | | 12.50% | | 6.22% | | 29.60 | 1.06% |
| 39 | | | 2009-11 | 0.5000 | | 13.00% | | 6.50% | 6.00% | 31.00 | 1.36% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 5
PAGE 3 OF 3

| LINE NO. | STOCK SYMBOL | LOCAL DISTRIBUTION COMPANY NAME | OPERATING PERIOD | (A) RETENTION RATIO (b) | x | (B) RETURN ON BOOK EQUITY (r) | = | (C) DIVIDEND GROWTH (g) | (D) BOOK VALUE ($/SHARE) | (E) SHARES OUTST. (MILLIONS) | (F) SHARE GROWTH |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | SWX | SOUTHWEST GAS CORP. | 2001 | 0.2870 | | 6.60% | | 1.89% | 17.27 | 32.49 | |
| 2 | | | 2002 | 0.2931 | | 6.50% | | 1.91% | 17.91 | 33.29 | |
| 3 | | | 2003 | 0.2743 | | 6.10% | | 1.67% | 18.42 | 34.23 | |
| 4 | | | 2004 | 0.5060 | | 8.30% | | 4.20% | 19.18 | 36.79 | |
| 5 | | | 2005 | 0.3440 | | 6.40% | | 2.20% | 19.10 | 39.33 | |
| 6 | | | GROWTH 2001 - 2005 | | | | | 2.37% | 3.00% | | 4.89% |
| 7 | | | 2006 | 0.5795 | | 10.50% | | 6.08% | | 42.00 | 6.79% |
| 8 | | | 2007 | 0.5900 | | 9.50% | | 5.61% | | 43.00 | 4.56% |
| 9 | | | 2009-11 | 0.6511 | | 9.50% | | 6.19% | 4.50% | 45.00 | 2.73% |
| 10 | | | | | | | | | | | |
| 11 | WGL | WGL HOLDINGS, INC. | 2001 | 0.3298 | | 11.20% | | 3.69% | 16.24 | 48.54 | |
| 12 | | | 2002 | -0.1140 | | 11.20% | | NMF | 15.78 | 48.56 | |
| 13 | | | 2003 | 0.4435 | | 14.00% | | 6.21% | 16.25 | 48.63 | |
| 14 | | | 2004 | 0.3434 | | 11.70% | | 4.02% | 16.95 | 48.67 | |
| 15 | | | 2005 | 0.3744 | | 12.00% | | 4.49% | 17.80 | 48.65 | |
| 16 | | | GROWTH 2001 - 2005 | | | | | 4.60% | 3.00% | | 0.06% |
| 17 | | | 2006 | 0.2895 | | 9.50% | | 2.75% | | 48.88 | 0.47% |
| 18 | | | 2007 | 0.2737 | | 10.00% | | 2.74% | | 49.00 | 0.36% |
| 19 | | | 2009-11 | 0.3702 | | 11.00% | | 4.07% | 3.50% | 49.50 | 0.35% |

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
GROWTH RATE COMPARISON

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 6

| LINE NO. | STOCK SYMBOL | (A) ( br ) + ( sv ) | (B) ZACKS EPS | (C) VALUE LINE PROJECTED EPS | DPS | BVPS | (D) VALUE LINE HISTORIC EPS | DPS | BVPS | (E) VALUE LINE & ZACKS AVGS. | (F) 5 - YEAR COMPOUND HISTORY EPS | DPS | BVPS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ATG | 4.31% | 4.60% | 4.00% | 6.50% | 6.50% | 13.50% | 2.00% | 8.50% | 6.51% | 13.39% | 4.74% | 12.16% |
| 2 | ATO | 5.39% | 5.50% | 6.50% | 2.00% | 4.00% | 6.50% | 2.00% | 8.50% | 5.00% | 4.00% | 1.68% | 8.59% |
| 3 | LG | 4.88% | - | 5.00% | 2.50% | 7.50% | 4.50% | 0.50% | 2.50% | 3.75% | 4.23% | 0.56% | 3.20% |
| 4 | NJR | 6.23% | 6.00% | 4.50% | 4.50% | 8.50% | 8.00% | 3.50% | 8.50% | 6.21% | 7.97% | 3.83% | 4.76% |
| 5 | GAS | 4.26% | 2.50% | 4.00% | 1.00% | 4.50% | -3.50% | 3.50% | 1.50% | 1.93% | -6.81% | 1.39% | 2.88% |
| 6 | NWN | 4.22% | 5.30% | 7.00% | 4.00% | 3.50% | 5.00% | 1.00% | 3.50% | 4.19% | 2.93% | 1.37% | 3.48% |
| 7 | PNY | 4.16% | 5.60% | 6.00% | 5.50% | 3.00% | 5.00% | 5.00% | 6.50% | 5.23% | 6.92% | 4.61% | 7.51% |
| 8 | SJI | 7.08% | 6.00% | 7.00% | 6.00% | 6.00% | 11.50% | 2.50% | 13.00% | 7.43% | 10.43% | 3.83% | 14.66% |
| 9 | SWX | 8.17% | 6.00% | 9.00% | NIL | 4.50% | -0.50% | - | 3.00% | 4.40% | 2.11% | 0.00% | 2.55% |
| 10 | WGL | 4.14% | 3.30% | 1.50% | 2.00% | 3.50% | 6.00% | 1.50% | 3.00% | 2.97% | 2.93% | 1.17% | 2.32% |
| 11 | | | | 5.45% | 3.78% | 5.15% | 5.60% | 2.39% | 5.85% | | 4.81% | 2.32% | 6.21% |
| 12 | AVERAGES | 5.28% | 4.98% | | 4.79% | | | 4.61% | | 4.76% | | 4.45% | |

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006

BASED ON A GEOMETRIC MEAN:

| LINE NO. | STOCK SYMBOL | k | = | $r_f$ | + [ | (A) ß | x | ( | $r_m$ | - | $r_f$ | ) ] | = | (B) EXPECTED RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ATG | k | = | 5.05% | + [ | 0.95 | x | ( | 10.40% | | 5.05% | ) ] | = | 10.13% |
| 2 | ATO | k | = | 5.05% | + [ | 0.80 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.33% |
| 3 | LG | k | = | 5.05% | + [ | 0.90 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.86% |
| 4 | NJR | k | = | 5.05% | + [ | 0.80 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.33% |
| 5 | GAS | k | = | 5.05% | + [ | 1.30 | x | ( | 10.40% | | 5.05% | ) ] | = | 12.01% |
| 6 | NWN | k | = | 5.05% | + [ | 0.75 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.06% |
| 7 | PNY | k | = | 5.05% | + [ | 0.80 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.33% |
| 8 | SJI | k | = | 5.05% | + [ | 0.70 | x | ( | 10.40% | | 5.05% | ) ] | = | 8.79% |
| 9 | SWX | k | = | 5.05% | + [ | 0.85 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.60% |
| 10 | WGL | k | = | 5.05% | + [ | 0.85 | x | ( | 10.40% | | 5.05% | ) ] | = | 9.60% |
| 11 | **AVERAGE** | | | | | 0.87 | | | | | | | | 9.70% |

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\, ß\, (r_m - r_f)\, ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
$r_f$ = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
$r_m$ = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/22/2006 THROUGH 01/26/2007 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2005 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

| LINE NO. | STOCK SYMBOL | k | = | $r_f$ | + [ | (A) ß | x | ( | $r_m$ | - | $r_f$ | ) ] | = | (B) EXPECTED RETURN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | ATG | k | = | 5.05% | + [ | 0.95 | x | ( | 12.30% | | 5.05% | ) ] | = | 11.94% |
| 2 | ATO | k | = | 5.05% | + [ | 0.80 | x | ( | 12.30% | | 5.05% | ) ] | = | 10.85% |
| 3 | LG | k | = | 5.05% | + [ | 0.90 | x | ( | 12.30% | | 5.05% | ) ] | = | 11.57% |
| 4 | NJR | k | = | 5.05% | + [ | 0.80 | x | ( | 12.30% | | 5.05% | ) ] | = | 10.85% |
| 5 | GAS | k | = | 5.05% | + [ | 1.30 | x | ( | 12.30% | | 5.05% | ) ] | = | 14.48% |
| 6 | NWN | k | = | 5.05% | + [ | 0.75 | x | ( | 12.30% | | 5.05% | ) ] | = | 10.49% |
| 7 | PNY | k | = | 5.05% | + [ | 0.80 | x | ( | 12.30% | | 5.05% | ) ] | = | 10.85% |
| 8 | SJI | k | = | 5.05% | + [ | 0.70 | x | ( | 12.30% | | 5.05% | ) ] | = | 10.12% |
| 9 | SWX | k | = | 5.05% | + [ | 0.85 | x | ( | 12.30% | | 5.05% | ) ] | = | 11.21% |
| 10 | WGL | k | = | 5.05% | + [ | 0.85 | x | ( | 12.30% | | 5.05% | ) ] | = | 11.21% |
| 11 | **AVERAGE** | | | | | 0.87 | | | | | | | | 11.36% |

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [ ß (r_m - r_f ) ]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
$r_f$ = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
$r_m$ = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/22/2006 THROUGH 01/26/2007 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2005 YEARBOOK.

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 8

| LINE NO. | YEAR | (A) CHANGE IN CPI | (B) CHANGE IN GDP (1996 $) | (C) PRIME RATE | (D) FED. DISC. RATE | (E) FED. FUNDS RATE | (F) 91-DAY T-BILLS | (G) 30-YR T-BONDS | (H) A-RATED UTIL. BOND YIELD | (I) Baa-RATED UTIL. BOND YIELD |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1990 | 5.40% | 1.90% | 10.01% | 6.98% | 8.10% | 7.49% | 7.49% | 9.86% | 10.06% |
| 2 | 1991 | 4.21% | -0.20% | 8.46% | 5.45% | 5.69% | 5.38% | 5.38% | 9.36% | 9.55% |
| 3 | 1992 | 3.01% | 3.30% | 6.25% | 3.25% | 3.52% | 3.43% | 3.43% | 8.69% | 8.86% |
| 4 | 1993 | 2.99% | 2.70% | 6.00% | 3.00% | 3.02% | 3.00% | 3.00% | 7.59% | 7.91% |
| 5 | 1994 | 2.56% | 4.00% | 7.14% | 3.60% | 4.20% | 4.25% | 4.25% | 8.31% | 8.63% |
| 6 | 1995 | 2.83% | 2.50% | 8.83% | 5.21% | 5.84% | 5.49% | 5.49% | 7.89% | 8.29% |
| 7 | 1996 | 2.95% | 3.70% | 8.27% | 5.02% | 5.30% | 5.01% | 5.01% | 7.75% | 8.17% |
| 8 | 1997 | 1.70% | 4.50% | 8.44% | 5.00% | 5.46% | 5.06% | 5.06% | 7.60% | 8.12% |
| 9 | 1998 | 1.60% | 4.20% | 8.35% | 4.92% | 5.35% | 4.78% | 4.78% | 7.04% | 7.27% |
| 10 | 1999 | 2.70% | 4.50% | 7.99% | 4.62% | 4.97% | 4.64% | 4.64% | 7.62% | 7.88% |
| 11 | 2000 | 3.40% | 3.70% | 9.23% | 5.73% | 6.24% | 5.82% | 5.82% | 8.24% | 8.36% |
| 12 | 2001 | 1.60% | 0.80% | 6.92% | 3.41% | 3.88% | 3.38% | 5.95% | 7.59% | 8.02% |
| 13 | 2002 | 2.40% | 1.60% | 4.67% | 1.17% | 1.66% | 1.60% | 5.38% | 7.41% | 7.98% |
| 14 | 2003 | 1.90% | 2.50% | 4.12% | 2.03% | 1.13% | 1.01% | 4.92% | 6.18% | 6.64% |
| 15 | 2004 | 3.30% | 3.90% | 4.34% | 2.35% | 1.35% | 1.37% | 5.03% | 5.77% | 6.20% |
| 16 | 2005 | 3.40% | 3.20% | 6.16% | 4.16% | 3.16% | 3.17% | 4.57% | 5.38% | 5.78% |
| 17 | 2006 | 2.50% | 3.40% | 7.97% | 5.97% | 4.97% | 4.83% | 4.88% | 5.94% | 6.30% |
| 18 | CURRENT | 2.50% | 3.50% (a) | 8.25% | 6.25% | 5.25% | 5.10% | 5.10% | 5.86% | 6.14% |

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (F): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/26/2007
COLUMN (G) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/26/2007
COLUMN (H) THROUGH (J): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

NOTES
(a) FOURTH QUARTER 2006

**UNS GAS, INC.**
**TEST YEAR ENDED DECEMBER 31, 2005**
**CAPITAL STRUCTURES OF SAMPLE COMPANIES**

**DOCKET NO. G-04204A-06-0463**
**SCHEDULE WAR - 9**

| LINE NO. | | ATG | PCT. | ATO | PCT. | LG | PCT. | NJR | PCT. | GAS | PCT. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | DEBT | $ 1,615.0 | 51.9% | $ 1,602.4 | 42.3% | $ 340.5 | 48.1% | $ 317.2 | 42.0% | $ 1,071.8 | 56.9% |
| 2 | | | | | | | | | | | |
| 3 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 0.9 | 0.1% | 0.0 | 0.0% | 0.6 | 0.0% |
| 4 | | | | | | | | | | | |
| 5 | COMMON EQUITY | 1,499.0 | 48.1% | 2,183.1 | 57.7% | 366.5 | 51.8% | 438.1 | 58.0% | 811.3 | 43.1% |
| 6 | | | | | | | | | | | |
| 7 | TOTALS | $ 3,114.0 | 100% | $ 3,785.5 | 100% | $ 707.9 | 100% | $ 755.3 | 100% | $ 1,883.7 | 100% |
| 8 | | | | | | | | | | | |
| 9 | | | | | | | | | | | |
| 10 | | NWN | PCT. | PNY | PCT. | SJI | PCT. | SWX | PCT. | WGL | PCT. |
| 11 | | | | | | | | | | | |
| 12 | DEBT | $ 521.5 | 47.0% | $ 625.0 | 41.4% | $ 328.9 | 48.7% | $ 1,224.9 | 59.0% | $ 584.2 | 38.8% |
| 13 | | | | | | | | | | | |
| 14 | PREFERRED STOCK | 0.0 | 0.0% | 0.0 | 0.0% | 1.6 | 0.2% | 100.0 | 4.8% | 28.2 | 1.9% |
| 15 | | | | | | | | | | | |
| 16 | COMMON EQUITY | 586.9 | 53.0% | 884.2 | 58.6% | 344.4 | 51.0% | 751.1 | 36.2% | 894.0 | 59.3% |
| 17 | | | | | | | | | | | |
| 18 | TOTALS | $ 1,108.4 | 100% | $ 1,509.2 | 100% | $ 674.9 | 100% | $ 2,076.0 | 100% | $1,506.4 | 100% |
| 19 | | | | | | | | | | | |
| 20 | | | | | | | | | | | |
| 21 | | NATURAL GAS LDC | | | | | | | | | |
| 22 | | AVERAGE | PCT. | | | | | | | | |
| 23 | | | | | | | | | | | |
| 24 | DEBT | $ 823.1 | 48.1% | | | | | | | | |
| 25 | | | | | | | | | | | |
| 26 | PREFERRED STOCK | 13.1 | 0.8% | | | | | | | | |
| 27 | | | | | | | | | | | |
| 28 | COMMON EQUITY | 875.9 | 51.2% | | | | | | | | |
| 29 | | | | | | | | | | | |
| 30 | TOTALS | $ 1,712.1 | 100% | | | | | | | | |

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

# UNS GAS, INC.

# DOCKET NO. G-04204A-06-0463 et al.

# DIRECT TESTIMONY

# OF

# RODNEY L. MOORE

# ON BEHALF OF

# THE

# RESIDENTIAL UTILITY CONSUMER OFFICE

# FEBRUARY 9, 2007

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SCHEDULES RLM-1 THROUGH RLM-17

EXHIBIT A

## INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V
Residential Utility Consumer Office ("RUCO")
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding UNS Gas Corporation's ("Company" or "UNS") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for gas service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 31, 2005.

**BACKGROUND**

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to operating income, rate base, the Company's overall revenue requirement and rate design. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of seven sets of data requests, the review and analysis of Company responses to Arizona Corporation Commission ("Commission" or "ACC") Staff data requests, conversations with Company personnel and the review of prior ACC dockets related to UNS.

In Decision No. 66028, dated July 03, 2003, the Commission approved a Settlement Agreement, which authorized UNS to acquire the electric and gas assets of Citizens Communications Company ("Citizens"). This Settlement Agreement is the basis for the Company's present rates and charges for utility service. The test year used in that proceeding was the 12-month period ending December 31, 2001.

Q. What areas will you address in your testimony?

A. I will address issues related to rate base, operating income, revenue requirements and rate design. RUCO's witness Mr. William Rigsby will provide an analysis of the cost of capital.

RUCO's witness Ms. Marylee Diaz Cortez will also address additional issues related to rate base, operating income, rate design and revenue requirements.

Q. Please identify the exhibits you are sponsoring.

A. I am sponsoring Schedules numbered RLM-1 through RLM-17.

**SUMMARY OF ADJUSTMENTS**

Q. Please summarize the adjustments to rate base, operating income and rate design issues addressed in your testimony.

A. My testimony addresses the following issues:

**Rate Base**

Fair Value Rate Base – This adjustment states the fair value rate base by giving equal weighting (50/50 split) to RUCO's adjusted original cost rate base and RUCO's calculation of the reconstruction cost new depreciated rate base.

Pre-Acquisition Unsubstantiated Gross Plant and Accumulated Depreciation – This adjustment disallows the value of plant UNS was unable to verify as part of the rate base acquired from Citizens on August 11, 2003.

Test-Year Accumulated Depreciation – This adjustment restates the accumulated depreciation value to reflect RUCO's recalculation using the authorized depreciation rates.

Construction Work In Progress – This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Acquisition Adjustment - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Geographic Information System - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Allowance For Working Capital - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Southern Union Acquisition – No adjustment.

Griffith Power Plant – No adjustment.

Build-Out Plant – No adjustment.

Customer Assistance Residential Energy Support Expense Asset – No adjustment.

**Operating Income**

Worker's Compensation Expense – This adjustment converts the amount reflected in the test-year operating expense from a cash basis to an accrual.

Incentive Compensation Expense – This adjustment removes all incentive compensation expenses, because the awards were paid despite non-performance of goals and did not provide additional benefits to ratepayers.

Depreciation and Amortization Expense Annualization – This adjustment reflects the level of test-year depreciation expense based on RUCO's adjusted gross plant in service and the Company–proposed depreciation rates.

Postage Expense – This adjustment reflects the RUCO's annualization of the customer base and a known and measurable postal increase.

Customer Service Cost Allocations – This adjustment disallows the Company's increased customer service expenditures, because the additional costs were imprudent and did not provide additional benefits to ratepayers.

RUCO Adjustments To Test-Year Operating Expenses – This adjustment to operating expenses removes inappropriate expenditures not necessary in the provisioning of gas service.

Property Tax Expense – This adjustment reflects the appropriate level of property tax expense given RUCO's recommended level of net plant in service.

Rate Case Expense – This adjustment is based on RUCO's determination of the fair and reasonable cost to UNS ratepayers for this application process.

American Gas Association Dues – This adjustment removes the portion of the dues dedicated to marketing and lobbying.

Non-Recurring/Atypical Expenses – This adjustment removes costs not expected to recur and considered atypical for inclusion in test year expenses.

Pension and Benefit Expenses – This adjustment reflects RUCO's disallowance of the supplemental executive retirement plan.

Amortization of GIS Expenditures - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Fleet Fuel Expense - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Customer Annualization - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Weather Normalization - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Corporate Cost Allocations – This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Bad Debt Expense – This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Depreciation and Property Tax for Construction Work In Progress – This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Out of Period Expenses – This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Legal Expense - This adjustment is addressed by RUCO witness Ms. Diaz Cortez.

Griffith Plant Operations – No adjustment.

Purchased Gas Cost and Gas Cost Revenue – No adjustment.

NSP Revenue and Gas Costs – No adjustment.

Payroll Expense – No adjustment.

Payroll Tax Expense – No adjustment.

Post Retirement Medical Expense – No adjustment.

Interest on Customer Deposits – No adjustment.

Year-End Accruals – No adjustment.

Advertising and Donation Expenses – No adjustment.

Customer Assistance Residential Energy Support Expense – No adjustment.

Gain on Sale of Property – No adjustment.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

**REVENUE REQUIREMENTS**

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

| UNS | RUCO | DIFFERENCE |
|---|---|---|
| $9,615,767 | $1,505,003 | ($8,110,764) |

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

| UNS | RUCO | DIFFERENCE |
|---|---|---|
| 20.39 % | 3.18 % | -17.21 % |

RUCO's recommended decrease in Fair Value Rate Base ("FVRB") based on the equal weighting of a 50/50 split between Original Cost Rate Base ("OCRB") and Reconstruction Cost New Depreciated Rate Base ("RCND") is summarized on Schedule RLM-1:

| UNS | RUCO | DIFFERENCE |
|---|---|---|
| $191,177,714 | $171,223,175 | ($19,954,539) |

The detail supporting RUCO's recommended rate base is presented on Schedules RLM-3, RLM-4, and RLM-5.

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

| UNS | RUCO | DIFFERENCE |
|---|---|---|
| $14,204,479 | $11,480,374 | ($2,724,105) |

Schedule RLM-1 presents the calculation of RUCO's recommended revenue requirement.

**RATE BASE**

Determination Of Fair Value Rate Base

Q. Please explain the basis for your determination of the FVRB as shown on Schedule RLM-1.

A. RUCO's determination of the FVRB consists of three elements. First, the value of the OCRB was restated to reflect RUCO's adjustment to the various rate base determinants. Second, the value of the RCND was computed. As shown on supporting Schedule RLM-2, RUCO computed RCND by multiplying RUCO's OCRB by the ratio of the Company's OCRB to its RCND as filed. Third, the FVRB was computed on an equally weighted basis (50/50 split) between RUCO's OCRB and RCND.

Q. Please elaborate on the first element of RUCO's FVRB determination.

A. The first element consists of several adjustments to the OCRB. The aggregate adjustment was corroborated between myself and RUCO witness Ms. Diaz Cortez. As shown on Schedule RLM-3, I was responsible for Adjustments No. 1 and No. 2. These adjustments established the initial level and subsequently calculated the present test-year level of gross plant in service and accumulated depreciation. Ms. Diaz Cortez analyzed the remaining adjustments.

RUCO Rate Base Adjustment No. 1 – Remove Unsubstantiated Pre-Acquisition Gross Plant and Adjust Understated Accumulated Depreciation

Q. Please provide the background to RUCO's adjustment.

A. The Settlement Agreement specifically states: "For ratemaking purposes and for the purposes of this Agreement, the Parties agree to a FVRB of $142,132,013 as of October 29, 2002." The components of this FVRB resulted from an OCRB of $117,661,030, including gross plant in service of $219,383,559 and accumulated depreciation of $52,018,971.

UNS states the value of the gross plant in service as of August 11, 2003 is $248,032,644 with a corresponding level of accumulated depreciation of $64,186,276. Thus, the Company contends the value of the plant increased $28,649,085 between the end of the test year utilized in the Settlement Agreement (December 31, 2001) and the date of the acquisition (August 11, 2003); while the accumulated depreciation balance increased by $12,167,305.

However, during discovery UNS was unable to provide records to substantiate the existence of $3,133,264 that it claimed Citizens invested in plant between the end of the test year in the prior case and the effective date of the acquisition.

Moreover, UNS has not supported its claimed accumulated depreciation balance and that balance is understated when compared to RUCO's application of the authorized plant balances to the authorized depreciation rates.

Q. Please continue and provide the explanation for RUCO's adjustment to remove unsubstantiated pre-acquisition plant and adjust accumulated depreciation.

A. This adjustment consists of two elements. As shown on supporting Schedule RLM-4 pages 1 through 3; first, I disallowed the unsubstantiated $3,133,264 of plant additions as represented by UNS; and second, I increased the level of accumulated depreciation.

Q. Please explain the first element of the adjustment to remove unsubstantiated pre-acquisition plan.

A. In the first element I reconstructed the plant addition and retirement activities as provided in the Company's response to RUCO data request 2.19.

The records submitted by UNS in data request 2.19 failed to account for $3,133,264 of gross plant in service that UNS has requested in this filing.

Thus, the Company has been unable to substantiate the existence of this level of plant. Without such evidence it cannot be afforded ratemaking treatment.

Q. Please explain the second element of the adjustment to increase the accumulated depreciation balance.

A. The second element is the difference in the level of accumulated depreciation as calculated by RUCO and the amount recorded by the Company as of December 31, 2003. RUCO's calculation applies the Commission-authorized depreciation rates to the Commission-authorized plant balances from the last rate case and substantiated plant additions and retirements in the current application. UNS has not supported its claimed accumulated depreciation balance and that balance is understated when compared to RUCO's application of the authorized depreciation rates to the current supported plant balances.

Q. Please summarize RUCO's adjustment to unsubstantiated pre-acquisition plant and understated accumulated depreciation.

A. As shown on Schedule RLM-3, column (B), this adjustment decreased the starting point of the net utility plant in service for this proceeding by removing $3,133,264 in gross plant and increasing the level of accumulated depreciation by $3,857,413 for a total reduction in the OCRB of $6,990,677.

RUCO Rate Base Adjustment No. 2 – Reduce Test-Year Accumulated Depreciation

Q. Please provide the background to RUCO's adjustment.

A. In the current case, UNS is attempting to use the depreciation rates that Citizens requested in its gas rate case (Docket No. G-01032A-02-0598); however, Citizens requested a suspension of that filing and instead filed a joint application with UNS for the sale of its assets. That joint application resulted in the Settlement Agreement.

The Settlement Agreement discussed specific terms to encompass a number of issues and was approved subject to the requirements and limitations discussed therein. However, the Settlement Agreement did not address plant depreciation rates; therefore, the Commission did not find, conclude or order a change in the depreciation rates. Thus, without a specific change being ordered by the Commission, the effective depreciation rates are those authorized by the Commission prior to this Settlement Agreement in Decision No. 58664, dated June 16, 1994.

Q. Please continue and provide the explanation for RUCO's adjustment to reduce the test-year accumulated depreciation.

A. In the Settlement Agreement, the Commission did not authorize a change in the depreciation rates it had established in Decision No. 58664. Therefore, since A.A.C. R14-2-102.C.4 states:

> "Changed depreciation rates shall not become effective until the Commission authorizes such changes."

RUCO's test-year accumulated depreciation reflects a calculation using the authorized rates stated in Decision No. 58664.

This adjustment decreased the test-year OCRB by $2,855,454.

## OPERATING INCOME

Operating Income Summary

Q. Is RUCO recommending any changes to the Company's proposed operating expenses?

A. Yes. The Company proposed twenty-eight adjustments to its historical test-year operating income and RUCO analyzed the Company's adjustments and made several additional adjustments to the operating income as filed by the Company. RUCO witness Ms. Diaz Cortez testimony discusses fifteen of the adjustments, while I was responsible for reviewing thirteen of the adjustments the Company proposes to its test-year operating income, and finally, as a result of its discovery, RUCO recommends other adjustments. My review, analysis and adjustments are explained below.

Operating Income Adjustment No.1 – Worker's Compensation

Q. Please discuss the Company's proposed worker's compensation expense adjustment.

A. The Company has converted the amount reflected in the test-year operating expenses from an accrual to a cash basis.

Q. Please explain RUCO's treatment of the Company's proposed worker's compensation expense adjustment.

A. Absent a Commission ruling, RUCO does not consider it appropriate to arbitrarily change from an accrual to a cash basis. The UNS argument that since worker's compensation is a benefit provided to former or inactive employees it should receive the same treatment as post employment benefits is hollow. The Company failed to provide documentation segregating any worker's compensation benefits that are included in post employment benefit obligations. Furthermore, workers' compensation certainly is provided to active employees for which post-retirement accounting would not be applicable.

Therefore, as shown on Schedule RLM-7, column (B), I reversed the Company's cash treatment of worker's compensation expense to an accrual basis and decreased test-year operating expenses by $34,234.

Operating Income Adjustment No. 2 – Incentive Compensation

Q. Please provide the background for this adjustment.

A. In 2004, the Unisource Energy Corporation awarded incentive payments under the Performance Enhancement Plan ("PEP"). The PEP is only eligible for a select group of non-union employees and is paid after meeting certain performance goals, including certain financial goals.

In 2005, Unisource Energy Corporation did not meet the PEP financial goals; and therefore, no payments under the PEP program were awarded. Nevertheless, the Board of Directors authorized a Special Recognition Award to these non-union employees in recognition of their accomplishments; however, this special award was less of a payment as awarded in 2004.

The Company's adjusted test-year expense incorporates the average of the 2004 PEP bonus and the 2005 Special Recognition Award.

Q. Please continue and provide the explanation for RUCO's adjustment to the incentive compensation expenses.

A. After reviewing the Company's response to RUCO's data requests 1.14 and 6.10, it became apparent the ratepayers should not be burdened with the Board of Directors' arbitrary decision to authorize a Special Recognition Award to select UNS employees when they did not meet

Unisource Energy's 2005 financial performance goal. This "Special" award is unique and does not meet the criteria of a typical and recurring test-year expense; moreover, it rewards employees for non-performance.

RUCO does not generally vary from the strict implementation of the Historical Test-Year principle to avoid mismatches in the ratemaking elements. Therefore, RUCO dismisses the Company's proposal to average the 2005 Special Recognition Award with the 2004 PEP program.

Further to RUCO's objection to averaging the incentive compensation expenses over two years, the Company states that 60 percent of the PEP bonus is directly related to financial performance and operational cost containment. Stockholders are the beneficiaries of the achievement of these financial components. This is particularly true between rate cases. Any additional profit the Company is able to achieve between rate cases accrues solely to the Company's stockholders. Accordingly, since stockholders stand to gain from the achievement of the financial component, stockholders should bear all of the cost of this portion of the incentive compensation. These costs should not be considered for inclusion in rates.

Moreover, RUCO consistently scrutinizes any incentive compensation thoroughly to ensure ratepayers receive adequate benefit from the

expense incurred. With the majority of a customer's interfacing with the Company done through the rank and file unionized employees who are not eligible for any PEP compensation, the perceived incremental increase in customer service generated by this incentive package would not be cost beneficial to ratepayers.

Therefore, RUCO disallows the Company's special test-year compensation bonus and would consider the PEP program (had it been implemented in the test year) discriminatory because the benefit is provided only to a subset of employees and it is of limited incremental benefit to the ratepayers because the benefit is offered to a class of employees that does not directly affect the service quality of customers.

As shown on Schedule RLM-7, column (C), my adjustment decreases adjusted test-year expenses by $278,748.

<u>Operating Income Adjustment No. 3 – Depreciation Expenses</u>

Q. Please explain your adjustment to reduce depreciation expenses.

A. The adjustment is primarily attributable to RUCO's rate base adjustment No. 1, which disallowed the unsubstantiated pre-acquisition plant and to rate base adjustment No. 3 disallowing construction work in progress ("CWIP") from rate base.

RUCO agrees with the new set of depreciation rates that UNS is proposing to implement on a going forward basis. I computed test-year depreciation by multiplying RUCO's level of test-year gross plant in service by the Company's proposed depreciation rates.

As shown on Schedule RLM-7, column (D) and supporting Schedule RLM-8, my adjustment decreases adjusted test-year expenses by $324,083.

Operating Income Adjustment No. 4 – Postage Expense

Q. Please explain your adjustment to reduce the postage expenses.

A. My adjustment consists of two elements. First, I annualized the test-year postage expense to match RUCO's annualized customer count.

Second, I increased the expense to recognize the change in postal rates, effective January 2006.

As shown on Schedule RLM-7, column (E) and supporting Schedule RLM-9, my adjustment decreases adjusted test-year expenses by $153,479.

Operating Income Adjustment No. 5 – Customer Service Cost Allocations

Q. Please provide the background for this adjustment.

A. Prior to May 1, 2005, the Call Center duties for UNS Gas were performed in-house by six UNS Gas Customer Service Representatives at a cost of approximately $17,636 per month for those four months.

After May 1, 2005, Unisource Energy consolidated the call center operations of UNS Gas, UNS Electric and TEP at an actual allocated cost to UNS Gas of $76,227 per month for those eight months, a 432 percent increase in cost.

Therefore, because of such a dramatic increase in costs for approximately the same service, RUCO does not agree with the Company's adjustment to allocate to UNS Gas a portion of the integrated call center and customer service functions which serves UNS Gas, UNS Electric and TEP.

Q. Please continue and provide an explanation for RUCO's adjustment to the allocated customer service costs.

A. In the Company's response to RUCO data request 6.13, UNS indicates that similar duties were initially provided by in-house customer service representatives at a much less cost.

RUCO is disallowing this imprudent expenditure which quadruples the annual cost for the provisioning of customer services simply because Unisource Energy choose to integrate similar job functions among its affiliates.

I determined the appropriate level of customer service costs from data provided by the Company, in which UNS stated actual customer service costs for the first four months of the test year (before integration) were $70,543.

I calculated the reasonable level of test-year customer service costs by annualizing the four-months of in-house actual costs to $211,629.

As shown on Schedule RLM-7, column (F) and supporting Schedule RLM-10, this adjustment decreased test-year expenses by $726,710.

1 Operating Income Adjustment No. 6 – Disallowance of Inappropriate
2 and/or Unnecessary Expenses
3 Q. Please explain your analysis of the various operating expense accounts
4 that result in your removal of inappropriate or unnecessary costs for the
5 provisioning of gas service.
6 A After review of all the journal entries in various FERC accounts and the
7 Company's response to a number of RUCO data requests, I determined
8 there were numerous expenditures that were either questionable,
9 inappropriate and/or unnecessary.
10
11 Therefore, as shown on Schedule RLM-11 and supporting workpapers
12 attached, I have made an adjustment to remove test-year expenses
13 related to payments to chambers of commerce, non-profit organizations,
14 donations, club memberships, gifts, awards, extravagant corporate events,
15 advertising and for various meals, lodging and refreshments, which are
16 not necessary in the provisioning of gas service. The back-up
17 documentation denoting each individual expense removed is recorded in
18 my Workpaper Schedules: WP RLM-11-880, pages 1 to 4, WP RLM-11-
19 921, pages 1 to 16, WP RLM-11-923, pages 1 and 2, WP RLM-11-926,
20 page 1 and WP RLM-11-930, pages 1 to 5.
21
22 A sampling within the 1,995 questionable expenses submitted by RUCO
23 includes invoices for: 1) $1,200.00 for two people to play in Flagstaff's 8th

Annual Golf Tournament; 2) $5,750.00 for an employee appreciation dinner in Prescott; 3) $1,000.00 for Toys for Tots; 4) $3,058.00 to the Flagstaff Chamber of Commerce, and 5) $1,246 for a chartered air flight.

RUCO expressed its concerns about the specific inappropriate/unnecessary expenditures and provided a copy of all questionable expenses to the Company in RUCO Data Request 4.01. However, UNS in its response stated:

> "UNS Gas has established practices, policies, procedures and internal controls in place to assure that expenses recorded in the identified FERC accounts are materially correct, prudent and properly classified. Implicit in that classification is the affirmation (belief of the Company) that the charges within those FERC accounts were incurred in the course of providing service to the gas customers in the period recorded."

The burden of proof is on the Company to substantiate the appropriateness of journal entries identified. The Company's mere avowal that the expenditures are prudent and necessary to provide gas service is not sufficient to satisfy that burden.

As shown on Schedule RLM-7, column (G), this adjustment decreased test-year expenses by $233,347.

Operating Income Adjustment No. 7 – Property Tax

Q. Do you agree with UNS's methodology for computing gas utility property taxes?

A. Yes. I have used the same methodology to compute RUCO's recommended level of property taxes.

The difference in the amount I have calculated versus the Company is a result of our respective levels of recommended net plant in service and RUCO's use of the assessment ratio of 24 percent that will be effective when the authorized rates in this case become effective.

The decreasing assessment ratios as authorized in the Arizona Revised Statues relating to property taxes states the effective rate from December 31, 2006 through December 31, 2007 to be 24 percent. The assessment ratio will continue to decline by one-half percent each year until it reaches 20 percent on December 31, 2014.

As shown on Schedule RLM-7, column (H) and supporting Schedule RLM-12, this adjustment decreased test-year expenses by $309,309.

Operating Income Adjustment No. 8 – Rate Case Expense

Q. Please explain your review of the Company's proposed rate case expenses.

A. Through the Company's responses to RUCO data requests 1.06, 6.11, 7.02 and Staff data requests 11.6 and 11.7, I have obtained a budget and copies of rate case billings to date, the total amount actually incurred in the instant case is not yet known. These documents showed a budgeted amount of $600,000 and an actual amount incurred through November 30, 2006 of $1,742,023.

RUCO has a concern over the reasonableness of such a large financial burden to the ratepayers from this requested adjustment. In comparison, Southwest Gas Corporation ("SWG") filed a rate application in 2004 with a requested and approved $235,000 in rate case expenses. The instant case has very similar characteristics to the SWG filing, with the majority of each application process being performed by in-house staff and both utilities requesting a fundamental shift in the ratemaking principles of de-coupling revenue from customer usage and extensive revisions to the PGA mechanism.

Moreover, UNS was able to refine its recommendations based on information cited in the Decision from SWG's groundbreaking application.

Nevertheless, UNS made no attempt to reconcile more than a two-fold increase in rate case expenses for processing a comparable filing to SWG's application. Thus, the appropriate level of rate case expense RUCO is recommending is $235,000 as authorized SWG in Decision No. 68487, dated February 23, 2006, then adjusted for inflation to $251,000.

Therefore, this adjustment reduces annual rate case expense from the Company's proposed level of $200,000 ($600,000 / 3 years) to RUCO's recommended level of $83,667 ($251,000 / 3 years).

As shown on Schedule RLM-7, Column (I), this adjustment decreased test-year expenses by $116,333.

<u>Operating Income Adjustment No. 9 – American Gas Association Dues</u>

Q. During the test year did the Company pay dues to the American Gas Association ("AGA")?

A. Yes. UNS paid $41,854 for its membership with the AGA during the test year.

Q. Has RUCO proposed an adjustment to remove a portion of the AGA dues paid during the test year from cost of service?

A. Yes. RUCO's adjustment represents the portion of UNS's dues that the AGA devoted to marketing and lobbying to promoting the use of gas.

Q. How did you identify the activities of the AGA?

A. As shown on RUCO Exhibit A, pages 1 and 2, the National Association of Regulatory Utility Commissioners ("NARUC") perform an audit of the 2003 expenditures of the AGA. The NARUC audit report identifies each category of AGA expenditures and the percentage of the AGA's annual expenditures that were devoted to each category during the audit year.

Q. Why should these categories of expenditures of the AGA be excluded from rates?

A. The marketing category represents costs to promote gas usage over other alternatives, which the Commission has previously rejected as not being an expenditure that is the best interests of the consumer.

Q. What was the Commission's rationale in disallowing these costs?

A. The Commission stated the following in Decision No. 57075, dated August 31, 1990 at page 54-55, regarding the rationale for its disallowances:

> Applicant's sales program is, without question, almost entirely motivated by the Company's perception of its competitive position vis-à-vis electric utilities for new and existing customers. This competition between energy providers requires us to evaluate the reasonableness and cost effectiveness of each competitor's marketing and advertising efforts in order to ensure that the ratepayers are not being forced to fund both sides of an escalating competition, without limitation and without realizing any discernible benefits in return.

Q. Who realizes the initial benefit from any increases in load resulting from these sales and marketing activities?

A. Any additional margin realized through these sales and marketing efforts accrues to shareholders between rate cases. Until such additional load is recognized in rates, the only beneficiary is the stockholder.

Q. Should ratepayers be required the bear the entire cost of these sales, marketing, and promotional activities?

A. No. The Commission has already recognized that these type of costs need to be contained. It has also recognized that ratepayers should not be forced to fund an escalating competition between the electric and gas industry. Furthermore, initially any increased sales arising out of these marketing efforts accrue solely to shareholders. Accordingly, ratepayers

should not be required to fund the portion of AGA dues that pay for gas industry marketing and promotional activities.

The category of lobbying expenses should be excluded because it is utilized to represent the legislative interests of gas company stockholders. Further, lobbying expenses are typically reflected as below-the-line expenditures and not included in rates.

Q. What adjustment have you made?

A. As shown on the AGA/NARUC Oversight Committee report, the percentage of dues allocated to marketing was 1.54 percent; while the AGA incurred lobbying expenses of 2.10 percent of total member dues. Therefore, I have removed 3.64 percent of the Company's test year AGA dues. This represents the percentage of the AGA's expenditures that was used for marketing gas and legislative lobbying. This adjustment reduces operating expenses by $41,854 X 3.64 % = $1,523.

As shown on Schedule RLM-7, column (J), this adjustment decreased test-year expenses by $1,523.

Adjustments To Operating Expenses No. 10 – Non-Recurring/Atypical Expenses

Q. Please explain the basis for the adjustments you made to disallow non-recurring and/or atypical operating expenses.

A. Through discovery I reviewed and analyzed a sampling of test-year operating expense source documents. This review culminated in RUCO data request 4.01. In the Company's response to this data request was documentation indicating expenditures for "Union Training". After a further conversation with the Company there was agreement that this is not a recurring or typical test-year expense.

Therefore as shown on Schedule RLM-7, column (K) and supporting Schedule RLM-13, this adjustment decreased test-year expenses by $2,584.

Adjustments To Operating Expenses No. 11 – Supplemental Executive Retirement Plan

Q. Please explain the basis for the adjustment you made to the Pension and Benefits operating expenses.

A. I made an adjustment to the Supplemental Executive Retirement Plan ("SERP") portion of the pension and benefits operating expenses.

Q. Please explain your adjustment to the SERP.

A. As explained in the Company's response to Staff data request 5.72. a and b, UNS's test-year payroll loadings include the cost of a SERP. The Company's test-year operating expenses include $93,075 related to the SERP. The SERP is a retirement plan that is provided to a small select group of high-ranking officers of the Company. The high-ranking officers who are covered under the SERP receive these benefits in addition to the regular retirement plan.

Q. Should ratepayers be required to pay the cost of supplemental benefits for the high-ranking officers of the Company?

A. No. The cost of supplemental benefits for high-ranking officers is not a necessary cost of providing gas service. These individuals are already fairly compensated for their work and are provided with a wide array of benefits including a medical plan, dental plan, life insurance, long term disability, paid absence time, and a retirement plan. If the Company feels it is necessary to provide additional perks to a select group of employees it should do so at its own expense.

Q. In a recent ACC Decision did the Commissioners determine whether SERP expenses were recoverable?

A. Yes. In SWG's latest rate case (Decision No. 68487, dated February 23, 2006) the Commission agreed with RUCO that SERP should be excluded

from operating expenses and it is not reasonable to place this additional burden on ratepayers. Therefore, I have removed the test-year cost of the SERP from operating expenses.

As shown on Schedule RLM-7, column (L), this adjustment decreased test-year expenses by $93,075.

Operating Income Adjustment No. 22 – Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

As shown on Schedule RLM-7, column (W) and supporting Schedule RLM-14, this adjustment increased test-year expenses by $1,830,390.

**RATE DESIGN**

Q. Please explain your contribution to RUCO's recommended rate designs.

A. As shown on Schedule RLM-15, I was responsible for producing an accurate set of bill determinants (i.e. test-year customer bill counts and therms consumed). I adjusted the bill determinants to reflect the annualized customer count as calculated by Ms. Diaz Cortez in her workpapers. I made adjustments to remove the Company's proposed "Summer/Winter" basic service charge differential. However, I maintained the same percentage of revenue contribution from each class of service

as is provided in the Company's current rates. An in-depth discussion of RUCO's proposed rate design is contained in the testimony of Ms. Diaz Cortez. In summary, for residential customers, RUCO proposes a single basic service charge (not season differentiated) of $8.13 and a commodity based charge of $0.2892 per therm.

Q. Please explain elements of the rate design.

A. Schedule RLM-15 illustrates the elements proposed by Ms. Diaz Cortez in her testimony, which are:

1. Provides a positive price signal to encourage energy efficient usage;
2. Consistent with the Cost of Service Study parameters, which established UNS's present rate design;
3. Recognition of the Company's need for revenue stabilization within the ratemaking principle of gradualism;
4. Shift 10 percent of the revenue requirement that is currently recovered from the commodity rates to the fixed monthly charges; and
5. Eliminate the Company-proposed summer and winter rate structure differential.

**PROOF OF RECOMMENDED REVENUE**

Q. Have you prepared a Schedule presenting proof of your recommended revenue?

A. Yes, I have. Proof that RUCO's recommended rate designs will produce the recommended required revenue as illustrated, is presented on Schedule RLM-15.

**TYPICAL BILL ANALYSIS**

Q. Have you prepared a Schedule representing the financial impact of RUCO's recommended rate design on the typical residential customer?

A. Yes, I have. A typical bill analysis for metered residential customers with various levels of usage is presented on Schedule RLM-16.

Q. Please provide an excerpt of RUCO's rate structure that illustrates RUCO's rate design goals as set forth in Ms. Diaz Cortez's testimony captures these fundamental changes in UNS's current rate design.

A. Schedule RLM-16 provides an extensive breakdown of the effects of RUCO's proposed rates on the R-10 Residential Customer. Below is a chart gleaned from Schedule RLM-16 comparing UNS's proposed rates to RUCO's proposed annual rates:

<u>UNS Proposed Rates and Charges</u>

| | |
|---|---|
| Basic Monthly Service Charge | $20.00/Summer & $11.00/Winter |
| Commodity Charges (per Therm) | $0.18625 |

RUCO Proposed Rates and Charges

| | |
|---|---|
| Basic Monthly Service Charge | $8.13 |
| Commodity Charges (per Therm) | $0.2862 |

RUCO's proposed rate design when compared to the Company's proposal:

1. Provides a clear price signal ($0.10 more per every therm used) that increased consumption will increase your monthly bill and reduced consumption will lower your monthly bill throughout the entire year in effort to promote conservation;
2. Maintains the same historical percentage (70 percent Residential vs. 30 percent Other) of revenue recovery among classes of service in recognition of the Company's Cost of Service Study; and
3. Shifts a significant amount (10 percent more than test year) of the revenue requirement from the variable commodity charge to the fixed basic service in recognition of the Company's concern over revenue stabilization.

**COST OF CAPITAL**

Q. Is RUCO proposing any adjustments to the Company proposed cost of capital?

A. Yes, it is. As shown on Schedule RLM-17, this adjustment decreases the Company's cost of common equity and therefore its weighted cost of capital by 86 basis points from 8.80 to 7.94 percent to reflect current

1 market conditions. This adjustment is fully explained in the testimony of
2 RUCO witness Mr. Rigsby.
3
4 Q. Does this conclude your direct testimony?
5 A. Yes, it does.

# APPENDIX 1

## APPENDIX 1

Qualifications of Rodney Lane Moore

**EDUCATION:** Athabasca University
Bachelor's Degree in Business Administration - 1993

**EXPERIENCE:** Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

**RESUME OF RATE CASE AND REGULATORY PARTICIPATION**

| Utility Company | Docket No. |
|---|---|
| Rio Verde Utilities, Inc | WS-02156A-00-0321 |
| Black Mountain Gas Company | G-03703A-01-0283 |
| Green Valley Water Company | W-02025A-01-0559 |
| New River Utility Company | W-01737A-01-0662 |

| | |
|---|---|
| Dragoon Water Company | W-01917A-01-0851 |
| Roosevelt Lake Resort, Inc. | W-01958A-02-0283 |
| Southwest Gas Company | G-01551A-02-0425 |
| Arizona-American Water Company | W-01303A-02-0867 et al |
| Rio Rico Utilities, Inc. | WS-02676A-03-0434 |
| Qwest Corporation | T-01051B-03-0454 |
| Chaparral City Water Company | W-02113A-04-0616 |
| Southwest Gas Company | G-01551A-04-0876 |
| Arizona-American Water Company | W-01303A-05-0405 |
| Far West Water and Sewer Company | WS-03478A-05-0801 |
| Gold Canyon Sewer Company | SW-02519A-06-0015 |

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| RLM-6 | 1 | OPERATING INCOME |
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| TESTIMONY, RLM | | OPERATING INCOME ADJUSTMENT NO. 2 - INCENTIVE COMPENSATION |
| RLM-8 | 1 | OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION & AMORTIZATION EXPENSE ANNUALIZATION |
| RLM-9 | 1 | OPERATING INCOME ADJUSTMENT NO. 4 - POSTAGE EXPENSE |
| RLM-10 | 1 | OPERATING INCOME ADJUSTMENT NO. 5 - CUSTOMER SERVICE COST ALLOCATIONS |
| RLM-11 | 1 | OPERATING INCOME ADJUSTMENT NO. 6 - REMOVAL OF INAPPROPRIATE/UNNECESSARY EXPENSES |
| RLM-12 | 1 | OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX |
| TESTIMONY, RLM | | OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE |
| TESTIMONY, RLM | | OPERATING INCOME ADJUSTMENT NO. 9 - AGA DUES |
| RLM-13 | 1 | OPERATING INCOME ADJUSTMENT NO. 10- REMOVAL OF NON-RECURRING/ATYPICAL EXPENSES |
| TESTIMONY, RLM | | OPERATING INCOME ADJUSTMENT NO. 11- SERP |
| TESTIMONY, MDC | | OPERATING INCOME ADJUSTMENT NO. 12- AMORTIZATION ON GIS EXPENDITURES |
| MDC-3 | 1 | OPERATING INCOME ADJUSTMENT NO. 13- FLEET FUEL EXPENSE |
| MDC-4 | 1 TO 8 | OPERATING INCOME ADJUSTMENT NO. 14- CUSTOMER ANNUALIZATION |
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| TESTIMONY, MDC | | OPERATING INCOME ADJUSTMENT NO. 16- CORPORATE COST ALLOCATIONS |
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| TESTIMONY, MDC | | OPERATING INCOME ADJUSTMENT NO. 18- CWIP PROPERTY TAXES |
| MDC-6 | 1 | OPERATING INCOME ADJUSTMENT NO. 19- OUT OF PERIOD EXPENSES |
| MDC-7 | 1 | OPERATING INCOME ADJUSTMENT NO. 20- LEGAL FEES |
| | | OPERATING INCOME ADJUSTMENT NO. 21- LEFT BLANK |
| RLM-14 | | OPERATING INCOME ADJUSTMENT NO. 22- INCOME TAX |
| RLM-15 | 1 | RATE DESIGN AND PROOF OF RECOMMENDED REVENUE |
| RLM-16 | 1 | TYPICAL BILL ANALYSIS |
| RLM-17 | 1 | COST OF CAPITAL |

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## REVENUE REQUIREMENT

| LINE NO. | DESCRIPTION | (A) COMPANY ORIGINAL COST | (B) COMPANY RCND | (C) COMPANY FAIR VALUE | (D) RUCO ORIGINAL COST | (E) RUCO RCND | (F) RUCO FAIR VALUE |
|---|---|---|---|---|---|---|---|
| 1 | Adjusted Rate Base | $ 161,661,362 | $ 220,694,068 | $ 191,177,714 | $ 144,680,196 | $ 197,766,154 | $ 171,223,175 |
| 2 | Adjusted Operating Income (Loss) | $ 8,428,981 | $ 8,428,981 | $ 8,428,981 | $ 10,560,998 | $ 10,560,998 | $ 10,560,998 |
| 3 | Current Rate Of Return (Line 2 / Line 1) | 5.21% | 3.82% | 4.41% | 7.30% | 5.34% | 6.17% |
| 4 | Required Operating Income (Line 5 X Line 1) | $ 14,223,179 | $ 14,223,179 | $ 14,204,479 | $ 11,480,374 | $ 11,480,374 | $ 11,480,374 |
| 5 | Required Rate Of Return | 8.80% | 6.44% | 7.43% | 7.94% | 5.81% | 6.70% |
| 6 | Operating Income Deficiency (Line 4 - Line 2) | $ 5,794,198 | $ 5,794,198 | $ 5,775,498 | $ 919,376 | | $ 919,376 |
| 7 | Gross Revenue Conversion Factor (Schedule RLM-1, Page 3) | 1.6649 | 1.6649 | 1.6649 | | | 1.6370 |
| 8 | Increase In Gross Revenue Requirement (Line 7 X Line 6) | $ 9,646,901 | $ 9,646,901 | $ 9,615,767 | | | $ 1,505,003 |
| 9 | Adjusted Test Year Revenue | | | $ 47,169,528 | | | $ 47,280,434 |
| 10 | Proposed Annual Revenue Requirement (Line 8 + Line 9) | | | $ 56,785,295 | | | $ 48,785,437 |
| 11 | Required Percentage Increase In Revenue (Line 8 / Line 9) | | | 20.39% | | | 3.18% |
| 12 | Rate Of Return On Common Equity | | | 11.39% | | | 9.64% |

References:
Columns (A) Thru (C): Company Schedule A-1, C-1 And D-1
Column (D): Schedules RLM-2, RLM-3, RLM-6 And RLM-17
Column (E): Schedule RLM-2
Column (F): Average Of Column (D) + Column (E)

## GROSS REVENUE CONVERSION FACTOR

| LINE NO. | DESCRIPTION | REFERENCE | (A) |
|---|---|---|---|
| | CALCULATION OF GROSS REVENUE CONVERSION FACTOR: | | |
| 1 | Revenue | | 1.0000 |
| 2 | Less: Uncollectibles | Company Schedule C-3, Line 2 | 0.0051 |
| 3 | Subtotal | Line 1 - Line 2 | 0.9949 |
| 4 | Less: Combined Federal And State Tax Rate | Line 14 | 0.3840 |
| 5 | Subtotal | Line 3 - Line 4 | 0.6109 |
| 6 | **Revenue Conversion Factor** | Line 1 / Line 5 | **1.6370** |
| | CALCULATION OF EFFECTIVE TAX RATE: | | |
| 7 | Arizona Taxable Income | | 1.0000 |
| 8 | Arizona State Income Tax Rate | | 0.0697 |
| 9 | Federal Taxable Income | Line 7 - Line 8 | 0.9303 |
| 10 | Applicable Federal Income Tax Rate | | 0.3400 |
| 11 | Effective Federal Income Tax Rate | Line 9 X Line 10 | 0.3163 |
| 12 | Subtotal | Line 8 + Line 11 | 0.3860 |
| 13 | Revenue Less Uncollectibles | Line 3 | 0.9949 |
| 14 | Combined Federal And State Income Tax Rate | Line 12 X Line 13 | 0.3840 |

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## FAIR VALUE RATE BASE - OCRB / RCND (50/50 SPLIT)

| LINE NO. | DESCRIPTION | (A) COMPANY OCRB | (B) COMPANY RCND | (C) COMPANY FVRB | (D) OCRB/RCND % DIFF. | (E) RUCO OCRB | (F) RUCO RCND | (G) RUCO FVRB |
|---|---|---|---|---|---|---|---|---|
| 1 | Gross Utility Plant In Service | $ 279,169,694 | $ 374,243,421 | $ 326,706,558 | 134.06% | $ 268,847,200 | $ 360,405,510 | $ 314,626,355 |
| 2 | Accumulated Depreciation | (72,006,708) | (97,114,865) | (84,560,787) | 134.87% | (78,719,575) | (106,168,455) | (92,444,015) |
| 3 | Net Utility Plant In Service | $ 207,162,986 | $ 277,128,556 | $ 242,145,771 | | $ 190,127,625 | $ 254,237,055 | $ 222,182,340 |
| 4 | Citizens Acquisition Discount | $ (30,709,738) | $ (41,822,562) | $ (36,266,150) | 136.19% | $ (30,709,738) | $ (41,822,562) | $ (36,266,150) |
| 5 | Accumulated Amortization | 1,876,981 | 2,560,308 | 2,218,645 | 136.41% | 1,628,094 | 2,220,812 | 1,924,453 |
| 6 | Net Citizens Acq. Disc. | $ (28,832,757) | $ (39,262,254) | $ (34,047,506) | | $ (29,081,644) | $ (39,601,750) | $ (34,341,697) |
| 7 | Total Net Utility Plant | $ 178,330,229 | $ 237,866,302 | $ 208,098,266 | | $ 161,045,981 | $ 214,635,305 | $ 187,840,643 |
| | Deductions: | | | | | | | |
| 8 | Cust. Advances For Const. | $ (7,283,595) | $ (7,786,962) | $ (7,535,279) | 106.91% | $ (7,283,595) | $ (7,786,962) | $ (7,535,279) |
| 9 | Customer Deposits | (3,040,484) | (3,040,484) | (3,040,484) | 100.00% | (3,040,484) | (3,040,484) | (3,040,484) |
| 10 | Acc. Deferred Income Taxes | (6,484,809) | (6,484,809) | (6,484,809) | 100.00% | (6,484,809) | (6,484,809) | (6,484,809) |
| 11 | Total Deductions | $ (16,808,888) | $ (17,312,255) | $ (17,060,572) | | $ (16,808,888) | $ (17,312,255) | $ (17,060,572) |
| 12 | Allowance - Working Capital | $ (1,045,146) | $ (1,045,146) | $ (1,045,146) | 100.00% | $ 155,006 | $ 155,006 | $ 155,006 |
| 13 | Regulatory Assets | $ 1,204,887 | $ 1,204,887 | $ 1,204,887 | 100.00% | $ 307,819 | $ 307,819 | $ 307,819 |
| 14 | Regulatory Liability | $ (19,721) | $ (19,721) | $ (19,721) | 100.00% | $ (19,721) | $ (19,721) | $ (19,721) |
| 15 | **TOTAL TEST YEAR RATE BASE** | $ 161,661,361 | $ 220,694,067 | $ 191,177,714 | | $ 144,680,196 | $ 197,766,154 | $ 171,223,175 |

References:

Columns (A) (B) (C): Company Schedule B-1
Column (D): Column (B) / Column (A)
Column (E): Schedule RLM-3, Column (H)
Column (F): Column (D) X Column (E)
Column (G): Average Of Column (E) + Column (F)

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## SUMMARY OF ORIGINAL COST RATE BASE

| LINE NO. | DESCRIPTION | (A) COMPANY FILED AS OCRB | (B) RUCO ADJUSTMENT NO. 1 | (C) RUCO ADJUSTMENT NO. 2 | (D) RUCO ADJUSTMENT NO. 3 | (E) RUCO ADJUSTMENT NO. 4 | (F) RUCO ADJUSTMENT NO. 5 | (G) RUCO ADJUSTMENT NO. 6 | (H) RUCO ADJUSTED AS OCRB |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Gross Utility Plant In Service | $ 279,169,694 | $ (3,133,264) | $ - | $ - | $ (7,189,230) | $ - | $ - | $ 268,847,200 |
| 2 | Accumulated Depreciation | (72,006,708) | (3,857,413) | (2,855,454) | - | - | - | - | (78,719,575) |
| 3 | Net Utility Plant In Service | $ 207,162,986 | $ (6,990,677) | $ (2,855,454) | $ - | $ (7,189,230) | $ - | $ - | $ 190,127,625 |
| 4 | Citizens Acquisition Discount | $ (30,709,738) | $ - | $ - | $ - | $ - | $ - | $ - | $ (30,709,738) |
| 5 | Accumulated Amortization | 1,876,981 | - | - | (248,887) | - | - | - | 1,628,094 |
| 6 | Net Citizens Acq. Disc. | $ (28,832,757) | $ - | $ - | $ (248,887) | $ - | $ - | $ - | $ (29,081,644) |
| 7 | Total Net Utility Plant | $ 178,330,229 | $ (6,990,677) | $ (2,855,454) | $ (248,887) | $ (7,189,230) | $ - | $ - | $ 161,045,981 |
| | Deductions: | | | | | | | | |
| 8 | Cust. Advances For Const. | $ (7,283,595) | $ - | $ - | $ - | $ - | $ - | $ - | $ (7,283,595) |
| 9 | Customer Deposits | (3,040,484) | - | - | - | - | - | - | (3,040,484) |
| 10 | Acc. Deferred Income Taxes | (6,484,809) | - | - | - | - | - | - | (6,484,809) |
| 11 | Total Deductions | $ (16,808,888) | $ - | $ - | $ - | $ - | $ - | $ - | $ (16,808,888) |
| 12 | Allowance - Working Capital | $ (1,045,146) | $ - | $ - | $ - | $ - | $ - | $ 1,200,152 | $ 155,006 |
| 13 | Regulatory Assets | $ 1,204,887 | $ - | $ - | $ - | $ - | $ (897,068) | $ - | $ 307,819 |
| 14 | Regulatory Liability | $ (19,721) | $ - | $ - | $ - | $ - | $ - | $ - | $ (19,721) |
| 15 | TOTAL OCRB | $ 161,661,361 | $ (6,990,677) | $ (2,855,454) | $ (248,887) | $ (7,189,230) | $ (897,068) | $ 1,200,152 | $ 144,680,196 |

References:

Column (A): - Company Schedule B-2
Column (B): - Adjustment No. 1 RUCO Adjustment To Pre-Acquisition Gross Plant And Accumulated Depreciation (See RLM-4, Page 3, Lines 38 & 39)
Column (C): - Adjustment No. 2 RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-4, Page 5, Line 40)
Column (D): - Adjustment No. 3 RUCO Adjustment To Restate Accumulated Amortization On Citizens Acquisition. (See MDC-1)
Column (E): - Adjustment No. 4 RUCO Adjustment To Remove CWIP From Test-Year Rate Base (See Testimony, MDC And RLM-5, Line 39)
Column (F): - Adjustment No. 5 RUCO Adjustment To The Geographical Information System (See Testimony, MDC)
Column (G): - Adjustment No. 6 Allowance For Working Capital (See MDC-2)
Column (H): - Sum Of Columns (A) Through (G)

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## TEST YEAR PLANT SCHEDULES
## PRIOR TEST YEAR ENDED OCTOBER 29, 2002

| LINE NO. | ACCT NO. | DESCRIPTION | (A) DEP. RATES AS FILING | (B) DEP. RATES PER 58664 | (C) PROPOSED DEP. RATES | (D) PRIOR TOTAL PLANT SETTLEMENT | (E) PRIOR ACC. DEP. SETTLEMENT | (F) NET PLANT VALUE | (G) ACC ADJUSTMENT TO PLANT | (H) ACC ADJUSTMENT TO ACC. DEP. | (I) PER BOOKS ADJUSTED PRIOR TY PLT | (J) PER BOOKS ADJUSTED PRIOR ACC. DEP. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | | | | |
| 1 | 302 | Franchises & Consents | 3.95% | 4.00% | 3.95% | $ 371,375 | $ (137,681) | $ 233,694 | $ - | $ - | $ 371,375 | $ (137,681) |
| 2 | 303 | Miscellaneous Intangible | 5.84% | 4.00% | 5.84% | 251,616 | (151,955) | 99,661 | - | - | 251,616 | (151,955) |
| 3 | | *Total Intangible Plant* | | | | $ 622,991 | $ (289,636) | $ 333,355 | $ - | $ - | $ 622,991 | $ (289,636) |
| | | Transmission : | | | | | | | | | | |
| 4 | 365 | Land & Rights | - | - | 1.38% | $ 105,203 | $ 5 | $ 105,208 | $ (33,897) | $ - | $ 71,306 | $ 5 |
| 5 | 366 | Structures & Improvements | 7.27% | 3.10% | 1.55% | - | (5) | (5) | 1,334 | (1,329) | 1,334 | (1,334) |
| 6 | 367 | Mains | 1.57% | 2.57% | 1.53% | 11,080,124 | (2,671,397) | 8,408,727 | 2,900,215 | 84,706 | 13,980,339 | (2,586,691) |
| 7 | 369 | Measuring And Reg. Equipment | 1.61% | 3.32% | 1.54% | 856,069 | (270,221) | 585,848 | 2,361,825 | (88,596) | 3,217,894 | (358,817) |
| 8 | 371 | Other Equipment | 5.00% | 3.64% | 2.49% | - | (7,910) | (7,910) | 183,581 | - | 183,581 | (7,910) |
| 9 | | Total Transmission Plant | | | | $ 12,041,396 | $ (2,949,528) | $ 9,091,868 | $ 5,413,058 | $ (5,219) | $ 17,454,454 | $ (2,954,747) |
| | | Distribution: | | | | | | | | | | |
| 10 | 374 | Land & Rights | - | - | 0.93% | $ 134,581 | $ - | $ 134,581 | $ - | $ - | $ 134,581 | $ - |
| 11 | 375 | Structures & Improvements | 1.77% | 3.35% | 1.93% | 8,247 | (10,949) | (2,702) | 1,366 | 3,123 | 9,613 | (7,826) |
| 12 | 376 | Mains | 2.08% | 2.92% | 2.07% | 120,601,071 | (21,816,051) | 98,785,020 | 1,531,339 | (83,498) | 122,132,410 | (21,899,549) |
| 13 | 378 | Meas. And Reg. Equip. - General | 3.03% | 5.73% | 2.97% | 1,813,831 | (639,150) | 1,174,681 | 62,680 | (70,876) | 1,876,511 | (710,026) |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | 2.39% | 5.52% | 2.36% | 1,719,751 | (524,902) | 1,194,849 | 247,482 | (211,561) | 1,967,233 | (736,463) |
| 15 | 380 | Services | 2.85% | 4.75% | 2.82% | 49,751,369 | (14,212,476) | 35,538,893 | 830,520 | (801,890) | 50,581,889 | (15,014,366) |
| 16 | 381 | Meters | 2.05% | 2.86% | 2.02% | 9,704,378 | (3,838,309) | 5,866,069 | 5,168 | (50) | 9,709,546 | (3,838,359) |
| 17 | 382 | Meter Installation | 2.42% | 2.86% | 2.36% | 4,516,786 | (465,155) | 4,051,631 | 2,716 | (234) | 4,519,502 | (465,389) |
| 18 | 383 | Regulators | 2.63% | 3.77% | 2.56% | 1,850,681 | (785,543) | 1,065,138 | 589,255 | (587,980) | 2,439,936 | (1,373,523) |
| 19 | 384 | Regulator Installation | 2.83% | 3.77% | 2.80% | 284,404 | (11,353) | 273,051 | 257 | (89) | 284,661 | (11,442) |
| 20 | 385 | Industrial Measuring Equipment | 2.61% | 3.82% | 2.70% | 785,500 | (473,598) | 311,902 | 90,723 | (76,767) | 876,223 | (550,365) |
| 21 | 387 | Other Equipment | 3.15% | 3.64% | 3.01% | 724,235 | (172,911) | 551,324 | 677 | (245) | 724,912 | (173,156) |
| 22 | | Total Distribution Plant | | | | $ 191,894,834 | $ (42,950,397) | $148,944,437 | $ 3,362,183 | $ (1,830,067) | $ 195,257,017 | $ (44,780,464) |
| | | General: | | | | | | | | | | |
| 23 | 389 | Land & Rights | - | - | 4.93% | $ 194,035 | $ - | $ 194,035 | $ 496,357 | $ 5,618 | $ 690,392 | $ 5,618 |
| 24 | 390 | Structures & Improvements | 3.75% | 3.10% | 4.89% | 813,839 | (187,270) | 626,569 | 3,886,835 | (545,882) | 4,700,674 | (733,152) |
| 25 | 391 | Office Furniture & Equipment | 4.24% | 4.82% | 4.24% | 8,083,824 | (3,734,401) | 4,349,423 | 627,732 | (296,743) | 8,711,556 | (4,031,144) |
| 26 | 392 | Transportation Equipment | 25.00% | 0.00% | 14.71% | 2,528,039 | (1,177,129) | 1,350,910 | 138,927 | (138,927) | 2,666,966 | (1,316,056) |
| 27 | 393 | Stores Equipment | 3.03% | 2.27% | 3.03% | 100,288 | (13,725) | 86,563 | 12,745 | (12,745) | 113,033 | (26,470) |
| 28 | 394 | Tools, Shop And Garage Equip. | 3.64% | 5.76% | 3.64% | 1,411,184 | (242,205) | 1,168,979 | 341,273 | (341,273) | 1,752,457 | (583,478) |
| 29 | 395 | Laboratory Equipment | 9.29% | 5.76% | 9.29% | 529,231 | (78,858) | 450,373 | 26,957 | (26,957) | 556,188 | (105,815) |
| 30 | 396 | Power Operated Equipment | 5.69% | 24.60% | 10.49% | 362,259 | (294,956) | 67,303 | 25,601 | (25,601) | 387,860 | (320,557) |
| 31 | 397 | *Communication Equipment* | 6.11% | 4.93% | 6.11% | 540,119 | (38,388) | 501,731 | 376,420 | (102,703) | 916,539 | (141,091) |
| 32 | 398 | Miscellaneous Equipment | 4.01% | 5.43% | 4.01% | 261,520 | (41,165) | 220,355 | 11,374 | (11,374) | 272,894 | (52,539) |
| 33 | 399 | Other Tangible Property | 0.00% | 3.64% | - | - | (21,313) | (21,313) | 100,108 | - | 100,108 | (21,313) |
| 34 | | Total General Plant | | | | $ 14,824,338 | $ (5,829,410) | $ 8,994,928 | $ 6,044,329 | $ (1,496,587) | $ 20,868,667 | $ (7,325,997) |
| 35 | | TOTAL PLANT | | | | $ 219,383,559 | $ (52,018,971) | $167,364,588 | $ 14,819,570 | $ (3,331,873) | $ 234,203,129 | $ (55,350,844) |

References:

Columns (A) (B) (C) (D) (E) (F): Prior Rate Case And Company Response To RUCO Data Requests 1.08 & 2.19
Columns (G) (H): Company Response To RUCO Data Requests 1.08 & 2.19
Column (I): Column (D) + Column (G)
Column (J): Column (E) + Column (H)

## TEST YEAR PLANT SCHEDULES - CONT'D
## YEAR ENDED DECEMBER 31, 2002

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJM'TS | (C) NET PLANT ADDITIONS | (D) PLANT RETIRM'TS | (E) TOTAL PLANT VALUE | (F) ACCURAL DEPRECIATION | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | | |
| 1 | 302 | Franchises & Consents | $ - | $ - | $ 10,422 | $ (5,109) | $ 381,797 | $ (14,961) | $ (147,533) | $ 234,264 |
| 2 | 303 | Miscellaneous Intangible | - | - | 7,061 | (3,462) | 258,677 | (10,137) | (158,630) | 100,047 |
| 3 | | Total Intangible Plant | $ - | $ - | $ 17,483 | $ (8,571) | $ 640,474 | $ (25,098) | $ (306,163) | $ 334,312 |
| | | Transmission : | | | | | | | | |
| 4 | 365 | Land & Rights | $ - | $ - | $ 2,001 | $ - | $ 73,307 | $ - | $ 5 | $ 73,312 |
| 5 | 366 | Structures & Improvements | - | - | 37 | (18) | 1,371 | (42) | (1,357) | 14 |
| 6 | 367 | Mains | - | - | 392,337 | (192,344) | 14,372,676 | (361,865) | (2,756,212) | 11,616,464 |
| 7 | 369 | Measuring And Reg. Equipment | - | - | 90,305 | (44,272) | 3,308,199 | (107,598) | (422,143) | 2,886,056 |
| 8 | 371 | Other Equipment | - | - | 5,152 | (2,526) | 188,733 | (6,730) | (12,114) | 176,619 |
| 9 | | Total Transmission Plant | $ - | $ - | $ 489,833 | $ (239,160) | $ 17,944,287 | $ (476,235) | $ (3,191,821) | $ 14,752,466 |
| | | Distribution: | | | | | | | | |
| 10 | 374 | Land & Rights | $ - | $ - | $ 3,777 | $ - | $ 138,358 | $ - | $ - | $ 138,358 |
| 11 | 375 | Structures & Improvements | - | - | 270 | (132) | 9,883 | (324) | (8,018) | 1,865 |
| 12 | 376 | Mains | - | - | 3,427,462 | (1,680,318) | 125,559,872 | (3,591,775) | (23,811,005) | 101,748,866 |
| 13 | 378 | Meas. And Reg. Equip. - General | - | - | 52,661 | (25,817) | 1,929,172 | (108,293) | (792,502) | 1,136,671 |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | - | - | 55,207 | (27,066) | 2,022,440 | (109,368) | (818,765) | 1,203,675 |
| 15 | 380 | Services | - | - | 1,419,504 | (695,914) | 52,001,393 | (2,419,825) | (16,738,277) | 35,263,116 |
| 16 | 381 | Meters | - | - | 272,484 | (133,586) | 9,982,030 | (279,679) | (3,984,453) | 5,997,577 |
| 17 | 382 | Meter Installation | - | - | 126,833 | (62,180) | 4,646,335 | (130,182) | (533,391) | 4,112,944 |
| 18 | 383 | Regulators | - | - | 68,473 | (33,569) | 2,508,409 | (92,644) | (1,432,597) | 1,075,812 |
| 19 | 384 | Regulator Installation | - | - | 7,989 | (3,916) | 292,650 | (10,808) | (18,334) | 274,316 |
| 20 | 385 | Industrial Measuring Equipment | - | - | 24,590 | (12,055) | 900,813 | (33,711) | (572,021) | 328,792 |
| 21 | 387 | Other Equipment | - | - | 20,344 | (9,973) | 745,256 | (26,576) | (189,758) | 555,497 |
| 22 | | Total Distribution Plant | $ - | $ - | $ 5,479,593 | $ (2,684,527) | $ 200,736,610 | $ (6,803,185) | $ (48,899,122) | $ 151,837,488 |
| | | General: | | | | | | | | |
| 23 | 389 | Land & Rights | $ - | $ - | $ 19,375 | $ - | $ 709,767 | $ - | $ 5,618 | $ 715,385 |
| 24 | 390 | Structures & Improvements | - | - | 131,917 | (64,673) | 4,832,591 | (146,763) | (815,243) | 4,017,349 |
| 25 | 391 | Office Furniture & Equipment | - | - | 244,477 | (119,855) | 8,956,033 | (422,900) | (4,334,189) | 4,621,843 |
| 26 | 392 | Transportation Equipment | - | - | 74,844 | (36,693) | 2,741,810 | - | (1,279,363) | 1,462,447 |
| 27 | 393 | Stores Equipment | - | - | 3,172 | (1,555) | 116,205 | (2,584) | (27,499) | 88,706 |
| 28 | 394 | Tools, Shop And Garage Equip. | - | - | 49,180 | (24,111) | 1,801,637 | (101,664) | (661,031) | 1,140,606 |
| 29 | 395 | Laboratory Equipment | - | - | 15,609 | (7,652) | 571,797 | (32,266) | (130,428) | 441,368 |
| 30 | 396 | Power Operated Equipment | - | - | 10,885 | (5,336) | 398,745 | (96,096) | (411,317) | (12,572) |
| 31 | 397 | Communication Equipment | - | - | 25,721 | (12,610) | 942,260 | (45,509) | (173,990) | 768,271 |
| 32 | 398 | Miscellaneous Equipment | - | - | 7,658 | (3,755) | 280,552 | (14,924) | (63,709) | 216,844 |
| 33 | 399 | Other Tangible Property | - | - | 2,809 | (1,377) | 102,917 | (3,670) | (23,606) | 79,312 |
| 34 | | Total General Plant | $ - | $ - | $ 585,648 | $ (277,616) | $ 21,454,315 | $ (866,376) | $ (7,914,756) | $ 13,539,558 |
| 35 | | TOTAL PLANT | $ - | $ - | $ 6,572,557 | $ (3,209,875) | $ 240,775,686 | $ (8,170,893) | $ (60,311,863) | $ 180,463,823 |

References:
Columns (A) (B) (C) (D): Company Response To RUCO Data Request 2.19
Column (E): Schedule RLM-4, Page 1, Column (I) + Column (C) + Column (D)

Column (F): [(Cl. (C) + Cl. (D)) X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + [RLM-4, Pg 1, Cl. (I) + Cl. (D)) X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 1, Column (J) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



**RATE BASE ADJUSTMENT NO. 1 - REMOVE UNSUBSTANTIATED PRE-ACQUISITION PLANT AND ACCUMULATED DEPRECIATION**
**TEST YEAR PLANT SCHEDULES - CONT'D**
**YEAR ENDED DECEMBER 31, 2003**

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJM'TS | (C) NET PLANT ADDITIONS | (D) PLANT RETIRM'TS | (E) TOTAL PLANT VALUE | (F) ACCURAL DEPRECIATION | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | | |
| 1 | 302 | Franchises & Consents | $ - | $ - | $ 6,539 | $ (1,064) | $ 388,336 | $ (15,381) | $ (161,850) | $ 226,486 |
| 2 | 303 | Miscellaneous Intangible | - | - | 4,430 | (721) | 263,108 | (10,421) | (168,330) | 94,777 |
| 3 | | Total Intangible Plant | $ - | $ - | $ 10,969 | $ (1,785) | $ 651,444 | $ (25,803) | $ (330,180) | $ 321,263 |
| | | Transmission : | | | | | | | | |
| 4 | 365 | Land & Rights | $ - | $ - | $ 1,256 | $ - | $ 74,563 | $ - | $ 5 | $ 74,568 |
| 5 | 366 | Structures & Improvements | - | - | 23 | (4) | 1,395 | (43) | (1,396) | (1) |
| 6 | 367 | Mains | - | - | 246,157 | (40,059) | 14,618,833 | (372,026) | (3,088,179) | 11,530,654 |
| 7 | 369 | Measuring And Reg. Equipment | - | - | 56,659 | (9,220) | 3,364,858 | (110,620) | (523,542) | 2,841,316 |
| 8 | 371 | Other Equipment | - | - | 3,232 | (526) | 191,965 | (6,919) | (18,508) | 173,458 |
| 9 | | Total Transmission Plant | $ - | $ - | $ 307,326 | $ (49,809) | $ 18,251,613 | $ (489,608) | $ (3,631,620) | $ 14,619,994 |
| | | Distribution: | | | | | | | | |
| 10 | 374 | Land & Rights | $ - | $ - | $ 2,370 | $ - | $ 140,727 | $ - | $ - | $ 140,727 |
| 11 | 375 | Structures & Improvements | - | - | 169 | (28) | 10,052 | (333) | (8,324) | 1,728 |
| 12 | 376 | Mains | - | - | 2,150,427 | (349,956) | 127,710,298 | (3,692,635) | (27,153,685) | 100,556,614 |
| 13 | 378 | Meas. And Reg. Equip. - General | - | - | 33,040 | (5,377) | 1,962,213 | (111,334) | (898,459) | 1,063,754 |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | - | - | 34,638 | (5,637) | 2,057,078 | (112,439) | (925,568) | 1,131,510 |
| 15 | 380 | Services | - | - | 890,612 | (144,936) | 52,892,006 | (2,487,776) | (19,081,116) | 33,810,889 |
| 16 | 381 | Meters | - | - | 170,959 | (27,822) | 10,152,989 | (287,533) | (4,244,164) | 5,908,825 |
| 17 | 382 | Meter Installation | - | - | 79,576 | (12,950) | 4,725,911 | (133,838) | (654,279) | 4,071,632 |
| 18 | 383 | Regulators | - | - | 42,961 | (6,991) | 2,551,370 | (95,245) | (1,520,851) | 1,030,519 |
| 19 | 384 | Regulator Installation | - | - | 5,012 | (816) | 297,662 | (11,112) | (28,630) | 269,031 |
| 20 | 385 | Industrial Measuring Equipment | - | - | 15,428 | (2,511) | 916,241 | (34,658) | (604,168) | 312,073 |
| 21 | 387 | Other Equipment | - | - | 12,764 | (2,077) | 758,019 | (27,322) | (215,003) | 543,017 |
| 22 | | Total Distribution Plant | $ - | $ - | $ 3,437,957 | $ (559,100) | $ 204,174,567 | $ (6,994,225) | $ (55,334,247) | $ 148,840,320 |
| | | General: | | | | | | | | |
| 23 | 389 | Land & Rights | $ - | $ - | $ 12,156 | $ - | $ 721,923 | $ - | $ 5,618 | $ 727,541 |
| 24 | 390 | Structures & Improvements | - | - | 82,766 | (13,469) | 4,915,358 | (150,884) | (952,658) | 3,962,700 |
| 25 | 391 | Office Furniture & Equipment | - | - | 153,387 | (24,962) | 9,109,420 | (434,776) | (4,744,003) | 4,365,417 |
| 26 | 392 | Transportation Equipment | - | - | 46,958 | (7,642) | 2,788,769 | - | (1,271,722) | 1,517,047 |
| 27 | 393 | Stores Equipment | - | - | 1,990 | (324) | 118,195 | (2,657) | (29,832) | 88,363 |
| 28 | 394 | Tools, Shop And Garage Equip. | - | - | 30,856 | (5,021) | 1,832,493 | (104,518) | (760,528) | 1,071,965 |
| 29 | 395 | Laboratory Equipment | - | - | 9,793 | (1,594) | 581,590 | (33,172) | (162,006) | 419,583 |
| 30 | 396 | Power Operated Equipment | - | - | 6,829 | (1,111) | 405,574 | (98,794) | (509,000) | (103,426) |
| 31 | 397 | Communication Equipment | - | - | 16,138 | (2,626) | 958,398 | (46,786) | (218,150) | 740,248 |
| 32 | 398 | Miscellaneous Equipment | - | - | 4,805 | (782) | 285,357 | (15,343) | (78,270) | 207,087 |
| 33 | 399 | Other Tangible Property | - | - | 1,763 | (287) | 104,680 | (3,773) | (27,092) | 77,588 |
| 34 | | Total General Plant | $ - | $ - | $ 367,442 | $ (57,818) | $ 21,821,756 | $ (890,704) | (8,747,642) | $ 13,074,114 |
| 35 | | TOTAL PLANT | $ - | $ - | $ 4,123,694 | $ (668,513) | $ 244,899,380 | $ (8,400,340) | $ (68,043,689) | $ 176,855,691 |
| 36 | | Total Plant As Per Company | | | | | $ 248,032,644 | | $ (64,186,276) | |
| 37 | | Difference | | | | | $ (3,133,264) | | $ (3,857,413) | |
| 38 | | RUCO Adjustment To Pre-Aquisition Gross Plant In Service (See RLM-3, Column (B)) | | | | | $ (3,133,264) | | | |
| 39 | | RUCO Adjustment To Pre-Aquisition Accumulated Depreciation (See RLM-3, Column (B)) | | | | | | | $ (3,857,413) | |

References:
Columns (A) (B) (C) (D): Company Response To RUCO Data Request 2.19
Column (E): Schedule RLM-4, Page 2, Column (E) + Column (C) + Column (D)
Column (F): [(Cl. (C) + Cl. (D)) X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + [RLM-4, Pg 2, Cl. (E) + Cl. (D)) X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 2, Column (G) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

## TEST YEAR PLANT SCHEDULES - CONT'D
## YEAR ENDED DECEMBER 31, 2004

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJM'TS | (C) NET PLANT ADDITIONS | (D) PLANT RETIRM'TS | (E) TOTAL PLANT VALUE | (F) ACCURAL DEPRECIATION | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | | |
| 1 | 302 | Franchises & Consents | $ - | $ - | $ - | $ - | $ 388,336 | $ (15,533) | $ (177,384) | $ 210,953 |
| 2 | 303 | Miscellaneous Intangible | - | - | - | - | 263,108 | (10,524) | (178,854) | 84,253 |
| 3 | | Total Intangible Plant | $ - | $ - | $ - | $ - | $ 651,444 | $ (26,058) | $ (356,238) | $ 295,206 |
| | | Transmission : | | | | | | | | |
| 4 | 365 | Land & Rights | $ - | $ - | $ - | $ - | $ 74,563 | $ - | $ 5 | $ 74,568 |
| 5 | 366 | Structures & Improvements | - | - | - | - | 1,395 | (43) | (1,440) | (45) |
| 6 | 367 | Mains | 3,184,658 | - | 3,184,658 | - | 17,803,491 | (416,627) | (3,504,806) | 14,298,685 |
| 7 | 369 | Measuring And Reg. Equipment | 159,602 | - | 159,602 | - | 3,524,460 | (114,363) | (637,905) | 2,886,555 |
| 8 | 371 | Other Equipment | - | - | - | - | 191,965 | (6,988) | (25,495) | 166,470 |
| 9 | | Total Transmission Plant | $ 3,344,260 | $ - | $ 3,344,260 | $ - | $ 21,595,873 | $ (538,020) | $ (4,169,640) | $ 17,426,233 |
| | | Distribution: | | | | | | | | |
| 10 | 374 | Land & Rights | $ - | $ - | $ - | $ - | $ 140,727 | $ - | $ - | $ 140,727 |
| 11 | 375 | Structures & Improvements | - | - | - | - | 10,052 | (337) | (8,661) | 1,391 |
| 12 | 376 | Mains | 7,429,814 | - | 7,429,814 | - | 135,140,112 | (3,837,616) | (30,991,301) | 104,148,812 |
| 13 | 378 | Meas. And Reg. Equip. - General | 83,748 | - | 83,748 | - | 2,045,961 | (114,834) | (1,013,293) | 1,032,668 |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | 4,948 | - | 4,948 | - | 2,062,026 | (113,687) | (1,039,255) | 1,022,771 |
| 15 | 380 | Services | 6,305,730 | - | 6,305,730 | - | 59,197,736 | (2,662,131) | (21,743,248) | 37,454,488 |
| 16 | 381 | Meters | 607,242 | - | 607,242 | - | 10,760,231 | (299,059) | (4,543,223) | 6,217,008 |
| 17 | 382 | Meter Installation | - | - | - | - | 4,725,911 | (135,161) | (789,440) | 3,936,471 |
| 18 | 383 | Regulators | 29,280 | - | 29,280 | - | 2,580,650 | (96,739) | (1,617,590) | 963,060 |
| 19 | 384 | Regulator Installation | - | - | - | - | 297,662 | (11,222) | (39,852) | 257,809 |
| 20 | 385 | Industrial Measuring Equipment | 85,105 | - | 85,105 | - | 1,001,346 | (36,626) | (640,794) | 360,552 |
| 21 | 387 | Other Equipment | 69,771 | - | 69,771 | - | 827,790 | (28,862) | (243,864) | 583,926 |
| 22 | | Total Distribution Plant | $ 14,615,638 | $ - | $ 14,615,638 | $ - | $ 218,790,205 | $ (7,336,274) | $ (62,670,521) | $ 156,119,684 |
| | | General: | | | | | | | | |
| 23 | 389 | Land & Rights | $ - | $ - | $ - | $ - | $ 721,923 | $ - | $ 5,618 | $ 727,541 |
| 24 | 390 | Structures & Improvements | 49,926 | - | 49,926 | - | 4,965,284 | (153,150) | (1,105,808) | 3,859,476 |
| 25 | 391 | Office Furniture & Equipment | 472,243 | - | 472,243 | - | 9,581,663 | (450,455) | (5,194,458) | 4,387,205 |
| 26 | 392 | Transportation Equipment | 1,365,147 | - | 1,365,147 | (26,446) | 4,127,470 | - | (1,245,276) | 2,882,194 |
| 27 | 393 | Stores Equipment | 4,162 | - | 4,162 | - | 122,357 | (2,730) | (32,562) | 89,795 |
| 28 | 394 | Tools, Shop And Garage Equip. | 72,784 | - | 72,784 | - | 1,905,277 | (107,648) | (868,176) | 1,037,102 |
| 29 | 395 | Laboratory Equipment | 39,228 | - | 39,228 | - | 620,818 | (34,629) | (196,636) | 424,182 |
| 30 | 396 | Power Operated Equipment | - | - | - | - | 405,574 | (99,771) | (608,771) | (203,197) |
| 31 | 397 | Communication Equipment | 80,571 | - | 80,571 | - | 1,038,969 | (49,235) | (267,385) | 771,584 |
| 32 | 398 | Miscellaneous Equipment | - | - | - | - | 285,357 | (15,495) | (93,765) | 191,593 |
| 33 | 399 | Other Tangible Property | - | - | - | - | 104,680 | (3,810) | (30,902) | 73,778 |
| 34 | | Total General Plant | $ 2,084,061 | $ - | $ 2,084,061 | $ (26,446) | $ 23,879,371 | $ (916,924) | $ (9,638,120) | $ 14,241,251 |
| 35 | | TOTAL PLANT | $ 20,043,959 | $ - | $ 20,043,959 | $ (26,446) | $ 264,916,893 | $ (8,817,276) | $ (76,834,519) | $ 188,082,374 |
| 36 | | | | | | | | | | |
| 37 | | | | | | | | | | |

References:
Columns (A) (B) (C) (D): Company Response To RUCO Data Request 1.08
Column (E): Schedule RLM-4, Page 3, Column (E) + Column (C) + Column (D)

Column (F): [(Cl. (C) + Cl. (D)) X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + [RLM-4, Pg 3, Cl. (E) + Cl. (D)) X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 3, Column (G) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



## RATE BASE ADJUSTMENT NO. 2 - REMOVE TEST-YEAR ACCUMULATED DEPRECIATION
## TEST YEAR PLANT SCHEDULES - CONT'D
## YEAR ENDED DECEMBER 31, 2005

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) PLANT ADDITIONS | (B) PLANT ADJM'TS | (C) NET PLANT ADDITIONS | (D) PLANT RETIRM'TS | (E) TOTAL PLANT VALUE | (F) ACCURAL DEPRECIATION | (G) ACCUMULATED DEPRECIATION | (H) NET PLANT VALUE |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | | |
| 1 | 302 | Franchises & Consents | $ - | $ - | $ - | $ - | $ 388,336 | $ (15,533) | $ (192,917) | $ 195,419 |
| 2 | 303 | *Miscellaneous Intangible* | 15,100 | - | 15,100 | - | 278,208 | (10,826) | (189,681) | 88,527 |
| 3 | | Total Intangible Plant | $ 15,100 | $ - | $ 15,100 | $ - | $ 666,544 | $ (26,360) | $ (382,598) | $ 283,946 |
| | | Transmission : | | | | | | | | |
| 4 | 365 | Land & Rights | $ - | $ - | $ - | $ - | $ 74,563 | $ - | $ 5 | $ 74,568 |
| 5 | 366 | Structures & Improvements | - | - | - | - | 1,395 | (43) | (1,483) | (88) |
| 6 | 367 | Mains | 5,001,194 | - | 5,001,194 | - | 22,804,685 | (521,815) | (4,026,621) | 18,778,064 |
| 7 | 369 | Measuring And Reg. Equipment | 806 | - | 806 | - | 3,525,266 | (117,025) | (754,930) | 2,770,336 |
| 8 | 371 | Other Equipment | - | - | - | - | 191,965 | (6,988) | (32,483) | 159,483 |
| 9 | | Total Transmission Plant | $ 5,002,000 | $ - | $ 5,002,000 | $ - | $ 26,597,873 | $ (645,871) | $ (4,815,511) | $ 21,782,362 |
| | | Distribution: | | | | | | | | |
| 10 | 374 | Land & Rights | $ - | $ - | $ - | $ - | $ 140,727 | $ - | $ - | $ 140,727 |
| 11 | 375 | *Structures & Improvements* | - | - | - | - | 10,052 | (337) | (8,997) | 1,055 |
| 12 | 376 | Mains | 6,342,549 | - | 6,342,549 | (607,106) | 140,875,555 | (4,029,829) | (34,414,023) | 106,461,532 |
| 13 | 378 | Meas. And Reg. Equip. - General | 74,523 | - | 74,523 | - | 2,120,484 | (119,369) | (1,132,662) | 987,822 |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | 303,733 | - | 303,733 | - | 2,365,759 | (122,207) | (1,161,462) | 1,204,297 |
| 15 | 380 | Services | 6,547,947 | - | 6,547,947 | (22,405) | 65,723,278 | (2,966,874) | (24,687,717) | 41,035,561 |
| 16 | 381 | Meters | 1,180,280 | - | 1,180,280 | - | 11,940,511 | (324,621) | (4,867,844) | 7,072,667 |
| 17 | 382 | Meter Installation | 981,154 | - | 981,154 | - | 5,707,065 | (149,192) | (938,632) | 4,768,434 |
| 18 | 383 | Regulators | 323,346 | - | 323,346 | - | 2,903,996 | (103,386) | (1,720,975) | 1,183,021 |
| 19 | 384 | Regulator Installation | 552,063 | - | 552,063 | - | 849,725 | (21,628) | (61,480) | 788,244 |
| 20 | 385 | Industrial Measuring Equipment | 162,566 | - | 162,566 | - | 1,163,912 | (41,356) | (682,150) | 481,762 |
| 21 | 387 | Other Equipment | 428,608 | - | 428,608 | - | 1,256,398 | (37,932) | (281,797) | 974,602 |
| 22 | | Total Distribution Plant | $ 16,896,769 | $ - | $ 16,896,769 | $ (629,511) | $ 235,057,463 | $ (7,916,730) | $ (69,957,740) | $ 165,099,723 |
| | | General: | | | | | | | | |
| 23 | 389 | Land & Rights | $ - | $ - | $ - | $ - | $ 721,923 | $ - | $ 5,618 | $ 727,541 |
| 24 | 390 | Structures & Improvements | 156,182 | - | 156,182 | - | 5,121,466 | (156,345) | (1,262,152) | 3,859,313 |
| 25 | 391 | Office Furniture & Equipment | 188,683 | - | 188,683 | - | 9,770,346 | (466,383) | (5,660,842) | 4,109,504 |
| 26 | 392 | Transportation Equipment | 3,091,785 | - | 3,091,785 | (1,951,895) | 5,267,360 | - | 706,619 | 5,973,979 |
| 27 | 393 | Stores Equipment | - | - | - | (2,576) | 119,781 | (2,748) | (32,735) | 87,047 |
| 28 | 394 | Tools, Shop And Garage Equip. | 66,811 | - | 66,811 | - | 1,972,088 | (111,668) | (979,844) | 992,244 |
| 29 | 395 | Laboratory Equipment | 33,550 | - | 33,550 | - | 654,368 | (36,725) | (233,361) | 421,007 |
| 30 | 396 | Power Operated Equipment | 93,549 | - | 93,549 | - | 499,123 | (111,278) | (720,049) | (220,926) |
| 31 | 397 | Communication Equipment | - | - | - | (4,649) | 1,034,320 | (51,107) | (313,843) | 720,477 |
| 32 | 398 | Miscellaneous Equipment | - | - | - | - | 285,357 | (15,495) | (109,260) | 176,098 |
| 33 | 399 | Other Tangible Property | - | - | - | - | 104,680 | (3,810) | (34,713) | 69,967 |
| 34 | | Total General Plant | $ 3,630,560 | $ - | $ 3,630,560 | $ (1,959,120) | $ 25,550,811 | $ (955,559) | $ (8,634,560) | $ 16,916,252 |
| 35 | | TOTAL PLANT | $ 25,544,429 | $ - | $ 25,544,429 | $ (2,588,631) | $ 287,872,691 | $ (9,544,520) | $ (83,790,408) | $ 204,082,283 |
| 36 | | Total Plant As Per Company | | | | | | | $ (77,077,541) | |
| 37 | | Difference | | | | | | | $ (6,712,867) | |
| 38 | | RUCO Adjustment To Pre-Aquisition Accumulated Depreciation (See RLM-4, Page 3, Lines 39) | | | | | | | (3,857,413) | |
| 39 | | | | | | | | | | |
| 40 | | RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-3, Column (C)) | | | | | | | $ (2,855,454) | |

References:

Columns (A) (B) (C) (D): *Company Response To RUCO Data Request 1.08*
Column (E): Schedule RLM-4, Page 4, Column (E) + Column (C) + Column (D)

Column (F): [(Cl. (C) + Cl. (D)) X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + [RLM-4, Pg 4, Cl. (E) + Cl. (D)) X RLM-4, Pg 1, Cl. (B)
*Column (G): Schedule RLM-4, Page 4, Column (G) + Column (D) + Column (F)*
Column (H): Column (E) + Column (G)

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



## RATE BASE ADJUSTMENT NO. 3 - REMOVE CWIP FROM TEST-YEAR RATE BASE
## TEST YEAR PLANT SCHEDULES - CONT'D
## PRO FORMA ADJUSTMENTS TO TEST YEAR ENDED DECEMBER 31, 2005

| LINE NO. | ACCT NO. | ACCOUNT NAME | (A) GRIFFITH POWER PLANT PLANT ADJUSTMENTS | (B) GRIFFITH POWER PLANT ACC. DEP ADJUSTMENTS | (C) BUILD-OUT PLANT PLANT ADJUSTMENTS | (D) BUILD-OUT PLANT ACC. DEP ADJUSTMENTS | (E) RUCO ADJUSTED TOTAL PLANT VALUE | (F) RUCO ADJUSTED ACCUMULATED DEPRECIATION | (G) RUCO ADJUSTED NET PLANT VALUE |
|---|---|---|---|---|---|---|---|---|---|
| | | Intangible: | | | | | | | |
| 1 | 302 | Franchises & Consents | $ - | $ - | $ - | $ - | $ 388,336 | $ (192,917) | $ 195,419 |
| 2 | 303 | Miscellaneous Intangible | - | - | - | - | 278,208 | (189,681) | 88,527 |
| 3 | | Total Intangible Plant | $ - | $ - | $ - | $ - | $ 666,544 | $ (382,598) | $ 283,946 |
| | | Transmission : | | | | | | | |
| 4 | 365 | Land & Rights | $ (10,075) | $ - | $ (7,441) | $ - | $ 57,047 | $ 5 | $ 57,052 |
| 5 | 366 | Structures & Improvements | - | - | (1,222) | 430 | 173 | (1,053) | (880) |
| 6 | 367 | Mains | (3,421,025) | 511,821 | (1,606,936) | 417,127 | 17,776,724 | (3,097,673) | 14,679,051 |
| 7 | 369 | Measuring And Reg. Equipment | (2,557,112) | 372,457 | (259,186) | 70,426 | 708,968 | (312,047) | 396,921 |
| 8 | 371 | Other Equipment | (183,581) | 44,626 | (13,313) | 4,641 | (4,929) | 16,784 | 11,856 |
| 9 | | Total Transmission Plant | $ (6,171,793) | $ 928,904 | $ (1,888,098) | $ 492,624 | $ 18,537,982 | $ (3,393,983) | $ 15,143,999 |
| | | Distribution: | | | | | | | |
| 10 | 374 | Land & Rights | $ - | $ - | $ (18,709) | $ - | $ 122,018 | $ - | $ 122,018 |
| 11 | 375 | Structures & Improvements | - | - | (794) | 1,016 | 9,258 | (7,981) | 1,277 |
| 12 | 376 | Mains | - | - | (10,506,547) | 3,424,497 | 130,369,008 | (30,989,526) | 99,379,482 |
| 13 | 378 | Meas. And Reg. Equip. - General | - | - | (145,939) | 98,248 | 1,974,545 | (1,034,414) | 940,131 |
| 14 | 379 | Meas. And Reg. Equip. - City Gate | - | - | (169,292) | 85,420 | 2,196,467 | (1,076,042) | 1,120,425 |
| 15 | 380 | Services | - | - | - | - | 65,723,278 | (24,687,717) | 41,035,561 |
| 16 | 381 | Meters | - | - | - | - | 11,940,511 | (4,867,844) | 7,072,667 |
| 17 | 382 | Meter Installation | - | - | - | - | 5,707,065 | (938,632) | 4,768,434 |
| 18 | 383 | Regulators | - | - | - | - | 2,903,996 | (1,720,975) | 1,183,021 |
| 19 | 384 | Regulator Installation | - | - | - | - | 849,725 | (61,480) | 788,244 |
| 20 | 385 | Industrial Measuring Equipment | (12,609) | 1,412 | - | - | 1,151,303 | (680,738) | 470,565 |
| 21 | 387 | Other Equipment | - | - | (111,710) | 38,712 | 1,144,688 | (243,085) | 901,604 |
| 22 | | Total Distribution Plant | $ (12,609) | $ 1,412 | $ (10,952,991) | $ 3,647,893 | $ 224,091,863 | $ (66,308,435) | $ 157,783,428 |
| | | General: | | | | | | | |
| 23 | 389 | Land & Rights | $ - | $ - | $ - | $ - | $ 721,923 | $ 5,618 | $ 727,541 |
| 24 | 390 | Structures & Improvements | - | - | - | - | 5,121,466 | (1,262,152) | 3,859,313 |
| 25 | 391 | Office Furniture & Equipment | - | - | - | - | 9,770,346 | (5,660,842) | 4,109,504 |
| 26 | 392 | Transportation Equipment | - | - | - | - | 5,267,360 | 706,619 | 5,973,979 |
| 27 | 393 | Stores Equipment | - | - | - | - | 119,781 | (32,735) | 87,047 |
| 28 | 394 | Tools, Shop And Garage Equip. | - | - | - | - | 1,972,088 | (979,844) | 992,244 |
| 29 | 395 | Laboratory Equipment | - | - | - | - | 654,368 | (233,361) | 421,007 |
| 30 | 396 | Power Operated Equipment | - | - | - | - | 499,123 | (720,049) | (220,926) |
| 31 | 397 | Communication Equipment | - | - | - | - | 1,034,320 | (313,843) | 720,477 |
| 32 | 398 | Miscellaneous Equipment | - | - | - | - | 285,357 | (109,260) | 176,098 |
| 33 | 399 | Other Tangible Property | - | - | - | - | 104,680 | (34,713) | 69,967 |
| 34 | | Total General Plant | $ - | $ - | $ - | $ - | $ 25,550,811 | $ (8,634,560) | $ 16,916,252 |
| 35 | | TOTAL PLANT | $ (6,184,402) | $ 930,316 | $ (12,841,089) | $ 4,140,517 | $ 268,847,200 | $ (78,719,575) | $ 190,127,625 |
| 36 | | Total Plant As Per Company | $ - | $ (11,836,260) | $ (11,836,260) | $ - | $ 279,169,694 | $ (72,006,708) | $ 213,928,413 |
| 37 | | Difference | $ (6,184,402) | $ 12,766,576 | $ (1,004,829) | $ 4,140,517 | $ (10,322,494) | $ (6,712,867) | $ (23,800,788) |
| 38 | | RUCO Adjustment To Pre-Aquisition Gross Plant In Service (See RLM-4, Page 3, Lines 38) | | | | | (3,133,264) | | |
| 39 | | RUCO Adjustment To Pro-Forma Test-Year Gross Plant In Service (See RLM-3, Column (E)) | | | | | $ (7,189,230) | | |

References:

*Columns (A) (B) (C) (D): Company Workpapers*
Column (E): Schedule RLM-4, Page 5, Column (E) + Column (A) + Column (C)
Column (F): Schedule RLM-4, Page 5, Column (G) + Column (B) + Column (D)
Column (G): Column (E) + Column (F)

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



## OPERATING INCOME

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO TEST YEAR ADJ'TMENTS | (C) RUCO TEST YEAR AS ADJUSTED | (D) RUCO PROPOSED CHANGES | (E) RUCO AS RECOMMENDED |
|---|---|---|---|---|---|---|
| | Operating Revenues: | | | | | |
| 1 | Gas Retail Revenues | $ 45,689,224 | $ 110,906 | $ 45,800,130 | $ 1,505,003 | $ 47,305,133 |
| 2 | Other Operating Revenue | 1,480,304 | - | 1,480,304 | - | 1,480,304 |
| 3 | TOTAL OPERATING REVENUES | $ 47,169,528 | $ 110,906 | $ 47,280,434 | $ 1,505,003 | $ 48,785,437 |
| | Operating Expenses: | | | | | |
| 4 | Purchased Gas | $ 355,528 | $ (54) | $ 355,474 | $ - | $ 355,474 |
| 5 | Other O & M Expense | 24,459,038 | (2,057,381) | 22,401,657 | - | 22,401,657 |
| 6 | Depreciation & Amortization | 7,220,391 | (646,479) | 6,573,912 | - | 6,573,912 |
| 7 | Taxes Other Than Income Taxes | 4,730,093 | (1,147,587) | 3,582,506 | - | 3,582,506 |
| 8 | Income Taxes | 1,975,497 | 1,830,390 | 3,805,887 | 585,627 | 4,391,514 |
| 9 | TOTAL OPERATING EXPENSES | $ 38,740,547 | $ (2,021,111) | $ 36,719,436 | $ 585,627 | $ 37,305,063 |
| 10 | OPERATING INCOME (LOSS) | $ 8,428,981 | | $ 10,560,998 | | $ 11,480,374 |

References:
- Column (A): Company Schedule C-1
- Column (B): Testimony, RLM And Schedule RLM-7, Pages 1 Thru 6
- Column (C): Column (A) + Column (B)
- Column (D): Testimony, RLM And Schedule RLM-1
- Column (E): Column (C) + Column (D)

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



**SUMMARY OF OPERATING INCOME ADJUSTMENT**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) ADJ. NO. 1 WORKERS COMP. | (C) ADJ. NO. 2 INCENTIVE COMP. | (D) ADJ. NO. 3 DEPRECIATION EXPENSE | (E) ADJ. NO. 4 POSTAGE EXPENSE | (F) ADJ. NO. 5 CUSTOMER SERVICE COSTS | (G) ADJ. NO. 6 UNNECESSARY EXPENSES | (H) ADJ. NO. 7 PROPERTY TAX |
|---|---|---|---|---|---|---|---|---|---|
| | **Operating Revenue** | | | | | | | | |
| 1 | Net Sales to Ultimate Customers | $ 42,950,315 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2 | Transportation of Gas | 2,738,909 | - | - | - | - | - | - | - |
| 3 | **Gas Retail Revenue** | **$ 45,689,224** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 4 | Forfeited Discounts (Late Fees) | $ 398,966 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 5 | Miscellaneous Service Revenues | 1,046,891 | - | - | - | - | - | - | - |
| 6 | Other Gas Revenues | 34,447 | - | - | - | - | - | - | - |
| 7 | **Other Operating Revenue** | **$ 1,480,304** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 8 | **Total Operating Revenue** | **$ 47,169,528** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| | **Operating Expense** | | | | | | | | |
| 9 | **Purchased Gas** | **$ 355,528** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 10 | Transmision - Mains Expense | $ 11,280 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 11 | Transmision - Meas. and Reg. Station | (52,221) | - | - | - | - | - | - | - |
| 12 | Transmision - Maint. Compressor Stat. Equip. | 19 | - | - | - | - | - | - | - |
| 13 | Transmision - Oper. Super'n and Eng. | 315,983 | - | - | - | - | - | - | - |
| 14 | Distribution - Load Dispatching | 162 | - | - | - | - | - | - | - |
| 15 | Distribution - Mains and Services | 1,337,349 | - | (42,144) | - | - | - | (1,592) | - |
| 16 | Distribution - Meas. and Reg. Station - Gen. | 244,463 | - | - | - | - | - | - | - |
| 17 | Distribution - Meas. and Reg. Station - Ind. | 150,536 | - | - | - | - | - | - | - |
| 18 | Distribution - Meas. and Reg. Station - City | 56,529 | - | - | - | - | - | - | - |
| 19 | Distribution - Meter and House Regulator | 1,349,114 | - | (34,242) | - | - | - | - | - |
| 20 | Distribution - Customer Installations | 539,082 | - | - | - | - | - | - | - |
| 21 | Distribution - Other Expenses | 1,090,666 | - | - | - | - | - | (27,217) | - |
| 22 | Distribution - Rents | 44,510 | - | - | - | - | - | - | - |
| 23 | Distribution - Maint. Superv'n & Eng. | 243,170 | - | - | - | - | - | - | - |
| 24 | Distribution - Maintenance of Mains | 1,084,194 | - | (26,340) | - | - | - | - | - |
| 25 | Distribution - Maint. M & R Stat. Equip. - Gen. | 25,623 | - | - | - | - | - | - | - |
| 26 | Distribution - Maint. M & R Stat. Equip. - Ind. | 2,072 | - | - | - | - | - | - | - |
| 27 | Distribution - Maint. M & R Equip. - City Gate | 850 | - | - | - | - | - | - | - |
| 28 | Distribution - Maintenance of Services | 465,066 | - | - | - | - | - | - | - |
| 29 | Distribution - Maint. of Meters and Reg. | 167,015 | - | - | - | - | - | - | - |
| 30 | Distribution - Maintenance of Other Equip. | 96,826 | - | - | - | - | - | - | - |
| 31 | Customer Account - Supervision | 74,309 | - | - | - | - | - | - | - |
| 32 | Customer Account - Meter Reading | 719,037 | - | - | - | - | - | - | - |
| 33 | Customer Account - Records and Collection | 5,462,173 | - | (60,582) | - | (153,479) | (490,413) | - | - |
| 34 | Customer Account - Uncollectibles | 722,634 | - | - | - | - | - | - | - |

**SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) ADJ. NO. 1 WORKERS COMP. | (C) ADJ. NO. 2 INCENTIVE COMP. | (D) ADJ. NO. 3 DEPRECIATION EXPENSE | (E) ADJ. NO. 4 POSTAGE EXPENSE | (F) ADJ. NO. 5 CUSTOMER SERVICE COSTS | (G) ADJ. NO. 6 UNNECESSARY EXPENSES | (H) ADJ. NO. 7 PROPERTY TAX |
|---|---|---|---|---|---|---|---|---|---|
| | Continued | | | | | | | | |
| 35 | Customer Account - Miscellaneous | $ 34,381 | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 36 | Customer Account - Superv'n - Cust. Service | 14,743 | - | - | - | - | - | - | - |
| 37 | Customer Account - Assistance | (34,228) | - | - | - | - | - | - | - |
| 38 | Customer Account - Info and Instruct Advert. | 65,794 | - | - | - | - | - | - | - |
| 39 | Customer Account - Miscellaneous | 22,602 | - | - | - | - | - | - | - |
| 40 | Sales - Demonstrating and Selling | 558 | - | - | - | - | - | - | - |
| 41 | A & G - Salaries | 1,529,696 | - | (94,587) | - | - | (25,437) | - | - |
| 42 | A & G - Office Supplies and Expenses | 1,365,974 | - | - | - | - | (11,157) | (107,076) | - |
| 43 | A & G - Transferred - Credit | (152,817) | - | - | - | - | (133) | - | - |
| 44 | A & G - Outside Services Employed | 2,696,531 | - | - | - | - | (2,559) | (14,738) | - |
| 45 | A & G - Property Insurance | 7,415 | - | - | - | - | (1,329) | - | - |
| 46 | A & G - Injuries and Damages | 574,128 | (34,234) | - | - | - | (293) | - | - |
| 47 | A & G - Employee Pension and Benefits | 2,452,071 | - | - | - | - | (143,577) | (6,230) | - |
| 48 | A & G - Miscellaneous General Expenses | 1,082,411 | - | - | - | - | - | (76,494) | - |
| 49 | A & G - Rents | 109,053 | - | - | - | - | - | - | - |
| 50 | A & G - Maintenance of General Plant | 169,826 | - | - | - | - | - | - | - |
| 51 | A & G - Rate Case Expense | 200,000 | - | - | - | - | - | - | - |
| 52 | Interest On Customer Deposits | 170,459 | - | - | - | - | - | - | - |
| 53 | **Other Oper. and Maint. Expense** | **$ 24,459,038** | **$ (34,234)** | **$ (257,895)** | **$ -** | **$ (153,479)** | **$ (674,898)** | **$ (233,347)** | **$ -** |
| 54 | Dep. & Amort. - Citizens Acq. Discount | $ (729,791) | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 55 | Dep. & Amort. - Intangible Plant | 929,602 | - | - | (57,341) | - | - | - | - |
| 56 | Dep. & Amort. - Transmission Plant | 285,187 | - | - | (1,618) | - | - | - | - |
| 57 | Dep. & Amort. - Distribution Plant | 5,631,142 | - | - | (427,753) | - | - | - | - |
| 58 | Dep. & Amort. - General Plant | 1,104,251 | - | - | 162,629 | - | (23,373) | - | - |
| 59 | **Depreciation and Amortization** | **$ 7,220,391** | **$ -** | **$ -** | **$ (324,083)** | **$ -** | **$ (23,373)** | **$ -** | **$ -** |
| 60 | Property Tax | $ 4,103,375 | $ - | $ - | $ - | $ - | $ (28,439) | $ - | $ (309,309) |
| 61 | Payroll Tax - FUTA, SUTA, FICA & Medicare | 537,877 | - | (20,853) | - | - | - | - | - |
| 62 | Medical and Dental | 86,130 | - | - | - | - | - | - | - |
| 63 | Other | 2,711 | - | - | - | - | - | - | - |
| 64 | **Taxes Other Than Income Taxes** | **$ 4,730,093** | **$ -** | **$ (20,853)** | **$ -** | **$ -** | **$ (28,439)** | **$ -** | **$ (309,309)** |
| 65 | **Income Taxes** | **$ 1,975,497** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 66 | **Total Operating Expense** | **$ 38,740,547** | **$ (34,234)** | **$ (278,748)** | **$ (324,083)** | **$ (153,479)** | **$ (726,710)** | **$ (233,347)** | **$ (309,309)** |
| 67 | **Operating Income** | **$ 8,428,981** | **$ 34,234** | **$ 278,748** | **$ 324,083** | **$ 153,479** | **$ 726,710** | **$ 233,347** | **$ 309,309** |

**SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (I) ADJ. NO. 8 RATE CASE EXPENSE | (J) ADJ. NO. 9 AGA DUES | (K) ADJ. NO. 10 ATYPICAL EXPENSES | (L) ADJ. NO. 11 SERP | (M) ADJ. NO. 12 AMORTIZATION GIS O&M | (N) ADJ. NO. 13 FLEET FUEL EXPENSE | (O) ADJ. NO. 14 CUSTOMER ANNUALIZ'N | (P) ADJ. NO. 15 CUSTOMER WEATHERIZ'N |
|---|---|---|---|---|---|---|---|---|---|
| | **Operating Revenue** | | | | | | | | |
| 1 | Net Sales to Ultimate Customers | $ - | $ - | $ - | $ - | $ - | $ - | $ 110,006 | $ 900 |
| 2 | Transportation of Gas | - | - | - | - | - | - | - | - |
| 3 | **Gas Retail Revenue** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 110,006** | **$ 900** |
| 4 | Forfeited Discounts (Late Fees) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 5 | Miscellaneous Service Revenues | - | - | - | - | - | - | - | - |
| 6 | Other Gas Revenues | - | - | - | - | - | - | - | - |
| 7 | **Other Operating Revenue** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 8 | **Total Operating Revenue** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 110,006** | **$ 900** |
| | **Operating Expense** | | | | | | | | |
| 9 | **Purchased Gas** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ (54)** | **$ -** | **$ -** |
| 10 | Transmision - Mains Expense | $ - | $ - | $ - | $ - | $ - | $ (69) | $ - | $ - |
| 11 | Transmision - Meas. and Reg. Station | - | - | - | - | - | (1) | - | - |
| 12 | Transmision - Maint. Compressor Stat. Equip. | - | - | - | - | - | - | - | - |
| 13 | Transmision - Oper. Super'n and Eng. | - | - | - | - | - | (1,907) | - | - |
| 14 | Distribution - Load Dispatching | - | - | - | - | - | - | - | - |
| 15 | Distribution - Mains and Services | - | - | - | - | - | (5,801) | - | - |
| 16 | Distribution - Meas. and Reg. Station - Gen. | - | - | - | - | - | (1,095) | - | - |
| 17 | Distribution - Meas. and Reg. Station - Ind. | - | - | - | - | - | (834) | - | - |
| 18 | Distribution - Meas. and Reg. Station - City | - | - | - | - | - | (123) | - | - |
| 19 | Distribution - Meter and House Regulator | - | - | - | - | - | (6,218) | - | - |
| 20 | Distribution - Customer Installations | - | - | - | - | - | (2,502) | - | - |
| 21 | Distribution - Other Expenses | - | - | - | - | - | (1,956) | - | - |
| 22 | Distribution - Rents | - | - | - | - | - | - | - | - |
| 23 | Distribution - Maint. Superv'n & Eng. | - | - | - | - | - | (1,358) | - | - |
| 24 | Distribution - Maintenance of Mains | - | - | - | - | - | (3,330) | - | - |
| 25 | Distribution - Maint. M & R Stat. Equip. - Gen. | - | - | - | - | - | (19) | - | - |
| 26 | Distribution - Maint. M & R Stat. Equip. - Ind. | - | - | - | - | - | (1) | - | - |
| 27 | Distribution - Maint. M & R Equip. - City Gate | - | - | - | - | - | (1) | - | - |
| 28 | Distribution - Maintenance of Services | - | - | - | - | - | (2,229) | - | - |
| 29 | Distribution - Maint. of Meters and Reg. | - | - | - | - | - | (366) | - | - |
| 30 | Distribution - Maintenance of Other Equip. | - | - | - | - | - | (169) | - | - |
| 31 | Customer Account - Supervision | - | - | - | - | - | (415) | - | - |
| 32 | Customer Account - Meter Reading | - | - | - | - | - | (3,799) | - | - |
| 33 | Customer Account - Records and Collection | - | - | - | - | - | (7,985) | - | - |
| 34 | Customer Account - Uncollectibles | - | - | - | - | - | - | - | - |

**SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (I) ADJ. NO. 8 RATE CASE EXPENSE | (J) ADJ. NO. 9 AGA DUES | (K) ADJ. NO. 10 ATYPICAL EXPENSES | (L) ADJ. NO. 11 SERP | (M) ADJ. NO. 12 AMORTIZATION GIS O&M | (N) ADJ. NO. 13 FLEET FUEL EXPENSE | (O) ADJ. NO. 14 CUSTOMER ANNUALIZ'N | (P) ADJ. NO. 15 CUSTOMER WEATHERIZ'N |
|---|---|---|---|---|---|---|---|---|---|
| | Continued | | | | | | | | |
| 35 | Customer Account - Miscellaneous | $ - | $ - | $ - | $ - | $ - | $ (9) | $ - | $ - |
| 36 | Customer Account - Superv'n - Cust. Service | - | - | - | - | - | (66) | - | - |
| 37 | Customer Account - Assistance | - | - | - | - | - | (71) | - | - |
| 38 | Customer Account - Info and Instruct Advert. | - | - | - | - | - | (3) | - | - |
| 39 | Customer Account - Miscellaneous | - | - | - | - | - | - | - | - |
| 40 | Sales - Demonstrating and Selling | - | - | - | - | - | - | - | - |
| 41 | A & G - Salaries | - | - | - | - | - | - | - | - |
| 42 | A & G - Office Supplies and Expenses | - | - | (2,584) | - | - | (8,981) | - | - |
| 43 | A & G - Transferred - Credit | - | - | - | - | - | - | - | - |
| 44 | A & G - Outside Services Employed | - | - | - | - | - | - | - | - |
| 45 | A & G - Property Insurance | - | - | - | - | - | - | - | - |
| 46 | A & G - Injuries and Damages | - | - | - | - | - | (3) | - | - |
| 47 | A & G - Employee Pension and Benefits | - | - | - | (93,075) | - | - | - | - |
| 48 | A & G - Miscellaneous General Expenses | - | (1,523) | - | - | - | (65) | - | - |
| 49 | A & G - Rents | - | - | - | - | - | - | - | - |
| 50 | A & G - Maintenance of General Plant | - | - | - | - | - | (120) | - | - |
| 51 | A & G - Rate Case Expense | (116,333) | - | - | - | - | - | - | - |
| 52 | Interest On Customer Deposits | - | - | - | - | - | - | - | - |
| 53 | **Other Oper. and Maint. Expense** | **$ (116,333)** | **$ (1,523)** | **$ (2,584)** | **$ (93,075)** | **$ -** | **$ (49,493)** | **$ -** | **$ -** |
| 54 | Dep. & Amort. - Citizens Acq. Discount | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 55 | Dep. & Amort. - Intangible Plant | - | - | - | - | - | - | - | - |
| 56 | Dep. & Amort. - Transmission Plant | - | - | - | - | (299,023) | - | - | - |
| 57 | Dep. & Amort. - Distribution Plant | - | - | - | - | - | - | - | - |
| 58 | Dep. & Amort. - General Plant | - | - | - | - | - | - | - | - |
| 59 | **Depreciation and Amortization** | **$ -** | **$ -** | **$ -** | **$ -** | **$ (299,023)** | **$ -** | **$ -** | **$ -** |
| 60 | Property Tax | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 61 | Payroll Tax - FUTA, SUTA, FICA & Medicare | - | - | - | - | - | - | - | - |
| 62 | Medical and Dental | - | - | - | - | - | - | - | - |
| 63 | Other | - | - | - | - | - | - | - | - |
| 64 | **Taxes Other Than Income Taxes** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 65 | **Income Taxes** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| 66 | **Total Operating Expense** | **$ (116,333)** | **$ (1,523)** | **$ (2,584)** | **$ (93,075)** | **$ (299,023)** | **$ (49,547)** | **$ -** | **$ -** |
| 67 | **Operating Income** | **$ 116,333** | **$ 1,523** | **$ 2,584** | **$ 93,075** | **$ 299,023** | **$ 49,547** | **$ 110,006** | **$ 900** |

**SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (Q) ADJ. NO. 16 CORP. COST ALLOCATION | (R) ADJ. NO. 17 UNCOL'TIBLES | (S) ADJ. NO. 18 CWIP PROP. TAXES | (T) ADJ. NO. 19 OUT OF PERIOD EXPENSES | (U) ADJ. NO. 20 | (V) ADJ. NO. 21 | (W) ADJ. NO. 22 INCOME TAX | (X) RUCO AS ADJUSTED |
|---|---|---|---|---|---|---|---|---|---|
| | Operating Revenue | | | | | | | | |
| 1 | Net Sales to Ultimate Customers | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 43,061,221 |
| 2 | Transportation of Gas | - | - | - | - | - | - | - | 2,738,909 |
| 3 | **Gas Retail Revenue** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 45,800,130 |
| 4 | Forfeited Discounts (Late Fees) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 398,966 |
| 5 | Miscellaneous Service Revenues | - | - | - | - | - | - | - | 1,046,891 |
| 6 | Other Gas Revenues | - | - | - | - | - | - | - | 34,447 |
| 7 | **Other Operating Revenue** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 1,480,304 |
| 8 | **Total Operating Revenue** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 47,280,434 |
| 9 | **Purchased Gas** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 355,474 |
| 10 | Transmision - Mains Expense | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 11,211 |
| 11 | Transmision - Meas. and Reg. Station | - | - | - | - | - | - | - | (52,222) |
| 12 | Transmision - Maint. Compressor Stat. Equip. | - | - | - | - | - | - | - | 19 |
| 13 | Transmision - Oper. Super'n and Eng. | - | - | - | - | - | - | - | 314,076 |
| 14 | Distribution - Load Dispatching | - | - | - | - | - | - | - | 162 |
| 15 | Distribution - Mains and Services | - | - | - | - | - | - | - | 1,287,812 |
| 16 | Distribution - Meas. and Reg. Station - Gen. | - | - | - | - | - | - | - | 243,368 |
| 17 | Distribution - Meas. and Reg. Station - Ind. | - | - | - | - | - | - | - | 149,702 |
| 18 | Distribution - Meas. and Reg. Station - City | - | - | - | - | - | - | - | 56,406 |
| 19 | Distribution - Meter and House Regulator | - | - | - | - | - | - | - | 1,308,654 |
| 20 | Distribution - Customer Installations | - | - | - | - | - | - | - | 536,580 |
| 21 | Distribution - Other Expenses | - | - | - | - | - | - | - | 1,061,493 |
| 22 | Distribution - Rents | - | - | - | - | - | - | - | 44,510 |
| 23 | Distribution - Maint. Superv'n & Eng. | - | - | - | - | - | - | - | 241,812 |
| 24 | Distribution - Maintenance of Mains | - | - | - | - | - | - | - | 1,054,524 |
| 25 | Distribution - Maint. M & R Stat. Equip. - Gen. | - | - | - | - | - | - | - | 25,604 |
| 26 | Distribution - Maint. M & R Stat. Equip. - Ind. | - | - | - | - | - | - | - | 2,071 |
| 27 | Distribution - Maint. M & R Equip. - City Gate | - | - | - | - | - | - | - | 849 |
| 28 | Distribution - Maintenance of Services | - | - | - | - | - | - | - | 462,837 |
| 29 | Distribution - Maint. of Meters and Reg. | - | - | - | - | - | - | - | 166,649 |
| 30 | Distribution - Maintenance of Other Equip. | - | - | - | - | - | - | - | 96,657 |
| 31 | Customer Account - Supervision | - | - | - | - | - | - | - | 73,894 |
| 32 | Customer Account - Meter Reading | - | - | - | - | - | - | - | 715,238 |
| 33 | Customer Account - Records and Collection | - | - | - | - | - | - | - | 4,749,714 |
| 34 | Customer Account - Uncollectibles | - | (95,583) | - | - | - | - | - | 627,051 |

**SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D**
**TEST YEAR AS FILED AND ADJUSTED**

| LINE NO. | DESCRIPTION | (Q) ADJ. NO. 16 CORP. COST ALLOCATION | (R) ADJ. NO. 17 UNCOL'TIBLES | (S) ADJ. NO. 18 CWIP PROP. TAXES | (T) ADJ. NO. 19 OUT OF PERIOD EXPENSES | (U) ADJ. NO. 20 LEGAL EXPENSE | (V) ADJ. NO. 21 | (W) ADJ. NO. 22 INCOME TAX | (X) RUCO AS ADJUSTED |
|---|---|---|---|---|---|---|---|---|---|
| | Continued | | | | | | | | |
| 35 | Customer Account - Miscellaneous | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 34,372 |
| 36 | Customer Account - Superv'n - Cust. Service | - | - | - | - | - | - | - | 14,677 |
| 37 | Customer Account - Assistance | - | - | - | - | - | - | - | (34,299) |
| 38 | Customer Account - Info and Instruct Advert. | - | - | - | - | - | - | - | 65,791 |
| 39 | Customer Account - Miscellaneous | - | - | - | - | - | - | - | 22,602 |
| 40 | Sales - Demonstrating and Selling | - | - | - | - | - | - | - | 558 |
| 41 | A & G - Salaries | - | - | - | - | - | - | - | 1,409,672 |
| 42 | A & G - Office Supplies and Expenses | - | - | - | - | - | - | - | 1,236,177 |
| 43 | A & G - Transferred - Credit | - | - | - | - | - | - | - | (152,950) |
| 44 | A & G - Outside Services Employed | - | - | - | - | (311,051) | - | - | 2,368,183 |
| 45 | A & G - Property Insurance | - | - | - | - | - | - | - | 6,086 |
| 46 | A & G - Injuries and Damages | - | - | - | - | - | - | - | 539,598 |
| 47 | A & G - Employee Pension and Benefits | - | - | - | - | - | - | - | 2,209,189 |
| 48 | A & G - Miscellaneous General Expenses | (12,765) | - | - | (21,120) | - | - | - | 970,444 |
| 49 | A & G - Rents | - | - | - | - | - | - | - | 109,053 |
| 50 | A & G - Maintenance of General Plant | - | - | - | - | - | - | - | 169,706 |
| 51 | A & G - Rate Case Expense | - | - | - | - | - | - | - | 83,667 |
| 52 | Interest On Customer Deposits | - | - | - | - | - | - | - | 170,459 |
| 53 | **Other Oper. and Maint. Expense** | **$ (12,765)** | **$ (95,583)** | **$ -** | **$ (21,120)** | **$ (311,051)** | **$ -** | **$ -** | **$ 22,401,657** |
| 54 | Dep. & Amort. - Citizens Acq. Discount | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ (729,791) |
| 55 | Dep. & Amort. - Intangible Plant | - | - | - | - | - | - | - | 872,261 |
| 56 | Dep. & Amort. - Transmission Plant | - | - | - | - | - | - | - | (15,454) |
| 57 | Dep. & Amort. - Distribution Plant | - | - | - | - | - | - | - | 5,203,389 |
| 58 | Dep. & Amort. - General Plant | - | - | - | - | - | - | - | 1,243,507 |
| 59 | **Depreciation and Amortization** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 6,573,912** |
| 60 | Property Tax | $ - | $ - | $ (166,884) | $ - | $ - | $ - | $ - | $ 3,598,743 |
| 61 | Payroll Tax - FUTA, SUTA, FICA & Medicare | - | - | - | - | - | - | - | 517,024 |
| 62 | Medical and Dental | - | - | - | - | - | - | - | 86,130 |
| 63 | Other | - | - | - | - | (622,102) | - | - | (619,391) |
| 64 | **Taxes Other Than Income Taxes** | **$ -** | **$ -** | **$ (166,884)** | **$ -** | **$ (622,102)** | **$ -** | **$ -** | **$ 3,582,506** |
| 65 | **Income Taxes** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ 1,830,390** | **$ 3,805,887** |
| 66 | **Total Operating Expense** | **$ (12,765)** | **$ (95,583)** | **$ (166,884)** | **$ (21,120)** | **$ (933,153)** | **$ -** | **$ 1,830,390** | **$ 36,719,436** |
| 67 | **Operating Income** | **$ 12,765** | **$ 95,583** | **$ 166,884** | **$ 21,120** | **$ 933,153** | **$ -** | **$ (1,830,390)** | **$ 10,560,998** |

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



## OPERATING INCOME ADJUSTMENT NO. 3
## TEST-YEAR DEPRECIATION EXPENSE ON GROSS PLANT IN SERVICE

| LINE NO. | ACCT. NO. | | (A) RUCO TOTAL PLANT AS ADJUSTED | (B) CO. PROPOSED DEPRECIATION RATE | (C) TEST YEAR DEPREC'N EXPENSE |
|---|---|---|---|---|---|
| | | Intangible: | | | |
| 1 | 302 | Franchises & Consents | $ 388,336 | 3.95% | $ 15,339 |
| 2 | 303 | Miscellaneous Intangible | 278,208 | 5.84% | 16,247 |
| 3 | | Total Intangible Plant | $ 666,544 | | $ 31,587 |
| 4 | | Company As Filed (Company Workpapers) | | | 88,927 |
| 5 | | Difference (Line 4 - Line 3) | | | $ (57,341) |
| 6 | | RUCO Adjustment To Depreciation Expense - Intangibles (Line 5) (See RLM-7, Page 2, Column (D)) | | | $ (57,341) |
| | | Transmission : | | | |
| 7 | 365 | Land & Rights | $ 57,047 | 1.38% | $ 787 |
| 8 | 366 | Structures & Improvements | 173 | 1.55% | 3 |
| 9 | 367 | Mains | $ 17,776,724 | 1.53% | 271,984 |
| 10 | 369 | Measuring And Reg. Equipment | 708,968 | 1.54% | 10,918 |
| 11 | 371 | Other Equipment | $ (4,929) | 2.49% | (123) |
| 12 | | Total Transmission Plant | $ 18,537,982 | | $ 283,569 |
| 13 | | Company As Filed (Company Workpapers) | | | 285,187 |
| 14 | | Difference (Line 13 - Line 12) | | | $ (1,618) |
| 15 | | RUCO Adjustment To Depreciation Expense - Transmission (Line 14) (See RLM-7, Page 2, Column (D)) | | | $ (1,618) |
| | | Distribution: | | | |
| 16 | 374 | Land & Rights | $ 122,018 | 0.93% | $ 1,135 |
| 17 | 375 | Structures & Improvements | 9,258 | 1.93% | 179 |
| 18 | 376 | Mains | 130,369,008 | 2.07% | 2,698,638 |
| 19 | 378 | Meas. And Reg. Equip. - General | 1,974,545 | 2.97% | 58,644 |
| 20 | 379 | Meas. And Reg. Equip. - City Gate | 2,196,467 | 2.36% | 51,837 |
| 21 | 380 | Services | 65,723,278 | 2.82% | 1,853,396 |
| 22 | 381 | Meters | 11,940,511 | 2.02% | 241,198 |
| 23 | 382 | Meter Installation | 5,707,065 | 2.36% | 134,687 |
| 24 | 383 | Regulators | 2,903,996 | 2.56% | 74,342 |
| 25 | 384 | Regulator Installation | 849,725 | 2.80% | 23,792 |
| 26 | 385 | Industrial Measuring Equipment | 1,151,303 | 2.70% | 31,085 |
| 27 | 387 | Other Equipment | 1,144,688 | 3.01% | 34,455 |
| 28 | | Total Distribution Plant | $ 224,091,863 | | $ 5,203,389 |
| 29 | | Company As Filed (Company Workpapers) | | | 5,631,142 |
| 30 | | Difference (Line 29 - Line 28) | | | $ (427,753) |
| 31 | | RUCO Adjustment To Depreciation Expense - Distribution (Line 30)(See RLM-7, Page 2, Column (D)) | | | $ (427,753) |
| | | General: | | | |
| 32 | 389 | Land & Rights | $ 721,923 | 4.93% | $ 35,591 |
| 33 | 390 | Structures & Improvements | 5,121,466 | 4.93% | 252,488 |
| 34 | 391 | Office Furniture & Equipment | 9,770,346 | 4.89% | 477,770 |
| 35 | 392 | Transportation Equipment | 5,267,360 | 4.24% | 223,336 |
| 36 | 393 | Stores Equipment | 119,781 | 14.71% | 17,620 |
| 37 | 394 | Tools, Shop And Garage Equip. | 1,972,088 | 3.03% | 59,754 |
| 38 | 395 | Laboratory Equipment | 654,368 | 3.64% | 23,819 |
| 39 | 396 | Power Operated Equipment | 499,123 | 9.29% | 46,369 |
| 40 | 397 | Communication Equipment | 1,034,320 | 10.49% | 108,500 |
| 41 | 398 | Miscellaneous Equipment | 285,357 | 6.11% | 17,435 |
| 42 | 399 | Other Tangible Property | 104,680 | 4.01% | 4,198 |
| 43 | | Total General Plant | $ 25,550,811 | | $ 1,266,880 |
| 44 | | Company As Filed (Company Workpapers) | | | 1,104,251 |
| 45 | | Difference (Line 44 - Line 43) | | | $ 162,629 |
| 46 | | RUCO Adjustment To Depreciation Expense - General (Line 45) (See RLM-7, Page 2, Column (D)) | | | $ 162,629 |
| 44 | | TOTAL ADJUSTMENT | | | $ (324,083) |

UNS Gas Corporation
Docket No. G-04204A-06-0463
Test Year Ended December 31, 2005



**OPERATING INCOME ADJUSTMENT NO. 4**
**NORMALIZATION OF POSTAGE EXPENSES**

| LINE NO. | DESCRIPTION | REFERENCE | (A) POSTAGE |
|---|---|---|---|
| 1 | Actual Test-Year Costs | Company Workpapers | $ 367,603 |
| 2 | Actual Number Of Test-Year Customer Bills | Company Schedule H-2 | 1,632,576 |
| 3 | Cost Per Customer Bill | Line 1 / Line 2 | $ 0.2252 |
| 4 | RUCO Annualized Number Of Test-Year Customer Bills | RLM-15, Column (C) | 1,669,426 |
| 5 | RUCO Adjusted Cost | Line 3 X Line 4 | $ 375,901 |
| 6 | Postage Increase | | 5.00% |
| 7 | RUCO Adjusted Cost | | $ 394,696 |
| 8 | Company As Filed | Company Workpapers | $ 529,380 |
| 9 | Difference | Line 7 - Line 8 | $ (153,479) |
| 10 | RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (E)) | Line 9 | $ (153,479) |

**OPERATING INCOME ADJUSTMENT NO. 5**
**CUSTOMER SERVICE COST ALLOCATION**

| LINE NO. | ACCT NO. | ACCOUNT DESCRIPTION | (A) COMPANY AS FILED | (B) ALLOCATION FACTOR | (C) RUCO AS ADJUSTED | (D) RUCO ADJUSTMENT |
|---|---|---|---|---|---|---|
| 1 | 403 | Depreciation Expense | $ 30,202 | 3.23% | $ 6,830 | $ (23,373) |
| 2 | 408 | Taxes Other Than Income Tax | 33,577 | 3.59% | 7,593 | (25,984) |
| 3 | 903 | Customer Records & Collection Expenses | 633,713 | 67.71% | 143,300 | (490,413) |
| 4 | 920 | A & G - Salaries | 32,869 | 3.51% | 7,433 | (25,437) |
| 5 | 921 | Office Supplies & Expenses | 14,416 | 1.54% | 3,260 | (11,157) |
| 6 | 922 | Administrative Expenses Transferred | 172 | 0.02% | 39 | (133) |
| 7 | 923 | Outside Services | 3,307 | 0.35% | 748 | (2,559) |
| 8 | 924 | Property Insurance | 1,717 | 0.18% | 388 | (1,329) |
| 9 | 925 | Injuries & Damages | 379 | 0.04% | 86 | (293) |
| 10 | 926 | Pensions & Benefits | 185,531 | 19.82% | 41,954 | (143,577) |
| 11 | 408 | Co. Wp's "Property Tax" page 2, As Per Note | | | | (2,455) |
| 12 | | TOTAL | $ 935,884 | 100.00% | $ 211,629 | $ (726,710) |
| 13 | | RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (F) For Distribution) | | | | $ (726,710) |

NOTE:
RUCO Calculated The Annual Customer Service Costs Of $211,629 By Multiplying the Company's Four-Month Test-Year Expenses As Stated In Its Response To RUCO Data Request 6.13 Of $70,543 By 3 To Equal $211,629 Annually (See Column (C), Line 11)

References:
Column (A): Company Workpapers
Column (B): Individual Account Allocation Based On Percentage Of Each Account To Total
Column (C): RUCO Adjusted Customer Service Cost Allocated By Allocation Factors In Column (B)
Column (D): Column (C) - (A)

**OPERATING INCOME ADJUSTMENT NO. 6**
**RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**

| LINE NO. | DESCRIPTION | REFERENCE | (A) AMOUNT |
|---|---|---|---|
| | Expenses Removed | | |
| 1 | Account 874 - Distribution Expense - Mains & Services: | Co. Response To STAFF Data Request 5.58 | $ (1,592) |
| 2 | Account 880 - Distribution Expense - Other: | RUCO Workpapers - "WP RLM-11-880 (1 - 4)" | (27,217) |
| 3 | Account 921 - A & G Expense - Office Supplies: | RUCO Workpapers - "WP RLM-11-921 (1 - 16)" | (107,076) |
| 4 | Account 923 - A & G Expense - Outside Services Employed: | RUCO Workpapers - "WP RLM-11-923 (1 - 2)" | (14,738) |
| 5 | Account 926 - A & G Expense - Pension & Benefits | RUCO Workpapers - "WP RLM-11-926 (1)" | (6,230) |
| 6 | Account 930 - A & G Expense - Miscellaneous General Expenses: | RUCO Workpapers - "WP RLM-11-930 (1 - 5)" | (76,494) |
| 7 | Total Expenses Removed | Sum Of Lines 1 Thru 6 | $ (233,347) |
| 8 | RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (G) For Distribution) | Line 7 | $ (233,347) |

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 880**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1 | JUN-05 | 7 ELEVEN 18383 | | $ 6.06 |
| 2 | APR-05 | ABC BUFFET | | 18.50 |
| 3 | SEP-05 | ALBERTSONS #953 S9H | | 12.21 |
| 4 | MAY-05 | ALL STAR SPORTS CENTER | | 77.85 |
| 5 | JUN-05 | ANNIE S GIFT SHOP & TE | | 26.28 |
| 6 | APR-05 | APPLEBEES #511 | | 12.22 |
| 7 | JUN-05 | APPLEBEES #511 | | 29.84 |
| 8 | AUG-05 | APPLEBEES #511 | | 551.40 |
| 9 | SEP-05 | APPLEBEES #511 | | 85.69 |
| 10 | OCT-05 | APPLEBEE'S #513 | | 40.33 |
| 11 | DEC-05 | APPLEBEE'S #516 | | 14.11 |
| 12 | MAY-05 | ARIZONA DAILY SUN-CLAS | | 153.00 |
| 13 | JUN-05 | ARIZONA DAILY SUN-CLAS | | 425.19 |
| 14 | AUG-05 | AUDIO ADVANTAG00018424 | | 129.71 |
| 15 | NOV-05 | AUDIO ADVANTAG00018424 | | 18.44 |
| 16 | DEC-05 | AUDIO ADVANTAG00018424 | | 43.23 |
| 17 | APR-05 | AZ REPUBLIC SUBSCRIPTI | | 156.00 |
| 18 | OCT-05 | BARNES & NOBLE #2102 | | 62.79 |
| 19 | DEC-05 | BASHA S 18 SYW | | 18.01 |
| 20 | APR-05 | BASHAS 91 SYW | | 6.64 |
| 21 | NOV-05 | BEST WESTERN HOTELS | | 349.08 |
| 22 | SEP-05 | BGI-BUDGET RAC-RYDER T | | 159.08 |
| 23 | FEB-05 | BIFF'S BAGELS, INC | | 13.85 |
| 24 | NOV-05 | BIG APPLE GOODYEAR | | 31.40 |
| 25 | MAY-05 | BIG FOOT BARBEQUE | | 20.90 |
| 26 | FEB-05 | BIG JOHNS STEAK & PUB | | 16.26 |
| 27 | JUL-05 | BLACK BEAR DINER N | | 20.52 |
| 28 | MAY-05 | BLUE HILLS MARKET SPRI | | 38.00 |
| 29 | FEB-05 | BURGER KING #8615 | | 5.37 |
| 30 | JAN-05 | CABLE ONE * | | 80.95 |
| 31 | FEB-05 | CABLE ONE * | | 80.95 |
| 32 | MAR-05 | CABLE ONE * | | 80.95 |
| 33 | APR-05 | CABLE ONE * | | 80.95 |
| 34 | MAY-05 | CABLE ONE * | | 80.95 |
| 35 | JUN-05 | CABLE ONE * | | 80.95 |
| 36 | JUL-05 | CABLE ONE * | | 80.95 |
| 37 | AUG-05 | CABLE ONE * | | 41.20 |
| 38 | SEP-05 | CABLE ONE * | | 125.85 |
| 39 | OCT-05 | CABLE ONE * | | 80.95 |
| 40 | NOV-05 | CABLE ONE * | | 80.95 |
| 41 | DEC-05 | CAFE DE MANUEL | | 12.52 |
| 42 | NOV-05 | CAPPELLOS ITALIAN | | 30.00 |
| 43 | NOV-05 | CARL'S JR #75100175Q58 | | 11.46 |
| 44 | OCT-05 | CARTERS TRVL C00781Q65 | | 10.00 |
| 45 | NOV-05 | CARTERS TRVL C00781Q65 | | 39.49 |
| 46 | MAR-05 | CASA BONITA II | | 34.74 |
| 47 | MAR-05 | CHARIOT PIZZA | | 16.42 |
| 48 | MAY-05 | CHILI'S GRI04600010462 | | 15.09 |
| 49 | DEC-05 | CHILI'S GRI04600010462 | | 20.23 |
| 50 | AUG-05 | CHILI'S GRI41600004168 | | 75.78 |
| 51 | APR-05 | CHINA BUFFET | | 12.85 |
| 52 | MAY-05 | CHINA BUFFET | | 19.67 |
| 53 | FEB-05 | CHIPOTLE MEXICAN #0085 | | 31.47 |
| 54 | JUL-05 | CIRCLE K 00226 | | 7.67 |
| 55 | AUG-05 | CIRCLE K 00226 | | 8.80 |
| 56 | FEB-05 | CIRCLE K 00701 | | 11.53 |
| 57 | FEB-05 | CIRCLE K 00817 | | 14.54 |
| 58 | OCT-05 | CIRCLE K 01840 | | 36.41 |
| 59 | JUN-05 | CIRCLE K 02907 | | 7.44 |
| 60 | DEC-05 | CORRAL WEST #15 | | 43.13 |
| 61 | MAY-05 | CORRAL WEST #31 | | 64.68 |
| 62 | OCT-05 | CORRAL WEST #31 | | 43.03 |
| 63 | APR-05 | CORRAL WEST #62 | | 193.40 |
| 64 | FEB-05 | COUNTRY KITCHEN | | 11.82 |
| 65 | MAR-05 | COWBOY COOKIN | | 32.64 |
| 66 | SEP-05 | CRYSTAL CREEK SANDWICH | | 8.20 |
| 67 | JAN-05 | CUSTERS COWBOY CAFE | | 9.95 |
| 68 | DEC-05 | DAYS INN | | 53.70 |
| 69 | JUL-05 | DAYS INNS | | 177.86 |
| 70 | MAY-05 | DENNYS 00265454 | | 13.42 |
| 71 | OCT-05 | DENNY'S #6671 Q67 | | 13.59 |
| 72 | JUN-05 | DENNY'S #7297 Q67 | | 12.55 |
| 73 | JUN-05 | DENNY'S INC Q67 | | 12.46 |
| 74 | OCT-05 | DENNY'S INC Q67 | | 33.92 |
| 75 | JUN-05 | DIAMOND 1616 SHAMROCK | | 2.98 |
| 76 | AUG-05 | D'LANO'S ITALIAN RESTA | | 19.96 |
| 77 | OCT-05 | D'LANO'S ITALIAN RESTA | | 125.00 |
| 78 | MAY-05 | DOUBLETREE HOTELS REID | | 194.16 |
| 79 | NOV-05 | EDGEWATER HOTEL F/B | | 41.84 |
| 80 | JAN-05 | EL CHAPARRAL | | 36.85 |
| 81 | JAN-05 | EL MARCOS BAR & GRILL | | 81.69 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 880**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 82 | APR-05 | ENTERPRISE RENT-A-CAR | | $ 79.16 |
| 83 | APR-05 | FAZOLIS RESTAURANT NO | | 6.15 |
| 84 | FEB-05 | FRYS-FOOD-DRG #104 SXN | | 7.66 |
| 85 | MAR-05 | FRYS-FOOD-DRG #104 SXN | | 17.89 |
| 86 | JUN-05 | FRYS-FOOD-DRG #104 SXN | | 21.58 |
| 87 | JUN-05 | FRYS-FOOD-DRG #116 SXN | | 181.79 |
| 88 | AUG-05 | GARCIAS MEXICA00700021 | | 25.76 |
| 89 | SEP-05 | GOLDEN CORRAL 29724Q15 | | 52.29 |
| 90 | NOV-05 | GOLDEN NUGGET-RIVER CA | | 20.78 |
| 91 | MAY-05 | GURLEY STREET GRILL | | 49.48 |
| 92 | FEB-05 | HAMPTON INN HAVASU 51 | | 229.47 |
| 93 | OCT-05 | HIROS SUSHI BAR & REST | | 23.71 |
| 94 | SEP-05 | HOLIDAY INN EXPRES | | 111.54 |
| 95 | OCT-05 | HOLIDAY INN EXPRESS | | 166.02 |
| 96 | DEC-05 | HOLIDAY INN TUCSON | | 286.05 |
| 97 | FEB-05 | HOLIDAY INN-AIRPORT | | 195.66 |
| 98 | MAR-05 | HOLIDAY INN-AIRPORT | | 99.83 |
| 99 | MAY-05 | HOLIDAY INN-AIRPORT | | 181.96 |
| 100 | JUN-05 | HOLIDAY INN-AIRPORT | | 365.12 |
| 101 | JAN-05 | HOLIDAY INNS | | 123.03 |
| 102 | SEP-05 | HOLIDAY INNS | | 170.32 |
| 103 | NOV-05 | HOLIDAY INNS | | 86.39 |
| 104 | JAN-05 | HOLIDAY INNS EXPRESS | | 268.56 |
| 105 | MAR-05 | HOLIDAY INNS EXPRESS | | 85.73 |
| 106 | MAY-05 | HOLIDAY INNS EXPRESS | | 88.92 |
| 107 | NOV-05 | HOLIDAY INNS EXPRESS | | 1,181.82 |
| 108 | NOV-05 | HOMETOWN BUFFE00103291 | | 22.54 |
| 109 | FEB-05 | HOUSE OF BREAD | | 26.00 |
| 110 | APR-05 | HOWARD JOHNSON EXPRESS | | 387.40 |
| 111 | JAN-05 | HUNAN WEST | | 17.49 |
| 112 | MAR-05 | IHOP #1524 21815246 | | 10.57 |
| 113 | MAY-05 | JACK INTHE BOX05615Q43 | | 7.14 |
| 114 | JAN-05 | JACK INTHE BOX06911Q43 | | 14.47 |
| 115 | JAN-05 | JB'S RESTAURANT 11 | | 25.85 |
| 116 | FEB-05 | KACHINA DOWNTOWN | | 147.52 |
| 117 | JUN-05 | KACHINA DOWNTOWN | | 35.18 |
| 118 | SEP-05 | KACHINIA DOWNTOWN | | 31.71 |
| 119 | NOV-05 | KFC #6 | | 15.62 |
| 120 | AUG-05 | KINGMAN DELI, THE | | 359.86 |
| 121 | DEC-05 | KMART 00037077 | | 202.21 |
| 122 | DEC-05 | KMART 00048801 | | 13.67 |
| 123 | JAN-05 | LA CABANA | | 13.85 |
| 124 | FEB-05 | LA CASITA CAFE | | 24.00 |
| 125 | APR-05 | LAQUINTA_FLAGSTAFF PAA | | 73.34 |
| 126 | NOV-05 | LAS VIGAS STEAK RANCH | | 37.57 |
| 127 | SEP-05 | LICANO'S MEXICAN F | | 12.32 |
| 128 | SEP-05 | LODGE ON ROUTE 66 | | 137.88 |
| 129 | OCT-05 | LODGE ON ROUTE 66 | | 551.52 |
| 130 | SEP-05 | LOTUS GARDEN CHINESE R | | 21.20 |
| 131 | DEC-05 | LOVE S COUNTRY00002Q01 | | 31.80 |
| 132 | JUN-05 | MAGPIES GOURMET PIZZA | | 14.03 |
| 133 | FEB-05 | MALONES BAKERY & D | | 17.90 |
| 134 | MAR-05 | MARTINS'S ON SCOTT | | 14.74 |
| 135 | SEP-05 | MCDONALD'S F25162 Q17 | | 4.31 |
| 136 | DEC-05 | MI NIDITO | | 30.00 |
| 137 | NOV-05 | MICHAELS #2747 | | 35.58 |
| 138 | FEB-05 | NILES RADIO | | 102.84 |
| 139 | MAR-05 | NILES RADIO | | 117.97 |
| 140 | APR-05 | NILES RADIO | | 187.72 |
| 141 | MAY-05 | NILES RADIO | | 933.01 |
| 142 | JUN-05 | NILES RADIO | | 67.49 |
| 143 | JUL-05 | NILES RADIO | | 65.00 |
| 144 | AUG-05 | NILES RADIO | | 54.36 |
| 145 | SEP-05 | NILES RADIO | | 78.53 |
| 146 | OCT-05 | NILES RADIO | | 149.21 |
| 147 | NOV-05 | NILES RADIO | | 149.34 |
| 148 | DEC-05 | NILES RADIO | | 94.38 |
| 149 | FEB-05 | OREGANOS | | 44.30 |
| 150 | SEP-05 | ORIENTAL TRADING CO | | 159.20 |
| 151 | OCT-05 | OSCO DRUG #9343 | | 10.78 |
| 152 | FEB-05 | OUR DAILY BREAD DELI | | 95.31 |
| 153 | APR-05 | OUTBACK #0317 | | 43.13 |
| 154 | JAN-05 | OUTBACK #0319 | | 54.99 |
| 155 | JUN-05 | PANCHO'S #075 | | 15.74 |
| 156 | MAR-05 | PANDA EXPRESS 00008Q42 | | 16.15 |
| 157 | DEC-05 | PAPA JOHNS #2844 | | 7.58 |
| 158 | MAR-05 | PAPPADEAUX SEAFOOD KIT | | 33.10 |
| 159 | SEP-05 | PAYPAL *IRWAKACHINA | | 285.00 |
| 160 | APR-05 | PINE COUNTRY RESTA | | 8.05 |
| 161 | OCT-05 | PINE COUNTRY RESTAURAN | | 52.97 |
| 162 | APR-05 | PIZZA FACTORY | | 19.05 |
| 163 | MAY-05 | PIZZA FACTORY | | 18.10 |
| 164 | SEP-05 | PIZZA FACTORY | | 69.70 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 880**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 165 | NOV-05 | PIZZA H006705 16800Q34 | | $ 28.04 |
| 166 | APR-05 | PIZZA H010725 17500Q34 | | 55.07 |
| 167 | JUN-05 | PIZZA HUT #10657500Q34 | | 24.67 |
| 168 | APR-05 | PIZZA HUT #22 55700Q34 | | 17.15 |
| 169 | SEP-05 | PIZZA HUT #22 55700Q34 | | 15.40 |
| 170 | JUN-05 | PRESCOTT FRONTIER DAYS | | 350.00 |
| 171 | SEP-05 | PRETTY PARTY PLACE PR | | 22.06 |
| 172 | JUL-05 | QUALITY INNS LAS CAMPA | | 66.32 |
| 173 | AUG-05 | QUALITY INNS LAS CAMPA | | 480.80 |
| 174 | JUN-05 | QUIK MART #33 | | 3.45 |
| 175 | AUG-05 | R & R PIZZA EXPRESS | | 17.99 |
| 176 | SEP-05 | RA SUSHI #0655 | | 59.65 |
| 177 | JAN-05 | RADIO SHACK | | 21.66 |
| 178 | APR-05 | RADIO SHACK | | 43.13 |
| 179 | MAR-05 | RADIO SHACK 00134718 | | 27.02 |
| 180 | MAY-05 | RADIO SHACK 00134718 | | 51.32 |
| 181 | MAY-05 | RADIO SHACK 00139303 | | 32.55 |
| 182 | JUL-05 | RADIOSHACK DEA01902659 | | 6.02 |
| 183 | SEP-05 | RADIOSHACK DEA01902659 | | 32.33 |
| 184 | OCT-05 | RADISSON HOTELS-WOODLA | | 50.35 |
| 185 | NOV-05 | RANGER RESOURCES | | 392.08 |
| 186 | AUG-05 | RASKIN JEWELERS LT | | 8.67 |
| 187 | OCT-05 | RED LOBSTER US00008458 | | 54.32 |
| 188 | MAY-05 | RED ROBIN NO 309 | | 13.52 |
| 189 | OCT-05 | RENTS AND TENTS | | 35.57 |
| 190 | MAR-05 | RODEO VIDEO | | 30.00 |
| 191 | OCT-05 | RODS STEAK HOUSE | | 47.68 |
| 192 | SEP-05 | RON'S MARKET SIH | | 8.91 |
| 193 | MAY-05 | ROSA'S CANTINA | | 23.76 |
| 194 | JUN-05 | ROSA'S MEXICAN FOOD | | 17.08 |
| 195 | AUG-05 | SAFEWAY STORE00002394 | | 11.68 |
| 196 | FEB-05 | SAFEWAY STORE00017335 | | 9.48 |
| 197 | SEP-05 | SAFEWAY STORE00017335 | | 5.14 |
| 198 | FEB-05 | SAFEWAY STORE00020289 | | 24.38 |
| 199 | OCT-05 | SAFEWAY STORE00020289 | | 47.33 |
| 200 | DEC-05 | SAFEWAY STORE00020289 | | 9.98 |
| 201 | AUG-05 | SAFEWAY STORE00020529 | | 13.36 |
| 202 | MAR-05 | SCOTTYS BROASTED CHICK | | 53.83 |
| 203 | APR-05 | SEARS DEALER 3089 | | 288.82 |
| 204 | MAR-05 | SEARS ROEBUCK 2218 | | 153.84 |
| 205 | NOV-05 | SEARS ROEBUCK 2218 | | 65.00 |
| 206 | NOV-05 | SHOWLOW #40 | | 6.78 |
| 207 | DEC-05 | SILVER SADDLE STEAKHOU | | 21.41 |
| 208 | MAY-05 | SONIC #1077 Q63 | | 6.59 |
| 209 | AUG-05 | SONIC #3385 Q63 | | 44.59 |
| 210 | NOV-05 | SONIC DRIVE IN #483Q63 | | 21.93 |
| 211 | MAY-05 | SOTO'S P/K OUTPOST | | 78.22 |
| 212 | JAN-05 | SOUPER SALAD #152 | | 15.99 |
| 213 | JUN-05 | STREETS OF NEW YORK #1 | | 24.41 |
| 214 | AUG-05 | STROMBOLLIS RESTAURANT | | 54.86 |
| 215 | FEB-05 | SU CASA OF CLARKDALE | | 10.53 |
| 216 | MAY-05 | SUBWAY 16276 | | 26.11 |
| 217 | AUG-05 | SUBWAY 21530 Q16 | | 8.36 |
| 218 | MAY-05 | SUBWAY 2296 Q16 | | 11.99 |
| 219 | AUG-05 | SUBWAY 27912 Q16 | | 18.48 |
| 220 | NOV-05 | SWEET & SUBS | | 19.68 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 880**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 221 | MAY-05 | SZECHUAN RESTAURANT | | $ 8.10 |
| 222 | SEP-05 | SZECHUAN RESTAURANT | | 84.00 |
| 223 | SEP-05 | TEMPE 00001701 | | 71.38 |
| 224 | SEP-05 | TEMPE HOOTERS INC | | 31.70 |
| 225 | SEP-05 | TEMPE MISSION PALMS HO | | 220.70 |
| 226 | OCT-05 | TEXAS ROADHOUSE #2204 | | 53.52 |
| 227 | JUL-05 | THE CARPET WORKS I | | 14.15 |
| 228 | MAY-05 | THE COPPER PLATE | | 15.60 |
| 229 | MAY-05 | TOPOCK MARINA ON HISTO | | 24.90 |
| 230 | MAY-05 | VERDE LEA MARKET | | 13.94 |
| 231 | JAN-05 | WAL MART | | 10.69 |
| 232 | OCT-05 | WALGREEN 00025Q39 | | 7.76 |
| 233 | NOV-05 | WALGREEN 00025Q39 | | 11.46 |
| 234 | JUL-05 | WALGREEN 00052Q39 | | 22.70 |
| 235 | NOV-05 | WALGREEN 00052Q39 | | 4.51 |
| 236 | JUN-05 | WALGREEN 00055Q39 | | 7.14 |
| 237 | JUN-05 | WAL-MART #1230 SE2 | | 8.29 |
| 238 | JUL-05 | WAL-MART #1299 SE2 | | 18.77 |
| 239 | NOV-05 | WAL-MART #1299 SE2 | | 5.38 |
| 240 | JUN-05 | WAL-MART #1328 | | 20.67 |
| 241 | JUL-05 | WAL-MART #1328 | | 9.69 |
| 242 | MAY-05 | WAL-MART #1417 SE2 | | 6.75 |
| 243 | NOV-05 | WAL-MART #1417 SE2 | | 107.44 |
| 244 | JUL-05 | WAL-MART #2051 SE2 | | 14.97 |
| 245 | DEC-05 | WAL-MART #2051 SE2 | | 73.84 |
| 246 | SEP-05 | WAL-MART #5303 SE2 | | 22.59 |
| 247 | OCT-05 | WAL-MART #5303 SE2 | | 42.25 |
| 248 | DEC-05 | WAL-MART #5303 SE2 | | 21.11 |
| 249 | MAR-05 | WAL-MART STORES, INC | | 29.95 |
| 250 | NOV-05 | WENDYS | | 10.51 |
| 251 | DEC-05 | WENDYS NO 413 Q50 | | 4.21 |
| 252 | SEP-05 | WEST SIDE INN | | 15.70 |
| 253 | JUL-05 | WESTSIDE LILO'S CA | | 18.52 |
| 254 | AUG-05 | WESTSIDE LILO'S CA | | 15.00 |
| 255 | OCT-05 | WESTSIDE LILO'S CA | | 9.64 |
| 256 | MAY-05 | WHATABURGER #775 | | 5.65 |
| 257 | OCT-05 | WHATABURGER 775 Q26 | | 12.95 |
| 258 | JUN-05 | WIENERSCHNITZEL #692 | | 4.38 |
| 259 | MAR-05 | WM SUPERCENTER SE2 | | 14.02 |
| 260 | APR-05 | WM SUPERCENTER SE2 | | 60.43 |
| 261 | MAY-05 | WM SUPERCENTER SE2 | | 32.49 |
| 262 | JUN-05 | WM SUPERCENTER SE2 | | 17.71 |
| 263 | JUL-05 | WM SUPERCENTER SE2 | | 58.71 |
| 264 | SEP-05 | WM SUPERCENTER SE2 | | 55.56 |
| 265 | NOV-05 | WM SUPERCENTER SE2 | | 132.27 |
| 266 | DEC-05 | WOODLANDS PLAZA HOTEL | | 616.01 |
| 267 | MAY-05 | ZEKE'S EATIN PLACE | | 38.80 |
| 268 | FEB-05 | IBEW LOCAL #1116 | 021805 18675 | 186.75 |
| 269 | APR-05 | JACK POTS PORTABLES INC | 12927 | 65.00 |
| 270 | NOV-05 | NAU ATHLETICS | 110805 15000 | 150.00 |
| 271 | NOV-05 | NAU ATHLETICS | 110805 15000A | 150.00 |
| 272 | JAN-05 | NILES RADIO | 230899 | 555.00 |
| 273 | FEB-05 | NILES RADIO | 231185 | 555.00 |
| 274 | MAR-05 | NILES RADIO | 231456 | 555.00 |
| 275 | MAY-05 | NILES RADIO | 231731 | 555.00 |
| 276 | AUG-05 | NILES RADIO | 232059a | 555.00 |
| 277 | MAY-05 | NILES RADIO | 232059A | 555.00 |
| 278 | JUN-05 | NILES RADIO | 232313 | 555.00 |
| 279 | JUL-05 | NILES RADIO | 232691 | 555.00 |
| 280 | AUG-05 | NILES RADIO | 232965 | 165.00 |
| 281 | AUG-05 | NILES RADIO | 233059 | 555.00 |
| 282 | SEP-05 | NILES RADIO | 233338 | 555.00 |
| 283 | OCT-05 | NILES RADIO | 233595 | 555.00 |
| 284 | DEC-05 | NILES RADIO | 234124 | 555.00 |
| 285 | MAY-05 | NILES RADIO | 423902 | 20.54 |
| 286 | NOV-05 | NILES RADIO | 425727 | 113.53 |
| 287 | NOV-05 | PETTY CASH | RPC-ADAMS30614 | 27.75 |
| 288 | AUG-05 | PETTY CASH | RPC27987ADAMS | 5.50 |
| 289 | TOTAL | | | $ 27,217.36 |

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1 | JAN-05 | 3 MARGARITAS CASA BONI | | $ 21.04 |
| 2 | FEB-05 | 3 MARGARITAS CASA BONI | | 28.38 |
| 3 | OCT-05 | 3 MARGARITAS CASA BONI | | 70.87 |
| 4 | NOV-05 | 3 MARGARITAS CASA BONI | | 94.54 |
| 5 | JUL-05 | ABC BUFFET | | 12.40 |
| 6 | AUG-05 | AGNT FEE 89050521279672 | | 28.00 |
| 7 | FEB-05 | AIR FARE | | 8.05 |
| 8 | APR-05 | AIR FARE | | 7.70 |
| 9 | OCT-05 | AIR FARE | | 18.47 |
| 10 | JAN-05 | ALBERTSONS #1027 S9H | | 4.48 |
| 11 | JAN-05 | ALBERTSONS #953 S9H | | 23.08 |
| 12 | APR-05 | ALBERTSONS #953 S9H | | 70.07 |
| 13 | JUN-05 | ALBERTSONS #953 S9H | | 38.92 |
| 14 | JUL-05 | ALBERTSONS #953 S9H | | 19.64 |
| 15 | AUG-05 | ALBERTSONS #953 S9H | | 49.14 |
| 16 | OCT-05 | ALBERTSONS #953 S9H | | 25.19 |
| 17 | AUG-05 | ALBERTSONS #965 S9H | | 13.93 |
| 18 | MAY-05 | ALBERTSONS #967 S9H | | 24.73 |
| 19 | OCT-05 | ALBERTSONS #967 S9H | | 32.28 |
| 20 | NOV-05 | ALBERTSONS #967 S9H | | 22.16 |
| 21 | FEB-05 | ALFONSO S MEXICAN FOOD | | 19.03 |
| 22 | MAR-05 | ALFONSO S MEXICAN FOOD | | 40.68 |
| 23 | APR-05 | ALFONSO S MEXICAN FOOD | | 118.48 |
| 24 | JUL-05 | ALFONSO'S MEXICAN FQ01 | | 14.91 |
| 25 | AUG-05 | ALFONSO'S MEXICAN FQ01 | | 31.16 |
| 26 | OCT-05 | ALFONSO'S MEXICAN FQ01 | | 65.74 |
| 27 | DEC-05 | ALTITUDES BAR AND | | 26.76 |
| 28 | SEP-05 | AM CANCER SOC - SS | | 35.00 |
| 29 | FEB-05 | AMERICAN 00106191484482 | | 175.00 |
| 30 | AUG-05 | AMERICAN 00113184653293 | | 326.80 |
| 31 | MAR-05 | AMERICANA MOTOR HOTEL | | 18.00 |
| 32 | JUN-05 | AMERICAW 40121675337133 | | 271.30 |
| 33 | JUL-05 | AMERICAW 40121692035854 | | 277.30 |
| 34 | DEC-05 | AMERICAW 40121734713185 | | 737.30 |
| 35 | OCT-05 | AMERISUITES - FF | | 59.46 |
| 36 | NOV-05 | AMERISUITES - FF | | 59.46 |
| 37 | DEC-05 | AMERISUITES - FF | | 59.46 |
| 38 | FEB-05 | ANGIES FLOWERS | | 28.68 |
| 39 | JAN-05 | APPLEBEES #511 | | 189.12 |
| 40 | APR-05 | APPLEBEES #511 | | 23.34 |
| 41 | NOV-05 | APPLEBEES #511 | | 120.52 |
| 42 | JUN-05 | ARABIAN CAMPER&TRAILER | | 286.54 |
| 43 | JAN-05 | ARBY'S #1180 Q52 | | 10.76 |
| 44 | FEB-05 | ARBY'S #1180 Q52 | | 17.63 |
| 45 | MAR-05 | ARBY'S #1180 Q52 | | 44.65 |
| 46 | MAY-05 | ARBY'S #1180 Q52 | | 34.11 |
| 47 | JUN-05 | ARBY'S #1180 Q52 | | 12.49 |
| 48 | JUN-05 | ARBY'S #1246 Q52 | | 14.18 |
| 49 | JAN-05 | ARBY'S #1997 Q52 | | 14.02 |
| 50 | MAR-05 | ARBY'S #1997 Q52 | | 9.98 |
| 51 | JUN-05 | ARBY'S #5581 Q52 | | 8.35 |
| 52 | JUL-05 | ARBY'S #5581 Q52 | | 12.35 |
| 53 | SEP-05 | ARBY'S #7077 Q52 | | 6.79 |
| 54 | OCT-05 | ARBY'S #7077 Q52 | | 7.12 |
| 55 | DEC-05 | ARBY'S #7077 Q52 | | 6.37 |
| 56 | MAR-05 | ARBYS OF SHOW LOW | | 6.57 |
| 57 | DEC-05 | ARBYS OF SHOW LOW | | 6.04 |
| 58 | JUN-05 | ARIZONA FAMILY RESTAUR | | 28.08 |
| 59 | AUG-05 | ARIZONA FAMILY RESTAUR | | 9.53 |
| 60 | FEB-05 | AUGIES PLACE | | 36.93 |
| 61 | JAN-05 | BABE'S ROUND UP | | 4,014.47 |
| 62 | AUG-05 | BABE'S ROUND UP | | 20.12 |
| 63 | DEC-05 | BARNES & NOBLE #2102 | | 138.96 |
| 64 | JUN-05 | BARRO S PIZZA | | 7.05 |
| 65 | APR-05 | BASHA S 18 SYW | | 56.90 |
| 66 | MAY-05 | BASHA S 18 SYW | | 3.56 |
| 67 | OCT-05 | BASHA S 18 SYW | | 14.00 |
| 68 | DEC-05 | BASHA S 18 SYW | | 4.99 |
| 69 | MAR-05 | BASHA S 30 SYW | | 9.98 |
| 70 | MAY-05 | BASHA S 30 SYW | | 9.98 |
| 71 | OCT-05 | BASHA S 57 SYW | | 6.74 |
| 72 | JAN-05 | BASHAS #116 SYW | | 40.26 |
| 73 | JUN-05 | BASHAS #116 SYW | | 9.85 |
| 74 | MAR-05 | BASHAS 37 SYW | | 8.16 |
| 75 | APR-05 | BASHAS 37 SYW | | 47.22 |
| 76 | JUN-05 | BASHAS 37 SYW | | 32.38 |
| 77 | OCT-05 | BASHAS 37 SYW | | 16.32 |
| 78 | NOV-05 | BASHAS 37 SYW | | 8.16 |
| 79 | OCT-05 | BASHAS 53 SYW | | 2.84 |
| 80 | JUN-05 | BASHAS 67 SYW | | 27.46 |
| 81 | AUG-05 | BAY BEACH CAFE | | 24.36 |
| 82 | SEP-05 | BEAVER STREET BREW | | 57.75 |
| 83 | OCT-05 | BEAVER STREET BREW | | 47.41 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 84 | FEB-05 | BEAVER STREET BREWERY | | $ 34.57 |
| 85 | JUN-05 | BEAVER STREET BREWERY | | 54.59 |
| 86 | AUG-05 | BEAVER STREET BREWERY | | 50.00 |
| 87 | OCT-05 | BELL CANYON HOOTERS IN | | 30.80 |
| 88 | MAR-05 | BELLA MIA RESTAURANT | | 21.21 |
| 89 | AUG-05 | BELLA MIA RESTAURANT | | 24.42 |
| 90 | OCT-05 | BEST WESTERN | | 74.48 |
| 91 | AUG-05 | BEST WESTERN BAYSIDE I | | 164.65 |
| 92 | JAN-05 | BEST WESTERN HOTELS | | 449.61 |
| 93 | FEB-05 | BEST WESTERN HOTELS | | 530.25 |
| 94 | MAR-05 | BEST WESTERN HOTELS | | 892.53 |
| 95 | MAY-05 | BEST WESTERN HOTELS | | 922.18 |
| 96 | JUN-05 | BEST WESTERN HOTELS | | 122.95 |
| 97 | AUG-05 | BEST WESTERN HOTELS | | 64.77 |
| 98 | SEP-05 | BEST WESTERN HOTELS | | 267.04 |
| 99 | NOV-05 | BEST WESTERN HOTELS | | 453.39 |
| 100 | DEC-05 | BEST WESTERN HOTELS | | 232.72 |
| 101 | OCT-05 | BEST WESTERN PRESCOTTO | | 17.05 |
| 102 | MAR-05 | BEST WESTERN SIESTA MT | | 225.78 |
| 103 | NOV-05 | BIFF'S BAGELS, INC | | 10.39 |
| 104 | SEP-05 | BIG 5 SPORTING #258 | | 15.52 |
| 105 | JAN-05 | BIG DADDY'S PLACE | | 51.20 |
| 106 | DEC-05 | BIG LOTS #043000043059 | | 48.39 |
| 107 | DEC-05 | BIGFOOT BARBECUE | | 400.96 |
| 108 | JUL-05 | BLACK BARTS STEAKHOUSE | | 43.09 |
| 109 | JAN-05 | BLACK BEAR DINER #40 | | 28.07 |
| 110 | AUG-05 | BLACK BEAR DINER N | | 20.98 |
| 111 | MAR-05 | BLIMPIE SUBS & SALADS | | 5.79 |
| 112 | JAN-05 | BLUE MOON CAFE | | 20.58 |
| 113 | JAN-05 | BOARDWALK HOTEL - ADV | | 70.85 |
| 114 | FEB-05 | BOARDWALK HOTEL - ADV | | (70.85) |
| 115 | JAN-05 | BOB'S BIG BOY | | 34.48 |
| 116 | JUL-05 | BOWLINS PICACHO PEAK P | | 11.23 |
| 117 | FEB-05 | BRANDING IRON STKHSE | | 64.69 |
| 118 | MAR-05 | BRANDING IRON STKHSE | | 25.50 |
| 119 | APR-05 | BRANDING IRON STKHSE | | 76.38 |
| 120 | MAY-05 | BRANDING IRON STKHSE | | 50.88 |
| 121 | JUN-05 | BRANDING IRON STKHSE | | 46.11 |
| 122 | JUL-05 | BRANDING IRON STKHSE | | 21.34 |
| 123 | AUG-05 | BRANDING IRON STKHSE | | 33.00 |
| 124 | OCT-05 | BRANDING IRON STKHSE | | 139.24 |
| 125 | NOV-05 | BRANDING IRON STKHSE | | 36.00 |
| 126 | JAN-05 | BROOKLYN CAFE | | 96.69 |
| 127 | JUN-05 | BUFFALO WILD WINGS PRE | | 105.00 |
| 128 | AUG-05 | BUFFALO WILD WINGS PRE | | 25.00 |
| 129 | APR-05 | BUN HUGGERS EAST | | 96.46 |
| 130 | MAY-05 | BUN HUGGERS EAST | | 94.71 |
| 131 | FEB-05 | BUN HUGGERS WEST | | 80.01 |
| 132 | MAR-05 | BUN HUGGERS WEST | | 25.13 |
| 133 | MAY-05 | BUN HUGGERS WEST | | 15.58 |
| 134 | JUN-05 | BUN HUGGERS WEST | | 94.16 |
| 135 | OCT-05 | BUN HUGGERS WEST | | 108.20 |
| 136 | NOV-05 | BUN HUGGERS WEST | | 57.29 |
| 137 | DEC-05 | BUN HUGGERS WEST | | 71.00 |
| 138 | NOV-05 | BUNS N DOGS INC | | 98.79 |
| 139 | MAY-05 | BURGER KING #14442 Q07 | | 30.24 |
| 140 | MAY-05 | BURGER KING #2305 Q07 | | 4.95 |
| 141 | APR-05 | BURGER KING #4600 | | 7.33 |
| 142 | JUL-05 | BURGER KING #4600 Q07 | | 6.37 |
| 143 | OCT-05 | BURGER KING #6716 Q07 | | 5.25 |
| 144 | DEC-05 | BURGER KING #6716 Q07 | | 5.68 |
| 145 | FEB-05 | BUSTER S RESTAURANT | | 42.03 |
| 146 | APR-05 | BUSTER S RESTAURANT | | 22.67 |
| 147 | MAY-05 | BUSTER S RESTAURANT | | 97.07 |
| 148 | JUN-05 | BUSTER S RESTAURANT | | 53.58 |
| 149 | JUL-05 | BUSTER S RESTAURANT | | 188.13 |
| 150 | AUG-05 | BUSTER S RESTAURANT | | 41.13 |
| 151 | SEP-05 | BUSTER S RESTAURANT | | 122.32 |
| 152 | APR-05 | CACTUS JACK'S GRILL AN | | 46.56 |
| 153 | NOV-05 | CAFE DLANOS | | 17.38 |
| 154 | DEC-05 | CAFE DLANOS | | 31.95 |
| 155 | FEB-05 | CAFE D'LANOS | | 20.36 |
| 156 | MAR-05 | CAFE D'LANOS | | 90.93 |
| 157 | APR-05 | CAFE D'LANOS | | 75.65 |
| 158 | MAY-05 | CAFE D'LANOS | | 28.66 |
| 159 | JUL-05 | CAFE D'LANOS | | 69.82 |
| 160 | SEP-05 | CAFE D'LANOS | | 79.37 |
| 161 | DEC-05 | CAFE JOSE INC | | 18.38 |
| 162 | JAN-05 | CAFE 'N SALAD | | 68.79 |
| 163 | SEP-05 | CALICOS RESTAURANT | | 16.21 |
| 164 | JAN-05 | CANTON DRAGON | | 26.30 |
| 165 | JUN-05 | CANTON DRAGON | | 26.00 |
| 166 | AUG-05 | CARAMBA #2 | | 10.47 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 167 | NOV-05 | CARL'S JR #75100175Q58 | | $ 12.00 |
| 168 | MAY-05 | CARLS JR 827 | | 12.25 |
| 169 | JUN-05 | CASA BLANCA CAFE | | 50.84 |
| 170 | JUL-05 | CASA BLANCA CAFE | | 23.13 |
| 171 | FEB-05 | CASA BONITA II | | 51.85 |
| 172 | MAR-05 | CASA BONITA II | | 57.37 |
| 173 | APR-05 | CASA BONITA II | | 177.90 |
| 174 | JUN-05 | CASA BONITA II | | 63.17 |
| 175 | JUL-05 | CASA BONITA II | | 171.52 |
| 176 | AUG-05 | CASA BONITA II | | 39.27 |
| 177 | APR-05 | CASA CARDENAS | | 92.13 |
| 178 | MAY-05 | CASA CARDENAS | | 55.79 |
| 179 | JUL-05 | CASA DEL FOOD SERVICES | | 4.72 |
| 180 | MAY-05 | CASA GRANDE | | 116.88 |
| 181 | JUN-05 | CASA GRANDE | | 254.17 |
| 182 | OCT-05 | CASA GRANDE | | 43.97 |
| 183 | FEB-05 | CASA GRANDE RESTAURANT | | 47.57 |
| 184 | APR-05 | CASA SERRANO OF LAKE H | | 19.20 |
| 185 | JUL-05 | CASA SERRANO OF LAKE H | | 11.69 |
| 186 | OCT-05 | CASA SERRANO OF LAKE H | | 14.59 |
| 187 | NOV-05 | CASA SERRANO OF LAKE H | | 17.59 |
| 188 | JAN-05 | CATTLEMANS BAR & GRILL | | 27.00 |
| 189 | FEB-05 | CATTLEMANS BAR & GRILL | | 22.75 |
| 190 | JUN-05 | CATTLEMANS BAR & GRILL | | 48.75 |
| 191 | SEP-05 | CATTLEMANS BAR & GRILL | | 26.00 |
| 192 | JAN-05 | CHARLIE CLARKS RESTAUR | | 1,125.89 |
| 193 | FEB-05 | CHARLIE CLARKS RESTAUR | | 106.22 |
| 194 | JUL-05 | CHARLIE CLARKS RESTAUR | | 22.74 |
| 195 | AUG-05 | CHARLIE CLARKS RESTAUR | | 58.83 |
| 196 | OCT-05 | CHARLIE CLARKS RESTAUR | | 16.50 |
| 197 | DEC-05 | CHARLIE CLARKS RESTAUR | | 1,594.32 |
| 198 | JUN-05 | CHICO S TACOS | | 227.45 |
| 199 | FEB-05 | CHILI'S GRI04600010462 | | 65.83 |
| 200 | APR-05 | CHILI'S GRI04600010462 | | 88.30 |
| 201 | MAY-05 | CHILI'S GRI04600010462 | | 53.35 |
| 202 | JUN-05 | CHILI'S GRI04600010462 | | 48.89 |
| 203 | JUL-05 | CHILI'S GRI04600010462 | | 162.30 |
| 204 | AUG-05 | CHILI'S GRI04600010462 | | 111.14 |
| 205 | OCT-05 | CHILI'S GRI04600010462 | | 17.00 |
| 206 | NOV-05 | CHILI'S GRI04600010462 | | 87.57 |
| 207 | DEC-05 | CHILI'S GRI04600010462 | | 24.94 |
| 208 | MAR-05 | CHILI'S GRI04900010496 | | 18.00 |
| 209 | JUN-05 | CHILI'S GRI04900010496 | | 45.43 |
| 210 | JUL-05 | CHILI'S GRI04900010496 | | 35.96 |
| 211 | OCT-05 | CHILI'S GRI04900010496 | | 35.48 |
| 212 | NOV-05 | CHILI'S GRI04900010496 | | 22.38 |
| 213 | AUG-05 | CHILI'S GRI17000001701 | | 55.43 |
| 214 | JAN-05 | CHILI'S GRI41600004168 | | 135.69 |
| 215 | FEB-05 | CHILI'S GRI41600004168 | | 84.85 |
| 216 | MAR-05 | CHILI'S GRI41600004168 | | 62.43 |
| 217 | APR-05 | CHILI'S GRI41600004168 | | 29.62 |
| 218 | MAY-05 | CHILI'S GRI41600004168 | | 109.23 |
| 219 | JUN-05 | CHILI'S GRI41600004168 | | 132.24 |
| 220 | JUL-05 | CHILI'S GRI41600004168 | | 86.49 |
| 221 | OCT-05 | CHILI'S GRI41600004168 | | 54.84 |
| 222 | NOV-05 | CHILI'S GRI41600004168 | | 90.13 |
| 223 | DEC-05 | CHILI'S GRI41600004168 | | 45.57 |
| 224 | MAR-05 | CHILI'S GRI56300005637 | | 20.19 |
| 225 | DEC-05 | CHILI'S GRI56300005637 | | 107.59 |
| 226 | AUG-05 | CHILI'S GRI77100007716 | | 42.47 |
| 227 | JUN-05 | CHINA BUFFET | | 122.76 |
| 228 | SEP-05 | CHINA BUFFET | | 28.37 |
| 229 | NOV-05 | CHINA BUFFET | | 25.09 |
| 230 | JAN-05 | CHINA BUFFET - LH | | 12.79 |
| 231 | MAR-05 | CHINA BUFFET - LH | | 12.69 |
| 232 | SEP-05 | CHINA BUFFET - LH | | 11.79 |
| 233 | FEB-05 | CHINA STAR | | 6.92 |
| 234 | MAR-05 | CHINA STAR CHINESE RES | | 18.84 |
| 235 | MAR-05 | CHINA STAR SUPER BUFFE | | 7.58 |
| 236 | OCT-05 | CHINESE BAMBOO BUFFET | | 8.99 |
| 237 | JAN-05 | CHUYS MESQUITE BROILER | | 20.77 |
| 238 | FEB-05 | CHUYS MESQUITE BROILER | | 90.67 |
| 239 | MAR-05 | CHUYS MESQUITE BROILER | | 47.83 |
| 240 | APR-05 | CHUYS MESQUITE BROILER | | 66.65 |
| 241 | MAY-05 | CHUYS MESQUITE BROILER | | 76.56 |
| 242 | JUN-05 | CHUYS MESQUITE BROILER | | 26.90 |
| 243 | FEB-05 | CIRCLE K 00251 | | 39.75 |
| 244 | MAR-05 | CIRCLE K 00251 | | 10.89 |
| 245 | MAY-05 | CIRCLE K 00251 | | 6.24 |
| 246 | JUN-05 | CIRCLE K 00251 | | 6.24 |
| 247 | MAR-05 | CIRCLE K 01576 | | 12.94 |
| 248 | MAY-05 | CIRCLE K 01576 | | 19.48 |
| 249 | JUN-05 | CIRCLE K 01576 | | 10.82 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 250 | JUL-05 | CIRCLE K 01576 | | $ 3.30 |
| 251 | JAN-05 | CIRCLE K 05326 | | 88.12 |
| 252 | FEB-05 | CIRCLE K 05326 | | 82.28 |
| 253 | MAR-05 | CIRCLE K 05326 | | 96.43 |
| 254 | APR-05 | CIRCLE K 05326 | | 63.90 |
| 255 | MAY-05 | CIRCLE K 05326 | | 25.38 |
| 256 | FEB-05 | CIRCLE K 06362 | | 4.60 |
| 257 | JUL-05 | CIRCLE K 06665 | | 6.08 |
| 258 | APR-05 | CIRCLE K 08692 | | 6.95 |
| 259 | OCT-05 | CIRCLE K 08838 | | 5.90 |
| 260 | JUL-05 | CLAIM JUMPER #25 | | 39.48 |
| 261 | AUG-05 | CLARKDALE CLASSIC STAT | | 10.50 |
| 262 | JAN-05 | COCOS BAKERY RESTAURAN | | 13.34 |
| 263 | AUG-05 | COCOS BAKERY RESTAURAN | | 33.49 |
| 264 | NOV-05 | COCOS BAKERY RESTAURAN | | 43.21 |
| 265 | JAN-05 | CODE 7 | | 18.64 |
| 266 | FEB-05 | CODE 7 | | 34.15 |
| 267 | JAN-05 | COLD STONE CREAMERY #6 | | 24.95 |
| 268 | JAN-05 | COMFORT INN | | 121.00 |
| 269 | OCT-05 | COMFORT INNS | | 222.18 |
| 270 | JUN-05 | CONFETTIS GIFT & PARTY | | 14.62 |
| 271 | MAR-05 | COPALA RESTAURANT | | 18.47 |
| 272 | MAR-05 | COW PALACE RESTAURANT | | 78.69 |
| 273 | JUN-05 | COWBOY CLUB | | 41.98 |
| 274 | APR-05 | COWBOY COOKIN | | 31.96 |
| 275 | SEP-05 | CRACKER BARREL #277 | | 19.06 |
| 276 | APR-05 | CRACKER BARREL #297 | | 26.82 |
| 277 | FEB-05 | CRACKER BARREL #334 | | 20.70 |
| 278 | NOV-05 | CRACKER BARREL #334 | | 10.95 |
| 279 | OCT-05 | CRACKER BARREL #388 | | 9.54 |
| 280 | FEB-05 | CRACKER BARREL #416 | | 19.69 |
| 281 | JUL-05 | CRACKER BARREL #416 | | 13.08 |
| 282 | NOV-05 | CRACKER BARREL #416 | | 84.70 |
| 283 | DEC-05 | CRACKER BARREL #416 | | 28.97 |
| 284 | OCT-05 | CRACKER BARREL #555 | | 13.21 |
| 285 | OCT-05 | CRAZY BILLS SALON & ST | | 46.00 |
| 286 | JUN-05 | CROWN CITY INN | | 150.66 |
| 287 | AUG-05 | CROWN CITY INN | | 635.62 |
| 288 | FEB-05 | DAMBAR & STEAK HOUSE | | 59.76 |
| 289 | MAR-05 | DAMBAR & STEAK HOUSE | | 128.07 |
| 290 | MAY-05 | DAMBAR & STEAK HOUSE | | 129.92 |
| 291 | AUG-05 | DAMBAR & STEAKHOUSE | | 57.51 |
| 292 | OCT-05 | DAMBAR & STEAKHOUSE | | 28.00 |
| 293 | NOV-05 | DAMBAR & STEAKHOUSE | | 417.61 |
| 294 | DEC-05 | DAMBAR & STEAKHOUSE | | 123.93 |
| 295 | JAN-05 | DANONE WATERS OF NORTH | | 18.56 |
| 296 | FEB-05 | DANONE WATERS OF NORTH | | 15.07 |
| 297 | MAR-05 | DANONE WATERS OF NORTH | | 23.99 |
| 298 | MAY-05 | DANONE WATERS OF NORTH | | 30.86 |
| 299 | JUL-05 | DANONE WATERS OF NORTH | | 37.72 |
| 300 | SEP-05 | DANONE WATERS OF NORTH | | 30.86 |
| 301 | OCT-05 | DANONE WATERS OF NORTH | | 29.17 |
| 302 | NOV-05 | DANONE WATERS OF NORTH | | 8.56 |
| 303 | NOV-05 | DARA THAI RESTAURANT | | 41.96 |
| 304 | NOV-05 | DENNYS 00265454 | | 13.51 |
| 305 | JAN-05 | DENNYS 00267559 | | 30.37 |
| 306 | APR-05 | DENNYS 00267559 | | 31.13 |
| 307 | DEC-05 | DENNYS 00267559 | | 12.92 |
| 308 | JAN-05 | DENNY'S #6741 Q67 | | 8.44 |
| 309 | APR-05 | DENNY'S #6741 Q67 | | 9.92 |
| 310 | DEC-05 | DENNY'S INC | | 17.49 |
| 311 | JAN-05 | DENNY'S INC Q67 | | 16.68 |
| 312 | APR-05 | DENNY'S INC Q67 | | 10.52 |
| 313 | MAY-05 | DENNY'S INC Q67 | | 10.49 |
| 314 | JUN-05 | DENNY'S INC Q67 | | 13.48 |
| 315 | NOV-05 | DESERT DIAMOND CASINO | | 17.70 |
| 316 | FEB-05 | DINER INC | | 30.00 |
| 317 | JAN-05 | D'LANO'S ITALIAN RESTA | | 27.72 |
| 318 | JUN-05 | D'LANO'S ITALIAN RESTA | | 50.75 |
| 319 | JUL-05 | D'LANO'S ITALIAN RESTA | | 19.65 |
| 320 | NOV-05 | D'LANO'S ITALIAN RESTA | | 282.00 |
| 321 | OCT-05 | DLX BUSINESS 800328030 | | 33.06 |
| 322 | JAN-05 | DOMINO'S PIZZA | | 45.42 |
| 323 | MAR-05 | DOMINO'S PIZZA | | 37.86 |
| 324 | APR-05 | DOMINO'S PIZZA | | 118.68 |
| 325 | MAR-05 | DOMINO'S PIZZA #7625 | | 20.94 |
| 326 | JAN-05 | DOREEN'S BACKSTREE | | 46.70 |
| 327 | MAY-05 | DOREEN'S BACKSTREE | | 26.78 |
| 328 | OCT-05 | DOUBLETREE HOTELS REID | | 95.91 |
| 329 | NOV-05 | DOWNTOWN DINER | | 17.00 |
| 330 | MAR-05 | DRY GULCH STEAKHOUSE | | 41.71 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 331 | NOV-05 | DTV*DIRECTV SERVICE | | $ 442.88 |
| 332 | DEC-05 | DUNTON HOUSE RESTA | | 8.30 |
| 333 | APR-05 | DYNASTY SUITES REDLAND | | 82.45 |
| 334 | MAY-05 | DYNASTY SUITES REDLAND | | 164.90 |
| 335 | MAY-05 | EASTERN CLASSIC RESTAU | | 19.55 |
| 336 | JUN-05 | EL CAPITAN FRESH MEXIC | | 35.18 |
| 337 | AUG-05 | EL CAPITAN FRESH MEXIC | | 68.81 |
| 338 | OCT-05 | EL CAPITAN FRESH MEXIC | | 74.26 |
| 339 | DEC-05 | EL CAPITAN FRESH MEXIC | | 20.57 |
| 340 | FEB-05 | EL CHAPARRAL | | 19.04 |
| 341 | MAR-05 | EL CHAPARRAL | | 24.25 |
| 342 | APR-05 | EL CHAPARRAL | | 8.75 |
| 343 | APR-05 | EL CHARRO CAFE | | 35.40 |
| 344 | MAY-05 | EL CHARRO CAFE | | 34.90 |
| 345 | JUN-05 | EL CHARRO CAFE | | 18.34 |
| 346 | JUL-05 | EL CHARRO CAFE | | 20.34 |
| 347 | AUG-05 | EL CHARRO CAFE | | 16.59 |
| 348 | SEP-05 | EL CHARRO CAFE | | 36.93 |
| 349 | OCT-05 | EL CHARRO CAFE | | 33.30 |
| 350 | FEB-05 | EL CHARRO RESTAURANT | | 20.53 |
| 351 | APR-05 | EL CHARRO RESTAURANT | | 46.63 |
| 352 | OCT-05 | EL CHARRO RESTAURANT | | 30.00 |
| 353 | NOV-05 | EL CHARRO RESTAURANT | | 21.69 |
| 354 | OCT-05 | EL MARCOS BAR & GRILL | | 41.12 |
| 355 | MAR-05 | EL MARIACHI | | 8.00 |
| 356 | FEB-05 | EL PALACIO OF KINGMAN | | 16.64 |
| 357 | JUL-05 | EL PALACIO OF KINGMAN | | 28.03 |
| 358 | NOV-05 | EL PALACIO OF KINGMAN | | 103.56 |
| 359 | DEC-05 | EL PALACIO OF KINGMAN | | 10.61 |
| 360 | MAR-05 | EL POLLO LOCO #3427 | | 5.93 |
| 361 | FEB-05 | EL RANCHO | | 44.52 |
| 362 | AUG-05 | EL RANCHO | | 11.40 |
| 363 | DEC-05 | EL RANCHO | | 16.30 |
| 364 | JUN-05 | EL SARAPE MEXICAN REST | | 18.83 |
| 365 | NOV-05 | EL ZARAPE | | 5.07 |
| 366 | JAN-05 | ELKS LODGE #468 | | 54.84 |
| 367 | FEB-05 | ELKS LODGE #468 | | 151.25 |
| 368 | MAR-05 | ELKS LODGE #468 | | 43.21 |
| 369 | APR-05 | ELKS LODGE #468 | | 64.72 |
| 370 | MAY-05 | ELKS LODGE #468 | | 157.85 |
| 371 | JUN-05 | ELKS LODGE #468 | | 139.22 |
| 372 | JUL-05 | ELKS LODGE #468 | | 26.08 |
| 373 | OCT-05 | ELKS LODGE #468 | | 49.13 |
| 374 | OCT-05 | EMBASSY SUITES FLAGTIP | | 312.05 |
| 375 | NOV-05 | ENOTECA PIZZARIA WINE | | 13.83 |
| 376 | DEC-05 | ENTERPRISE RENT-A-CAR | | 127.57 |
| 377 | NOV-05 | EXQUISITO RESTAURANT | | 39.05 |
| 378 | OCT-05 | FAMOUS SAMS #10 | | 21.22 |
| 379 | JAN-05 | FAMOUS SAMS #30 | | 21.61 |
| 380 | FEB-05 | FAMOUS SAMS #30 | | 19.25 |
| 381 | FEB-05 | FARR S SERVICE | | 26.50 |
| 382 | FEB-05 | FAZOLIS RESTAURANT NO | | 11.23 |
| 383 | JUN-05 | FAZOLIS RESTAURANT NO | | 7.55 |
| 384 | AUG-05 | FAZOLIS RESTAURANT NO | | 90.20 |
| 385 | APR-05 | FIESTA CHARRA INC | | 106.51 |
| 386 | SEP-05 | FIESTA CHARRA INC | | 30.66 |
| 387 | OCT-05 | FIESTA CHARRA INC | | 36.99 |
| 388 | DEC-05 | FIESTA CHARRA INC | | 32.02 |
| 389 | FEB-05 | FIESTA MEXICANA #7 | | 18.59 |
| 390 | APR-05 | FIESTA MEXICANA #7 | | 39.94 |
| 391 | JUL-05 | FIESTA MEXICANA #7 | | 16.84 |
| 392 | FEB-05 | FLAGSTAFF CHAMBER OF C | | 300.00 |
| 393 | FEB-05 | FLAGSTAFF FAMILY YMCA | | 250.00 |
| 394 | JAN-05 | FLAMING WOK | | 8.63 |
| 395 | APR-05 | FLAMING WOK | | 15.10 |
| 396 | DEC-05 | FLAMINGO HILTON LASTIP | | 310.20 |
| 397 | NOV-05 | FLAMINGO HILTON LV TIP | | 125.35 |
| 398 | APR-05 | FLOWERS BY DOROTHY | | 37.84 |
| 399 | OCT-05 | FLOWERS BY DOROTHY | | 79.36 |
| 400 | MAR-05 | FLYING J THAD'S REST | | 16.43 |
| 401 | MAR-05 | FORMOSA CHINESE RESTAU | | 8.98 |
| 402 | JAN-05 | FRANCISCO'S MEXICAN RE | | 49.50 |
| 403 | APR-05 | FRANCISCO'S MEXICAN RE | | 20.88 |
| 404 | APR-05 | FRATELLI PIZZA | | 57.74 |
| 405 | JUL-05 | FRATELLI PIZZA | | 58.06 |
| 406 | JAN-05 | FRYS-FOOD-DRG #103 SXN | | 10.20 |
| 407 | APR-05 | FRYS-FOOD-DRG #103 SXN | | 106.78 |
| 408 | JUN-05 | FRYS-FOOD-DRG #103 SXN | | 45.29 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 409 | JUL-05 | FRYS-FOOD-DRG #103 SXN | | $ 15.50 |
| 410 | FEB-05 | FRYS-FOOD-DRG #104 SXN | | 54.92 |
| 411 | MAR-05 | FRYS-FOOD-DRG #104 SXN | | 26.01 |
| 412 | APR-05 | FRYS-FOOD-DRG #104 SXN | | 106.01 |
| 413 | MAY-05 | FRYS-FOOD-DRG #104 SXN | | 218.24 |
| 414 | JUL-05 | FRYS-FOOD-DRG #104 SXN | | 52.62 |
| 415 | AUG-05 | FRYS-FOOD-DRG #104 SXN | | 54.24 |
| 416 | SEP-05 | FRYS-FOOD-DRG #104 SXN | | 78.19 |
| 417 | OCT-05 | FRYS-FOOD-DRG #104 SXN | | 26.97 |
| 418 | NOV-05 | FRYS-FOOD-DRG #104 SXN | | 27.78 |
| 419 | DEC-05 | FRYS-FOOD-DRG #104 SXN | | 74.95 |
| 420 | JAN-05 | FRYS-FOOD-DRG#0077 SXN | | 150.61 |
| 421 | MAR-05 | FRYS-FOOD-DRG#0077 SXN | | 6.68 |
| 422 | APR-05 | FRYS-FOOD-DRG#0077 SXN | | 17.95 |
| 423 | OCT-05 | FTD*FLORAL ARTS LTD OF | | 80.00 |
| 424 | APR-05 | FTD*PRESCOTT VALLEY FL | | 37.33 |
| 425 | DEC-05 | FUEGO MEXICAN GRILL & | | 19.41 |
| 426 | JUN-05 | GABBY'S KITCHEN | | 20.61 |
| 427 | JUL-05 | GABBY'S KITCHEN | | 29.86 |
| 428 | NOV-05 | GABBY'S KITCHEN | | 41.52 |
| 429 | APR-05 | GALAXY DINER 605 | | 16.52 |
| 430 | OCT-05 | GALAXY DINER 605 | | 24.21 |
| 431 | FEB-05 | GOLDEN CORRAL 29724Q15 | | 63.87 |
| 432 | MAR-05 | GOLDEN CORRAL 29724Q15 | | 37.34 |
| 433 | APR-05 | GOLDEN CORRAL 29724Q15 | | 17.86 |
| 434 | MAY-05 | GOLDEN CORRAL 29724Q15 | | 25.50 |
| 435 | JUN-05 | GOLDEN CORRAL 29724Q15 | | 14.21 |
| 436 | JUL-05 | GOLDEN CORRAL 29724Q15 | | 35.20 |
| 437 | AUG-05 | GOLDEN CORRAL 29724Q15 | | 12.92 |
| 438 | SEP-05 | GOLDEN CORRAL 29724Q15 | | 38.75 |
| 439 | OCT-05 | GOLDEN CORRAL 29724Q15 | | 17.21 |
| 440 | NOV-05 | GOLDEN CORRAL 29724Q15 | | 11.30 |
| 441 | DEC-05 | GOLDEN CORRAL 29724Q15 | | 24.85 |
| 442 | NOV-05 | GOLDEN DRAGON REST | | 20.91 |
| 443 | JAN-05 | GOLDEN GATE RESTAURANT | | 74.98 |
| 444 | FEB-05 | GURLEY STREET GRILL | | 81.75 |
| 445 | APR-05 | GURLEY STREET GRILL | | 191.21 |
| 446 | JUL-05 | GURLEY STREET GRILL | | 102.85 |
| 447 | AUG-05 | GURLEY STREET GRILL | | 89.29 |
| 448 | SEP-05 | GURLEY STREET GRILL | | 131.04 |
| 449 | OCT-05 | GURLEY STREET GRILL | | 140.54 |
| 450 | NOV-05 | GURLEY STREET GRILL | | 29.58 |
| 451 | DEC-05 | GURLEY STREET GRILL | | 82.39 |
| 452 | MAR-05 | HAMPTON INN HAVASU 51 | | 688.41 |
| 453 | MAY-05 | HAMPTON INN HAVASU 51 | | 305.96 |
| 454 | JUN-05 | HAMPTON INN HAVASU 51 | | 152.98 |
| 455 | SEP-05 | HAMPTON INN HAVASU 51 | | 229.47 |
| 456 | NOV-05 | HAMPTON INN HAVASU 51 | | 660.16 |
| 457 | NOV-05 | HAMPTON INN TUCSON 61 | | 111.39 |
| 458 | OCT-05 | HAMPTON INNS TIP | | 426.60 |
| 459 | JUN-05 | HAMPTON INNS & SUITTIP | | 287.91 |
| 460 | AUG-05 | HARBOR HOUSE RESTAURAN | | 63.02 |
| 461 | OCT-05 | HARKINS PRESCOTT VALLE | | 25.00 |
| 462 | OCT-05 | HASSAYAMPA HOTEL LLC | | 577.45 |
| 463 | FEB-05 | HASTINGS-ENTERTAINME # | | 43.87 |
| 464 | JUN-05 | HERTZ RENT-A-CAR | | 449.64 |
| 465 | JUL-05 | HIDDEN VALLEY INN | | 77.05 |
| 466 | AUG-05 | HIRO S SUSHI BAR | | 22.11 |
| 467 | DEC-05 | HIROS SUSHI BAR & REST | | 89.40 |
| 468 | DEC-05 | HMS HOST-ORD AIRPT #81 | | 9.10 |
| 469 | AUG-05 | HMSHOST SAN AIRPT #00 | | 18.81 |
| 470 | AUG-05 | HMSHOST-PHX-AIR #00 | | 37.95 |
| 471 | OCT-05 | HMSHOST-PHX-AIR #00 | | 31.02 |
| 472 | AUG-05 | HMSHOST-PHX-AIR #01 | | 8.64 |
| 473 | MAY-05 | HOBO JOE'S | | 17.60 |
| 474 | JAN-05 | HOBO JOES COFFEE S | | 16.39 |
| 475 | FEB-05 | HOBO JOES COFFEE S | | 14.02 |
| 476 | AUG-05 | HOLIDAY INN EXPRES | | 345.76 |
| 477 | FEB-05 | HOLIDAY INN EXPRESS PR | | 325.45 |
| 478 | OCT-05 | HOLIDAY INN EXPRESS TU | | 121.54 |
| 479 | APR-05 | HOLIDAY INN EXPRESSTIP | | 1,106.53 |
| 480 | JUN-05 | HOLIDAY INN EXPRESSTIP | | 520.72 |
| 481 | NOV-05 | HOLIDAY INN EXPRESSTIP | | 195.27 |
| 482 | JUN-05 | HOLIDAY INN FLAGSTAFF | | 238.52 |
| 483 | AUG-05 | HOLIDAY INN TUCSON | | 73.10 |
| 484 | SEP-05 | HOLIDAY INN TUCSON | | 91.38 |
| 485 | OCT-05 | HOLIDAY INN TUCSON | | 190.71 |
| 486 | DEC-05 | HOLIDAY INN TUCSON | | 156.96 |
| 487 | FEB-05 | HOLIDAY INN-AIRPORT | | 194.58 |
| 488 | APR-05 | HOLIDAY INN-AIRPORT | | 204.06 |
| 489 | MAY-05 | HOLIDAY INN-AIRPORT | | 25.33 |
| 490 | JUN-05 | HOLIDAY INN-AIRPORT | | 491.21 |
| 491 | JUL-05 | HOLIDAY INN-AIRPORT | | 188.19 |
| 492 | AUG-05 | HOLIDAY INN-AIRPORT | | (3.50) |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 493 | FEB-05 | HOLIDAY INNS | | $ 345.51 |
| 494 | MAR-05 | HOLIDAY INNS | | 388.68 |
| 495 | APR-05 | HOLIDAY INNS | | 777.36 |
| 496 | JUN-05 | HOLIDAY INNS | | 539.85 |
| 497 | JUL-05 | HOLIDAY INNS | | 151.16 |
| 498 | AUG-05 | HOLIDAY INNS | | 194.34 |
| 499 | OCT-05 | HOLIDAY INNS | | 75.58 |
| 500 | DEC-05 | HOLIDAY INNS | | 194.34 |
| 501 | JAN-05 | HOLIDAY INNS EXPRESS | | 173.67 |
| 502 | FEB-05 | HOLIDAY INNS EXPRESS | | 139.54 |
| 503 | APR-05 | HOLIDAY INNS EXPRESS | | 147.33 |
| 504 | MAY-05 | HOLIDAY INNS EXPRESS | | 978.18 |
| 505 | JUL-05 | HOLIDAY INNS EXPRESS | | 710.93 |
| 506 | AUG-05 | HOLIDAY INNS EXPRESS | | 351.76 |
| 507 | OCT-05 | HOLIDAY INNS EXPRESS | | 388.45 |
| 508 | DEC-05 | HOLIDAY INNS EXPRESS | | 317.87 |
| 509 | AUG-05 | HOLIDAY INNS FLAGSTAFF | | 98.12 |
| 510 | AUG-05 | HOMETOWN BUFFE00103291 | | 32.43 |
| 511 | NOV-05 | HOMETOWN BUFFE00103291 | | 41.84 |
| 512 | FEB-05 | HOT WOK EXPRESS | | 8.30 |
| 513 | NOV-05 | HOTEL ST MICHEAL | | 22.12 |
| 514 | SEP-05 | HOTELS.COM - MC | | 259.00 |
| 515 | APR-05 | HOUSE OF BREAD | | 19.82 |
| 516 | OCT-05 | HOUSE OF BREAD | | 25.50 |
| 517 | NOV-05 | HOUSE OF BREAD | | 13.50 |
| 518 | DEC-05 | HOUSE OF BREAD | | 44.10 |
| 519 | MAY-05 | HUNAN WEST | | 24.93 |
| 520 | JUL-05 | HUNAN WEST | | 41.63 |
| 521 | NOV-05 | HUNAN WEST | | 6.90 |
| 522 | OCT-05 | ICUEE, THE DEMO EXPO | | 20.00 |
| 523 | MAR-05 | IHOP #1514 21815147 | | 83.62 |
| 524 | NOV-05 | IHOP #1518 21815188 | | 12.11 |
| 525 | MAR-05 | IHOP #1524 21815246 | | 67.97 |
| 526 | MAY-05 | IHOP #1524 21815246 | | 19.57 |
| 527 | JUN-05 | IHOP #1524 21815246 | | 11.35 |
| 528 | AUG-05 | IHOP #1524 21815246 | | 23.45 |
| 529 | NOV-05 | IHOP #1524 21815246 | | 62.04 |
| 530 | NOV-05 | IHOP #3033 | | 18.63 |
| 531 | MAR-05 | IHOP#1527 05415278 | | 18.03 |
| 532 | DEC-05 | INCAHOOTS | | 162.19 |
| 533 | APR-05 | INDIAN PINE RESTAURANT | | 10.25 |
| 534 | MAR-05 | INTERNATIONAL HOUSE OF | | 24.74 |
| 535 | SEP-05 | IRON SKILLET #15 | | 12.20 |
| 536 | JUN-05 | J BS RESTAURANT | | 137.85 |
| 537 | OCT-05 | J BS RESTAURANT | | 10.97 |
| 538 | NOV-05 | J BS RESTAURANT | | 44.73 |
| 539 | JUL-05 | JA STEAKHOUSE | | 27.22 |
| 540 | MAR-05 | JACK INTHE BOX05615Q43 | | 5.83 |
| 541 | FEB-05 | JACK INTHE BOX06911Q43 | | 19.24 |
| 542 | MAR-05 | JACK INTHE BOX06911Q43 | | 6.88 |
| 543 | JUN-05 | JACK INTHE BOX06911Q43 | | 6.67 |
| 544 | JUL-05 | JACK INTHE BOX06911Q43 | | 19.24 |
| 545 | JUN-05 | JACKSONS GRILL | | 154.54 |
| 546 | NOV-05 | JACKSONS GRILL | | 30.07 |
| 547 | NOV-05 | JAVELINA CANTINA | | 36.91 |
| 548 | MAY-05 | JAVELINA CANTINA SED | | 100.33 |
| 549 | JUN-05 | JAVELINA CANTINA SED | | 14.55 |
| 550 | JUL-05 | JAVELINA CANTINA SED | | 21.00 |
| 551 | AUG-05 | JAVELINA CANTINA SED | | 49.22 |
| 552 | DEC-05 | JAVELINA CANTINA SED | | 29.68 |
| 553 | OCT-05 | JB'S REST #377 | | 8.67 |
| 554 | FEB-05 | JB'S RESTAURANT 11 | | 14.15 |
| 555 | MAR-05 | JB'S RESTAURANT 11 | | 25.71 |
| 556 | JUN-05 | JB'S RESTAURANT 11 | | 22.99 |
| 557 | JUL-05 | JB'S RESTAURANT 11 | | 17.24 |
| 558 | NOV-05 | JB'S RESTAURANT 11 | | 23.43 |
| 559 | JAN-05 | JD'S CAFE | | 6.77 |
| 560 | JUN-05 | JEROME BREWERY | | 12.21 |
| 561 | JUL-05 | JEROME PALACE | | 27.52 |
| 562 | FEB-05 | JOANN FABRIC #1831 | | 8.29 |
| 563 | APR-05 | JOE'S CRAB SHACK-TEMPE | | 60.00 |
| 564 | SEP-05 | JOE'S CRAB SHACK-TEMPE | | 22.25 |
| 565 | SEP-05 | JOE'S CRAB-TEMPE | | 30.95 |
| 566 | MAR-05 | JOHNNY CARINO'S #1412 | | 28.43 |
| 567 | AUG-05 | JOSHUA TREE FAMILY RES | | 41.63 |
| 568 | JAN-05 | JUICY'S RIVER CAFE | | 42.48 |
| 569 | JAN-05 | KACHINA DOWNTOWN | | 239.98 |
| 570 | FEB-05 | KACHINA DOWNTOWN | | 177.73 |
| 571 | MAR-05 | KACHINA DOWNTOWN | | 107.60 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 572 | APR-05 | KACHINA DOWNTOWN | | $ 210.70 |
| 573 | MAY-05 | KACHINA DOWNTOWN | | 198.93 |
| 574 | JUN-05 | KACHINA DOWNTOWN | | 27.23 |
| 575 | JUL-05 | KACHINA DOWNTOWN | | 118.25 |
| 576 | JUL-05 | KACHINIA DOWNTOWN | | 41.34 |
| 577 | AUG-05 | KACHINIA DOWNTOWN | | 150.78 |
| 578 | SEP-05 | KACHINIA DOWNTOWN | | 94.79 |
| 579 | OCT-05 | KACHINIA DOWNTOWN | | 98.00 |
| 580 | NOV-05 | KACHINIA DOWNTOWN | | 38.59 |
| 581 | DEC-05 | KACHINIA DOWNTOWN | | 42.89 |
| 582 | OCT-05 | KENDALL'S FAMOUS B | | 23.25 |
| 583 | MAR-05 | KFC #6 | | 18.25 |
| 584 | JUL-05 | KFC #6 | | 6.05 |
| 585 | AUG-05 | KFC #6 | | 6.38 |
| 586 | NOV-05 | KFC #6 | | 7.28 |
| 587 | OCT-05 | KFC #7660002 76600Q30 | | 5.57 |
| 588 | NOV-05 | KFC #7660002 76600Q30 | | 5.24 |
| 589 | MAY-05 | KFC #G325005 87550Q30 | | 5.08 |
| 590 | FEB-05 | KFC #J605011 22800Q30 | | 8.69 |
| 591 | MAR-05 | KFC #J605011 22800Q30 | | 30.82 |
| 592 | APR-05 | KFC #J605011 22800Q30 | | 35.23 |
| 593 | MAY-05 | KFC #J605012 22800Q30 | | 30.82 |
| 594 | APR-05 | KFC #K201001 46700Q30 | | 10.80 |
| 595 | JUN-05 | KFC #K201001 46700Q30 | | 5.80 |
| 596 | JUL-05 | KFC #K201001 46700Q30 | | 7.30 |
| 597 | FEB-05 | KFC #K555001 38300Q30 | | 4.75 |
| 598 | FEB-05 | KFC #L820-005 35000Q30 | | 4.95 |
| 599 | MAR-05 | KFC #L820-005 35000Q30 | | 9.92 |
| 600 | APR-05 | KFC #L820-005 35000Q30 | | 12.63 |
| 601 | DEC-05 | KFC #L820-005 35000Q30 | | 6.46 |
| 602 | APR-05 | KFC WINSLOW | | 4.15 |
| 603 | OCT-05 | KFC WINSLOW | | 5.23 |
| 604 | NOV-05 | KINGMAN DAILY MINER | | 103.60 |
| 605 | SEP-05 | KINGMAN-CHILI'00010462 | | 21.09 |
| 606 | NOV-05 | KMART 00039248 | | 42.13 |
| 607 | NOV-05 | KMART 00048801 | | 5.42 |
| 608 | NOV-05 | KMART 00073130 | | 33.88 |
| 609 | FEB-05 | KMART 00095281 | | 53.92 |
| 610 | JAN-05 | KOKOPELLI INN AND HOPI | | 408.10 |
| 611 | MAR-05 | KRYSTAL S FINE DINING | | 25.80 |
| 612 | MAR-05 | LA CASITA CAFE | | 122.42 |
| 613 | APR-05 | LA CASITA CAFE | | 21.00 |
| 614 | MAY-05 | LA CASITA CAFE | | 16.00 |
| 615 | JUN-05 | LA CASITA CAFE | | 16.77 |
| 616 | JUL-05 | LA CASITA CAFE | | 19.00 |
| 617 | SEP-05 | LA CASITA CAFE | | 41.00 |
| 618 | OCT-05 | LA CASITA CAFE | | 24.08 |
| 619 | DEC-05 | LA CASITA CAFE | | 27.12 |
| 620 | FEB-05 | LA COCINA DE EVA | | 88.92 |
| 621 | APR-05 | LA COCINA DE EVA | | 27.64 |
| 622 | MAR-05 | LA FONDA | | 123.95 |
| 623 | JUN-05 | LA FONDA | | 15.49 |
| 624 | AUG-05 | LA FONDA | | 84.65 |
| 625 | SEP-05 | LA FONDA MEXICAN RESTA | | 20.86 |
| 626 | OCT-05 | LA PARILLA SUIZA #3 | | 16.84 |
| 627 | AUG-05 | LA PARRILLA SUIZA #5 | | 53.97 |
| 628 | AUG-05 | LA PINATA | | 14.13 |
| 629 | AUG-05 | LAKESIDE PRIMARY C | | 75.00 |
| 630 | JAN-05 | LAQUINTA_FLAGSTAFF PAA | | 317.20 |
| 631 | FEB-05 | LAS TRANKAS RESTAURANT | | 10.50 |
| 632 | MAY-05 | LAS TRANKAS RESTAURANT | | 24.40 |
| 633 | NOV-05 | LAS TRANKAS RESTAURANT | | 39.97 |
| 634 | MAR-05 | LAS VIGAS STEAK RANCH | | 81.85 |
| 635 | APR-05 | LAS VIGAS STEAK RANCH | | 64.68 |
| 636 | MAY-05 | LAS VIGAS STEAK RANCH | | 62.28 |
| 637 | MAR-05 | LATE FOR THE TRAIN | | 8.60 |
| 638 | JUN-05 | LATE FOR THE TRAIN | | 13.82 |
| 639 | OCT-05 | LATE FOR THE TRAIN | | 17.79 |
| 640 | NOV-05 | LATE FOR THE TRAIN | | 17.62 |
| 641 | DEC-05 | LATE FOR THE TRAIN | | 8.70 |
| 642 | FEB-05 | LICANO'S MEXICAN F | | 22.46 |
| 643 | JUN-05 | LIGHTNING RIDGE CAFE | | 12.97 |
| 644 | FEB-05 | LITTLE AMERICA FLAGSTA | | 100.71 |
| 645 | MAR-05 | LITTLE AMERICA FLAGSTA | | 22.71 |
| 646 | APR-05 | LITTLE AMERICA FLAGSTA | | 45.03 |
| 647 | AUG-05 | LITTLE AMERICA FLAGSTA | | 25.92 |
| 648 | DEC-05 | LITTLE AMERICA FLAGSTA | | 146.51 |
| 649 | JUN-05 | LITTLE CAESARS 3190 | | 16.22 |
| 650 | MAY-05 | LK HAVASU CITY CHMBR | | 450.00 |
| 651 | NOV-05 | LO S RESTAURANT | | 8.36 |
| 652 | OCT-05 | LODGE ON ROUTE 66 | | 68.94 |
| 653 | DEC-05 | LOMBARDI'S ITALIAN BAK | | 20.61 |
| 654 | NOV-05 | LOS PRIMOS BAR & GRILL | | 32.66 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 655 | JAN-05 | LOTUS GARDEN CHINESE R | | $ 19.60 |
| 656 | NOV-05 | LOTUS GARDEN CHINESE R | | 30.55 |
| 657 | JUN-05 | LOVE S COUNTRY00002Q01 | | 17.44 |
| 658 | AUG-05 | LOVE S COUNTRY00002Q01 | | 14.49 |
| 659 | JAN-05 | LOVE S COUNTRY00004Q01 | | 9.05 |
| 660 | DEC-05 | LOVES 265 F00002Q01 | | 5.96 |
| 661 | OCT-05 | LU MANDARIN BUFFET | | 17.28 |
| 662 | JAN-05 | LU MANDARIN BUFFET LLC | | 14.96 |
| 663 | NOV-05 | LUS MANDARIN BUFFET | | 119.41 |
| 664 | JUN-05 | M & M DAIRY QUEEN | | 7.45 |
| 665 | MAR-05 | MACAYO PRESCOTT | | 28.88 |
| 666 | APR-05 | MACAYO PRESCOTT | | 136.69 |
| 667 | JUN-05 | MACAYO PRESCOTT | | 43.03 |
| 668 | JUL-05 | MACAYO PRESCOTT | | 69.21 |
| 669 | OCT-05 | MACAYO PRESCOTT | | 40.16 |
| 670 | NOV-05 | MACAYO PRESCOTT | | 14.20 |
| 671 | SEP-05 | MAIN STREET CATERING | | 33.00 |
| 672 | MAR-05 | MALONES BAKERY & D | | 113.05 |
| 673 | SEP-05 | MALONES BAKERY & D | | 109.74 |
| 674 | MAY-05 | MARGARITA CANTINA | | 32.46 |
| 675 | DEC-05 | MARIE CALLENDER'S #67 | | 28.37 |
| 676 | JUL-05 | MARIPOSA HOTEL | | 267.12 |
| 677 | AUG-05 | MARIPOSA HOTEL | | 289.40 |
| 678 | JAN-05 | MARKETPLACE CAFE | | 23.74 |
| 679 | SEP-05 | MARKETPLACE CAFE | | 26.33 |
| 680 | OCT-05 | MARRIOTT DWTN LOUISVIL | | 667.08 |
| 681 | DEC-05 | MARRIOTT HOTELS UNIVER | | 234.00 |
| 682 | MAY-05 | MAVERIK CNTRY STRE | | 9.93 |
| 683 | JUL-05 | MAVERIK CTRY STRE #137 | | 1.42 |
| 684 | SEP-05 | MAX AND THELMAS RESTAU | | 41.97 |
| 685 | AUG-05 | MCDONALD'S F12118 Q17 | | 43.21 |
| 686 | OCT-05 | MCDONALD'S F17372 Q17 | | 9.92 |
| 687 | OCT-05 | MCDONALD'S F18788 Q17 | | 13.80 |
| 688 | OCT-05 | MCDONALD'S F2640 Q17 | | 14.48 |
| 689 | SEP-05 | MICHAELS #9608 | | 39.03 |
| 690 | OCT-05 | MICHAELS #9608 | | 18.36 |
| 691 | JAN-05 | MICHAELS'S CHEESE STEA | | 15.02 |
| 692 | DEC-05 | MINERS DINER | | 32.24 |
| 693 | OCT-05 | MONSOON ON THE SQUARE | | 15.77 |
| 694 | MAR-05 | MR. C'S RESTAURANT | | 238.23 |
| 695 | APR-05 | MR. C'S RESTAURANT | | 100.51 |
| 696 | MAY-05 | MR. C'S RESTAURANT | | 78.79 |
| 697 | SEP-05 | MUDSHARK BREWING CO | | 40.59 |
| 698 | MAR-05 | MURPHYS | | 33.89 |
| 699 | APR-05 | MURPHYS | | 170.50 |
| 700 | MAY-05 | MURPHYS | | 88.65 |
| 701 | JUN-05 | MURPHY'S GRILL | | 339.13 |
| 702 | JUL-05 | MURPHY'S GRILL | | 283.08 |
| 703 | AUG-05 | MURPHY'S GRILL | | 113.28 |
| 704 | SEP-05 | MURPHY'S GRILL | | 76.72 |
| 705 | OCT-05 | MURPHY'S GRILL | | 94.03 |
| 706 | NOV-05 | MURPHY'S GRILL | | 100.48 |
| 707 | DEC-05 | MURPHY'S GRILL | | 193.35 |
| 708 | JAN-05 | MURPHYS GRILL COTTONWO | | 26.61 |
| 709 | FEB-05 | MURPHYS GRILL COTTONWO | | 242.14 |
| 710 | MAR-05 | MURPHYS GRILL COTTONWO | | 104.76 |
| 711 | APR-05 | MURPHYS GRILL COTTONWO | | 221.11 |
| 712 | JUN-05 | NATIVE NEW YORKER #12 | | 136.00 |
| 713 | JUL-05 | NATIVE NEW YORKER #12 | | 16.77 |
| 714 | SEP-05 | NATIVE NEW YORKER #12 | | 17.32 |
| 715 | OCT-05 | NATIVE NEW YORKER #12 | | 45.09 |
| 716 | NOV-05 | NATIVE NEW YORKER #12 | | 60.34 |
| 717 | DEC-05 | NATIVE NEW YORKER #12 | | 29.39 |
| 718 | NOV-05 | NAU TICKETING | | 400.00 |
| 719 | APR-05 | NAUTICAL INN CAPTAIN | | 50.49 |
| 720 | APR-05 | NILES RADIO | | 58.38 |
| 721 | JUN-05 | NILES RADIO | | 102.97 |
| 722 | DEC-05 | NILES RADIO | | 25.95 |
| 723 | DEC-05 | NIMARCOS PIZZA | | 77.75 |
| 724 | FEB-05 | ON THE BORD12700001271 | | 49.36 |
| 725 | JUN-05 | OREGANO S PIZZA | | 22.59 |
| 726 | JAN-05 | OREGANOS | | 161.46 |
| 727 | FEB-05 | OREGANOS | | 88.14 |
| 728 | MAR-05 | OREGANOS | | 33.21 |
| 729 | APR-05 | OREGANOS | | 215.74 |
| 730 | MAY-05 | OREGANOS | | 121.67 |
| 731 | JUN-05 | OREGANOS | | 145.40 |
| 732 | JUL-05 | OREGANOS | | 173.13 |
| 733 | AUG-05 | OREGANOS | | 224.54 |
| 734 | SEP-05 | OREGANOS | | 181.08 |
| 735 | OCT-05 | OREGANOS | | 123.38 |
| 736 | NOV-05 | OREGANOS | | 34.64 |
| 737 | DEC-05 | OREGANOS | | 159.54 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 738 | APR-05 | OUR DAILY BREAD | | $ 295.07 |
| 739 | JUL-05 | OUR DAILY BREAD | | 55.17 |
| 740 | AUG-05 | OUR DAILY BREAD | | 113.32 |
| 741 | SEP-05 | OUR DAILY BREAD | | 87.99 |
| 742 | OCT-05 | OUR DAILY BREAD | | 45.98 |
| 743 | NOV-05 | OUR DAILY BREAD | | 113.33 |
| 744 | DEC-05 | OUR DAILY BREAD | | 47.85 |
| 745 | JAN-05 | OUR DAILY BREAD DELI | | 24.39 |
| 746 | FEB-05 | OUR DAILY BREAD DELI | | 64.33 |
| 747 | MAR-05 | OUR DAILY BREAD DELI | | 195.90 |
| 748 | MAR-05 | OUTBACK #0312 | | 37.57 |
| 749 | JAN-05 | OUTBACK #0317 | | 57.95 |
| 750 | FEB-05 | OUTBACK #0317 | | 27.29 |
| 751 | MAY-05 | OUTBACK #0317 | | 182.36 |
| 752 | OCT-05 | OUTBACK #0317 | | 31.29 |
| 753 | NOV-05 | OUTBACK #0317 | | 181.86 |
| 754 | APR-05 | OUTBACK #0319 | | 198.77 |
| 755 | OCT-05 | OUTBACK #0319 | | 60.00 |
| 756 | DEC-05 | OUTBACK #0319 | | 38.05 |
| 757 | MAR-05 | P.F. CHANG'S #8000 | | 14.63 |
| 758 | DEC-05 | P.F. CHANG'S #8000 | | 63.52 |
| 759 | JAN-05 | PANCHOS MC GILLICUDDYS | | 26.15 |
| 760 | JUL-05 | PANCHOS MC GILLICUDDYS | | 26.71 |
| 761 | SEP-05 | PANCHOS MC GILLICUDDYS | | 37.93 |
| 762 | OCT-05 | PANCHOS MC GILLICUDDYS | | 25.37 |
| 763 | AUG-05 | PAPA JOHN'S PIZZA | | 15.06 |
| 764 | MAR-05 | PAPPADEAUX SEAFOOD KIT | | 17.66 |
| 765 | OCT-05 | PAPPADEAUX SEAFOOD KIT | | 37.54 |
| 766 | JAN-05 | PARICUTIN | | 79.15 |
| 767 | FEB-05 | PATS PLACE | | 30.73 |
| 768 | MAR-05 | PATS PLACE | | 7.16 |
| 769 | APR-05 | PATS PLACE | | 185.24 |
| 770 | JUN-05 | PATS PLACE | | 189.64 |
| 771 | AUG-05 | PATS PLACE | | 65.35 |
| 772 | SEP-05 | PATS PLACE | | 40.00 |
| 773 | NOV-05 | PATS PLACE | | 63.71 |
| 774 | DEC-05 | PATS PLACE | | 29.80 |
| 775 | JUN-05 | PEI WEI ASIAN DINER-00 | | 28.67 |
| 776 | JAN-05 | PETE S FAMILY RESTAURA | | 72.20 |
| 777 | FEB-05 | PETE S FAMILY RESTAURA | | 83.01 |
| 778 | APR-05 | PETE S FAMILY RESTAURA | | 38.07 |
| 779 | MAY-05 | PETE S FAMILY RESTAURA | | 95.83 |
| 780 | AUG-05 | PETE S FAMILY RESTAURA | | 13.86 |
| 781 | JUL-05 | PICACHO PEAK PLAZA | | 38.68 |
| 782 | AUG-05 | PICACHO PEAK PLAZA | | 8.94 |
| 783 | FEB-05 | PINE COUNTRY RESTA | | 47.30 |
| 784 | MAR-05 | PINE COUNTRY RESTA | | 9.55 |
| 785 | APR-05 | PINE COUNTRY RESTA | | 63.85 |
| 786 | JUL-05 | PINE COUNTRY RESTA | | 87.84 |
| 787 | AUG-05 | PINE COUNTRY RESTA | | 8.99 |
| 788 | NOV-05 | PINE COUNTRY RESTA | | 23.09 |
| 789 | DEC-05 | PINE COUNTRY RESTA | | 140.01 |
| 790 | SEP-05 | PINE COUNTRY RESTAURAN | | 30.09 |
| 791 | OCT-05 | PINE COUNTRY RESTAURAN | | 609.06 |
| 792 | NOV-05 | PINE COUNTRY RESTAURAN | | 8.77 |
| 793 | MAR-05 | PINNACLE PEAK | | 89.07 |
| 794 | FEB-05 | PIZZA FACTORY | | 8.26 |
| 795 | APR-05 | PIZZA FACTORY | | 9.53 |
| 796 | JUL-05 | PIZZA FACTORY | | 18.02 |
| 797 | AUG-05 | PIZZA FACTORY | | 10.30 |
| 798 | SEP-05 | PIZZA FACTORY | | 73.42 |
| 799 | OCT-05 | PIZZA FACTORY | | 406.89 |
| 800 | NOV-05 | PIZZA FACTORY | | 24.62 |
| 801 | DEC-05 | PIZZA FACTORY | | 88.47 |
| 802 | NOV-05 | PIZZA H006705 16800Q34 | | 37.20 |
| 803 | JAN-05 | PIZZA H007980 17400Q34 | | 25.74 |
| 804 | NOV-05 | PIZZA H010725 17500Q34 | | 158.83 |
| 805 | MAR-05 | PIZZA HUT 55609Q34 | | 16.94 |
| 806 | JUN-05 | PIZZA HUT 55609Q34 | | 18.60 |
| 807 | JUL-05 | PIZZA HUT 55609Q34 | | 54.25 |
| 808 | FEB-05 | PIZZA HUT #00742700Q34 | | 17.54 |
| 809 | APR-05 | PIZZA HUT #00742700Q34 | | 17.54 |
| 810 | JUL-05 | PIZZA HUT #00742700Q34 | | 31.00 |
| 811 | NOV-05 | PIZZA HUT #00742700Q34 | | 41.23 |
| 812 | DEC-05 | PIZZA HUT #00742700Q34 | | 16.00 |
| 813 | MAR-05 | PIZZA HUT #00942700Q34 | | 42.26 |
| 814 | APR-05 | PIZZA HUT #00942700Q34 | | (19.13) |
| 815 | SEP-05 | PIZZA HUT #00942700Q34 | | 20.00 |
| 816 | DEC-05 | PIZZA HUT #43 57400Q34 | | 84.33 |
| 817 | APR-05 | PIZZA HUT #7 55700Q34 | | 39.62 |
| 818 | NOV-05 | PIZZA HUT #7 55700Q34 | | 17.15 |
| 819 | FEB-05 | PIZZA HUT OF C38400Q34 | | 20.77 |
| 820 | MAR-05 | PIZZA HUT OF C38400Q34 | | 23.50 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 821 | JUN-05 | PIZZA HUT OF TAYLOR | | $ 19.13 |
| 822 | AUG-05 | PIZZA HUT OF TAYLOR | | 16.66 |
| 823 | APR-05 | PLACE M&R'S RESTAU | | 14.39 |
| 824 | MAY-05 | PLACE M&R'S RESTAU | | 120.68 |
| 825 | JUN-05 | PLACE M&R'S RESTAU | | 17.09 |
| 826 | SEP-05 | PLACE M&R'S RESTAU | | 18.75 |
| 827 | OCT-05 | PLACE M&R'S RESTAU | | 39.80 |
| 828 | NOV-05 | PLACE M&R'S RESTAU | | 16.98 |
| 829 | DEC-05 | PRESCOTT BREWING C | | 44.60 |
| 830 | MAR-05 | PRESCOTT BREWING COMPA | | 56.54 |
| 831 | JUL-05 | PRESCOTT BREWING COMPA | | 37.87 |
| 832 | AUG-05 | PRESCOTT BREWING COMPA | | 74.47 |
| 833 | NOV-05 | PRESCOTT BREWING COMPA | | 44.83 |
| 834 | JAN-05 | PRESCOTT CHAMBER OF CO | | 40.00 |
| 835 | FEB-05 | PRESCOTT CHAMBER OF CO | | 40.00 |
| 836 | JUN-05 | PRESCOTT COLLEGE | | 57.50 |
| 837 | NOV-05 | PRESCOTT CONVENTION CT | | 619.03 |
| 838 | OCT-05 | PRESCOTT MINING CO | | 108.20 |
| 839 | APR-05 | PROFLOWERS.COM | | 39.98 |
| 840 | JAN-05 | QUALITY INNS LAS CAMPA | | 152.54 |
| 841 | APR-05 | QUALITY INNS LAS CAMPA | | 132.64 |
| 842 | JUN-05 | QUALITY INNS LAS CAMPA | | 198.96 |
| 843 | AUG-05 | QUALITY INNS LAS CAMPA | | 297.08 |
| 844 | JUN-05 | QUIK MART #33 | | 42.22 |
| 845 | OCT-05 | QUIZNO'S SUB #2515 | | 35.68 |
| 846 | NOV-05 | QUIZNO'S SUB #2515 | | 33.84 |
| 847 | DEC-05 | QUIZNO'S SUB #2515 | | 27.66 |
| 848 | MAR-05 | QUIZNOS SUB #2777 | | 5.43 |
| 849 | MAY-05 | QUIZNOS SUB #2777 | | 13.13 |
| 850 | APR-05 | QUIZNOS SUB #5098 Q22 | | 14.02 |
| 851 | APR-05 | R & R PIZZA EXPRES | | 108.42 |
| 852 | SEP-05 | RADIO SHACK 00134718 | | 18.36 |
| 853 | AUG-05 | RADIOSHACK DEA01902659 | | 67.82 |
| 854 | JAN-05 | RADISSON HOTELS-WOODLA | | 10.98 |
| 855 | FEB-05 | RADISSON HOTELS-WOODLA | | 97.74 |
| 856 | MAR-05 | RADISSON HOTELS-WOODLA | | 46.08 |
| 857 | AUG-05 | RADISSON HOTELS-WOODLA | | 135.63 |
| 858 | SEP-05 | RADISSON HOTELS-WOODLA | | 78.25 |
| 859 | NOV-05 | RADISSON HOTELS-WOODLA | | 74.38 |
| 860 | APR-05 | RAINFOREST-AZ REST. | | 27.83 |
| 861 | JUL-05 | RAMADA INN | | 84.92 |
| 862 | DEC-05 | RAMADA INN | | 86.59 |
| 863 | FEB-05 | RANDALL'S RESTAURANT | | 8.19 |
| 864 | AUG-05 | RANDALL'S RESTAURANT | | 34.80 |
| 865 | SEP-05 | RANDALL'S RESTAURANT | | 16.34 |
| 866 | OCT-05 | RBT REALTY/PERKINS RES | | 12.16 |
| 867 | JUN-05 | RDROBIN NO 394 | | 32.85 |
| 868 | MAR-05 | RED LOBSTER US00003699 | | 30.89 |
| 869 | JUN-05 | RED LOBSTER US00008458 | | 56.65 |
| 870 | JUL-05 | RED LOBSTER US00008458 | | 52.69 |
| 871 | AUG-05 | RED LOBSTER US00008458 | | 69.28 |
| 872 | SEP-05 | RED LOBSTER US00008458 | | 30.64 |
| 873 | NOV-05 | RED LOBSTER US00008458 | | 79.84 |
| 874 | DEC-05 | RED LOBSTER US00008698 | | 50.47 |
| 875 | SEP-05 | RED ROBIN | | 24.30 |
| 876 | SEP-05 | RED ROBIN 358 | | 22.09 |
| 877 | MAR-05 | RED ROBIN NO 309 | | 15.60 |
| 878 | JUN-05 | RED ROBIN NO 309 | | 13.52 |
| 879 | AUG-05 | RED ROBIN NO 309 | | 93.85 |
| 880 | JAN-05 | RED ROBIN NO 67 | | 314.77 |
| 881 | FEB-05 | RED ROBIN NO 67 | | 15.94 |
| 882 | MAR-05 | RED ROBIN NO 67 | | 157.01 |
| 883 | APR-05 | RED ROBIN NO 67 | | 210.37 |
| 884 | MAY-05 | RED ROBIN NO 67 | | 81.64 |
| 885 | JUL-05 | RED ROBIN NO 67 | | 14.11 |
| 886 | AUG-05 | RED ROBIN NO 67 | | 51.37 |
| 887 | SEP-05 | RED ROBIN NO 67 | | 27.97 |
| 888 | NOV-05 | RED ROBIN NO 67 | | 64.73 |
| 889 | JUN-05 | RELIC'S RESTAURANT | | 75.48 |
| 890 | AUG-05 | RELIC'S RESTAURANT | | 98.30 |
| 891 | DEC-05 | RELIC'S RESTAURANT | | 18.04 |
| 892 | JUL-05 | RENTAL SERVICE CORP 41 | | 36.93 |
| 893 | MAR-05 | RESIDENCE INNS-TUCSON | | 332.67 |
| 894 | APR-05 | RIO RICO RESORT RESTAU | | 401.93 |
| 895 | MAR-05 | ROCK SPRINGS CAFE | | 14.17 |
| 896 | AUG-05 | ROCK SPRINGS CAFE | | 27.28 |
| 897 | SEP-05 | ROCK SPRINGS CAFE | | 19.00 |
| 898 | OCT-05 | RODS STEAK HOUSE | | 27.14 |
| 899 | JAN-05 | ROMO S CAFE | | 30.46 |
| 900 | APR-05 | ROMO S CAFE | | 22.03 |
| 901 | AUG-05 | ROMO S CAFE | | 52.80 |
| 902 | APR-05 | ROSA'S CANTINA | | 64.17 |
| 903 | SEP-05 | ROSA'S CANTINA | | 69.45 |
| 904 | FEB-05 | ROSS STORES #441 | | 35.63 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 905 | MAR-05 | ROYAL ROAD MARKET | | $ 22.30 |
| 906 | JUN-05 | ROYAL ROAD MARKET | | 16.50 |
| 907 | JUL-05 | RUBIO'S AGUA FRIA #52 | | 13.61 |
| 908 | OCT-05 | RUBIO'S BEARDSLEY #123 | | 6.21 |
| 909 | JAN-05 | RUBY TUESDAY #4566 | | 22.78 |
| 910 | OCT-05 | RUBY TUESDAY #4566 | | 36.27 |
| 911 | NOV-05 | RUBY TUESDAY #4566 | | 22.45 |
| 912 | DEC-05 | RUBY TUESDAY #4566 | | 43.93 |
| 913 | AUG-05 | SAFARI BAR & GRILL INC | | 14.65 |
| 914 | SEP-05 | SAFARI BAR & GRILL INC | | 36.77 |
| 915 | MAR-05 | SAFEWAY STORE00002162 | | 6.74 |
| 916 | JUN-05 | SAFEWAY STORE00002162 | | 9.80 |
| 917 | SEP-05 | SAFEWAY STORE00002709 | | 19.96 |
| 918 | MAR-05 | SAFEWAY STORE00012252 | | 70.75 |
| 919 | MAR-05 | SAFEWAY STORE00012294 | | 32.62 |
| 920 | MAY-05 | SAFEWAY STORE00012294 | | 19.39 |
| 921 | FEB-05 | SAFEWAY STORE00016394 | | 22.89 |
| 922 | MAR-05 | SAFEWAY STORE00016394 | | 9.31 |
| 923 | SEP-05 | SAFEWAY STORE00016394 | | 7.14 |
| 924 | OCT-05 | SAFEWAY STORE00016394 | | 21.42 |
| 925 | DEC-05 | SAFEWAY STORE00016394 | | 31.26 |
| 926 | JAN-05 | SAFEWAY STORE00017335 | | 21.36 |
| 927 | APR-05 | SAFEWAY STORE00017335 | | 67.48 |
| 928 | JUN-05 | SAFEWAY STORE00017335 | | 18.33 |
| 929 | JUL-05 | SAFEWAY STORE00017335 | | 46.45 |
| 930 | AUG-05 | SAFEWAY STORE00017335 | | 60.87 |
| 931 | DEC-05 | SAFEWAY STORE00017335 | | 44.20 |
| 932 | MAY-05 | SAFEWAY STORE00020172 | | 10.78 |
| 933 | FEB-05 | SAFEWAY STORE00020289 | | 54.08 |
| 934 | MAR-05 | SAFEWAY STORE00020289 | | 112.38 |
| 935 | APR-05 | SAFEWAY STORE00020289 | | 38.36 |
| 936 | MAY-05 | SAFEWAY STORE00020289 | | 8.37 |
| 937 | JUN-05 | SAFEWAY STORE00020289 | | 56.33 |
| 938 | SEP-05 | SAFEWAY STORE00020289 | | 28.51 |
| 939 | NOV-05 | SAFEWAY STORE00020289 | | 4.99 |
| 940 | DEC-05 | SAFEWAY STORE00020289 | | 35.75 |
| 941 | MAR-05 | SAFEWAY STORE00020529 | | 42.32 |
| 942 | APR-05 | SAFEWAY STORE00020529 | | 20.09 |
| 943 | JUN-05 | SAFEWAY STORE00020529 | | 51.75 |
| 944 | JUL-05 | SAFEWAY STORE00020529 | | 14.78 |
| 945 | AUG-05 | SAFEWAY STORE00020529 | | 12.47 |
| 946 | APR-05 | SAFEWAY STORE 00017475 | | 9.56 |
| 947 | MAY-05 | SAFEWAY STORE 00017475 | | 8.62 |
| 948 | JUN-05 | SAMURAI SAMS TERIYAKI | | 30.89 |
| 949 | MAR-05 | SCHLOTSKYS DELI | | 22.69 |
| 950 | JUN-05 | SCHLOTSKYS DELI | | 8.00 |
| 951 | JUL-05 | SCHLOTSKYS DELI | | 6.26 |
| 952 | OCT-05 | SCHLOTSKYS DELI | | 27.33 |
| 953 | DEC-05 | SCHLOTSKYS DELI | | 22.36 |
| 954 | FEB-05 | SCOTTYS BROASTED CHICK | | 46.04 |
| 955 | MAR-05 | SCOTTYS BROASTED CHICK | | 36.63 |
| 956 | JUL-05 | SCOTTYS BROASTED CHICK | | 20.57 |
| 957 | SEP-05 | SCOTTYS BROASTED CHICK | | 71.41 |
| 958 | NOV-05 | SCOTTYS BROASTED CHICK | | 12.19 |
| 959 | DEC-05 | SCOTTYS BROASTED CHICK | | 12.46 |
| 960 | JAN-05 | SCOUT'S GOURMET GR | | 20.37 |
| 961 | JAN-05 | SDI #F06-3582 Q63 | | 6.27 |
| 962 | JAN-05 | SDI #F12-4351 Q63 | | 6.92 |
| 963 | FEB-05 | SDI #F12-4351 Q63 | | 8.42 |
| 964 | JAN-05 | SDI #F14-4427 Q63 | | 21.92 |
| 965 | FEB-05 | SDI #F14-4427 Q63 | | 10.37 |
| 966 | MAR-05 | SDI #F14-4427 Q63 | | 12.34 |
| 967 | FEB-05 | SDI #N08-1139 Q63 | | 18.82 |
| 968 | MAR-05 | SDI #N08-1139 Q63 | | 16.78 |
| 969 | MAR-05 | SDI #N18-1263 Q63 | | 9.05 |
| 970 | JUL-05 | SEARS DEALER 3238 | | 495.00 |
| 971 | FEB-05 | SEARS ROEBUCK 2358 | | 238.06 |
| 972 | NOV-05 | SEARS ROEBUCK 2358 | | 75.68 |
| 973 | APR-05 | SEDONA RED ROCK NEWS | | 43.00 |
| 974 | APR-05 | SHAKEY'S PIZZA | | 9.90 |
| 975 | DEC-05 | SHERATON CHICAGO NORTH | | 285.60 |
| 976 | DEC-05 | SHOW LOW CHAMBER O | | 25.00 |
| 977 | MAR-05 | SHOW LOW FLOWER SHOPPE | | 60.05 |
| 978 | OCT-05 | SHOW LOW FLOWER SHOPPE | | 39.43 |
| 979 | JAN-05 | SIZZLER RESTRAUNT | | 36.17 |
| 980 | JUN-05 | SIZZLER RESTRAUNT | | 13.42 |
| 981 | DEC-05 | SLEEP INN | | 64.44 |
| 982 | MAR-05 | SMITHS FOOD #4190 SS6 | | 9.98 |
| 983 | AUG-05 | SMITHS FOOD #4190 SS6 | | 24.21 |
| 984 | NOV-05 | SONIC #1073 | | 7.15 |
| 985 | APR-05 | SONIC #1077 Q63 | | 6.37 |
| 986 | DEC-05 | SONIC #1139 | | 11.28 |
| 987 | MAY-05 | SONIC #1139 Q63 | | 18.49 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 988 | JUN-05 | SONIC #1145 Q63 | | $ 6.23 |
| 989 | OCT-05 | SONIC #1145 Q63 | | 13.75 |
| 990 | MAR-05 | SONIC #1241 Q63 | | 6.38 |
| 991 | APR-05 | SONIC #1263 Q63 | | 7.97 |
| 992 | APR-05 | SONIC #3385 Q63 | | 6.27 |
| 993 | JUL-05 | SONIC #3385 Q63 | | 7.37 |
| 994 | NOV-05 | SONIC #3385 Q63 | | 6.93 |
| 995 | MAY-05 | SONIC #3582 Q63 | | 6.08 |
| 996 | OCT-05 | SONIC #4351 Q63 | | 14.26 |
| 997 | APR-05 | SONIC #4427 Q63 | | 12.88 |
| 998 | MAY-05 | SONIC #4427 Q63 | | 13.08 |
| 999 | JUN-05 | SONIC #4427 Q63 | | 16.81 |
| 1000 | DEC-05 | SONIC DRIVE IN #4833 | | 5.24 |
| 1001 | JAN-05 | SONIC DRIVE IN #483Q63 | | 5.25 |
| 1002 | MAR-05 | SONIC DRIVE IN #483Q63 | | 9.96 |
| 1003 | AUG-05 | SONIC DRIVE IN #483Q63 | | 5.25 |
| 1004 | OCT-05 | SONIC DRIVE IN #483Q63 | | 7.28 |
| 1005 | MAR-05 | SOTO'S P/K OUTPOST | | 346.72 |
| 1006 | APR-05 | SOTO'S P/K OUTPOST | | 29.78 |
| 1007 | MAY-05 | SOTO'S P/K OUTPOST | | 37.94 |
| 1008 | JUN-05 | SOTO'S P/K OUTPOST | | 32.01 |
| 1009 | OCT-05 | SOTO'S P/K OUTPOST | | 111.18 |
| 1010 | NOV-05 | SOTO'S P/K OUTPOST | | 202.36 |
| 1011 | JAN-05 | SOUPER SALAD #88 | | 13.53 |
| 1012 | MAR-05 | SOUPER SALAD #88 | | 28.07 |
| 1013 | APR-05 | SOUPER SALAD #88 | | 39.61 |
| 1014 | JUN-05 | SOUPER SALAD #88 | | 14.53 |
| 1015 | DEC-05 | SPENCER GIFTS # 164 | | 64.85 |
| 1016 | APR-05 | SPRINGHILL SUITES -PRE | | 120.93 |
| 1017 | OCT-05 | SPRINGHILL SUITES -PRE | | 208.41 |
| 1018 | OCT-05 | STARBUCKS USA 00058Q48 | | 6.01 |
| 1019 | JAN-05 | STREETS OF NEW YORK #1 | | 42.00 |
| 1020 | FEB-05 | STREETS OF NEW YORK #1 | | 41.66 |
| 1021 | MAR-05 | STREETS OF NEW YORK #1 | | 84.84 |
| 1022 | AUG-05 | STREETS OF NEW YORK #1 | | 248.61 |
| 1023 | SEP-05 | STREETS OF NEW YORK #1 | | 20.85 |
| 1024 | NOV-05 | STREETS OF NEW YORK #1 | | 33.03 |
| 1025 | MAR-05 | SU CASA OF CLARKDALE | | 20.86 |
| 1026 | APR-05 | SU CASA OF CLARKDALE | | 53.24 |
| 1027 | JUN-05 | SU CASA OF CLARKDALE | | 79.17 |
| 1028 | AUG-05 | SU CASA OF CLARKDALE | | 27.24 |
| 1029 | FEB-05 | SUBWAY | | 5.10 |
| 1030 | JUL-05 | SUBWAY # 25887 Q16 | | 5.72 |
| 1031 | AUG-05 | SUBWAY # 25887 Q16 | | 6.58 |
| 1032 | NOV-05 | SUBWAY # 26252 | | 8.91 |
| 1033 | MAR-05 | SUBWAY #15739 Q16 | | 5.07 |
| 1034 | APR-05 | SUBWAY #15739 Q16 | | 36.12 |
| 1035 | JUL-05 | SUBWAY 14220 Q16 | | 5.99 |
| 1036 | OCT-05 | SUBWAY 14220 Q16 | | 6.10 |
| 1037 | NOV-05 | SUBWAY 14220 Q16 | | 6.10 |
| 1038 | SEP-05 | SUBWAY 17795 | | 17.05 |
| 1039 | JAN-05 | SUBWAY 21530 Q16 | | 5.83 |
| 1040 | JAN-05 | SUBWAY 2296 Q16 | | 6.05 |
| 1041 | FEB-05 | SUBWAY 2296 Q16 | | 6.05 |
| 1042 | APR-05 | SUBWAY 2296 Q16 | | 5.94 |
| 1043 | APR-05 | SUBWAY 25137 Q16 | | 5.07 |
| 1044 | JAN-05 | SUBWAY 27911 Q16 | | 11.46 |
| 1045 | FEB-05 | SUBWAY 27912 Q16 | | 5.83 |
| 1046 | JAN-05 | SUBWAY 6361 Q16 | | 27.77 |
| 1047 | MAR-05 | SUBWAY 6361 Q16 | | 5.49 |
| 1048 | MAR-05 | SUNWEST EXPRESS #280 | | 8.44 |
| 1049 | MAR-05 | SUPER 8 MOTELS NOGALES | | 166.95 |
| 1050 | MAR-05 | SWEET & SUBS | | 24.41 |
| 1051 | JUN-05 | SWEET & SUBS | | 9.44 |
| 1052 | JUL-05 | SWEET & SUBS | | 14.27 |
| 1053 | AUG-05 | SWEET & SUBS | | 22.34 |
| 1054 | NOV-05 | SWEET & SUBS | | 111.91 |
| 1055 | DEC-05 | SWEET & SUBS | | 29.57 |
| 1056 | OCT-05 | SZECHUAN RESTAURANT | | 10.80 |
| 1057 | NOV-05 | SZECHUAN RESTAURANT | | 73.96 |
| 1058 | MAR-05 | T.G.I. FRIDAY'S #1141 | | 11.33 |
| 1059 | MAR-05 | TACO BELL #9565 Q65 | | 7.66 |
| 1060 | APR-05 | TACO DONS | | 104.10 |
| 1061 | OCT-05 | TACO DONS | | 104.01 |
| 1062 | OCT-05 | TACO HACIENDA | | 30.65 |
| 1063 | AUG-05 | TANIA 33 | | 5.97 |
| 1064 | JAN-05 | TARGET 00009357 | | 23.76 |
| 1065 | MAR-05 | TARGET 00009357 | | 19.77 |
| 1066 | JUL-05 | TARGET 00009357 | | 29.94 |
| 1067 | DEC-05 | TARGET 00009357 | | 1,273.15 |
| 1068 | SEP-05 | TEMPE HOOTERS INC | | 130.43 |
| 1069 | SEP-05 | TEMPE MISSION PALM HTL | | 140.10 |
| 1070 | SEP-05 | TEMPE MISSION PALMS HO | | 2,749.10 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1071 | AUG-05 | TEQUILA CHARLIE'S | | $ 17.22 |
| 1072 | FEB-05 | TEQUILA CHARLIES LLC | | 21.20 |
| 1073 | OCT-05 | TERESA'S MOSAIC CAFE | | 27.00 |
| 1074 | MAR-05 | TERRIBLE HERBST #148 | | 7.20 |
| 1075 | AUG-05 | TEXAS RDHSE HOLDINGS L | | 30.84 |
| 1076 | OCT-05 | TGI_FRIDAYS #0803 | | 36.18 |
| 1077 | FEB-05 | THE CROWN RR CAFE-EAST | | 176.20 |
| 1078 | MAR-05 | THE CROWN RR CAFE-WEST | | 83.47 |
| 1079 | JUL-05 | THE CROWN RR CAFE-WEST | | 18.71 |
| 1080 | DEC-05 | THE CROWN RR CAFE-WEST | | 35.30 |
| 1081 | NOV-05 | THE FRESH TOMATO | | 23.43 |
| 1082 | OCT-05 | THE HOME DEPOT 0411 | | 30.20 |
| 1083 | DEC-05 | THE HOME DEPOT 0411 | | 43.18 |
| 1084 | JAN-05 | THE HOME DEPOT 482 | | 37.08 |
| 1085 | FEB-05 | THE HOME DEPOT 482 | | 108.10 |
| 1086 | MAR-05 | THE HOME DEPOT 482 | | 165.14 |
| 1087 | MAY-05 | THE HOME DEPOT 482 | | 164.24 |
| 1088 | JUN-05 | THE HOME DEPOT 482 | | 21.28 |
| 1089 | AUG-05 | THE HOME DEPOT 482 | | 49.50 |
| 1090 | SEP-05 | THE HOME DEPOT 482 | | 46.71 |
| 1091 | NOV-05 | THE HOME DEPOT 482 | | 33.27 |
| 1092 | NOV-05 | THE LONE SPUR CAFE | | 25.78 |
| 1093 | MAY-05 | THE OFFICE RESTAURANT | | 34.13 |
| 1094 | OCT-05 | THE OFFICE RESTAURANT | | 42.36 |
| 1095 | FEB-05 | THE OFFICE RESTAURNT&B | | 83.94 |
| 1096 | AUG-05 | THE OLD SPAGHETTI FACT | | 10.00 |
| 1097 | APR-05 | THE OLIVE GARD00010116 | | 5.76 |
| 1098 | JAN-05 | THE OLIVE GARD00015131 | | 76.12 |
| 1099 | APR-05 | THE OLIVE GARD00015131 | | 73.11 |
| 1100 | MAY-05 | THE OLIVE GARD00015131 | | 90.20 |
| 1101 | JUN-05 | THE OLIVE GARD00015131 | | 34.96 |
| 1102 | JUL-05 | THE OLIVE GARD00015131 | | 36.97 |
| 1103 | AUG-05 | THE OLIVE GARD00015131 | | 73.84 |
| 1104 | NOV-05 | THE OLIVE GARD00015131 | | 255.11 |
| 1105 | DEC-05 | THE OLIVE GARD00015131 | | 50.88 |
| 1106 | JUN-05 | THE PLACE M&R'S RE | | 29.95 |
| 1107 | AUG-05 | THE PLACE M&R'S RE | | 15.77 |
| 1108 | SEP-05 | THE PLACE M&R'S RE | | 7.95 |
| 1109 | AUG-05 | THE SIZZLER | | 35.17 |
| 1110 | SEP-05 | THE SIZZLER | | 6.50 |
| 1111 | DEC-05 | THE SIZZLER | | 28.58 |
| 1112 | DEC-05 | THE TOWNE SCRIBE | | 3.25 |
| 1113 | JUL-05 | THE TURQUOISE ROOM | | 40.84 |
| 1114 | JAN-05 | THE WAFFLE IRON | | 16.29 |
| 1115 | FEB-05 | THE WAFFLE IRON | | 28.38 |
| 1116 | NOV-05 | THE WAFFLE IRON | | 16.03 |
| 1117 | OCT-05 | THUMB BUTTE ROOM | | 37.00 |
| 1118 | MAY-05 | TONYS SPUNKY STEER | | 24.41 |
| 1119 | OCT-05 | TORREON GOLF CLUB LLC | | 21.65 |
| 1120 | DEC-05 | TOTAL GRAND RENTAL STA | | 41.63 |
| 1121 | MAR-05 | TRAPPERS CAFE | | 92.80 |
| 1122 | APR-05 | TRAPPERS CAFE | | 63.02 |
| 1123 | MAY-05 | TRAPPERS CAFE | | 15.80 |
| 1124 | JUN-05 | TRAPPERS CAFE | | 14.95 |
| 1125 | JUL-05 | TRAPPERS CAFE | | 46.21 |
| 1126 | AUG-05 | TRAPPERS CAFE | | 68.59 |
| 1127 | SEP-05 | TRAPPERS CAFE | | 51.03 |
| 1128 | DEC-05 | TRAPPER'S CAFE | | 32.25 |
| 1129 | MAR-05 | TUCSON HOOTERS INC | | 77.46 |
| 1130 | FEB-05 | UGLY GREEN CAFE | | 6.50 |
| 1131 | MAR-05 | UGLY GREEN CAFE & LOUN | | 18.00 |
| 1132 | APR-05 | UGLY GREEN CAFE & LOUN | | 39.50 |
| 1133 | MAY-05 | UGLY GREEN CAFE & LOUN | | 41.00 |
| 1134 | JUN-05 | UGLY GREEN CAFE & LOUN | | 30.00 |
| 1135 | JUN-05 | U-HAUL-ARABIAN-CAMPE # | | 183.28 |
| 1136 | JUN-05 | U-HAUL-SILVER-SADDL #6 | | (91.64) |
| 1137 | MAR-05 | UNCLE SAMS | | 22.62 |
| 1138 | NOV-05 | UNIQUE TRACKS | | 396.00 |
| 1139 | AUG-05 | VAGABOND HOTEL CIRCLE | | 140.28 |
| 1140 | APR-05 | VERDE LEA MARKET | | 12.06 |
| 1141 | JUN-05 | VERDE LEA MARKET | | 12.06 |
| 1142 | JAN-05 | VERDE VALLEY NEWSPAPER | | 93.00 |
| 1143 | JAN-05 | VILLA PIZZA #1203 Q93 | | 11.35 |
| 1144 | DEC-05 | VILLA S FOOD MARKET | | 7.84 |
| 1145 | OCT-05 | VILLAGE-INN-REST #0394 | | 11.24 |
| 1146 | JAN-05 | WAL MART | | 18.46 |
| 1147 | AUG-05 | WAL MART | | 44.62 |
| 1148 | SEP-05 | WAL MART | | 36.08 |
| 1149 | OCT-05 | WAL MART | | 9.60 |
| 1150 | DEC-05 | WAL MART | | 63.88 |
| 1151 | SEP-05 | WALDENBOOKS 01009422 | | 28.06 |
| 1152 | SEP-05 | WALDOS BBQ | | 36.56 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1153 | JUN-05 | WALGREEN 00052Q39 | | $ 12.95 |
| 1154 | AUG-05 | WALGREEN 00052Q39 | | 2.58 |
| 1155 | DEC-05 | WALGREEN 00052Q39 | | 21.60 |
| 1156 | JAN-05 | WALGREEN 00076232 | | 12.01 |
| 1157 | MAY-05 | WAL-MART #1175 | | 0.50 |
| 1158 | JUN-05 | WAL-MART #1175 | | 37.78 |
| 1159 | DEC-05 | WAL-MART #1175 | | 34.90 |
| 1160 | JUN-05 | WAL-MART #1230 SE2 | | 38.33 |
| 1161 | AUG-05 | WAL-MART #1230 SE2 | | 30.81 |
| 1162 | OCT-05 | WAL-MART #1230 SE2 | | 54.57 |
| 1163 | NOV-05 | WAL-MART #1230 SE2 | | 39.76 |
| 1164 | DEC-05 | WAL-MART #1230 SE2 | | 41.36 |
| 1165 | OCT-05 | WAL-MART #1324 SE2 | | 16.16 |
| 1166 | NOV-05 | WAL-MART #1324 SE2 | | 167.08 |
| 1167 | SEP-05 | WAL-MART #1364 | | 4.23 |
| 1168 | JUL-05 | WAL-MART #1417 SE2 | | 251.09 |
| 1169 | JUN-05 | WAL-MART #2051 SE2 | | 14.41 |
| 1170 | JUL-05 | WAL-MART #2051 SE2 | | 18.44 |
| 1171 | DEC-05 | WAL-MART #5303 SE2 | | 77.24 |
| 1172 | FEB-05 | WAL-MART STORES, INC | | 15.01 |
| 1173 | JAN-05 | WAL-MART STORES, INSE2 | | 10.59 |
| 1174 | FEB-05 | WAL-MART STORES, INSE2 | | 48.28 |
| 1175 | MAR-05 | WAL-MART STORES, INSE2 | | 41.85 |
| 1176 | APR-05 | WAL-MART STORES, INSE2 | | 61.63 |
| 1177 | DEC-05 | WARNERS NURSERY/LANDSC | | 59.39 |
| 1178 | JAN-05 | WAYSIDE CAFE | | 22.09 |
| 1179 | JUL-05 | WAYSIDE CAFE | | 22.09 |
| 1180 | OCT-05 | WAYSIDE CAFE | | 9.14 |
| 1181 | NOV-05 | WENDYS | | 9.11 |
| 1182 | JAN-05 | WENDY'S #0001 Q25 | | 22.26 |
| 1183 | APR-05 | WENDYS #8809 | | 5.18 |
| 1184 | SEP-05 | WENDYS NO 413 Q50 | | 9.26 |
| 1185 | JAN-05 | WESTERN WAREHOUSE #260 | | 77.83 |
| 1186 | JAN-05 | WESTSIDE LILO'S CA | | 12.64 |
| 1187 | FEB-05 | WESTSIDE LILO'S CA | | 23.67 |
| 1188 | MAY-05 | WESTSIDE LILO'S CA | | 149.10 |
| 1189 | AUG-05 | WESTSIDE LILO'S CA | | 15.18 |
| 1190 | SEP-05 | WESTSIDE LILO'S CA | | 27.42 |
| 1191 | OCT-05 | WESTSIDE LILO'S CA | | 10.58 |
| 1192 | NOV-05 | WESTSIDE LILO'S CA | | 11.57 |
| 1193 | DEC-05 | WESTSIDE LILO'S CA | | 30.52 |
| 1194 | APR-05 | WHATABURGER #227 | | 5.76 |
| 1195 | MAR-05 | WHATABURGER #775 | | 11.08 |
| 1196 | NOV-05 | WHATABURGER 227 Q26 | | 6.67 |
| 1197 | NOV-05 | WHATABURGER 775 Q26 | | 16.03 |
| 1198 | APR-05 | WHITE MTN PUBLISH | | 74.00 |
| 1199 | AUG-05 | WHITE MTN PURIFIED WAT | | 118.04 |
| 1200 | SEP-05 | WHITE MTN PURIFIED WAT | | 145.28 |
| 1201 | OCT-05 | WHITE MTN PURIFIED WAT | | 45.40 |
| 1202 | NOV-05 | WHITE MTN PURIFIED WAT | | 45.40 |
| 1203 | OCT-05 | WILDFLOWER BREAD COMPA | | 28.20 |
| 1204 | MAR-05 | WILLOW CREEK INN | | 18.71 |
| 1205 | DEC-05 | WILLOW CREEK INN | | 45.43 |
| 1206 | AUG-05 | WINGATE INN PHOENIX | | 88.54 |
| 1207 | JAN-05 | WM SUPERCENTER SE2 | | 107.70 |
| 1208 | MAR-05 | WM SUPERCENTER SE2 | | 134.54 |
| 1209 | APR-05 | WM SUPERCENTER SE2 | | 99.67 |
| 1210 | MAY-05 | WM SUPERCENTER SE2 | | 9.08 |
| 1211 | JUN-05 | WM SUPERCENTER SE2 | | 154.66 |
| 1212 | JUL-05 | WM SUPERCENTER SE2 | | 59.04 |
| 1213 | AUG-05 | WM SUPERCENTER SE2 | | 104.40 |
| 1214 | SEP-05 | WM SUPERCENTER SE2 | | 84.00 |
| 1215 | OCT-05 | WM SUPERCENTER SE2 | | 47.52 |
| 1216 | NOV-05 | WM SUPERCENTER SE2 | | 228.68 |
| 1217 | DEC-05 | WM SUPERCENTER SE2 | | 314.80 |
| 1218 | JAN-05 | WOODLANDS PLAZA HOTEL | | 214.74 |
| 1219 | FEB-05 | WOODLANDS PLAZA HOTEL | | 143.16 |
| 1220 | MAR-05 | WOODLANDS PLAZA HOTEL | | 71.58 |
| 1221 | APR-05 | WOODLANDS PLAZA HOTEL | | 92.50 |
| 1222 | AUG-05 | WOODLANDS PLAZA HOTEL | | 156.06 |
| 1223 | OCT-05 | WOODLANDS PLAZA HOTEL | | 838.51 |
| 1224 | NOV-05 | WOODLANDS PLAZA HOTEL | | 880.94 |
| 1225 | MAY-05 | WOODY'S # 134 | | 2.18 |
| 1226 | AUG-05 | WOODY'S #118 | | 5.24 |
| 1227 | APR-05 | WOODY'S #128 | | 10.34 |
| 1228 | JUN-05 | WOODY'S #128 | | 35.12 |
| 1229 | MAR-05 | YAVAPAI CANTINA | | 42.00 |
| 1230 | APR-05 | YAVAPAI CANTINA | | 18.50 |
| 1231 | NOV-05 | YAVAPAI CANTINA | | 5.75 |
| 1232 | SEP-05 | YC'S MONGOLIAN BARBQ70 | | 19.00 |
| 1233 | AUG-05 | YOSHIS #2 | | 6.70 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1234 | JAN-05 | ZEKE S EATIN PLACE | | $ 146.36 |
| 1235 | FEB-05 | ZEKE S EATIN PLACE | | 75.30 |
| 1236 | APR-05 | ZEKE S EATIN PLACE | | 212.66 |
| 1237 | JUN-05 | ZEKE'S EATIN PLACE | | 273.34 |
| 1238 | AUG-05 | ZEKE'S EATIN PLACE | | 219.04 |
| 1239 | NOV-05 | ZEKE'S EATIN PLACE | | 36.78 |
| 1240 | JAN-05 | EXCHANGE CLUB | 284 | 125.00 |
| 1241 | MAY-05 | EXCHANGE CLUB | 320 | 125.00 |
| 1242 | JUL-05 | EXCHANGE CLUB | 367 | 125.00 |
| 1243 | NOV-05 | FARMER BROTHERS COFFEE | 02202167981 093005 | 65.37 |
| 1244 | JAN-05 | FARMER BROTHERS COFFEE | 2493025 | 192.76 |
| 1245 | JAN-05 | FARMER BROTHERS COFFEE | 2493347 | 168.84 |
| 1246 | JAN-05 | FARMER BROTHERS COFFEE | 2493678 | 159.27 |
| 1247 | APR-05 | FARMER BROTHERS COFFEE | 2494319 | 119.14 |
| 1248 | APR-05 | FARMER BROTHERS COFFEE | 2494649 | 221.93 |
| 1249 | AUG-05 | FARMER BROTHERS COFFEE | 2494971 | 167.05 |
| 1250 | AUG-05 | FARMER BROTHERS COFFEE | 2495300 | 118.37 |
| 1251 | AUG-05 | FARMER BROTHERS COFFEE | 2495633 | 162.46 |
| 1252 | AUG-05 | FARMER BROTHERS COFFEE | 2495939 | 149.52 |
| 1253 | AUG-05 | FARMER BROTHERS COFFEE | 2496243 | 60.43 |
| 1254 | JAN-05 | FLAGSTAFF CHAMBER OF COMMERCE | 1014553 | 800.00 |
| 1255 | AUG-05 | FLAGSTAFF CHAMBER OF COMMERCE | 1015606 | 828.00 |
| 1256 | SEP-05 | FLAGSTAFF CHAMBER OF COMMERCE | 1016083 | 750.00 |
| 1257 | NOV-05 | FOG BAND | 111705 50000 | 250.00 |
| 1258 | AUG-05 | KINGMAN CHAMBER OF COMMERCE | 207515 | 386.00 |
| 1259 | FEB-05 | KINGMAN ROTARY CLUB | 020805 15000 | 150.00 |
| 1260 | JUN-05 | KINGMAN ROTARY CLUB | 061505 25000 | 250.00 |
| 1261 | AUG-05 | KINGMAN ROTARY CLUB | 081805 20800 | 208.00 |
| 1262 | JAN-05 | NILES RADIO | 230966 | 185.00 |
| 1263 | FEB-05 | NILES RADIO | 231251 | 185.00 |
| 1264 | MAR-05 | NILES RADIO | 231521 | 185.00 |
| 1265 | APR-05 | NILES RADIO | 231796 | 185.00 |
| 1266 | MAY-05 | NILES RADIO | 232126 | 185.00 |
| 1267 | JUN-05 | NILES RADIO | 232380 | 185.00 |
| 1268 | JUL-05 | NILES RADIO | 232761 | 185.00 |
| 1269 | OCT-05 | NILES RADIO | 233127 | 185.00 |
| 1270 | OCT-05 | NILES RADIO | 233664 | 185.00 |
| 1271 | NOV-05 | NILES RADIO | 233873 | 555.00 |
| 1272 | SUB-TOTAL | | | $ 106,442.55 |
| AS PER COMPANY RESPONSE TO STAFF DATA REQUEST 5.58 | | | | |
| 1273 | APR-05 | CENTER TIRE | | $ 8.50 |
| 1274 | MAY05 | CITY OF SHOW LOW | | 225.00 |
| 1275 | NOV-05 | NAU TICKETING | | 400.00 |
| 1276 | TOTAL | | | $ 107,076.05 |

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 923**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1 | OCT-05 | ANGELINAS ITALIAN CUIS | | 34.45 |
| 2 | OCT-05 | ARIZONA SHUTTLE | | 21.00 |
| 3 | DEC-05 | AS MECH ENG INTRNATL C | | 100.33 |
| 4 | FEB-05 | AVIS RENT-A-CAR 1 | | 132.14 |
| 5 | MAY-05 | AVIS RENT-A-CAR 1 | | 121.28 |
| 6 | MAY-05 | BAHAMA BREEZE 00030304 | | 51.16 |
| 7 | SEP-05 | BATTISTA S HOLE IN THE | | 59.49 |
| 8 | MAR-05 | BEAVER STREET BREWERY | | 33.00 |
| 9 | JUL-05 | BEAVER STREET BREWERY | | 29.00 |
| 10 | NOV-05 | BEAVER STREET FAMILY P | | 75.00 |
| 11 | MAY-05 | BELLE FLEUR WINERY & R | | 24.77 |
| 12 | FEB-05 | BEST WESTERN HOTELS | | 69.11 |
| 13 | FEB-05 | BRANDING IRON STKHSE | | 31.00 |
| 14 | FEB-05 | BUDGET RENT-A-CAR | | 87.78 |
| 15 | MAR-05 | BUSTER S RESTAURANT | | 30.50 |
| 16 | APR-05 | BUSTER S RESTAURANT | | 26.82 |
| 17 | MAY-05 | BUSTER S RESTAURANT | | 204.98 |
| 18 | JUN-05 | BUSTER S RESTAURANT | | 43.01 |
| 19 | OCT-05 | BUSTER S RESTAURANT | | 24.34 |
| 20 | MAY-05 | CALIFORNIA CAFE BAR/GR | | 22.26 |
| 21 | MAY-05 | CAPIN CAR CARE CENTER | | 6.00 |
| 22 | FEB-05 | CIRCLE K 00166 | | 20.01 |
| 23 | MAR-05 | CIRCLE K 00166 | | 17.51 |
| 24 | NOV-05 | CIRCLE K 05923 | | 47.61 |
| 25 | NOV-05 | CIRCLE K 08594 | | 38.52 |
| 26 | FEB-05 | CIRCLE K 08772 | | 18.83 |
| 27 | JUN-05 | CLAIM JUMPER #25 | | 26.59 |
| 28 | JUL-05 | COCOS BAKERY RESTAURAN | | 8.90 |
| 29 | SEP-05 | COCOS BAKERY RESTAURAN | | 21.13 |
| 30 | SEP-05 | DAMBAR & STEAKHOUSE | | 23.76 |
| 31 | MAY-05 | DOUBLETREE HOTEL F&B | | 22.00 |
| 32 | SEP-05 | EMBASSY SUITES FLAGTIP | | 218.02 |
| 33 | NOV-05 | EMBASSY SUITES FLAGTIP | | 526.16 |
| 34 | FEB-05 | EXPEDIA*TRAVEL | | 113.61 |
| 35 | MAY-05 | GAS CITY 615 | | 23.71 |
| 36 | MAR-05 | GOLDEN CORRAL 00007Q15 | | 15.46 |
| 37 | FEB-05 | GOLDEN NUGGET HOTEL | | 29.62 |
| 38 | FEB-05 | GREAT STEAK AND POTATO | | 20.00 |
| 39 | MAR-05 | GREAT STEAK AND POTATO | | 17.90 |
| 40 | OCT-05 | GURLEY STREET GRILL | | 6.82 |
| 41 | OCT-05 | HASSAYAMPA RESTAURANT | | 17.59 |
| 42 | DEC-05 | HASSAYAMPA RESTAURANT | | 14.15 |
| 43 | FEB-05 | HMSHOST-LAS-AIRPT #005 | | 29.00 |
| 44 | NOV-05 | HOLIDAY INN EXPRESSTIP | | 39.50 |
| 45 | MAR-05 | HOLIDAY INNS EXPRESS | | 34.58 |
| 46 | AUG-05 | HOTELS.COM - MC | | 24.50 |
| 47 | NOV-05 | HOUSE OF BREAD | | 20.65 |
| 48 | DEC-05 | HOUSE OF BREAD | | 22.02 |
| 49 | JUL-05 | IHOP #3033 | | 7.08 |
| 50 | JUL-05 | JACKSONS GRILL | | 28.00 |
| 51 | NOV-05 | JACKSONS GRILL | | 124.18 |
| 52 | MAY-05 | JITTERS GOURMET COFFEE | | 11.73 |
| 53 | JUN-05 | JUNIPINE CAFE | | 6.30 |
| 54 | FEB-05 | KINGMAN DELI, THE | | 24.52 |
| 55 | NOV-05 | KINGMAN DELI, THE | | 900.00 |
| 56 | MAY-05 | LA VALENCIA HOTEL | | 47.77 |
| 57 | FEB-05 | LAQUINTA_FLAGSTAFF PAA | | 102.54 |
| 58 | FEB-05 | LAQUINTA_PHOENIX #0PAA | | 52.96 |
| 59 | SEP-05 | LAS VEGAS EMBASSY STIP | | 140.61 |
| 60 | FEB-05 | LICANO'S MEXICAN F | | 22.00 |
| 61 | DEC-05 | LITTLE AMERICA FLAGSTA | | 101.60 |
| 62 | APR-05 | LONDON BRIDGE RESORT | | 115.77 |
| 63 | FEB-05 | LUXOR HOTEL/CASINO | | 32.00 |
| 64 | JAN-05 | MAIN STREET CATERING | | 20.82 |
| 65 | JUL-05 | MAIN STREET CATERING | | 15.80 |
| 66 | SEP-05 | MAIN STREET CATERING | | 178.97 |
| 67 | MAY-05 | MARRIOTT HOTELS UNIVER | | 12.27 |
| 68 | FEB-05 | MARRIOTT HOTELS WEST L | | 263.05 |
| 69 | FEB-05 | MAVERIK CNTRY STRE | | 29.45 |
| 70 | FEB-05 | MURPHYS | | 61.66 |
| 71 | JAN-05 | OGDENS CLEANERS | | 20.00 |
| 72 | FEB-05 | OLD PUEBLO GRILLE | | 31.86 |
| 73 | SEP-05 | OPEN ROAD TOURES INC | | 125.00 |
| 74 | JUN-05 | OUR DAILY BREAD | | 177.60 |
| 75 | SEP-05 | OUR DAILY BREAD | | 26.62 |
| 76 | FEB-05 | OUR DAILY BREAD DELI | | 46.55 |
| 77 | MAR-05 | OUR DAILY BREAD DELI | | 114.80 |
| 78 | DEC-05 | PAYPAL *WIDESCANINC | | 100.00 |
| 79 | AUG-05 | PRESCOTT CONVENTION CT | | 388.91 |
| 80 | DEC-05 | PRESCOTT CONVENTION CT | | 42.59 |
| 81 | NOV-05 | PRESCOTT COURIER-ADVER | | 118.30 |
| 82 | FEB-05 | PRESCOTT RESORT & CONV | | 111.18 |
| 83 | NOV-05 | PRESCOTT TRUE VALUE HA | | 560.79 |
| 84 | JUL-05 | QUALITY INN | | 73.13 |
| 85 | SEP-05 | RADIO SHACK 00134718 | | 107.85 |
| 86 | MAR-05 | RADISSON HOTELS-WOODLA | | 57.00 |
| 87 | JUL-05 | RADISSON HOTELS-WOODLA | | 29.00 |
| 88 | NOV-05 | RADISSON HOTELS-WOODLA | | 12.95 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 923**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 89 | MAY-05 | RED ROBIN NO 67 | | $ 64.73 |
| 90 | OCT-05 | RODS STEAK HOUSE | | 58.57 |
| 91 | FEB-05 | RULA BULA, TEMPE IRISH | | 35.30 |
| 92 | FEB-05 | SAFEWAY STORE00020289 | | 10.25 |
| 93 | JUL-05 | SAFEWAY STORE00020289 | | 8.75 |
| 94 | SEP-05 | SAFEWAY STORE00020289 | | 11.53 |
| 95 | FEB-05 | SHUGRUE'S HILLSIDE GRI | | 41.59 |
| 96 | JUL-05 | SHUGRUES RESTAURANT | | 39.42 |
| 97 | SEP-05 | SHUGRUES RESTAURANT | | 135.76 |
| 98 | APR-05 | SKY HARBOR AIRPORT T4 | | 63.00 |
| 99 | FEB-05 | SOUTHWES 5262738944536 | | 109.20 |
| 100 | FEB-05 | SUBWAY # 12395 Q16 | | 6.21 |
| 101 | SEP-05 | SUNSPOTS PRODUCTIONS I | | 356.50 |
| 102 | DEC-05 | SUNSPOTS PRODUCTIONS I | | 427.00 |
| 103 | MAR-05 | SUPERSHUTTLE BALT | | 31.00 |
| 104 | MAR-05 | TARGET 00009357 | | 37.83 |
| 105 | JUL-05 | THE AGAVE INN | | 54.83 |
| 106 | SEP-05 | THE AGAVE INN | | 109.67 |
| 107 | OCT-05 | THE AGAVE INN | | 54.83 |
| 108 | NOV-05 | THE AGAVE INN | | 54.83 |
| 109 | MAR-05 | THE OLIVE GARD00015131 | | 33.00 |
| 110 | FEB-05 | TUCSON AIRPORT TRMNL P | | 12.00 |
| 111 | MAY-05 | TUCSON AIRPORT TRMNL P | | 16.00 |
| 112 | OCT-05 | WESTIN KIERLAND RESTIP | | 136.17 |
| 113 | JUL-05 | WINDROCK AVIATION | | 332.00 |
| 114 | FEB-05 | WLI*RESERVATIONREWARDS | | 7.00 |
| 115 | FEB-05 | WOODLANDS PLAZA HOTEL | | 223.16 |
| 116 | MAR-05 | WOODLANDS PLAZA HOTEL | | 497.90 |
| 117 | JUN-05 | WOODLANDS PLAZA HOTEL | | 89.61 |
| 118 | JUL-05 | WOODLANDS PLAZA HOTEL | | 162.47 |
| 119 | SEP-05 | YAVAPAI BUS TOURS | | 235.00 |
| 120 | APR-05 | ENTERPRISE RENT A CAR | L67392 0305 | 666.78 |
| 121 | AUG-05 | ENTERPRISE RENT A CAR | JULY 2005 | 120.58 |
| 122 | DEC-05 | ENTERPRISE RENT A CAR | 113005 1752985 | 202.77 |
| 123 | JAN-05 | ENTERPRISE RENT A CAR | D048904-271T | 202.77 |
| 124 | JUL-05 | ENTERPRISE RENT A CAR | JUNE 2005 | 204.00 |
| 125 | JUN-05 | ENTERPRISE RENT A CAR | MAY 2005 | 196.11 |
| 126 | MAR-05 | ENTERPRISE RENT A CAR | DEC-04 | 202.77 |
| 127 | MAR-05 | ENTERPRISE RENT A CAR | FEB-05 | 269.19 |
| 128 | MAR-05 | ENTERPRISE RENT A CAR | JAN-05 | 795.33 |
| 129 | NOV-05 | ENTERPRISE RENT A CAR | 103105 915873 | 312.63 |
| 130 | OCT-05 | ENTERPRISE RENT A CAR | SEPT 2005 | 148.11 |
| 131 | SEP-05 | ENTERPRISE RENT A CAR | AUGUST 2005 | 182.16 |
| 132 | MAY-05 | HOLIDAY INN | apr 06 | 314.56 |
| 133 | DEC-05 | NILES RADIO | 234190 | 185.00 |
| 134 | APR-05 | PARKS AND RECREATION | 041905 3000 | 30.00 |
| 135 | APR-05 | PARKS AND RECREATION | 041905 5000 | 50.00 |
| 136 | FEB-05 | PETTY CASH | RPC39040NEVENHOVEN | 9.00 |
| 137 | MAR-05 | SIMPLY DELICIOUS | 82001 0205 | 102.50 |
| 138 | TOTAL | | | $ 14,738.15 |

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 926**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | NET AMOUNT |
|---|---|---|---|
| 1 | OCTOBER 2005 | LAKE HAVASU RETIREMENT LUNCHEON FOR BRENDA BARRANCO PAOD TO CASA SERRANO | $ 100.00 |
| 2 | DECEMBER 2005 | VERDE VALLEY GAS EMPLOYEE APPRECIATION DINNER PAID TO SU CASA RESTAURANT | 379.51 |
| 3 | DECEMBER 2005 | PRESCOTT GAS EMPLOYEE APPRECIATION DINNER PAID FOR RELATED DINNER EXPENSES | 5,750.00 |
| 4 | TOTAL | | $ 6,229.51 |

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 930**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 1 | FEB-05 | 050 WORLD MKT 00000505 | | $ 8.00 |
| 2 | JAN-05 | ALBERTSONS #967 S9H | | 19.97 |
| 3 | MAR-05 | ALFONSO S | | 7.00 |
| 4 | JUL-05 | ALFONSO S | | 9.32 |
| 5 | OCT-05 | ALFONSO S | | 5.68 |
| 6 | APR-05 | ALIBERTOS MEXICAN FOOD | | 8.94 |
| 7 | SEP-05 | AMERICA | | 335.00 |
| 8 | FEB-05 | AMERISUITES - FF | | 139.82 |
| 9 | MAY-05 | AMERISUITES - FF | | 59.46 |
| 10 | OCT-05 | AMERISUITES - FF | | 88.09 |
| 11 | MAR-05 | ARIZONA DAILY SUN-INTE | | 2.95 |
| 12 | OCT-05 | BARLEY BROTHERS BREWER | | 106.59 |
| 13 | AUG-05 | BARRIO | | 22.00 |
| 14 | FEB-05 | BASHA S 18 SYW | | 10.87 |
| 15 | JUN-05 | BASHAS 53 SYW | | 7.83 |
| 16 | DEC-05 | BASHAS 67 SYW | | 13.59 |
| 17 | JUN-05 | BEAVER STREET BREWERY | | 35.79 |
| 18 | MAR-05 | BEST WESTERN ADOBE INN | | 504.12 |
| 19 | JUL-05 | BEST WESTERN ADOBE INN | | 162.14 |
| 20 | NOV-05 | BEST WESTERN ADOBE INN | | 133.26 |
| 21 | JUL-05 | BISON WITCHES BAR & DE | | 32.17 |
| 22 | NOV-05 | BOJOS GRILL | | 14.00 |
| 23 | NOV-05 | BRUEGGERS BAGEL BAKERY | | 13.83 |
| 24 | SEP-05 | BUDGET RENT-A-CAR | | 113.08 |
| 25 | JAN-05 | BUSTER S RESTAURANT | | 121.82 |
| 26 | JUN-05 | BUSTER S RESTAURANT | | 30.12 |
| 27 | SEP-05 | BUSTER S RESTAURANT | | 24.21 |
| 28 | NOV-05 | BUSTER S RESTAURANT | | 158.70 |
| 29 | DEC-05 | BUSTER S RESTAURANT | | 68.20 |
| 30 | FEB-05 | CAFE ESPRESS | | 16.72 |
| 31 | MAR-05 | CAREER STYLES ETC | | 78.73 |
| 32 | APR-05 | CHILI'S GRI04900010496 | | 49.64 |
| 33 | FEB-05 | CHILI'S GRI41600004168 | | 11.87 |
| 34 | JUN-05 | CIRCLE K 01116 | | 1.53 |
| 35 | JUN-05 | CIRCLE K 01846 | | 1.61 |
| 36 | JUN-05 | CIRCLE K 06665 | | 3.16 |
| 37 | MAR-05 | CITY PRESS | | 663.10 |
| 38 | FEB-05 | CLIFF CASTLE CASINO | | 145.00 |
| 39 | SEP-05 | COCOS BAKERY RESTAURAN | | 34.49 |
| 40 | JUL-05 | COMFORT INN | | 236.96 |
| 41 | JUN-05 | COMFORT INNS/SUITES TU | | 61.20 |
| 42 | OCT-05 | CRACKER BARREL #344 | | 23.31 |
| 43 | NOV-05 | DAIRY QUEEN-18047 Q35 | | 3.51 |
| 44 | MAY-05 | DAMBAR & STEAKHOUSE | | 104.93 |
| 45 | OCT-05 | DAMBAR & STEAKHOUSE | | 230.07 |
| 46 | AUG-05 | DENNY'S 00269134 | | 14.11 |
| 47 | JAN-05 | DESERT DIAMOND CASINO | | 807.12 |
| 48 | JUL-05 | DOC HOLLIDAYS STEAK HO | | 23.98 |
| 49 | FEB-05 | DOLRTREE 2679 00026799 | | 19.46 |
| 50 | MAY-05 | DOLRTREE 2679 00026799 | | 12.98 |
| 51 | JUN-05 | EINSTEIN BROS #2081 | | 5.59 |
| 52 | MAR-05 | EL FALCONE | | 31.02 |
| 53 | NOV-05 | EL FALCONE | | 11.34 |
| 54 | APR-05 | EL ZARAPE | | 63.90 |
| 55 | AUG-05 | ENOTECA PIZZARIA WINE | | 17.92 |
| 56 | SEP-05 | ENOTECA PIZZARIA WINE | | 13.92 |
| 57 | NOV-05 | ENTERPRISE RENT-A-CAR | | 41.78 |
| 58 | FEB-05 | FARR S SERVICE | | 36.50 |
| 59 | MAY-05 | FAZOLIS RESTAURANT NO | | 27.59 |
| 60 | SEP-05 | FAZOLIS RESTAURANT NO | | 18.12 |
| 61 | NOV-05 | FLAGSTAFF CHAMBER OF C | | 280.00 |
| 62 | OCT-05 | FLAGSTAFF TOYS FOR TOT | | 1,000.00 |
| 63 | JUL-05 | FLYING J COUNTRY MARKE | | 15.43 |
| 64 | APR-05 | GARRETT'S SUPERMARKS1B | | 13.16 |
| 65 | NOV-05 | GOLDEN CORRAL 29724Q15 | | 14.21 |
| 66 | MAR-05 | HMSHOST-PHX-AIR #00 | | 29.05 |
| 67 | DEC-05 | HOLIDAY INN TUCSON | | 263.39 |
| 68 | JUN-05 | HOLIDAY INN-AIRPORT | | 149.70 |
| 69 | JUL-05 | HOLIDAY INNS | | 101.31 |
| 70 | AUG-05 | HOLIDAY INNS | | 202.62 |
| 71 | JUL-05 | HOLIDAY INNS EXPRESS | | 120.75 |
| 72 | NOV-05 | HOLIDAY INNS EXPRESS | | 758.60 |
| 73 | SEP-05 | HON-DAH RESORT CASINO | | 96.00 |
| 74 | APR-05 | HOUSE OF BREAD | | 29.73 |
| 75 | MAY-05 | HOUSE OF BREAD | | 130.28 |
| 76 | JUN-05 | HOUSE OF BREAD | | 79.13 |
| 77 | AUG-05 | HOUSE OF BREAD | | 21.75 |
| 78 | SEP-05 | HOUSE OF BREAD | | 51.50 |
| 79 | OCT-05 | HOUSE OF BREAD | | 310.78 |
| 80 | NOV-05 | HOUSE OF BREAD | | 165.19 |
| 81 | NOV-05 | HOWARD JOHNSON EXPRESS | | 110.90 |
| 82 | APR-05 | IHOP #1524 21815246 | | 26.69 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 930**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 83 | JUL-05 | JACK INTHE BOX07811Q43 | | $ 7.09 |
| 84 | AUG-05 | JACK INTHE BOX07811Q43 | | 9.55 |
| 85 | OCT-05 | JACK POTS PORTABLES | | 195.00 |
| 86 | MAY-05 | JASON'S DELI | | 43.20 |
| 87 | FEB-05 | JAVELINA CANTINA | | 57.18 |
| 88 | NOV-05 | JAVELINA CANTINA SED | | 41.17 |
| 89 | OCT-05 | JOHN ASCUAGA'S NUGGET | | 374.47 |
| 90 | JUN-05 | KAREN SORENSEN ENT | | 1,193.34 |
| 91 | NOV-05 | KFC #K 201002 46710Q30 | | 7.32 |
| 92 | FEB-05 | KINGMAN CHAMBER OF COM | | 200.00 |
| 93 | MAR-05 | KINGMAN CHAMBER OF COM | | 200.00 |
| 94 | MAR-05 | KIOWA DRIVE THRU MINI | | 2.94 |
| 95 | OCT-05 | KMART 00037077 | | 20.18 |
| 96 | APR-05 | KMART 00039230 | | 25.12 |
| 97 | MAY-05 | KMART 00095281 | | 16.12 |
| 98 | JUN-05 | LA COCINA DE EVA | | 29.13 |
| 99 | MAY-05 | LA FONDA | | 98.29 |
| 100 | FEB-05 | LA SANDIA CAFE | | 9.86 |
| 101 | JUL-05 | LAQUINTA_FLAGSTAFF PAA | | 101.09 |
| 102 | OCT-05 | LAQUINTA_FLAGSTAFF PAA | | 181.88 |
| 103 | NOV-05 | LAQUINTA_FLAGSTAFF PAA | | 134.60 |
| 104 | APR-05 | LAS VIGAS STEAK RANCH | | 20.64 |
| 105 | APR-05 | LITTLE AMERICA FLAGSTA | | 5.68 |
| 106 | JUL-05 | LITTLE AMERICA FLAGSTA | | 37.87 |
| 107 | SEP-05 | LODGE ON ROUTE 66 | | 68.94 |
| 108 | OCT-05 | LODGE ON ROUTE 66 | | 206.82 |
| 109 | OCT-05 | LONDON BRIDGE RESORT | | 109.67 |
| 110 | OCT-05 | LOVE S COUNTRY00002Q01 | | 10.46 |
| 111 | APR-05 | LU MANDARIN BUFFET | | 33.01 |
| 112 | OCT-05 | LU MANDARIN BUFFET | | 8.64 |
| 113 | APR-05 | MAIN STREET CATERING | | 93.13 |
| 114 | MAY-05 | MALONES BAKERY & D | | 31.32 |
| 115 | JUL-05 | MALONES BAKERY & D | | 29.62 |
| 116 | NOV-05 | MALONES BAKERY & D | | 13.77 |
| 117 | DEC-05 | MALONES BAKERY & D | | 24.23 |
| 118 | OCT-05 | MAMMA LUISA ITALIAN RE | | 189.01 |
| 119 | JUN-05 | MAVERIK CTRY STRE #137 | | 1.42 |
| 120 | JUN-05 | MAVERIK CTRY STRE #288 | | 48.70 |
| 121 | SEP-05 | MAVERIK CTRY STRE #288 | | 17.25 |
| 122 | JUL-05 | MCDONALD'S F12211 Q17 | | 10.93 |
| 123 | DEC-05 | MCDONALD'S F8259 | | 14.68 |
| 124 | MAR-05 | MONTANA STEAK HOUSE | | 32.19 |
| 125 | MAR-05 | MUDSHARK BREWING CO | | 59.08 |
| 126 | APR-05 | MUDSHARK BREWING CO | | 40.59 |
| 127 | MAY-05 | N A U FOUNDATION | | 750.00 |
| 128 | OCT-05 | N AWLINS ON MONTEZUMA | | 600.00 |
| 129 | NOV-05 | N AWLINS ON MONTEZUMA | | 340.70 |
| 130 | OCT-05 | NAU MANAGEMENT DVLPMEN | | 620.00 |
| 131 | MAR-05 | NILES RADIO | | 20.54 |
| 132 | APR-05 | NILES RADIO | | 155.69 |
| 133 | NOV-05 | OAXACA RESTAURANTE | | 117.97 |
| 134 | JUN-05 | OLD PUEBLO GRILLE | | 37.14 |
| 135 | NOV-05 | OLD PUEBLO GRILLE | | 39.72 |
| 136 | DEC-05 | OLSEN'S GRAIN | | 27.03 |
| 137 | AUG-05 | OREGANOS | | 54.86 |
| 138 | NOV-05 | OREGANOS | | 40.12 |
| 139 | JUN-05 | OUR DAILY BREAD | | 392.64 |
| 140 | JUL-05 | OUR DAILY BREAD | | 343.30 |
| 141 | SEP-05 | OUR DAILY BREAD | | 476.56 |
| 142 | OCT-05 | OUR DAILY BREAD | | 333.11 |
| 143 | NOV-05 | OUR DAILY BREAD | | 138.83 |
| 144 | DEC-05 | OUR DAILY BREAD | | 625.36 |
| 145 | FEB-05 | OUR DAILY BREAD DELI | | 217.06 |
| 146 | FEB-05 | OUTBACK #0317 | | 16.29 |
| 147 | NOV-05 | PAPA JOHN'S PIZZA #288 | | 15.09 |
| 148 | JAN-05 | PETRO 15 TRUCKER STORE | | 38.08 |
| 149 | OCT-05 | PINE COUNTRY RESTAURAN | | 32.42 |
| 150 | AUG-05 | PINETOP-LAKESIDE C | | 475.00 |
| 151 | JUL-05 | PIZZA FACTORY | | 23.91 |
| 152 | MAR-05 | PIZZA HUT 21200Q34 | | 16.13 |
| 153 | JUL-05 | PIZZA HUT #43 57400Q34 | | 9.64 |
| 154 | JUN-05 | PIZZA HUT OF TAYLOR | | 20.35 |
| 155 | OCT-05 | RA@RENO TAHOE AIRPORT | | 18.72 |
| 156 | FEB-05 | RADISSON HOTELS-WOODLA | | 79.50 |
| 157 | JAN-05 | RAMADA EXPRESS HOTEL | | 27.25 |
| 158 | OCT-05 | RED LOBSTER US00008458 | | 19.51 |
| 159 | MAR-05 | RED ROBIN NO 309 | | 150.71 |
| 160 | DEC-05 | RENTS AND TENTS | | 41.25 |
| 161 | MAR-05 | RESIDENCE INNS-TUCSON | | 334.17 |
| 162 | MAY-05 | RINCON MARKET | | 155.16 |
| 163 | APR-05 | RIO RICO RESORT | | 33.34 |
| 164 | APR-05 | RIO RICO RESORT RESTAU | | 0.00 |
| 165 | SEP-05 | RODS STEAK HOUSE | | 22.70 |
| 166 | JUL-05 | ROSA'S CANTINA | | 20.00 |

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**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 930**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 167 | NOV-05 | RUBIO'S AGUA FRIA #52 | | $ 11.85 |
| 168 | DEC-05 | RUBIO'S AHWATUKEE #35 | | 4.31 |
| 169 | JUN-05 | SAFEWAY STORE00016394 | | 83.42 |
| 170 | OCT-05 | SAFEWAY STORE00016394 | | 4.55 |
| 171 | MAR-05 | SAFEWAY STORE00017335 | | 30.55 |
| 172 | JUN-05 | SAFEWAY STORE00017335 | | 85.07 |
| 173 | JUL-05 | SAFEWAY STORE00017335 | | 13.24 |
| 174 | SEP-05 | SAFEWAY STORE00017335 | | 12.53 |
| 175 | OCT-05 | SAFEWAY STORE00017335 | | 19.34 |
| 176 | NOV-05 | SAFEWAY STORE00018679 | | 10.39 |
| 177 | JAN-05 | SAFEWAY STORE00020289 | | 14.96 |
| 178 | FEB-05 | SAFEWAY STORE00020289 | | 12.50 |
| 179 | APR-05 | SAFEWAY STORE00020289 | | 64.96 |
| 180 | JUN-05 | SAFEWAY STORE00020289 | | 48.07 |
| 181 | JUL-05 | SAFEWAY STORE00020289 | | 37.64 |
| 182 | SEP-05 | SAFEWAY STORE00020289 | | 17.98 |
| 183 | OCT-05 | SAFEWAY STORE00020289 | | 138.45 |
| 184 | NOV-05 | SAFEWAY STORE00020289 | | 30.20 |
| 185 | DEC-05 | SAFEWAY STORE00020289 | | 26.85 |
| 186 | OCT-05 | SAFEWAY STORE00031898 | | 23.71 |
| 187 | MAY-05 | SALSA BRAVA INC.-2 | | 42.15 |
| 188 | OCT-05 | SEDONA-OAK CREEK CAN C | | 450.00 |
| 189 | JUL-05 | SHOW LOW CHAMBER O | | 435.00 |
| 190 | OCT-05 | SMITHS FOOD #4188 SS6 | | 65.25 |
| 191 | NOV-05 | SMITHS FOOD #4188 SS6 | | 10.63 |
| 192 | APR-05 | SONIC DRIVE IN #483Q63 | | 13.95 |
| 193 | APR-05 | SPRING HILL PRESS, | | 1,000.00 |
| 194 | NOV-05 | SPRINGHILL SUITES -PRE | | 99.24 |
| 195 | MAR-05 | SUBWAY 14220 Q16 | | 8.28 |
| 196 | JUN-05 | SUBWAY 25137 Q16 | | 2.69 |
| 197 | OCT-05 | SUBWAY 30031 | | 4.11 |
| 198 | JAN-05 | SWEET & SUBS | | 25.89 |
| 199 | FEB-05 | SWEET & SUBS | | 14.06 |
| 200 | SEP-05 | TEMPE MISSION PALMS HO | | 443.67 |
| 201 | OCT-05 | THE AGAVE INN | | 54.84 |
| 202 | OCT-05 | THE HOME DEPOT 403 | | 203.02 |
| 203 | SEP-05 | THE SIZZLER | | 41.77 |
| 204 | SEP-05 | THE WEATHFORD HOTE | | 33.97 |
| 205 | NOV-05 | THE WEATHFORD HOTE | | 80.73 |
| 206 | DEC-05 | THE WEATHFORD HOTE | | 2,075.31 |
| 207 | OCT-05 | TOMAHAWK TRUCK STOP | | 28.48 |
| 208 | FEB-05 | TRAPPERS CAFE | | 30.30 |
| 209 | JUN-05 | TRAPPERS CAFE | | 20.54 |
| 210 | DEC-05 | VILLA PIZZA #1201 | | 5.25 |
| 211 | MAY-05 | VZW*MU 000013822 | | 32.38 |
| 212 | FEB-05 | WALGREEN 00052217 | | 23.46 |
| 213 | OCT-05 | WALGREEN 00052Q39 | | 71.75 |
| 214 | DEC-05 | WAL-MART #1175 | | 71.00 |
| 215 | MAY-05 | WAL-MART #1230 SE2 | | 29.97 |
| 216 | JUN-05 | WAL-MART #1230 SE2 | | 28.82 |
| 217 | JUL-05 | WAL-MART #1417 SE2 | | 8.06 |
| 218 | OCT-05 | WAL-MART #5329 SE2 | | 13.79 |
| 219 | JAN-05 | WAL-MART STORES, INSE2 | | 55.06 |
| 220 | FEB-05 | WAL-MART STORES, INSE2 | | 16.65 |
| 221 | APR-05 | WEATHERFORD HOTEL & CA | | 167.47 |
| 222 | SEP-05 | WEATHERFORD HOTEL & CA | | 83.03 |
| 223 | APR-05 | WENDYS | | 4.29 |
| 224 | APR-05 | WENDYS #2663 Q25 | | 2.30 |
| 225 | NOV-05 | WENDY'S #6710 Q25 | | 10.87 |
| 226 | JUL-05 | WESTERN ENERGY INST | | 3,570.00 |
| 227 | APR-05 | WESTSIDE LILO'S CA | | 37.76 |
| 228 | MAR-05 | WILLIAMS GRAND CANYON | | 236.90 |
| 229 | MAY-05 | WILLIAMS-GRAND CANYON | | 180.00 |
| 230 | DEC-05 | WINDROCK AVIATION | | 1,246.15 |
| 231 | FEB-05 | WM SUPERCENTER SE2 | | 40.99 |
| 232 | AUG-05 | WM SUPERCENTER SE2 | | 10.45 |
| 233 | SEP-05 | WM SUPERCENTER SE2 | | 23.99 |
| 234 | OCT-05 | WM SUPERCENTER SE2 | | 14.04 |
| 235 | NOV-05 | WM SUPERCENTER SE2 | | 9.53 |
| 236 | DEC-05 | WM SUPERCENTER SE2 | | 23.98 |
| 237 | FEB-05 | WOODLANDS PLAZA HOTEL | | 71.58 |
| 238 | OCT-05 | WOODLANDS PLAZA HOTEL | | 143.16 |
| 239 | NOV-05 | WOODLANDS PLAZA HOTEL | | 357.90 |

Contiuned On Page 4

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 930**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 240 | SEP-05 | CHINO VALLEY AREA CHAMBER OF COMMERCE | 06-239 | 215.00 |
| 241 | AUG-05 | COCONINO HIGH SCHOOL ACTIVITIES | 072805 20000 | 200.00 |
| 242 | FEB-05 | COZ CREATIVE COMMUNICATIONS LP | TEP0207-0193 | 25.00 |
| 243 | JUL-05 | COZ CREATIVE COMMUNICATIONS LP | TEP0708-0223 | 1,700.00 |
| 244 | JUL-05 | COZ CREATIVE COMMUNICATIONS LP | TEP0719-0230 | 600.00 |
| 245 | MAY-05 | DANCES WITH OPPORTUNITY LLC | A41405 | 3,661.25 |
| 246 | JUL-05 | DAVID SANDERS PHOTOGRAPHY | 85000 071205 | 850.00 |
| 247 | JAN-05 | DAY NITE DESIGN | 1685 | 146.25 |
| 248 | JAN-05 | DAY NITE DESIGN | 1698 | 749.95 |
| 249 | JAN-05 | DAY NITE DESIGN | 1712 | 376.20 |
| 250 | JAN-05 | DAY NITE DESIGN | 1718 | 227.50 |
| 251 | DEC-05 | ENTERPRISE RENT A CAR | 113005 1752985 | 17,529.85 |
| 252 | APR-05 | FLAGSTAFF CHAMBER OF COMMERCE | 041305 | 100.00 |
| 253 | MAY-05 | FLAGSTAFF CHAMBER OF COMMERCE | 1015283 | 1,200.00 |
| 254 | JUN-05 | GREATER FLAGSTAFF ECONOMIC COUNCIL | 189 | 2,500.00 |
| 255 | NOV-05 | GREATER FLAGSTAFF ECONOMIC COUNCIL | 305 | 350.00 |
| 256 | JUN-05 | IBA PUBLISHING INC | Fm-06-134 | 325.00 |
| 257 | JUN-05 | KAZM RADIO | 5185 | 1,045.50 |
| 258 | DEC-05 | MAYER AREA CHAMBER OF COMMERCE | 122705 7200 | 72.00 |
| 259 | JAN-05 | MINKUS ADVERTISING SPECIALTIES | 045500 | 1,907.70 |
| 260 | JAN-05 | MINKUS ADVERTISING SPECIALTIES | 045501 | 452.70 |
| 261 | APR-05 | MINKUS ADVERTISING SPECIALTIES | 051157 | 1,075.49 |
| 262 | APR-05 | MINKUS ADVERTISING SPECIALTIES | 051274 | 618.70 |
| 263 | APR-05 | MINKUS ADVERTISING SPECIALTIES | 051304 | 484.20 |
| 264 | APR-05 | MINKUS ADVERTISING SPECIALTIES | 051305 | 80.70 |

Contiuned On Page 5

**WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 930**

| LINE NO. | GENERAL LEDGER PERIOD | PA EXPENDITURE COMMENT | INVOICE NUMBER | NET AMOUNT |
|---|---|---|---|---|
| 265 | APR-05 | MINKUS ADVERTISING SPECIALTIES | 051306 | $ 161.40 |
| 266 | JUL-05 | MINKUS ADVERTISING SPECIALTIES | 051849A | 439.13 |
| 267 | NOV-05 | MINKUS ADVERTISING SPECIALTIES | 055156 | 284.75 |
| 268 | NOV-05 | MINKUS ADVERTISING SPECIALTIES | 055157 | 515.11 |
| 269 | JAN-05 | NILES RADIO | 72492 | 68.25 |
| 270 | JAN-05 | NILES RADIO | 230383 | 185.00 |
| 271 | JAN-05 | NILES RADIO | 230496 | 140.00 |
| 272 | JAN-05 | NILES RADIO | 230588 | 185.00 |
| 273 | FEB-05 | NILES RADIO | 1110591 | 292.53 |
| 274 | MAR-05 | NILES RADIO | 230264 | 243.92 |
| 275 | MAR-05 | NILES RADIO | 1110591 | 292.53 |
| 276 | APR-05 | NILES RADIO | 231795 | 185.00 |
| 277 | MAY-05 | NILES RADIO | 232125 | 185.00 |
| 278 | JUN-05 | NILES RADIO | 232379 | 185.00 |
| 279 | JUL-05 | NILES RADIO | 232760 | 185.00 |
| 280 | AUG-05 | NILES RADIO | 232855 | 364.92 |
| 281 | AUG-05 | NILES RADIO | 233126 | 185.00 |
| 282 | SEP-05 | NILES RADIO | 233405 | 185.00 |
| 283 | OCT-05 | NILES RADIO | 233663 | 185.00 |
| 284 | NOV-05 | NILES RADIO | 233942 | 185.00 |
| 285 | DEC-05 | NILES RADIO | 234189 | 185.00 |
| 286 | FEB-05 | PRESCOTT CHAMBER OF COMMERCE | 38600 | 386.00 |
| 287 | JAN-05 | PRESCOTT VALLEY CHAMBER OF COMMERCE | 55000 011705 | 550.00 |
| 288 | FEB-05 | SELIGMAN CHAMBER OF COMMERCE | 021605 4000 | 40.00 |
| 289 | SEP-05 | SHOW LOW GIRS SOCCER BOOSTER CLUB | 090205 2500 | 25.00 |
| 290 | JUN-05 | SHOW LOW MAIN STREET | 25000 062105 | 250.00 |
| 291 | SEP-05 | SHOW LOW MAIN STREET | 090105 35000 | 350.00 |
| 292 | OCT-05 | SHOW LOW MAIN STREET | 100405 2500 | 25.00 |
| 293 | JAN-05 | WHITE MOUNTAIN REGIONAL DEVELOPMENT CORP | 415 | 1,100.00 |
| 294 | TOTAL | | | $ 76,494.47 |

**OPERATING INCOME ADJUSTMENT NO. 7**
**PROPERTY TAX COMPUTATION**

| LINE NO. | DESCRIPTION | (A) | (B) |
|---|---|---|---|
| | Calculation Of The Company's Full Cash Value: | | |
| 1 | Net Plant In Service (RLM-3, Column (H), Line 7) | | $ 161,045,981 |
| 2 | Licensed Transportation (Company Workpapers) | $ (3,224,086) | |
| 3 | Land Cost And Rights (Company Workpapers) | (414,955) | |
| 4 | Environmental Property (Company Workpapers) | (3,766,890) | |
| 5 | Land FCV Per ADOR (Company Workpapers) | 697,806 | |
| 6 | Material And Supplies (Company Workpapers) | 2,039,798 | |
| 7 | COMPANY'S FULL CASH VALUE (Sum Of Lines 1 Thru 6) | | $ 156,377,654 |
| | Calculation Of The Company's Tax Liability: | | |
| 8 | Assessment Ratio (Per House Bill 2779) | 24.0% | |
| 9 | Assessed Value (Line 7 X Line 8) | $ 37,530,637 | |
| 10 | Average Tax Rate (Company Workpapers) | 9.47% | |
| 13 | PROPERTY TAX Excluding Environmental Property (Line 9 X Line 10) | | $ 3,555,915 |
| 14 | Environmental Property (Line 4) | $ 3,766,890 | |
| 15 | Statutory FCV Adjustment (Company Workpapers) | 50% | |
| 16 | Environmental Property FVC (Line14 X Line 15) | $ 1,883,445 | |
| 17 | Asessment Ratio Line 8) | 24.0% | |
| 18 | Taxable Value (Line 16 X Line 17) | $ 452,027 | |
| 19 | Average Tax Rate (Company Workpapers) | 9.47% | |
| 20 | PROPERTY TAX On Environmental Property (Line 18 X Line 19) | | $ 42,828 |
| 21 | PROPERTY TAX On Leased Property (Company Workpapers) | | |
| 22 | COMPANY PROPERTY TAX LIABILITY (Sum Of Lines 13, 20 & 21) | | $ 3,598,743 |
| 23 | Test Year Adjusted Property Tax Expense Per Company's Filing (Co. Workpapers Pg 2, L 2) | $ 3,908,052 | |
| 24 | Decrease In Property Tax Expense (Line 22 - Line 23) | $ (309,309) | |
| 25 | RUCO ADJUSTMENT TO PROPERTY TAX EXPENSE (Line 24) (See RLM-7, Pages 1 & 2, Column (H)) | | $ (309,309) |

**ADJUSTMENT TO REMOVE NON-RECURRING/ATYPICAL EXPENSES**
**EXPENSES REMOVED FROM ACCOUNT 921**

| LINE NO. | (A) GENERAL LEDGER PERIOD | (B) PA EXPENDITURE COMMENT | (C) NOTES | (D) NET AMOUNT |
|---|---|---|---|---|
| 1 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | $ 270.48 |
| 2 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 197.58 |
| 3 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 151.50 |
| 4 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 151.50 |
| 5 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 151.50 |
| 6 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 108.68 |
| 7 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 225.27 |
| 8 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 296.37 |
| 9 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 227.25 |
| 10 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 303.00 |
| 11 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 98.79 |
| 12 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 98.79 |
| 13 | 11/14/2005 | HOLIDAY INNS EXPRESS | M.A.R.C. Training (Union Training) | 303.00 |
| 14 | TOTAL | | Sum Of Lines 1 Thru 13 | $ 2,583.71 |
| 15 | RUCO Adjustment (See RLM-7, Pages 3 & 4, Column (K)) | | Line 14 | $ (2,584) |

## OPERATING INCOME ADJUSTMENT NO. 22
## INCOME TAX EXPENSE

| LINE NO. | DESCRIPTION | (A) REFERENCE | (B) AMOUNT |
|---|---|---|---|
| | FEDERAL INCOME TAXES: | | |
| 1 | Operating Income Before Taxes | Schedule RLM-6, Column (C), Line 10 + Line 8 | $ 14,366,885 |
| | LESS: | | |
| 2 | Arizona State Tax | Line 11 | (687,052) |
| 3 | Interest Expense | Note (A) Line 22 | (4,506,788) |
| 4 | Federal Taxable Income | Sum Of Lines 1, 2 & 3 | $ 9,173,045 |
| 5 | Federal Tax Rate | Schedule RLM-2, Column (A), Line 9 | 34.00% |
| 6 | Federal Income Tax Expense | Line 4 X line 5 | $ 3,118,835 |
| | STATE INCOME TAXES: | | |
| 7 | Operating Income Before Taxes | Line 1 | $ 14,366,885 |
| | LESS: | | |
| 8 | Interest Expense | Note (A) Line 22 | (4,506,788) |
| 9 | State Taxable Income | Line 7 + Line 8 | $ 9,860,097 |
| 10 | State Tax Rate | Tax Rate | 6.9680% |
| 11 | State Income Tax Expense | Line 9 X Line 10 | $ 687,052 |
| | TOTAL INCOME TAX EXPENSE: | | |
| 12 | Federal Income Tax Expense | Line 6 | $ 3,118,835 |
| 13 | State Income Tax Expense | Line 11 | 687,052 |
| 14 | Total Income Tax Expense Per RUCO | Sum Of Lines 12 & 13 | $ 3,805,887 |
| 15 | Total Income Tax Expense Per Company Filing (Schedule C-1) | | 1,975,497 |
| 16 | Difference | Line 14 - Line 15 | $ 1,830,390 |
| 17 | RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 7, Page 6, Column (W)) | Line 16 | $ 1,830,390 |

NOTE (A):
Interest Synchronization:

| | | |
|---|---|---|
| 18 | Adjusted Rate Base (Schedule RLM-3, Column (H), Line 16) | $ 144,680,196 |
| 19 | Weighted Cost Of Debt (Schedule RLM-16, Column (F), Line 1 + Line 2) | 3.12% |
| 20 | Interest Expense (Line 20 X Line 21) | $ 4,506,788 |

UNS Gas Corporation
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**RATE DESIGN AND PROOF OF RUCO RECOMMENDED REQUIRED REVENUE**

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) | (L) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | RUCO ANNUALIZED/WEATHERIZED | | PROPOSED MARGIN RATES | | MARGIN AT PROPOSED RATES | | | | | |
| LINE NO. | DESCRIPTION | SCH. NO. | ADJUSTED BILL COUNT | SALES (THERMS) | BASIC SERVICE CHARGE | COM. CHARGE | BASIC SERVICE CHARGE | COMMODITY CHARGE | TOTAL MARGIN | FIXED ALLOCATION FACTORS | VARIABLE ALLOCATION FACTORS | RES/COM ALLOCATION FACTORS |
| | Residential Service | R-10 | | | | | | | | | | |
| 1 | Basic Service Charge per Month - Summer | | 973,181 | | $ 8.13 | | $ 7,908,119 | | $ 7,908,119 | 64.11% | | |
| 2 | Basic Service Charge per Month - Winter | | 495,838 | | $ 8.13 | | $ 4,029,208 | | 4,029,208 | 32.67% | | |
| 3 | Commodity Charge All Therms | | - | 69,822,061 | | $ 0.28916 | | $ 20,189,803 | 20,189,803 | | 97.17% | |
| 4 | Total Residential Service | | 1,469,020 | 69,822,061 | | | $ 11,937,327 | $ 20,189,803 | $ 32,127,130 | | | |
| | Residential Service Cares | R-12 | | | | | | | | | | |
| 4 | Basic Service Charge per Month - Summer | | 33,439 | | $ 8.13 | | $ 271,728 | | $ 271,728 | 2.20% | | |
| 5 | Basic Service Charge per Month - Winter | | 15,476 | | $ 8.13 | | $ 125,758 | | 125,758 | 1.02% | | |
| 6 | Commodity Charge All Therms | | | 2,036,847 | | $ 0.28916 | | $ 588,976 | 588,976 | | 2.83% | |
| 7 | Total Residential Service Cares | | 48,915 | 2,036,847 | | | $ 397,486 | $ 588,976 | $ 986,463 | | | |
| 8 | SUB-TOTAL RESIDENTIAL | | 1,517,935 | 71,858,907 | | | $ 12,334,813 | $ 20,778,780 | $ 33,113,593 | 100.00% | 100.00% | 70.00% |
| | Small Volume Commercial Service | C-20 | | | | | | | | | | |
| 9 | Basic Service Charge per Month | | 133,275 | | $ 33.58 | | $ 4,475,732 | | $ 4,475,732 | 84.67% | | |
| 10 | Commodity Charge per Therm | | | 29,392,577 | | $ 0.18147 | | $ 5,334,006 | 5,334,006 | | 59.90% | |
| 11 | Total Small Volume Commercial Service | | 133,275 | 29,392,577 | | | $ 4,475,732 | $ 5,334,006 | $ 9,809,738 | | | |
| | Large Volume Commercial Service & Trans. | C-22 | | | | | | | | | | |
| 12 | Basic Service Charge per Month | | 225 | | $ 258.32 | | $ 58,061 | | $ 58,061 | 1.10% | | |
| 13 | Commodity Charge per Therm | | | 4,170,979 | | $ 0.11617 | | $ 484,555 | 484,555 | | 5.44% | |
| 14 | Total Large Volume Commercial Service | | 225 | 4,170,979 | | | $ 58,061 | $ 484,555 | $ 542,616 | | | |
| | Small Volume Industrial Service | I-30 | | | | | | | | | | |
| 15 | Basic Service Charge | | 146 | | $ 33.58 | | $ 4,920 | | $ 4,920 | 0.09% | | |
| 16 | Commodity Charge per Therm | | | 474,830 | | $ 0.17065 | | $ 81,029 | 81,029 | | 0.91% | |
| 17 | Total Small Volume Industrial Service | | 146 | 474,830 | | | $ 4,920 | $ 81,029 | $ 85,949 | | | |
| | Large Volume Industrial Service | I-32 | | | | | | | | | | |
| 18 | Basic Service Charge | | 238 | | $ 258.32 | | $ 61,558 | | $ 61,558 | 1.16% | | |
| 19 | Commodity Charge per Therm | | | 22,586,654 | | $ 0.06510 | | $ 1,470,481 | 1,470,481 | | 16.51% | |
| 20 | Total Large Volume Industrial Service | | 238 | 22,586,654 | | | $ 61,558 | $ 1,470,481 | $ 1,532,039 | | | |
| | Small Volume Public Authority | PA-40 | | | | | | | | | | |
| 21 | Basic Service Charge per Month | | 12,795 | | $ 33.58 | | $ 429,693 | | $ 429,693 | 8.13% | | |
| 22 | Commodity Charge per Therm | | | 5,870,369 | | $ 0.17796 | | $ 1,044,703 | 1,044,703 | | 11.73% | |
| 23 | Total Small Volume Public Authority | | 12,795 | 5,870,369 | | | $ 429,693 | $ 1,044,703 | $ 1,474,395 | | | |
| | Large Volume Public Authority | PA-42 | | | | | | | | | | |
| 24 | Basic Service Charge per Month | | 113 | | $ 258.32 | | $ 29,080 | | $ 29,080 | 0.55% | | |
| 25 | Commodity Charge per Therm | | | 5,906,070 | | $ 0.08012 | | $ 473,210 | 473,210 | | 5.31% | |
| 26 | Total Larege Volume Public Authority | | 113 | 5,906,070 | | | $ 29,080 | $ 473,210 | $ 502,289 | | | |
| | Special Gas Light Service | PA-44 | | | | | | | | | | |
| 27 | Customer Charge Lighting Group A | | 866 | | $ 41.80 | | $ 36,215 | | $ 36,215 | 0.69% | | |
| 28 | Customer Charge Lighting Group B | | 3,767 | | $ 50.15 | | $ 188,877 | | 188,877 | 3.57% | | |
| 29 | Total Special Gas Light Service | | 4,633 | | | | $ 225,093 | $ - | $ 225,093 | | | |
| | Irrigation Service | IR-60 | | | | | | | | | | |
| 30 | Basic Service Charge | | 66 | | $ 33.58 | | $ 2,212 | | $ 2,212 | 0.04% | | |
| 31 | Commodity Charge per Therm | | | 79,409 | | $ 0.21671 | | $ 17,209 | 17,209 | | 0.19% | |
| 32 | Total Irrigation Service | | 66 | 79,409 | | | $ 2,212 | $ 17,209 | $ 19,421 | 100.00% # | 100.00% | 30.00% |
| 33 | | | | | | | | | | | RES. TO TOTAL 70.00% | RES. REVENUE $ 33,113,593 |
| 34 | SUB-TOTAL COMMERCIAL | | 151,491 | 68,480,887 | | | 5,286,349 | 8,905,191 | 14,191,540 | | | |
| 35 | | | | | | | | | | | | COM REVENUE $ 14,191,540 |
| 36 | TOTAL TARIFF SALES | | 1,669,426 | 140,339,795 | | | 17,621,162 | 29,683,971 | 47,305,133 | | COM. TO TOTAL 30.00% | |
| 37 | | | | | | | | | | | | RES FIX REV $ 12,334,813 |
| 38 | | | | | | | | OTHER REVENUE | 1,480,304 | | | |
| 39 | | | | | | | | TOTAL REVENUE | 48,785,437 | | | COM FIX REV $ 5,286,349 |
| 40 | | | | | | | | | | | FIXED TO TOTAL 37.25% | |
| 41 | | | | | | | | RUCO PROPOSED REVENUE | $ 48,785,437 | | | RES VAR REV $ 20,778,780 |
| 42 | | | | | | | | | | | | |
| 43 | | | | | | | | DIFFERENCE | $ (0) | | VAR. TO TOTAL 62.75% | COM VAR REV $ 8,905,191 |
| 44 | | | | | | | | | | | | |

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## TYPICAL RESIDENTIAL BILL ANALYSIS

| LINE NO. | DESCRIPTION | (A) PRESENT | (B) PRESENT | (C) COMPANY PROPOSED | (D) COMPANY PROPOSED | (E) RUCO PROPOSED | (F) RUCO PROPOSED |
|---|---|---|---|---|---|---|---|
| | **REVENUE ALLOCATION** | | | | | | |
| 1 | RESIDENTIAL | $ 31,123,034 | 70.02% | $ 39,021,053 | 70.19% | $ 33,113,593 | 70.00% |
| 2 | OTHER | $ 13,323,588 | 29.98% | $ 16,573,116 | 29.81% | $ 14,191,540 | 30.00% |
| 3 | TOTAL | $ 44,446,622 | 100.00% | $ 55,594,169 | 100.00% | $ 47,305,133 | 100.00% |
| | **ALLOCATION RATIOS** | | | | | | |
| 4 | FIX REVENUE | 12,110,551 | 27.25% | $ 28,769,014 | 51.70% | $ 17,621,162 | 37.25% |
| 5 | VARIABLE REVENUE | 32,336,071 | 72.75% | $ 26,879,714 | 48.30% | $ 29,683,971 | 62.75% |
| 6 | TOTAL | 44,446,622 | 100.00% | $ 55,648,727 | 100.00% | $ 47,305,133 | 100.00% |

| | **RESIDENTIAL RATE DESIGN** | PRESENT | COMPANY PROPOSED | | RUCO PROPOSED |
|---|---|---|---|---|---|
| | BASIC MONTHLY CHARGE | | | | |
| 7 | SUMMER | $ 7.00 | MONTHS 8 | $ 20.00 | $ 8.13 |
| 8 | WINTER | $ 7.00 | MONTHS 4 | $ 11.00 | $ 8.13 |
| 9 | COMMODITY CHARGE | $ 0.3004 | | $ 0.18625 | 0.2892 |

| | **RESIDENTIAL BILL COMPARISONS** GAS CHARGE AT MARGIN + PGA COSTS AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL | AVERAGE PROPOSED PGA RATES | % OF AVERAGE MONTH USAGE OF 46.59 Therms | PRESENT MONTHLY GAS COST | RUCO PROP'D MONTHLY GAS COST | RUCO PROP'D MONTHLY INCREASE | RUCO PROP'D MONTHLY % INCREASE |
|---|---|---|---|---|---|---|---|
| 10 | | $ 0.6467 | 25.00% | $ 18.03 | $ 19.03 | $ 1.00 | 5.52% |
| 11 | | | 50.00% | $ 29.06 | $ 29.93 | $ 0.86 | 2.97% |
| 12 | | | 100.00% | $ 51.13 | $ 51.73 | $ 0.60 | 1.18% |
| 13 | | | 150.00% | $ 73.19 | $ 73.53 | $ 0.34 | 0.47% |
| 14 | | | 200.00% | $ 95.25 | $ 95.33 | $ 0.08 | 0.08% |

## COST OF CAPITAL

| LINE NO. | DESCRIPTION | (A) COMPANY AS FILED | (B) RUCO ADJUSTMENTS | (C) RUCO AS ADJUSTED | (D) PERCENT | (E) COST RATE | (F) WEIGHTED COST RATE |
|---|---|---|---|---|---|---|---|
| 1 | Short-term Debt | N/A | $ - | $ - | 0.00% | 0.00% | 0.00% |
| 2 | Long-term Debt | $ 98,859,000 | $ - | $ 98,859,000 | 50.00% | 6.23% | 3.12% |
| 3 | Preferred Stock | N/A | $ - | $ - | 0.00% | 0.00% | 0.00% |
| 4 | Common Equity | $ 98,859,000 | $ - | $ 98,859,000 | 50.00% | 9.64% | 4.82% |
| 5 | TOTAL CAPITAL | $ 197,718,000 | $ - | $ 197,718,000 | 100.00% | | |
| 6 | WEIGHTED COST OF CAPITAL | | | | | | 7.94% |

References:

Column (A): Company Schedule D-1
Column (B): Testimony, WAR
Column (C): Column (A) + Column (B)
Column (D): Column (C), Line Item / Total Capital (L5)
Column (E): Testimony, WAR
Column (F): Column (D) X Column (E)

# EXHIBIT A

EXHIBIT A

American Gas Association
Expenditures Funded by Member Dues
For the Year Ended December 31, 2003

| Group Number | Group Name | Net Expense | | Adjustments | G&A Allocation (3) | Adjusted Net Expense | % of Dues |
|---|---|---|---|---|---|---|---|
| 03 | Public Affairs | 5,466,314 | 1, 2 | (2,086,787) | 594,755 | 3,974,282 | 23.35% |
| 03 | Communications | - | 2 | 2,135,112 | 543,776 | 2,678,888 | 15.74% |
| 06, 16 | Corporate Affairs and International | 1,588,513 | | - | 441,818 | 2,030,331 | 11.93% |
| 05 | General Counsel & Corp. Secretary | 669,281 | 1 | (36,677) | 203,916 | 836,520 | 4.91% |
| 09 | Regulatory Affairs | 1,126,488 | 1 | 984,182 | 339,860 | 2,450,530 | 14.40% |
| 08 | Marketing Development | 160,846 | 1 | - | 101,958 | 262,804 | 1.54% |
| 14 | Operating & Engineering Services | 2,727,138 | 1 | (815,865) | 1,121,540 | 3,032,813 | 17.82% |
| 07 | Policy & Analysis | 1,373,570 | 1 | 419,920 | 543,776 | 2,337,266 | 13.73% |
| 12 | Industry Finance & Admin. Programs | 655,825 | | - | 152,937 | 808,762 | 4.75% |
| 01,10,11 | General & Administrative Expense | 4,044,336 | | - | (4,044,336) | - | 0.00% |
| | Grand Total | 17,812,311 | | $ 599,885 | $ - | $ 18,412,196 | 108.17% |

Adjustments as a result of AGA/NARUC Oversight Committee Staff agreement.
1 Allocation of salaries and other expenses to benefiting group.
2 Breakout of communications portion of division expenses
3 G&A allocated on basis of average equivalent full-time employees during 2003.

## EXHIBIT A

Calculation of Lobbying Expenses Pursuant to
Internal Revenue Code Section 162(e)

The American Gas Association incurred lobbying expenses, as defined under IRC Section 162, of 2.10% of total member dues during calendar year 2003.

IRC Section 162 Definition of Lobbying

(e) Denial of deduction for certain lobbying and political expenditures
- (1) In general no deduction shall be allowed under subsection (a) for any amount paid or incurred in connection with -
  - (A) influencing legislation,
  - (B) participation in, or intervention in, any political campaign on behalf of (or in opposition to) any candidate for public office,
  - (C) any attempt to influence the general public, or segments thereof, with respect to elections, legislative matters, or referendums, or
  - (D) any direct communication with a covered executive branch official in an attempt to influence the official actions or positions of such official.
- (2) Exception for local legislation - In the case of any legislation of any local council or similar governing body -
  - (A) paragraph (1)(A) shall not apply, and
  - (B) the deduction allowed by subsection (a) shall include all ordinary and necessary expenses (including, but not limited to, traveling expenses described in subsection (a)(2) and the cost of preparing testimony) paid or incurred during the taxable year in carrying on any trade or business -
    - (i) in direct connection with appearances before, submission of statements to, or sending communications to the committees, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or
    - (ii) in direct connection with communication of information between the taxpayer and an organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, and that portion of the dues so paid or incurred with respect to any organization of which the taxpayer is a member which is attributable to the expenses of the activities described in clauses (i) and (ii) carried on by such organization.
- (3) Application to dues of tax-exempt organizations - No deduction shall be allowed under subsection (a) for the portion of dues or other similar amounts paid by the taxpayer to an organization which is exempt from tax under this subtitle which the organization notifies the taxpayer under section 6033(e)(1)(A)(ii) is allocable to expenditures to which paragraph (1) applies.
- (4) Influencing legislation - For purposes of this subsection -
  - (A) In general The term "influencing legislation" means any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of legislation.
  - (B) Legislation - The term "legislation" has the meaning given such term by section 4911(e)(2).
- (5) Other special rules
  - (A) Exception for certain taxpayers - In the case of any taxpayer engaged in the trade or business of conducting activities described in paragraph (1), paragraph (1) shall not apply to expenditures of the taxpayer in conducting such activities directly on behalf of another person (but shall apply to payments by such other person to the taxpayer for conducting such activities).
  - (B) De minimis exception
    - (i) In general Paragraph (1) shall not apply to any in-house expenditures for any taxable year if such expenditures do not exceed $2,000. In determining whether a taxpayer exceeds the $2,000 limit under this clause, there shall not be taken into account overhead costs otherwise allocable to activities described in paragraphs (1)(A) and (D).
    - (ii) In-house expenditures for purposes of clause (i), the term "in-house expenditures" means expenditures described in paragraphs (1)(A) and (D) other than
      - (I) payments by the taxpayer to a person engaged in the trade or business of conducting activities described in paragraph (1) for the conduct of such activities on behalf of the taxpayer, or
      - (II) dues or other similar amounts paid or incurred by the taxpayer which are allocable to activities described in paragraph (1).
  - (C) Expenses incurred in connection with lobbying and political activities - Any amount paid or incurred for research for, or preparation, planning, or coordination of, any activity described in paragraph (1) shall be treated as paid or incurred in connection with such activity.
- (6) Covered executive branch official - For purposes of this subsection, the term "covered executive branch official" means -
  - (A) the President,
  - (B) the Vice President,
  - (C) any officer or employee of the White House Office of the Executive Office of the President, and the 2 most senior level officers of each of the other agencies in such Executive Office, and
  - (D) (i) any individual serving in a position in level I of the Executive Schedule under section 5312 of title 5, United States Code, (ii) any other individual designated by the President as having Cabinet level status, and (iii) any immediate deputy of an individual described in clause (i) or (ii).
- (7) Special rule for Indian tribal governments - For purposes of this subsection, an Indian tribal government shall be treated in the same manner as a local council or similar governing body.
- (8) Cross reference - For reporting requirements and alternative taxes related to this subsection, see section 6033(e).

Citation: IRC Sec. 6033(e)